LASTING IMPLICATIONS OF THE GENERAL MOTORS BAILOUT

HEARING

BEFORE THE
SUBCOMMITTEE ON REGULATORY AFFAIRS,
STIMULUS OVERSIGHT AND GOVERNMENT SPENDING
OF THE
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The subcommittee met, pursuant to notice, at 1:40 p.m., in room 2154, Rayburn House Office Building, Hon. Jim Jordan (chairman of the subcommittee) presiding.
Present: Representatives Jordan, Mack, Kelly, Issa (ex officio), Kucinich, and Cummings (ex officio).
Also present: Representative Burton, Turner, Maloney, and Johnson.
Staff present: Robert Borden, general counsel; Molly Boyl, parliamentarian; Drew Colliatie, staff assistant; John Cuaderes, deputy staff director; Adam P. Fromm, director of Member services and committee operations; Tyler Grimm, professional staff member; Christopher Hixon, deputy chief counsel, oversight; Justin LoFranco, press assistant; Mark D. Marin, senior professional staff member; Jaron Bourke, minority director of administration; Lucinda Lessley, minority policy director; Jason Powell, minority senior counsel; and Cecelia Thomas, minority counsel/deputy clerk.

Mr. JORDAN. The subcommittee will come to order. I want to thank our witnesses, and I apologize for running late. We will get started as quick as we can here. I will do my opening statement, and I understand Mr. Kucinich is on his way, good.
And I just saw Darrell, I think Chairman Issa is on his way as well.

American auto companies have long been a symbol of the industrial vigor that has made our country strong and prosperous. Generations of Americans have worked for General Motors and Chrysler. They should be proud of their service.

We are here today because in late 2008 the Federal Government took extraordinary actions to intervene in automotive industry. Among firms that were bailed out was General Motors, which received roughly $50 billion in taxpayer funded assistance.

This decision and its aftermath fundamentally remade the way our government interacts with the private sector. Dangerous precedents have been established. In understanding the consequence of the government actions leading up to and during the bailout, it is essential to figuring out the path forward.
Taxpayers will end up billions of dollars short due to the money given to GM, and it’s far from clear that the bailout has succeeded in its goals of revitalizing the company. Megan McArtle of The Atlantic has found that we could have given every hourly GM employee $250,000 and still come out on top.

Furthermore, the bailout of GM desecrated the rule of law. The bankruptcy proceedings that occurred were simply a patchwork legal vehicle for delivering ownership shares from the auto companies due to the government. What may have seemed expedient at the time disregarded the true intent of our bankruptcy process.

In the end, the auto bailouts set a precedent that will make it more difficult for major companies to go through bankruptcy proceedings in the future, resulting in serious moral hazard. It wasn’t even clear that these actions were legal in the first place. After Congress failed to pass legislation to allow for the bailout, only then did President Bush move to do so under the Troubled Asset Relief Program. However, TARP was designed to purchase troubled assets from any financial institution on such terms and conditions as determined by the Secretary.

Todd Zywicki, a legal expert and professor at George Mason University, has pointed out TARP legislation did not permit the use of the allotted funds to bail out the car companies, after all, were not financial institutions.

We are pleased today to be joined by Mr. Ronald Bloom, who led the President’s Auto Task Force. Before a congressional oversight panel in 2009 Mr. Bloom stated: From the beginning of this process the President gave the Auto Task Force a clear message. The first was to behave in a commercial manner by ensuring that all stakeholders were treated fairly and received neither more nor less than they would have simply because the government was involved. The second was to refrain from intervening in the here management of those companies.

This hearing is taking place today largely because we believe that both of those directives were faulted.

The committee believes there is substantial evidence that decisions made by the administration in the handling of the GM bailout were often politically motivated and that, to the detriment of many, government chose winners and losers. The treatment of Delphi pensions epitomizes the picking of winners and losers that occurred in the GM bailout.

One group, hourly and union employees, are still receiving their full pension while another group, salaried nonunion employees, is receiving just a portion of their pensions as a result of decisions made in the Treasury-orchestrated bankruptcy process.

The American people have the right to know that their money was not used to advance political ends and that every dollar was loaned with the intention of getting GM on a sustainable course to repay the Treasury.

With that, I will yield back our time.

Let’s go to Mr. Cummings while we wait for Mr. Kucinich.

Mr. Cummings. Thank you very much, Mr. Chairman. Today’s hearing is entitled, “Lasting Implications of the General Motors Bailout.”
Without question, the most significant and lasting implications of the Federal assistance to General Motors, are the hundreds of thousands of jobs saved and the hundreds of American communities spared further suffering in the midst of the economic recession.

On July 5, 2009, the U.S. Bankruptcy Court for the Southern District of New York issued a decision concluding that if the Federal Government had not come to GM's aid, the firm would have liquidated. The Court wrote, “There are no merger partners, acquirers or investors willing and able to acquire GM's businesses other than the U.S. Treasury and Canada's Export Credit Agency. There are no lenders willing and able to finance GM's continued operations.”

GM's liquidation would have been a significant loss to this country and would have been devastating to every community that is home to a GM plant or a GM parts supplier or a GM dealer.

Faced with this crisis, the Bush administration extended $4 billion to GM in December 2008 and an additional $5.4 billion in January 2009.

When the Obama administration took over they required, as a condition of additional aid, that both GM and Chrysler implement viable plans to reduce their costs and effectively compete in a changed auto industry. After extensive restructuring, the new GM quickly exited bankruptcy in July 2009.

The results of our Nation’s investments are now becoming clear. The first quarter of 2011 was GM's fifth consecutive profitable quarter. According to Robert Scott, an economist with the Economic Policy Institute, Federal, State and local governments saved between $10 and $78 for every dollar invested in the auto industry restructuring plan.

The value of our investment in the auto industry becomes even clearer when we consider the costs of inaction. According to the Center for Automated Motor Research, even a 50 percent reduction in the operations of the big automakers could have reduced personal income by more than $275 billion over 3 years, resulting in a loss of more than $100 billion in State and Federal tax revenues. The Federal Government’s investment saved hundreds of thousands of jobs and gave these automakers a new lease on life.

The committee will hear today from one of the principal architects of our investment in the auto industry, Mr. Ron Bloom, and I welcome his testimony.

I also welcome the testimony of our other witnesses, former Congressman Vince Snowbarger with the Pension Benefit Guaranty Corp.; Daniel Ikenson with the Cato Institute; Ms. Shikha Dalmia with the Reason Foundation; and Dr. Thomas Kochan with MIT.

We will also hear from Bruce Gump, the vice chairman of the Delphi Salaried Retiree Association. Delphi is a parts manufacturing company spun off from GM in 1999. By 2005, it had filed for bankruptcy and in 2009 the PBGC took over the company's pension plans. GM agreed to top up the pensions of employees of Delphi main unions, meaning they will receive the pensions they were promised, but such top-ups were not provided to Delphi's salaried employees or certain other union employees.
Given the statutory limits on the benefits that the PBGC can pay, many Delphi—many of Delphi’s salaried retirees are receiving benefits that are far lower than promised by Delphi. The consequences of these shortfalls to salaried retirees are truly heart-breaking, particularly as these employees have lost their health coverage. This matter is, however, the subject of ongoing litigation that makes the PBGC as a defendant. It names the PBGC as a defendant.

Mr. Bloom is also being sued, not just in his official capacity, but as an individual citizen whose personal assets are on the line. Obviously, this will prevent him from answering questions on this matter, a situation I hope everyone will respect.

Again, Mr. Chairman, I want to thank you for this hearing.

With that, I yield back.

Mr. JORDAN. I thank the gentleman.

I ask unanimous consent that the gentleman from Ohio, Congressman Bill Johnson, be allowed to participate in today’s hearing. Without objection, so ordered.

I now recognize the other gentleman from Ohio, Mr. Turner, for an opening statement.

Mr. TURNER. Thank you, Mr. Chairman, and I also want to thank our ranking member, another fellow Ohioan, Mr. Kucinich, for holding this hearing and for the importance, really, of the issues that we are addressing today.

I was very disappointed to hear that the administration has prohibited Mr. Bloom from speaking to us on the important issues of Delphi’s pensions. I was hoping to hear Mr. Bloom explain the administration’s plan for finally restoring the hard-earned retirement benefits of Delphi salaried workers from across the country.

Two weeks ago, the White House unveiled a report entitled, “Resurgence of the American Automotive Industry,” and President Obama paid a visit to Toledo, Ohio. What neither report noted, nor did the President mention, was the administration’s plan to restore benefits to the Delphi retirees. I believe it’s because there isn’t one.

The administration picked winners and losers where the pensions of many salaried Delphi workers were lost. This was done without any explanation, without any justification or without basis. And today it is still being done, without any answers.

Now, I beg to differ, litigation does not prohibit Mr. Bloom from answering. What prohibits Mr. Bloom from answering is that perhaps the answers or the truth might be damaging in litigation, and that being it would be damaging because these Delphi retirees are entitled to these benefits. These benefits were wrongly taken from them and they deserve an answer.

We live in a government where the government is responsive to the people. Things can’t happen in secret. The administration picked winners and losers, and not only do the taxpayers need to know, because taxpayers’ money was involved, but certainly these Delphi retirees deserve an answer. But more importantly, they deserve the restoration of these benefits.

Almost 15,000 salaried retired workers, some of which were denied up to 70 percent of their pensions, all of them 100 percent of their life insurance and 100 percent of their health insurance, it is devastating to them. It’s an action that was done to them by this
administration while they were picking winners and losers, and it’s one that needs to be addressed by the administration, not only just in providing answers, which is what we are seeking today, but also in solving. These workers deserve to have their pensions restored.

Now, pursuant to this hearing we have the ability to, I know, provide additional opportunities for Mr. Bloom and Mr. Snowbarger to answer questions. I am going to present today and, please, I have a staff member who is going to present to Mr. Bloom and Mr. Snowbarger 25 questions for Mr. Bloom, 30 questions for Mr. Snowbarger. I would appreciate it if you would respond to these questions, the types you are going to be receiving today from Members, they go directly to this issue of the Delphi retirees and salaried workers. And we would appreciate your finally attending to give them the information that they deserve.

With that, Mr. Chairman, thank you for having this hearing and we look forward to getting some answers for these retirees.

Mr. JORDAN. I thank the gentleman from Ohio for his statement and for his being here today and his hard work on this issue.

The other gentleman from Ohio, my good friend, Mr. Kucinich, is now recognized.

Mr. KUCINICH. Thank you, Mr. Chairman. I ask unanimous consent to insert into the record a statement by our colleague, Congressman Kildee.

Mr. JORDAN. Without objection, so ordered.

[The prepared statement of Hon. Dale E. Kildee follows:]
Congress of the United States  
House of Representatives  

DALE E. KILDEE  
5TH DISTRICT, MICHIGAN  
June 22, 2011

The Honorable Jim Jordan  
Chairman  
Subcommittee on Regulatory Affairs, Stimulus  
Oversight and Government Spending  
United States House of Representatives  
Washington, D.C. 20515

The Honorable Dennis Kucinich  
Ranking Member  
Subcommittee on Regulatory Affairs, Stimulus  
Oversight and Government Spending  
United States House of Representatives  
Washington, D.C. 20515

Dear Chairman Jordan and Ranking Member Kucinich:

I would like to thank you for holding this hearing on the General Motors bankruptcy, which has dramatically affected retirees in my district.

In 2005, General Motors took over the pension obligations of hourly Delphi employees after Delphi filed for bankruptcy. When General Motors filed for bankruptcy in 2009, the Delphi pension plans were restructured. The pension plans of hourly employees were maintained in full, while the salaried employee pension plans were covered by the Pension Benefit Guaranty Corporation (PBGC) and received significant benefit reductions.

Over 20,000 Delphi salaried retirees received limited benefits from the PBGC. In addition, many Delphi retirees now depend on the Health Coverage Tax Credit (HCTC) to cover health insurance premiums.

Unfortunately, the temporary provision in the stimulus legislation that expanded HCTC premium coverage to 80% was not renewed and the HCTC currently only covers 65% of health insurance premiums.

The Delphi pension issue has significantly affected my constituents in the 5th District of Michigan. The Delphi Corporation had two plants in Saginaw and one in Flint. Delphi retirees were promised a lifetime pension and health benefits. However, they have now learned that those promises were not 100% guaranteed.

I believe it is both fiscally and morally right to ensure retirees receive the benefits they were promised by their employers and have planned on having during their retirement years. These individuals spent a lifetime working towards their retirement, only to find that their retirement benefits were not there when they needed them.

I hope the hearing today will encourage discussion on possible remedies, including possible legislation, to benefit our workers and retirees and ensure they receive the pension and health benefits that they have earned.

I appreciate Chairman Jordan and Ranking Member Kucinich including my statement in the record.

Sincerely,

Dale E. Kildee, M.C.
Mr. JORDAN. If I could just interrupt for 1 second while we are doing that, I ask unanimous consent to submit a letter from Senator Portman and Representative Camp and a study led by the Competitive Enterprise Institute.
Without objection, so ordered.
[The information referred to follows:]
Chairman Jim Jordan (R-OH)
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending
House Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, D.C. 20515

June 21, 2011

Chairman Jordan:

We commend you and the Subcommittee for holding Wednesday’s hearing titled: “Lasting Implications of the General Motors Bailout,” specifically as it pertains to the disparate treatment of Delphi retirees during the General Motors (GM) bankruptcy.

In September 2009, a decision was made by President Obama’s Auto Policy Task Force to “top-up” the pension benefits of union retirees from Delphi but not those of salaried retirees from the same company. Previously, in June 2009 Delphi Corporation’s defined benefit pension plans were terminated, resulting in an estimated 30 to 70 percent reduction in benefits for Delphi salaried and union retirees.

On March 30, 2011, the U.S. Government Accountability Office (GAO) released a report detailing the key events leading to the Delphi pension termination and the omission of a large number of salaried retirees. GAO is also expected to release a future report specifically examining how the Pension Benefit Guaranty Corporation’s handling of the Delphi pension termination compares with that of other, similar terminations. In addition, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is investigating this issue and is expected to release a report later this year.

While the initial GAO report is useful in providing a chronology of events, it does not provide satisfactory answers for the disparate treatment of Delphi retirees. The 20,000 salaried retirees, ranging from shop-floor supervisors and salespeople to engineers and office managers, spent many years at Delphi, a major employer and economic engine in towns across our states. These men and women earned their pensions the American way, through hard work and dedication. However, these salaried retirees will lose a significant portion of their pension benefits, while those they worked next to for years will receive their full promised benefits. This is troubling, and merits further scrutiny by Congress.

The GAO and SIGTARP reports, as well as the findings from the Subcommittee’s hearing, will be helpful in determining the reasons and justification for the disparate treatment of Delphi retirees. As such, we thank you again for holding this important hearing and appreciate the time and attention the Subcommittee has devoted to this issue.

Sincerely,

Senator Rob Portman (R-OH)

Representative Dave Camp (R-MI)

CC: Chairman Darrell Issa (R-CA)
Ranking Member Elijah Cummings (D-MD)
Subcommittee Ranking Member Dennis Kucinich (D-OH)
Mr. KUCINICH. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing. It's a chance to conduct oversight, but it's also a chance to take stock of a critical and successful government intervention. The Federal Government saved two companies, GM and Chrysler, and probably an entire region of the country. I come from that region.

There's a GM factory located east of Cleveland called Lordstown. In March 2009 the community of Lordstown, Ohio, was profiled by CBS News in this way. They said, “Holding on for dear life, where 70 percent of the town’s tax base came from the GM plant,” according to the mayor.

Just last month the CBS News story profiled this community in a completely different light. It talked about it being jolted back to life by 4,000 pounds of steel. The Lordstown GM plant was essentially dead for a short period of time, without a single car being manufactured. But it's now alive and employing around 4,500 people. Those workers are using parts made down the road in my district. Roughly 20 percent of the parts from the GM Parma Metal Center in my district go to Lordstown for the manufacturing of the Chevy Cruze.

The interconnectedness of the region doesn't stop there. The Parma GM metal plant buys equipment from the Automatic Feed Co. of Napoleon, OH to make auto parts, sustaining yet another Ohio work force.

The web of connections goes on and on in communities responsible for the parts, materials, equipment, goods and services that the auto industry, the workers, and their families depend upon.

Whether or not this web survived or was torn apart was at stake in late 2008 and throughout 2009. Thankfully, the Bush administration decided, rightly, to make the first loans, and the current administration built on what the Bush administration did, with more financial support for the restructuring of the industry and its successful emergence from bankruptcy.

The most important point that I hope we remember throughout this hearing is the calamity which was averted for these communities through our investment in the auto industry. Without that investment, as many as 3.3 million U.S. jobs would have been lost, amounting to between 0.5 percent and 3 percent yearly reduction in gross domestic product from 2009 through 2011.

Second, I hope we remember it was absolutely necessary for us to act expeditiously. If GM, for instance, were to have languished in a prolonged bankruptcy, so too would Lordstown and many others languish in ruin as the jobs revenue and tax base for essential community services evaporate.

In light of the success achieved by our support for GM, this hearing will also examine a difficult situation faced by workers and retirees of GM parts supplier Delphi. Being mindful of the ongoing litigation on this issue, in fairness to the other witnesses testifying at the hearing, I welcome the opportunity to hear testimony from Bruce Gump of the Delphi Salaried Retiree Association on a truly difficult situation that has been experienced by the individuals that organization represents.

Mr. Chairman, on this point, before I yield, other committees such as Education and Labor, as long ago as December 2009, have
heard testimony on the fact that certain retirees of Delphi, such as salaried retirees as well as retirees represented by a number of unions, lost their benefits through Delphi’s bankruptcy because they had no agreements to have their benefits topped up to the level they have worked for and deserve. It’s a very painful situation and I know it's an issue that concerns you as well, Mr. Chairman.

And while I appreciate Mr. Gump coming here, I think what we need to do is to determine a course of action that would solve the problem. So I would ask you if we could work together on legislation that would correct this situation and consider whether or not that legislation would enable the topping up of benefits of all the Delphi retirees and the union retirees who saw their benefits disappear in Delphi’s bankruptcy.

You know, we are going to need to have some kind of action. And just in the time that I have remaining, I would ask the gentleman if we could work together to do something here.

Mr. JORDAN. I always look forward to working with the gentleman from Cleveland, and working with you and other members from the Ohio delegation and surrounding States and Congress, on what is the best approach moving forward. So I appreciate the gentleman’s statement.

Mr. KUCINICH. I would like to work with you and other members of the committee on this. And as Ohioans I think we have the chance to reaffirm our support not just for automotive, but America’s manufacturing base has been at risk. And while I join with you in fighting the bailouts to Wall Street, which just produces paper, we are talking about people who produce cars, people who make steel, aerospace products, shippers, manufacturing. American manufacturing is something we ought to be investing in, and I want to thank the chair for holding this hearing so we can get into these issues. Thank you.

Mr. JORDAN. I thank the gentleman for his statement.

I would just point out, before recognizing Mr. Kelly for an opening statement, that highlighting the Lordstown facility—which we are all genuinely, you know, glad that it is still operating and jobs are there and it has helped that community—underscores what took place here. There were winners and losers selected. We have, just down the road in Mansfield, Ohio, a GM facility that was closed.

And what we are trying to get at was were these decisions made by General Motors or were they, in fact, made by the Auto Task Force and people in the government not only picking winners and losers and who they were going to provide money to, but also getting into the day-to-day operations of the company and deciding which facilities would stay open and which ones would not. That’s an important question and one that I think we need answered as well.

Mr. KUCINICH. Thank you, Mr. Chairman.

Mr. JORDAN. I now yield to the gentleman from Pennsylvania, Mr. Kelly.

Mr. KELLY. Thanks for having this hearing. As someone who was very close to the situation, being a Chevrolet/Cadillac dealer and going through that process, the thing that does bother me is we will never know if General Motors could have survived on its own.
Because the General Motors that I know, the General Motors that my dad started with as a parts picker in the thirties, and went through a war, and he came back home and was able to rise through the organization and buy his own dealership—and I am talking about not a huge dealership, but a one-car showroom in a little town called Verona—and build it into something we were very proud of through hard work, through hard work, not that somebody picked that he was going to be a winner or said no, you don't have an opportunity. That never happened to him, but it did happen to me.

It was after the government takeover of General Motors, in a business that we worked very hard to build for 56 years. I got a phone call; and in 5 minutes, 56 years of work and saving and putting everything on the line was pretty much taken away.

And I said, "I am sitting at my desk." And said, "Well, I am in Detroit, I am with a lawyer and I am recording this. And we need you to sign that document we sent you yesterday."

I said, "Are you talking about the 39 pages?" "Absolutely." I said, "I am not signing it." They said, "Why not?" I said, "because I refuse to give up my franchise."

They said, "Well, that's really not up to you, we made a decision." And I said "Well, you know, I have to tell you, it is up to me and it is up to the people, the 100-and-some people that work with me every day."

And to have somebody make a phone call and tell me that you are no longer going to be a dealer because of a decision that was made not by car people, but by government, not by people who have any skin in the game, not by people who put their whole life on the line, but by people who made a decision based on some type of metric that I absolutely have no idea where it came from.

And then when you say, "Hey, I am going to fight you, I am going to arbitration," for somebody to laugh at you and they say, "Are you kidding me? You, Mike Kelly, Butler, Pennsylvania, with your limited resources and one lawyer against the U.S. Government? You don't have a snowball's chance in hell of making it." I said, "You know what? I will take those odds. I will take those odds."

So we got through it, went to arbitration, got the dealership back. By the way, my friends that didn't go to arbitration are no longer in business, not because they couldn't make it in the open market, because government decided they would go out of business.

That is not America, and we will never know if General Motors could have made it on its own. They followed a Judas goat and said, Yes, come with us, we will lend you the money, we will help you. And these gentlemen can fly into Washington and are berated, because their plan doesn't make sense, by the same people—they are $14.3 trillion in the red—telling these guys they don't know how to run a business?

So my question is: Where does it lie? What really could have happened? Because in my opinion the government is the one that picked and chose who was going to win and who was going to lose.

And so from my standpoint, Mr. Chairman, I do appreciate the opportunity to be here today, from somebody who has been able to
get through some very difficult times. And we are now in our 60th year, not because of things that we have done separately, but things that we have done collectively as an organization, and through the grace of God we have been able to get through it.

But I do wonder the direction of the country. And when we place our faith in our future in the hands of those who have never done it, who have never walked in our shoes, who have never done the things we have done, but who do have the ability to open a laptop and tell you, “You are no longer in business,” that’s not the American way. I don’t accept it. My father certainly wouldn’t have accepted it, and I think it’s time to shed some light on this.

So I thank you for what you are doing because we are here truly to make sure that the job creators, the small business people, have an opportunity to compete and that it is not taken out of their hands by somebody who has never, ever, had any skin in the game.

So I thank you, sir.

Mr. JORDAN. I thank the gentleman for his opening statement.

Well, now I think what we are going to have to do is swear in our witnesses, and I apologize, guys, it’s one of those days. We will swear you in. It’s the custom of the committee to do that. And then we are going to have to take a brief recess, hopefully brief, to go vote, and then we will be back for questioning. And we will try to be as accommodating with your time, we understand you’re busy as well, but unfortunately we do have three votes on the floor. So if you will just rise and raise your right hands.

[Witnesses sworn.]

Mr. JORDAN. Let the record show that the witnesses answered in the affirmative.

We have with us today, first, Mr. Ron Bloom, former senior adviser to the Secretary of the Treasury, U.S. Department of Treasury, now working as a senior manufacturing adviser to the President, I believe; and then also Mr. Vince Snowbarger as the Deputy Director of the Pension Benefit Guaranty Corp. and a former Member of Congress from New York State?

Mr. SNOWBARGER. Kansas.

Mr. JORDAN. Kansas. Why did I have New York? I had it in my mind it was New York. A long way from New York. Kansas, right, still a great State. We appreciate you both being here.

We are going to stand in recess for probably 35, 40 minutes and then we will be back.

[Recess.]

Mr. JORDAN. The committee will be back. We are going to start with Mr. Bloom. You know this routine, you have done it before. You get 5 minutes, and then the light system there, you know, it’s pretty self-explanatory.

So if you can keep it around 5, that would be great. If you want to go shorter that’s fine too, but we will go to Mr. Bloom and then Mr. Snowbarger.

Go ahead.
STATEMENTS OF RON BLOOM, FORMER SENIOR ADVISOR TO THE SECRETARY OF THE TREASURY; AND VINCENT SNOWBARGER, DEPUTY DIRECTOR FOR OPERATIONS, PENSION BENEFIT GUARANTY CORP

STATEMENT OF RON BLOOM

Mr. Bloom. Chairman Jordan, Ranking Member Kucinich, and members of the subcommittee, thank you for the opportunity to testify before you here today. I am here to report on the Obama administration’s investments in GM and Chrysler.

As you may know, since February 2011, I served on the National Economic Council as Assistant to the President for Manufacturing Policy. While I am here today 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 has been communicated to your staff over the last few days and as I communicated in a letter to the chairman yesterday, I am a party to a lawsuit 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.

When President Obama took office, the American automobile industry was on the brink of collapse. In the year before President Obama took office, the industry shed 400,000 jobs. As 2008 came to a close, both GM and Chrysler were running out of cash and faced the prospect of uncontrolled liquidations. Therefore, the previous administration provided $24.8 billion of support to the auto industry.

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 plan submitted by the companies, President Obama decided that he would not commit additional taxpayer resources to these companies without fundamental change in accountability. He rejected their initial plans and demanded that they develop more ambitious strategies to reduce costs and increase sufficiency to become sustainable.

However, President Obama also recognized that failing to stand behind these companies would have consequences that extend far beyond their factories and workers. GM and Chrysler were supported by a vast network of auto suppliers. 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. Also at risk were the thousands of auto dealers across the country as well as countless small businesses and 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 esti-
mate that at least a million jobs could have been lost if GM and Chrysler went under. To avoid this outcome, 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 companies. This process required deep and painful sacrifices from all stakeholders. 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 businesses.

Today the American auto industry is mounting a comeback. In 2010, for the first time since 1995, GM, Chrysler and Ford increased their collective market share. Since June 2009, the auto industry has added 113,000 jobs, the fastest pace of job growth in the industry since 1998.

The U.S. Government provided a total of $80 billion to stabilize the U.S. automotive industry. As of today, $40 billion has been returned to taxpayers.

While the government does not anticipate recovering all of the funds that it invests in the industry, loss estimates from Treasury and the CBO 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.

In a better world, the choice to intervene in GM and Chrysler would not have had to been made. But amidst the worst economic crisis in a generation, the administration’s decisions avoided dev- astating 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.

Mr. JORDAN. Thank you, Mr. Bloom.

[The prepared statement of Mr. Bloom follows:]
Emargoed until delivery

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.\footnote{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.\footnote{2}


\footnote{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


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: 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

\(^6\) http://tse.export.gov/TSE/ TradeStats Express. Department of Commerce.

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 50.1 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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Mr. JORDAN. Mr. Snowbarger, you are now recognized.

STATEMENT OF VINCENT SNOWBARGER

Mr. SNOWBARGER. Good afternoon, Chairman Jordan and other subcommittee members. I am Vince Snowbarger, and I am Deputy Director for Operations at the Pension Benefit Guaranty Corp. I should also point out that from January 2009 until July 2010, I was also the acting director for the PBGC.

I will testify today about the pension plans of the Delphi Corp., the Nation’s largest producer of auto parts. As you know, in July 2009, PBGC stepped in to protect the pensions of Delphi’s 70,000 workers and retirees. PBGC will cover about $6 billion of the plan’s shortfall. About 1.2 billion of the benefits is not guaranteed by the insurance program.

PBGC’s interest in Delphi and its pension plans spans the past decade. PBGC began actively monitoring Delphi after the spinoff from GM in 1999. In early 2005, Delphi’s credit ratings were downgraded from investment grade to speculative grade.

After Delphi entered bankruptcy in October 2005, PBGC worked intensely with Delphi, GM, and other stakeholders to keep the pension plans ongoing. Delphi consistently told its employees and PBGC that it intended to reorganize with the pension plans ongoing. However, when Delphi failed to make required minimum funding contributions to the plans, liens were triggered against Delphi’s nonbankrupt foreign subsidiaries. Beginning in March 2006, PBGC perfected those liens so that the plans had a secured interest against foreign Delphi entities.

In September 2007, Delphi filed a reorganization plan with the Delphi bankruptcy court. As a part that reorganization, GM and Delphi agreed to transfer part of Delphi’s hourly plan to GM’s hourly plan, and Delphi was to retain all other pension plans, including the salaried plan.

In April 2008, the reorganization deal fell through. However, in the latter half of 2008, Delphi still anticipated that it could reorganize, maintain its salaried plan, and merge the hourly plan into the GM hourly plan.

In September 2008, Delphi and GM, with the approval of the Delphi bankruptcy court, planned to transfer up to $3.4 billion of net liabilities from Delphi’s hourly plan to GM’s hourly plan in two phases.

The first $2.1 billion was transferred that same month. That’s September 2008. This transfer eliminated PBGC’s lien on behalf of the hourly plan. The subsequent downturn in the auto markets left Delphi unable to pay GM the promised consideration for taking the remaining portion of the hourly plan, so the second transfer never occurred.

In late July 2009, the Delphi bankruptcy court approved Delphi’s modified plan of reorganization calling for the liquidation of the company, termination of its pension plans, and settlement of PBGC’s claims. The settlement provided PBGC a $3 billion general unsecured claim against Delphi’s bankruptcy estate.

The investors in new Delphi required PBGC to release its liens on Delphi’s foreign assets before its purchase could proceed. At the time of that settlement, PBGC had a $196 million lien on behalf
of the salaried plan. In exchange for releasing the liens, PBGC reached an agreement with the buyers to give PBGC $70 million in cash and a membership interest in the new company. The cash payment and membership interest effectively paid PBGC’s salaried plan lien and gave PBGC a reasonable recovery on its other claims in the Delphi bankruptcy.

In March 2011, new Delphi redeemed PBGC’s stake in the company for $594 million. I would point out that’s less than 10 percent of the total underfunding in the plans. However, under statutory rules, the Delphi recoveries may allow PBGC to pay small amounts of additional benefits to older Delphi workers who retired or could have retired by July 31, 2006, 3 years before the Delphi plans terminated.

Companies that sponsor pension plans have a responsibility to live up to the promises they made to their workers and retirees. Plans come to the PBGC because their sponsors have failed to properly fund them. In the unfortunate case like Delphi where the sponsors fail and liquidate, PBGC is forced to and will step in to protect workers and retirees.

I would be happy to answer any questions.

[The prepared statement of Mr. Snowbarger follows:]
Testimony of
Vincent K. Snowbarger, Deputy Director for Operations
Pension Benefit Guaranty Corporation
before the
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending
Committee on Oversight and Government Reform
U.S. House of Representatives

June 22, 2011

Good afternoon Chairman Jordan, Ranking Member Kucinich and other Subcommittee Members. I am Vince Snowbarger, Deputy Director for Operations of the Pension Benefit Guaranty Corporation ("PBGC" or "the Corporation").

The most visible part of PBGC's work occurs when it steps in to terminate and become trustee of failed defined benefit ("DB") pension plans. First, however, PBGC tries to preserve plans and keep pension promises in the hands of the employers who make them. During FY 2010, PBGC helped 38 companies in bankruptcy keep their plans, enabling about 250,000 workers and retirees keep their full pension benefits. Every plan retained by its sponsor is a victory both for the plan's participants and for PBGC.

As part of this hearing on "Lasting Implications of the General Motors Bailout," I will testify today about the DB pension plans sponsored by companies in the automotive and auto supply industries. I will also discuss the impact the restructuring in these industries has had on the DB pension system and on the PBGC's pension insurance program.

In particular, I will describe the impact of the restructuring on the underfunded pension plans of Delphi Corporation, the nation's largest producer of auto parts. I will also describe the developments that forced us to step in to protect the pensions of Delphi's 70,000 workers and retirees. We are now responsible for about $6 billion of the plans' shortfall, but about $1.2 billion of benefits is not guaranteed by the insurance program.

PBGC

The need for a federal pension safety net became starkly evident when, at the end of 1963, the Studebaker Corporation, then the nation's oldest major automobile manufacturer, closed its U.S. operations and terminated its DB pension plan. About 4,000 workers lost the bulk of their pensions, receiving only fifteen cents on the dollar of vested benefits. At an average age of 52, these Studebaker employees had worked for the company an average of 23 years.

In 1974, Congress passed the Employee Retirement Income Security Act ("ERISA") which, among other protections, created PBGC to insure pensions earned by American workers under private-sector DB plans. We now insure the pensions of more than 44 million workers, retirees, and beneficiaries in about 30,000 DB plans. When a plan terminates in an underfunded condition – usually because the employer responsible for the plan goes out of
business or can no longer fund the promised benefits – PBGC takes over the plan as trustee and pays benefits to the full extent permitted by law.

**What PBGC Does**

In the aftermath of the economic crisis, PBGC responded to the wave of corporate bankruptcies by stepping up its work to protect plans. Our staff negotiated with dozens of companies, in bankruptcy, through our Early Warning Program and when corporate downsizing events occurred, to preserve their DB plans.

Under the Early Warning Program, PBGC monitored more than 1,000 companies to identify transactions that could threaten a company’s ability to pay pensions, and negotiated protections for the plans. We can also step in and negotiate protection for the pension plan, including a guarantee, posting collateral or additional contributions to the plan when major layoffs due to plant closures occur. In this way, last year PBGC secured an additional $250 million in protections for participants in about 20 pension plans.

When companies do enter bankruptcy, we encourage them to keep their plans ongoing. In large bankruptcy cases, the stakes for workers and retirees and the pension insurance program can be tremendous. If a company can exit bankruptcy with its pension plans ongoing, PBGC can avoid taking on substantial liabilities. If the company sheds its plan, PBGC can be saddled with the addition of billions of dollars to its deficit. Unfunded benefits can also mean benefit losses to those workers, retirees, and beneficiaries whose benefits exceed the amounts guaranteed by law.

During FY 2010, the agency worked with debtors and creditors to help 38 companies who were reorganizing in bankruptcy keep their plans. As a result, approximately 250,000 workers and retirees continue to enjoy their full pension benefits, while continuing to be protected by PBGC insurance coverage. This is almost 2½ times the number of participants in plans that failed.

Despite PBGC’s efforts to preserve pensions, 147 underfunded single-employer plans did terminate in FY 2010, most often in bankruptcy, and PBGC took up responsibility for an additional 109,000 workers, retirees, and beneficiaries.

For the past 36 years, PBGC has stepped in to pay benefits – on time, every month, without interruption. These benefit payments are important, often crucial, to the retirement income security of retirees and workers in trusted plans, many of whom worked decades for their promised benefits. In FY 2010, PBGC paid nearly $5.6 billion in benefits to about 801,000 retirees and beneficiaries in 4,200 failed plans; another 669,000 participants will receive benefits in the future. Since the beginning of FY 2011, PBGC has become responsible for current and future benefit payments for another 30,000 individuals.
Governance and Structure

PBGC is a wholly-owned federal government corporation overseen by a three-member Board of Directors consisting of the Secretary of Labor, who is the Chair, and the Secretaries of Commerce and Treasury. The Corporation is administered by a presidentially-appointed, Senate-confirmed Director. The Corporation also has a seven-member Advisory Committee appointed by the President to represent the interests of labor, employers, and the general public.

PBGC operates two pension-insurance programs, which are financially separate. The single-employer program covers about 34 million workers, retirees, and beneficiaries in about 26,000 single-employer plans. The smaller multiemployer program – which covers collectively bargained plans that are maintained by two or more unrelated employers – protects more than 10 million workers, retirees, and beneficiaries in about 1,500 multiemployer plans.

Although PBGC is a federal government corporation, it receives no funds from general tax revenues and by law its obligations are not backed by the full faith and credit of the U.S. government. Operations are financed by insurance premiums, assets received from pension plans trusted by PBGC, investment income, and recoveries from the companies formerly responsible for underfunded trusteed plans.

AUTO INDUSTRY

In 2009, as GM and Chrysler requested government assistance, President Obama established the Presidential Task Force on the Auto Industry (Auto Task Force) to evaluate the companies’ restructuring plans. The Auto Task Force consulted PBGC to determine the scope of pension underfunding in the automotive and auto supply industries.

As part of the Troubled Asset Relief Program, Treasury provided funding to help GM and Chrysler fund their operations while they restructured. To implement the restructuring plans, both companies filed for bankruptcy reorganization. When New GM and New Chrysler emerged in 2009, they assumed sponsorship of all the old companies’ DB plans. As a result, more than 700,000 participants in the GM plans and more than 250,000 participants in the Chrysler plans kept their full plan benefits.

U.S. automakers sponsor some of the largest private sector DB plans, and many auto suppliers also sponsor DB plans insured by PBGC. Even before the GM and Chrysler bankruptcies, DB plans sponsored by auto suppliers were significantly underfunded. We closely monitor troubled companies with underfunded plans and, where possible, negotiate to obtain plan protections.

PBGC has worked on behalf of DB plan participants and the pension insurance program as an unsecured creditor in numerous bankruptcy cases, and as a contingent unsecured creditor in the GM and Chrysler bankruptcies. In 2007, when Daimler AG sold its interest in Chrysler to Cerberus, PBGC obtained a $1 billion guarantee for the pension plans from Daimler and an additional $200 million contribution from Chrysler. In conjunction with Chrysler’s
reorganization in 2009, we renegotiated Daimler’s $1 billion guarantee and obtained $600 million in contributions for the Chrysler pension plans and a $200 million guarantee from Daimler. The bankruptcy court approved the agreement, Daimler made the contributions, and the $200 million guarantee remains in effect.

Since 2004, about 50 auto suppliers with DB plans have filed for bankruptcy protection. PBGC terminated and trusted the plans of about half of those auto suppliers. During the same period, however, about half of those auto suppliers emerged from bankruptcy with their pension plans ongoing. For example, in 2009, we reached an agreement with Visteon Corp. to provide additional protection for their pension plan covering more than 5,300 former employees of the automotive supplier. Visteon ultimately agreed to accelerate a $10.5 million cash contribution to the plan, provide a $15 million letter of credit, and provide for a guaranty by certain affiliates of certain contingent pension obligations of up to $30 million. Separately, in 2010, Visteon was able to emerge from bankruptcy as a stronger company with its pension plans ongoing.

**DELPHI CORPORATION**

Delphi, which was originally created as an in-house parts manufacturer for GM, was spun off as an independent company in 1999. At that time, GM transferred assets and liabilities from its salaried and hourly pension plans to the newly established Delphi Salaried and Hourly DB pension plans. GM negotiated with certain unions to provide benefit guarantees if the Delphi Hourly plan terminated or was frozen at a later date.

**Delphi’s Bankruptcy**

Delphi was one of about 50 auto suppliers that we were monitoring under our Early Warning Program. After the spinoff in 1999, PBGC actively monitored Delphi, focusing on its credit profile and corporate transactions that could have put the pension plans at risk. While Delphi suffered large losses between 2001 and 2005, the company maintained its investment grade credit ratings until early 2005 when it was downgraded to speculative grade. At that time (approximately five months before bankruptcy), Delphi refinanced a large portion of its debt. PBGC engaged with Delphi management on the refinancing transaction. Delphi contributed some of the proceeds from that transaction to its pension plans.

After Delphi entered bankruptcy protection in October 2005, PBGC worked intensively with Delphi, GM, and other stakeholders to keep the pension plans ongoing. During the bankruptcy, Delphi consistently told PBGC and its employees that it intended to reorganize with its pension plans ongoing. However, Delphi failed to make required minimum funding contributions to the plans and, as a result, liens were triggered on behalf of the plans against the assets of Delphi’s non-bankrupt foreign subsidiaries. Beginning in March 2006, PBGC perfected those liens as the law provided, so that the plans had a secured interest against the foreign Delphi entities.

In September 2007, Delphi filed a reorganization plan with the bankruptcy court. As part of the reorganization, GM and Delphi entered into a settlement agreement to transfer part of
Delphi’s Hourly plan to GM’s Hourly plan. Under the reorganization plan, Delphi was to continue to sponsor all its other pension plans, including the Salaried plan. Delphi did not plan to transfer any pension liability to PBGC.

In April 2008, Delphi’s reorganization deal fell through, and the next month, previously granted IRS pension funding waivers expired. As collateral for the waivers, Delphi had obtained bankruptcy court approval to provide PBGC with $172.5 million in the form of letters of credit. In order to protect the plans, PBGC drew down on the Delphi letters of credit, which resulted in $122.5 million in contributions to the Hourly plan and $50 million to the Salaried plan.

In the latter half of 2008, Delphi still anticipated that it could reorganize in bankruptcy, maintain its Salaried plan, and merge the Hourly plan into the GM Hourly plan. In September 2008, Delphi and GM, with the approval of the bankruptcy court, amended their settlement agreement to provide for a transfer of up to $3.4 billion of net liabilities from Delphi’s Hourly plan to GM’s Hourly plan in two phases. The first $2.1 billion was transferred the same month. This provided added security for retirees and employees of Delphi, and also reduced PBGC’s exposure to loss. Between September and November 2008, Delphi froze benefit accruals in the Hourly and Salaried pension plans.

The second transfer of liabilities to GM was to be made upon Delphi’s emergence from bankruptcy. Unfortunately, the severe downturn in the auto markets made it impossible for Delphi to afford the Salaried plan or to pay to GM the consideration previously promised for transfer of the remaining portion of the Hourly plan to GM.

Recoveries and Benefit Payments

Delphi’s proposed modifications to its plan of reorganization, approved by the bankruptcy court in late July 2009, called for the liquidation of Delphi, the sale of its remaining valuable assets, and termination of the Delphi plans; and the modifications included provisions for settlement of PBGC’s claims. The settlement included in Delphi’s modified plan of liquidation provided PBGC with a $3 billion general unsecured claim against Delphi’s bankruptcy estate. In addition, the investors in the new company that had agreed to purchase Delphi’s foreign subsidiaries, which included New GM, required PBGC to release its liens and claims on those foreign assets before the purchase could proceed. At the time of the settlement, PBGC had a $196 million lien on behalf of the Salaried plan. The September 2008 transfer of Hourly plan liabilities to GM eliminated PBGC’s lien on behalf of the Hourly plan.

In exchange for the release of the Salaried plan lien and PBGC’s other claims, PBGC reached an agreement with the buyers that provided PBGC with a $70 million cash payment from GM and a membership interest in the new company, which had been created as a U.K. partnership. PBGC’s membership interest provided that PBGC would receive approximately ten percent of the first $7.2 billion of distributions that the new Delphi partnership made to its members. The cash payment and membership interest effectively paid PBGC’s Salaried plan lien and, in the context of Delphi’s bankruptcy gave PBGC a reasonable recovery on its other claims; therefore, PBGC released its claims against, and statutory liens on, Delphi’s foreign
subsidiaries. In March of 2011, new Delphi redeemed PBGC’s stake in the company for $594 million.

The law provides a formula for PBGC to allocate a portion of its total recoveries to provide benefits that are not guaranteed or funded by plan assets. Generally, the Delphi recoveries may allow PBGC to pay additional benefits to older Delphi workers who retired or could have retired by July 31, 2006, three years before the Delphi plans terminated, and who are now receiving benefits less than those promised to them by Delphi due to the statutory limits on the amount that PBGC can pay. However, because the amount of PBGC’s recovery is less than 10 percent of the benefits that Delphi promised but failed to fund, any benefit increases are likely to be small.

Since PBGC became trustee of the Delphi plans in August 2009, we have been making uninterrupted payments to retirees and putting new retirees into pay status as they apply. Participants receive estimated payments until calculations are final. Calculating benefits for the 70,000 workers and retirees in the six Delphi plans poses challenges because of complex benefit structures and mergers and acquisitions that took place throughout the life of the plans. It will take several years to fully review Delphi’s plans, verify participant information, and determine benefit amounts. We plan to issue most final benefit determinations in 2013. A group of Delphi Salaried plan participants has sued PBGC and the Treasury Department seeking to undo the plan termination. The litigation is ongoing.

CONCLUSION

This is a time of great challenge for all of us in the public sector who are trying to assure American working families of financial security in retirement. In one sense we’ve been fortunate. Despite the greatest financial turmoil in many decades, fewer plans were terminated than many observers had expected.

In part, this also may be due to PBGC’s own efforts. We continued to respond to the recent wave of corporate bankruptcies by stepping up and stepping in. We worked tirelessly to convince companies, both in and out of bankruptcy, to preserve their plans. In many instances, this approach worked. However, underfunding in plans sponsored by financially weak companies remains high, and PBGC’s effort to preserve pensions can only succeed where the plan sponsor’s business survives and is large enough to support the pensions. In the unfortunate cases like Delphi, where the sponsor failed and liquidated and the remaining business was a fraction of the size of the unfunded pension liabilities, PBGC is forced to, and will, step in to protect the pensioners from the fate suffered by the Studebaker retirees some fifty years ago.

In sum, companies that sponsor pension plans have a responsibility to live up to the promises they made to their workers and retirees. But when a company cannot keep its promises, PBGC provides a dependable safety net for workers and retirees.

I would be happy to answer any questions.
Mr. JORDAN. Let me thank both witnesses for their testimony. We are going to start with Mr. Turner. The gentleman from Ohio is recognized for 5 minutes.

Mr. TURNER. Thank you, Mr. Chairman, and I want to thank you again for holding this important hearing. This is an issue that is certainly important in my district, but I think it is important to people throughout the country when they look at an administration stepping into a bankruptcy and there are pensions and retirees, and people are picked as winners and losers, they are not treated the same, this inequality.

I think all of Americans should be very concerned about the process that this went through. What is the policy? What does it say about the security that people have in their pensions? And what does it say about the administration’s commitment to ensure that people have access to their promised health benefits and to their salaries?

Gentlemen, I presented both of you with lists of questions. Mr. Bloom, you received 25; Mr. Snowbarger, you received 30.

I am going to ask for your commitment that you review those questions and that you, to the best of your ability, provide me with answers. Do I have that commitment?

Mr. SNOWBARGER. I will.

Mr. BLOOM. Absolutely.

Mr. TURNER. Thank you. The questions involve many of the issues that I think the taxpayers deserve answers to. How did this process go through? How is it that there were winners and losers that were picked? And how can it be resolved, more importantly? Because the issue is, I think, this Congress, I know that this chairman doesn’t want us to just discover what happened; we also want to find out what the solution is.

Mr. Bloom, you and I had a conversation just before this hearing reconvened, and I want to, for the record, to restate it. You know, I was telling you that I think that everyone knows that when people aren’t treated equally, that there’s an injustice or inequality, and that I would like, since you have such a great knowledge and understanding of this issue, your expertise and commitment as to how these salary retirees from Delphi can be made whole.

You said you would be very willing to work with me on that. It goes to my question of: Are you working on that? Is that on your to-do list? Because I would really want to know that the administration has it on its to-do list that this issue not be—that the status quo—that we do look at ways that these salaried retirees can have their pensions restored. Mr. Bloom.

Mr. BLOOM. Thank you, Congressman. And as I did say to you at the break, I am certainly happy to sit and talk with you or anyone else who has ideas about how this matter should be dealt with.

Look, there is a core unfortunate reality that we face in this entire circumstance. These two companies came to the government, first the Bush administration and then to the Obama administration, in a state of insolvency. And unfortunately, what that means is, as my colleague has made reference to in another context, is that they simply had made promises to people that were larger than they were able to make—that they were able to honor. And
that does not only go to the Delphi salaried retirees, it goes, unfortunately, to thousands of different——

Mr. TURNER. But, Mr. Bloom, just a second. Some of those promises were kept. And at the direction of the administration, they were kept. I mean, the retirees from Delphi were not treated similarly at the direction of the administration. So this is not just promises that they couldn’t keep. Selectively, some people’s promises were not upheld and others were.

Mr. BLOOM. Let me try and address that. First thing, as I said, because I am a defendant in a lawsuit, I am not in a position to comment specifically about Delphi.

But I can say this. The company came to the administration with restructuring plans, and we reviewed those overall plans but we did not make determinations of particular treatment for particular groups. The company came to us with an overall plan, as was referenced by the chairman in his opening remarks.

Mr. JORDAN. Would the gentleman yield for 1 second? Would the gentleman yield for 1 second? I just want to ask one clarification on that.

The company came to you with the restructuring plan, but isn’t it true the Auto Task Force turned down the first plan?

Mr. BLOOM. Yes, it is absolutely true. So the reason—and the reason we did, sir, is we concluded that those plans did not create viable enterprises. And so we——

Mr. JORDAN. But the selectivity that the gentleman is getting to certainly took place with the whole restructuring plan, because he turned down the very first plan.

Mr. BLOOM. It was not selective. We concluded that the overall plan was not viable. We concluded that the company had not made, unfortunately, difficult enough decisions to turn them viable. So that if the President was going to commit additional taxpayer resources, we would have a reasonable chance of having viable companies on the back end.

Mr. TURNER. Mr. Bloom, my time is expiring. Mr. Chairman, with your consent, if I could have just 1 more minute to do a summation here.

Mr. JORDAN. Without objection.

Mr. TURNER. Thank you.

Mr. Bloom, it was the administration picking winners and losers. And that really is the crux of everything that the taxpayers deserve to discover. I mean, that’s what this whole hearing process is about. And I want to encourage the chairman to have additional hearings. I believe that there ought to be subpoenas to the administration. I believe that there ought to be depositions. Because this is not something that you just did in a vacuum, you did this with taxpayer dollars, and the taxpayers will not be made whole, nor will the pensioners who are retirees, salaried retirees from Delphi, but others will. Absolutely, somewhere in a room at the White House, people were picked as winners and losers.

There was inequality and injustice that was done. And we deserve, and we will ultimately get to the bottom of how that was done and what basis that it was done.

I want to have one more comment, Mr. Chairman, and then I will yield.
The issue of the litigation is not one of requiring you to be silent. It is absolutely for your sole convenience that you stand in front of us and not answer questions based on pending litigation. Because if you made statements to us that were truthful, they wouldn’t change the outcome of the litigation, right? Because the statements themselves—it’s the actions from which liability arises, not from your statement. So by you not speaking on it today, you are protected, inconvenienced, not as a requirement.

True, if you made statements in front of us that were inconsistent, it would go to your issue of veracity in litigation. If you revealed something that perhaps we all didn’t know, it might expedite the process of litigation.

But speaking in front of a congressional hearing and telling the American public truthfully what happened with their tax dollars and the administration’s decisionmaking, does not affect the outcome of litigation. It is only for your convenience.

Mr. Chairman, I encourage you to continue investigating this matter and bringing to light what occurred here. Thank you.

Mr. JORDAN. I thank the gentleman.

We go next to the ranking member of the full committee, the gentleman from Maryland.

Mr. CUMMINGS. Yes. Just in the last set of questions, it is not, I would say to the gentleman, it’s not that simple. Having been a trial lawyer for 20, for almost 30 years, it’s not that simple. I am not trying to defend Mr. Bloom. When you are in litigation, it’s just not that simple.

But let me go to you, Mr. Bloom. President George Bush extended the first Federal aid to GM, totaling $9.4 billion. What did the President require as a condition of that initial aid; do you know?

Mr. BLOOM. I believe, Congressman—thank you for that question. I believe, actually, the total assistance provided by the Bush administration to General Motors was actually $13.4 billion. The only requirement of that was that the companies come forward with restructuring plans and those plans were to be—come forward by, first, the 17th of February, and then judged on by the 31st of March. So that was the only condition of those loans. There was no condition that the company in any way restructure, actually restructure or address its long-seated—deep-seated problems.

Mr. CUMMINGS. So when President Obama came into office, he required both GM and Chrysler to develop plans to restructure their businesses so they could be competitive. And GM’s initial plan was reviewed, I take it, by the Auto Task Force which you advised, and that plan was rejected.

And so can you—you said that the first plan was not, was it—did you say viable? And what did you—I am not trying to put words in your mouth, but you all made—that’s basically a judgment call?

Mr. BLOOM. Yes, Congressman. I mean, look, the President very much wanted to find a way to stand behind General Motors and Chrysler if he could, but he also recognized that these companies had made a lot of mistakes over prior years and had gotten themselves insolvent. And, as I said earlier, we are not in a position to honor the promises they had made. That is a tragic situation that
faced all the stakeholders of the company, but that is the situation that we were handed.

And so what he insisted is that they make the difficult decisions that included, tragically, having to close factories and put blue collar workers out of work. That’s a terrible thing to have to do. But the alternative was either, A, do nothing and have the companies liquidate in their entirety, in which case every single stakeholder would have done worse than they did, or just simply hand them a blank check and say—because many of these stories are heartrending—we are going to give you all the money that you asked to meet all those promises. Tragically, that would have been a multiple of the money that the President, in fact, extended.

So in that light. We chose the middle path. We forced the companies to come up with very tough-minded restructurings as a condition of further assistance.

Mr. CUMMINGS. So you all gave GM 60 days to resubmit—is that right—a plan?

Mr. BLOOM. Approximately 30—60 days after the 31st of March.

Mr. CUMMINGS. And was that plan accepted, the next plan?

Mr. BLOOM. The subsequent plan, yes. The subsequent plan, we did choose to back the company and its management who had put forward that plan. We did choose to back that plan and to help them get through bankruptcy in order to effectuate that plan. That’s correct.

Mr. CUMMINGS. So what sort of support did the government give GM during the current administration?

Mr. BLOOM. The total funds extended by this President to General Motors are approximately $36.1 billion, Congressman.

Mr. CUMMINGS. Okay. The U.S. Government became the dominant shareholder of GM, owning more than 60 percent of the company at one time. Was the United States an active or a passive shareholder?

Mr. BLOOM. That’s a very good question, Congressman. We made a very conscious decision that while we did have to do this intervention because we are in an extraordinary moment in our Nation’s history, the greatest recession since the Great Depression, etc., that we wanted to minimally involve ourselves in the operations of the company.

And so after the bankruptcy, we were involved in choosing an exemplary group of men and women to be on the board of directors, but we did not involve ourselves in any way in the day-to-day management of the company.

Mr. CUMMINGS. And so the operational decisions of GM, you basically weren’t involved in that; is that right?

Mr. BLOOM. We very consciously chose not to be involved in those. We left that to the board of directors, who directs the management who carries out their will.

Mr. CUMMINGS. I don’t know if you can answer this question or not, but you have been accused of, in this hearing I think, of picking winners and losers. Can you comment on that? When I say picking winners or losers, I mean was there some political considerations involved, to your knowledge?

Mr. BLOOM. Congressman, there were no political considerations. The admonition of the President was to be commercial, to be tough-
minded and to be fair. And that is the—and that is the direction that the staff the Auto Task Force, of which of I was a part, carried out.

Mr. CUMMINGS. Mr. Bloom, the title of today’s hearing is “Lasting Implications of the General Motors Bailout.” Wouldn’t you say that the most significant lasting implication is we were able to avoid a massive disruption in the U.S. economy that would have been caused by the liquidation of GM? Is that a fair statement?

Mr. BLOOM. I think that’s a very fair statement.

Mr. CUMMINGS. All right. I see that I have run out of time.

Mr. JORDAN. The chair now recognizes the gentleman from Florida, Mr. Mack.

Mr. MACK. Thank you, Mr. Chairman. I too want to thank you for this hearing. I believe that everyone back home certainly has a big interest in this hearing.

You know, it strikes me as kind of interesting that there’s so much talk about winners and losers. How about, how about the people in southwest Florida, where there isn’t an automobile manufacturer, who feel like the car industry was chosen over maybe some of the businesses that they were in? So it’s an interesting conversation.

But my questions are going to go to you, Mr. Bloom, just so I have perspective in this, because I am kind of new to some of this. Is it true that you spent the vast majority of your professional life prior to coming to the administration working for or on behalf of unions?

Mr. BLOOM. A good portion of it, yes.

Mr. MACK. And then let me ask you another question. Do you believe that the free market is nonsense?

Mr. BLOOM. No, I don’t.

Mr. MACK. All right. Well, let me, if I could, ask for the first clip to be played.

[Video shown.]

Mr. MACK. That is you, isn’t it, Mr. Bloom?

Mr. BLOOM. Yes, it is. Okay.

Mr. MACK. So do you believe that it is appropriate for someone who has been a union leader and someone who doesn’t believe in the free market to then be picked by the President and placed in charge of restructuring a private company and our American free market?

Mr. BLOOM. Well, first thing, I think a comment I made in jest at a speech does not represent my view on this matter, first thing.

Second thing, I would leave to others whether or not the choice of my work—the choice for me to work on this is appropriate or not. And I was part of a large team. There were about a dozen people, staff, in the Treasury Department.

Mr. MACK. All right. Well, let me just get back to this. But that was you making that comment, and you spent most of your adult working life either working for unions or on behalf of the unions. And I believe that you gave a speech in 2006 in front of the International Association of Restructuring, Insolvency, and Bankruptcy Professionals in Arizona, in which you described a bargaining technique, the “dentist chair” bargaining technique.
Can you describe to us what the dentist chair bargaining technique is?
Mr. BLOOM. Yes. Again, in a light-hearted speech, I indicated I thought it was important that all parties for the bargain have skin in the game in order to produce the best result.
Mr. MACK. What is the dentist chair technique?
Mr. BLOOM. It's a reference to how a person might go into a dentist's office and make sure that the dentist doesn't hurt them.
Mr. MACK. And how would they do that?
Mr. BLOOM. They would do that by making clear that they also had a leverage on the dentist.
Mr. MACK. And how did they have leverage on the dentist?
Mr. BLOOM. By grabbing him where it might hurt.
Mr. MACK. So you think the free market is nonsense?
Mr. BLOOM. I didn't say that, Congressman. I explained that comment.
Mr. MACK. Well, okay. People can see it for themselves.
Mr. BLOOM. Right.
Mr. MACK. You worked as—either for or on behalf of unions. You believe that there's a bargaining, a way to bargain by making sure that the dentist feels the pain.
Do you think that—let me say this. There are some people who might disagree with your approach. Would you agree with that?
Mr. BLOOM. There were a wide variety of views on the task force about how to best carry this out. There were people on the task force who had had experience on nothing but the business side of the house. There were those of us who had had some more experience on the union side of the house. We all worked together and came to a consensus of the best way to do this. We took it forward to our principals.
Mr. MACK. If we could we're going to play another clip here for you and tell me what you think of this.
[Video shown.]
Mr. MACK. Did you really just talk about Mao now and that somehow—well, let me ask you this, is that representative of the culture in the unions, the leadership in unions?
Mr. BLOOM. I think it is representative of trying to make a point through exaggeration.
Mr. MACK. Well, you know—through exaggeration?
Mr. BLOOM. Correct.
Mr. MACK. Excuse me, I don't think that Americans think that exaggerating at a time when our economy is hurting so much is the right way to go. Now you might have made these statements earlier, but you did say that you think free market is nonsense. You described a tactic of bargaining that is not professional. You also talk about Mao and how political getting things done is at the end of a barrel.
Do you think that maybe it was a mistake that you were put in a position in the first place to be part of any kind of restructuring of anything in the American free market?
Mr. BLOOM. That would be for others to judge.
Mr. MACK. Who—how did you get into that position?
Mr. BLOOM. I was asked to serve by people at the Treasury Department.
Mr. MACK. Did President Obama pick to you serve?

Mr. BLOOM. I do not know what the President's role was in the choice.

Mr. MACK. Thank you, Mr. Chairman.

Mr. JORDAN. I thank the gentleman. Before we turn to Mr. Johnson, just let me ask this question. What is the status of the Auto Task Force today? Is there still such an entity, because I know your title has changed, but is there still—obviously the taxpayers still have an interest, so what is the status of the Auto Task Force?

Mr. BLOOM. As I said in my opening remarks, Mr. Chairman, I am not at the Treasury Department anymore. But my understanding is there is—the Auto Task Force itself was actually a group of members of the Cabinet who convened to provide oversight to the overall effort. There was then is staff group set up at the Treasury Department to do the day-to-day work. My understanding is the Treasury Department still does have a staff group that is providing oversight for our investments in those companies. I am not a part of it.

Mr. JORDAN. The individuals who were selected that we knew publicly as part of the task force, you were on that, Mr. Rattner first chaired it, others' names escape me right now were part of it. That group of people is no longer meeting on a regular basis having input and oversight of the auto industry or are they?

Mr. BLOOM. If you are referring to individuals like myself and Mr. Rattner, on an individual basis we are not obviously, but yes, there is a group at Treasury. I am not familiar with who they are because I am not at the Treasury. But I know there are a group of individuals at Treasury whose job it is to look—to provide oversight to our remaining investments in the automobile industry, yes.

Mr. JORDAN. Okay. I thank the gentleman. I now recognize the gentleman from Ohio, Mr. Johnson.

Mr. JOHNSON. Well, thank you, Mr. Chairman, and to the rest of the subcommittee members, for allowing me to attend and participate in today's oversight hearing.

As some of you may know, I represent Ohio's Sixth Congressional District and a large number of a Delphi retirees, both salaried and unsalaried, live in my district.

I think we have heard and will continue to hear about the unintended consequences that occur when the Federal Government bails out private industries and picks winners and losers. Clearly the Obama administration picked winners and losers in the bailout process. And I am especially thankful, Mr. Chairman, that you are holding this hearing. Hopefully we will get the administration to answer some of these questions, although now I am seriously doubting that that will come.

I am kind of appalled by what I have heard. I have a list of questions here, but I have to ask this first one. Did I understand you, Mr. Bloom, that you said those comments that you made on that clip were in jest?

Mr. BLOOM. I said some of them were in jest and some of them were exaggerations to make a point.

Mr. JOHNSON. At what point did you start laughing to make the joke? When did you deliver the punchline? Because I didn't see any laughing in that video. I didn't see a punchline in that video. I de-
liver speeches virtually every day. That looked like a pretty serious speech to me.

Mr. BLOOM. I thought my demeanor was quite lighthearted, but I guess that would be for others to judge.

Mr. JOHNSON. I am passing judgment then, I don't understand that.

Mr. Bloom, did you not say at the following at a congressional hearing about 2 years ago from the beginning of this process the President gave the Auto Task Force two clear directions regarding its approach to the auto restructurings. The first was to behave in a commercial manner by ensuring that all stakeholders are treated fairly and receive neither more nor less than they would have simply because the government was involved. The second was to refrain from intervening in the day-to-day management of these companies.

Did you say that?

Mr. BLOOM. Yes, Congressman.

Mr. JOHNSON. Do you think that the Auto Task Force accomplished the President's first direction, specifically that all were treated fairly and received neither more nor less than they would have simply because the government was involved?

Mr. BLOOM. Yes, I think—feel very strongly that our treatment, as I said in response to a prior question, that our—our directive and I think the result was that people were treated commercially and fairly.

Mr. JOHNSON. Mr. Bloom, I find it hard to believe that you or anyone else could believe that everyone was treated fairly considering that the Delphi retirees lost 30 to 70 percent of their pensions, all of their health care benefits, all of their life insurance, while hourly retirees retained their full pension and health benefits. Frankly, that is almost as funny as your comment during the video clip. But they must be exaggerations, because how do you consider that fair?

Mr. BLOOM. Congressman, I didn't see they were treated equally, I said they were treated fairly.

Mr. JOHNSON. Define fair.

Mr. BLOOM. I am going to try to.

Mr. JOHNSON. Define fair.

Mr. BLOOM. I am going to try to, sir.

What the companies did is came forward with business plans that in their commercial judgment provided the treatment that was required in order to successfully effectuate the bankruptcy. We looked at those plans and, as the earlier question indicated, we rejected the first version and then approved a second version. Those plans were then brought forward to bankruptcy courts. And in both cases, General Motors and Chrysler, bankruptcy judges reviewing that, with nothing other than the question of legal, of accordance with the law in mind, judged that both that both those plans were reasonable and both those plans were in full concert with bankruptcy law.

Mr. JOHNSON. In full concert maybe with bankruptcy law, but where does the word “fair” come into play? How can you consider that taking away pensions, life insurance and benefits from one
group and not having that same treatment to another group be considered fair?

Mr. BLOOM. Because the different situation that the groups found themselves in provided the opportunity for different treatment which the companies believed was fair. For instance, the suppliers.

Mr. JOHNSON. But it wasn’t the company, it wasn’t the company. Did you not say just a few minutes ago that the administration through the Auto Task Force approved and disapproved of these plans?

Mr. BLOOM. I said the companies tabled the plans and the auto and the administration approved the plans.

Mr. JOHNSON. But basically where does the buck stop, Mr. Bloom? The administration, right?

Mr. BLOOM. Clearly we approved the plans and the plans had, for instance, that the people who supplied parts to the companies received almost in many cases 100 cents on the dollar. We did that because the companies believed and persuaded us that to provide that level of treatment to their suppliers was critical to successfully reorganize. Likewise, the claimants for warranties who received a complete 100 cents on the dollars. We were also persuaded that while that was more than other unsecured creditors got, it was necessary and fair to effectuate the restructuring.

Mr. JOHNSON. Mr. Bloom, my time is up, I hate to cut you off. I wish we could continue this all day because I have a lot more questions. I would like to answer the question that my colleague—that you would not answer, as to whether or not you were the right person for the job. I am going to tell you, I don’t think so, because of what has happened to the people that live in my district. Your idea of what is fair and what is not fair defies my understanding of the word.

We teach our children that if you tell the truth, you have done nothing wrong, everything will be okay. And yet you don’t want to talk about the Delphi situation here because of litigation, which certainly leads me to have some big questions. I am going to assert to you that I am going to continue digging, I hope our chairman will continue digging. One way or another we are going to get these answers. If it were up to me, those who refused to answer would be found in contempt of Congress. And if I have anything to say about it, that is exactly what is going to happen.

Mr. Chairman, I yield back.

Mr. JORDAN. I thank the gentleman. I now recognize the gentleman from Pennsylvania, Mr. Kelly.

Mr. KELLY. Thank you, Mr. Chairman. Mr. Bloom, thanks for being here today. I would like to play a clip for you because in April 2010 General Motors began a national media campaign claiming that it had repaid the government loan in full, 5 years ahead of schedule. And here is a look at the clip and I just want to get your opinion on this, whether it is disingenuous or not.

[Video shown.]

Mr. KELLY. I think you have seen that before.

Mr. BLOOM. I have.

Mr. KELLY. Okay. Your opinion, disingenuous?
Mr. BLOOM. It might not have been the way I would have worded it, but we made a decision.

Mr. KELLY. So you would agree that it is disingenuous then?

Mr. BLOOM. No——

Mr. KELLY. No, no. Seriously, being an automobile dealer all my life, you know, and I served on several national committees for the automobile manufacturers, you know one of the things we come out with media campaigns and marketing campaigns, you know the critical part of those campaigns? Making sure that everything we say is in fact true and factual. And that is put through scrutiny, great scrutiny. So I would suggest if we are going to use taxpayer funds to run a marketing campaign that we should spend it actually on product and not in propaganda.

Now, at this time this advertisement ran Secretary Geithner said, we are encouraged that General Motors has repaid its debt well ahead of schedule and confident that this company is on a strong path of viability. You were quoted as saying that the Treasury Department has tried to be as straight as humanly possible, and we watch this clip and the question is, was the Treasury Department being as straight as humanly possible?

Mr. BLOOM. The Treasury Department didn’t make that ad, sir. The Treasury Department made a decision on behalf of the administration to not intervene in the day-to-day operations of the company, including providing oversight——

Mr. KELLY. I would disagree, I have a lot of friends who are no longer in business because of decisions that were made. I know you weren’t responsible for it directly, but you did steer the whole program.

Now in an article, and this is from a very conservative paper called the New York Times, Repaying Taxpayers With Their Own Cash. New York Times wrote that what neither General Motors nor the Treasury Department disclosed was that the company simply used other funds held by the Treasury to pay off its original loan. Furthermore, the Special Inspector—Inspector General for TARP wrote in its quarterly report to Congress in April 2010 that the source of funds for these quarterly payments were the other TARP funds currently held in escrow account.

Now my question, do you think that General Motors ad campaign and the statements made by the Treasury Department told the complete truth about these loan repayments?

Mr. BLOOM. Congressman, I am happy to answer questions about what the Treasury Department said. I indicated to you that we didn’t make the General Motors ad and whether we would have made it that way is something I can’t comment on. I will tell you what the Treasury Department——

Mr. KELLY. Just as an average guy who watches a lot of TV—no, no, no, this is easy.

Mr. BLOOM. I don’t watch a lot of TV.

Mr. KELLY. You don’t?

Mr. BLOOM. No.

Mr. KELLY. Okay. Well, I don’t watch as much as I used to.

Mr. BLOOM. Nor I.

Mr. KELLY. But I have to tell you, when I see this type of thing going on and we told the public, geez, General Motors is working
so hard and they are paying back all the money. What we didn't
tell them was they were using taxpayer money to disingenuously
make a statement they were actually paying off their loan. They
in fact did not.

Mr. Bloom. Congressman——

Mr. Kelly. I have to tell you, I lived that, I walked that walk,
and I understand the difference between taxpayer funded loan re-
payments and private individuals paying back the loans that they
took out and they are responsible for.

I will tell you this was not a good program. It did in fact pick
winners and losers. It did in fact use taxpayer money. Every penny
of this money came out of taxpayers' pockets and we have huge
loans. I like what you said earlier about part of the problem with
these companies were they made promises they couldn't keep, and
I have to tell you, I hope we use that same type of philosophy when
I read about how the President made his decision, they weren't
going to allow these companies to continue to operate the way they
operated knowing it was leading to a path of destruction. They
weren't going to lend the money to do that. I hope we use that
same philosophy when we talk about raising the debt ceiling on a
business that really General Motors pales in comparison to the way
this business is being run and it is all being done the same way
with taxpayer dollars.

Mr. Chairman, I am going to yield back my time. But I have to
say this is one of the most disappointing examples of how the gov-
ernment gets involved and in over its head and putting people in
a position that they absolutely did pick winners and losers. The
biggest losers in this whole thing, the American taxpayer.

Mr. Jordan. I thank the gentleman. I now recognize the ranking
member, Mr. Kucinich.

Mr. Kucinich. I want to say to my friend Mr. Kelly some of the
questions that he raises, someone who has been involved with auto
dealers, are questions that I raised with Mr. LaTourette in the last
Congress and those are legitimate questions.

Now I have a slightly different take on this, and Mr. Bloom rath-
er than an outright bailout wasn't in support of GM and the auto
industry, truly an investment, not only in auto companies them-
selves but in communities in the country. And America's overall
skill set to continue with manufacturing sectors, that could have
been lost actually if the Big Three had gone down.

Mr. Bloom. I think a number of independent observers, Con-
gressman, have indicated that if General Motors and Chrysler had
failed the auto supply base would have likely quickly failed with
it. Ford could have very well gone down after that. The CEO of
Ford supported the auto restructuring for that very reason. I think
the entire ability of the United States to make cars was at risk at
that time.

Mr. Kucinich. Well, my colleague is right about the role of the
taxpayers, but the taxpayers put in value. Did the taxpayers re-
ceive value back?

Mr. Bloom. I think what the taxpayers got back is hopefully
they have an automobile industry, they have all those people work-
ing, they have all those communities with that support, all those
dealers who—and some dealers unfortunately were not able to keep
their dealerships, but the overwhelming majority were and if General Motors could——

Mr. KUCINICH. That was a private decision, was it not?

Mr. KELLY. That was a decision by General Motors.

Mr. KUCINICH. And I wasn’t happy with many of those decisions. We had some good people in the greater Cleveland area who lost their dealership.

Mr. BLOOM. No one could be happy with those decisions, but it was worth noting that if General Motors had failed every single dealer would have lost their dealership.

Mr. KUCINICH. Mr. Speaker—speaker already. Mr. Chairman, I ask unanimous consent for a November 2010 report published by the Economic Policy Institute to be put in the record.

Mr. JORDAN. Without objection so ordered. And while we are here, again our colleague Mr. Kildee has a letter that he would like to submit for the record, too.

[The information referred to follows:]
HUGE RETURN ON TAXPAYER INVESTMENT
Benefits of the Auto Restructuring Plan
Vastly Exceeded the Costs

BY ROBERT E. SCOTT

The return on investment for the public from the restructuring of the domestic auto industry was extraordinary. Federal, state, and local governments owed between $10 and $78 for every dollar invested in the auto industry restructuring plan. Federal taxpayers are likely to recoup most or all of their investment in GM, and will enjoy a net gain of at least $61 billion on their $5 billion to 7 billion investment in the auto industry recovery plan. This was a very savvy investment, at a time when failure to intervene would have been catastrophic for the domestic economy.

The General Motors Company completed the largest global initial public stock offering (IPOs) in history this week (November 18). The U.S. government sold nearly half its stock holdings, which puts it well ahead of schedule for existing from ownership of the company. The proceeds from the stock sales alone (Thursday’s and the expected returns from the ultimate sale of its remaining 500 million shares in the company) will pay back most or all of the U.S. government’s initial $49.5 billion investment in GM (Welch, Spears and Trudell 2010). Overall, the government may lose only $5 billion to $7 billion on the entire recovery plan (Trudell 2010) after GM and Chrysler are privatized again. This report, however, shows that this investment resulted in far larger savings to the economy, and to federal, state, and local budgets. Without the aid of the government-assisted restructuring, one or more of the Big 3 domestic automakers would have collapsed. Between 1.1 and 3.3 million domestic jobs would have been lost, resulting in the loss of 0.5% to 3.0% in GDP in each year between 2009 and 2011, which would have sharply increased federal, state, and local budget revenues. This report shows that the auto recovery plan resulted in net savings to the federal government of between $70 billion to $889 billion in this period, and an additional $24 billion to $126 billion in savings to state and local government. In other words, the $5 billions to $7 billion now recouped via stock sales and loan repayment is offset many times over by the $94 billion to $535 billion in net savings to government.

Potential economic impacts of the auto crisis

If one or more of the Big 3 U.S.-based auto producers had been allowed to fail, it would have resulted in a complete shut-down of the domestic auto industry for a year or more, numerous studies and commentators estimated. This conclusion was based on two observations. First, given the financial crisis and the uncertainty about recovery in the auto industry, it was highly unlikely that any bankrupt automaker would be able to re-organize under Chapter 11 of the bankruptcy laws (Zandi 2008). The key concern was that they would be unable to obtain “debtor-in-possession” financing needed to
### Table 1

Projected economic impacts of auto industry collapse  
(without government-assisted restructuring), 2009-11

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<td>Estimated impacts on GDP*** (percentage points of GDP)</td>
<td></td>
<td></td>
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<td>-2.46</td>
<td>-1.77</td>
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<td>-2.46</td>
<td>-1.50</td>
<td>-1.31</td>
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<td><strong>GDP: Nominal dollars (billions)</strong>****</td>
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<td>Economic Policy Institute (2008)**</td>
<td>-$547.1</td>
<td>-$403.0</td>
<td>-$297.8</td>
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</table>

* Assumes employment recovery at rate of CAR best case scenario in 2010 and 2011.
** Assumes employment recovery at rate of CAR scenario 1 in 2010 and 2011.
*** Assuming a rule of thumb that a 1% increase in GDP represents 200,000 jobs (Siemens and Fieldhouse, 2012) and GDP (2012).
**** Based on baseline CBO projections of GDP for 2009-2011 (CBO 2010).
1. Assumes 100% reduction in big three production in 2009 employment recovery stays in 2010 and 2011.
2. Assumes that only one of big three firms fails in 2009, leading to 100% shutdown in 2009 and a 50% recovery in 2012 and 2011.


As a result, these companies would likely have ended up in Chapter 7 bankruptcy in which most or all of the employees would have lost their jobs and all the assets would have been liquidated. In addition, and more important, the ripple effects of a shutdown would have resulted in a wave of bankruptcies and similar shutdowns in the auto-parts industries. All foreign and domestic auto assemblers in the United States use many of the same suppliers, so a shutdown by any one of the Big 3 would have brought essentially the entire domestic auto industry to a complete halt for a year or more.
Table 1 reviews the likely effects of the collapse of one or more domestic automakers in 2009, and estimates the likely economic impacts of these events. The Bush White House’s Office of the Press Secretary (2008) estimated that the collapse of one or more automakers would result in the loss of 1.1 million U.S. jobs in 2009. The Center for Automotive Research (CAR) (2008) estimated that 2.5 to 3.0 million jobs would have been lost in 2009, and Scott (2008) estimated that 3.3 million jobs were at risk.

Given the state of the economy, and the fact that unemployment levels in the auto industry and throughout the economy remained very high between 2009 and 2010 (and are projected to remain at current levels for at least the next year), it is very likely that a collapse of the auto industry would have resulted in an even deeper recession. The CAR (2008) report estimated that 61% to 83% of auto workers would have remained unemployed in 2010, and 41% to 60% would have been unemployed in 2011.

This report uses these shares to estimate the numbers of jobs lost in 2010 and 2011 according to the White House (2008) and Scott (2008) studies, which did not project unemployment into future years. The low-end assumptions are used for the White House estimates, and the high-end assumptions with the Scott (EPI) estimates. Table 1 estimates that a shutdown of one or more U.S. automakers would have resulted in the loss of about 1.1 million to 3.3 million jobs in 2009, 700,000 to 2.8 million jobs in 2010, and 400,000 to 2 million jobs in 2011, as shown in the top portion of Table 1.

### Impacts on GDP

Table 1 also estimates the impact of unemployment on GDP using fiscal multipliers from the CBO (2010), as developed in Bivens and Fieldhouse (2010). These multipliers use the rule of thumb that a 1% increase in GDP increases payroll employment by 1 million jobs (and vice versa). This estimate is conservative for the auto industry, which is a high-productivity sector; workers in the auto industry generate higher-than-average levels of value added per worker, so their proportionate impact on GDP is likely higher than the CBO average.

Table 1 estimates that the permanent shutdown of one or more domestic automaker in 2009 would have reduced GDP by 1.1% to 3.5% in 2009, by 0.7% to 2.8% in 2010, and by 0.5% to 2.6% in 2011, as shown in the 2nd block of results in Table 1. Using CBO (2010a) baseline projections of GDP for 2009-11, these results translate into the loss of an additional $157 billion to $471 billion in GDP in 2009, $38 billion to $463 billion in 2010, and $67 billion to $298 billion in 2011.

### Impacts of an auto shutdown on government budgets

Table 2 examines the impacts of these increases in unemployment and lost GDP on government budgets, specifically in three areas: Federal, state and local, and unemployment insurance.

Bivens and Fieldhouse (2010) use CBO (2010) to develop a rule of thumb that each dollar increase in actual GDP relative to potential GDP has been associated with a $0.375 reduction in budget deficits (and vice versa). Hence, the reductions in GDP shown in the bottom section of Table 2 would result in the federal budget deficit increases shown in the top section of Table 2. (These results are summarized in Table 3, below.)

Poller, Kuzia, and Lutz (2009) estimate a relationship between state and local budgets and changes in state GDP. They develop a rule of thumb that for each one-dollar change in state GDP, the state budget surplus will change by $0.1. Since national GDP equals the sum of GDP at the state level, the national estimates of the impact of an auto shutdown on GDP are used to estimate the impacts on state and local finances. Combining the GDP estimates in Table 1 with the Poller et al. (2009) rule of thumb suggests that state budget balance would have declined by $16 billion to $47 billion in 2009, $10 billion to $40 billion in 2010, and $7 billion to $30 billion in 2011.

In addition, states would be liable for at least the first 26 weeks of unemployment insurance (UI) compensation. Using data from the BLS on the average weekly unemployment compensation in the 50 states (simple average for all
### Table 2

**Auto industry collapse: Costs avoided by the recovery plan ($billions)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td><em><em>Impact on federal budget</em> (nominal billions of dollars)</em>*</td>
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<tr>
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<td>$58.7</td>
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<td>Economic Policy Institute (2008)</td>
<td>$76.7</td>
<td>$15.1</td>
<td>$111.7</td>
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<tr>
<td><strong>Impact on state budget surpluses</strong></td>
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<td></td>
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<tr>
<td>White House, Of the Press Secretary (2008)</td>
<td>$15.7</td>
<td>$9.0</td>
<td>$6.7</td>
</tr>
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<td>$15.1</td>
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<td>Economic Policy Institute (2008)</td>
<td>$42.0</td>
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<td>$229.8</td>
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<tr>
<td><strong>Impact on state unemployment insurance payments</strong>*</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>White House, Of the Press Secretary (2008)</td>
<td>$6.3</td>
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<td>Center for Automotive Research (CAR 2008)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Worst-case scenario (1)</td>
<td>$22.2</td>
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</tr>
<tr>
<td>Best-case scenario (2)</td>
<td>$18.3</td>
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</table>

* Using the rule of thumb that a 1% increase in GDP increases the federal budget surplus by an amount equal to 0.875 percentage points of GDP (Blanchard and Gali, 2013 and OECD, 2016).

** Using the rule of thumb that a 1% increase in state GDP increases state budget surpluses by 10% (Blinder, 2004).

*** Based on average weekly unemployment compensation (in $) to the states.


States of $289.04/week), the bottom of Table 2 reports estimates of total state unemployment liabilities for the workers laid off in 2009. These results assume that states are liable for only the first 26 weeks of unemployment compensation, and that the federal government pays for extended benefits. Workers are currently eligible for up to 73 weeks of extended UI benefits, depending on unemployment rates in their state.

Table 3 summarizes the estimated total impact of an auto industry shutdown on federal, state, and local government budgets over the three-year period (2009-11) examined in this report. Federal budget deficits would have increased somewhere between $70 billion and $389 billion; state and local budget revenues would have declined between $24 billion and $126 billion. These estimates are adjusted to correct for the budgetary consequences of actual changes that did occur in auto industry employment between 2007 and 2010, as noted in Table 3.

Former head of the U.S. Automotive Task Force Steve Rattner estimated that the government may lose only $5 billion to $7 billion on the entire recovery plan (Tuohy 2010) after the auto companies are privatized again. Thus,
Federal taxpayers will enjoy a net gain of at least $63 billion on their $5 billion to $7 billion investment in the recovery plan. The government is likely to recoup most of all of its investment in GM, based on the expected returns from the sale of the stock it holds in the company (Welch, Spears, and Trudell 2010).

**Conclusion**

There is tremendous demand for the GM stock IPO (Welch, Spears and Trudell 2010). In retrospect, it was a savvy investment in many ways. Without this investment, an additional 1 to 3 million workers would have been added to the unemployment rolls. The recession would have been substantially deeper, as output would have declined by an additional 1.5% to 2.5%, and those effects would have persisted through at least 2011. The ultimate cost of the entire auto industry recovery plan to U.S. taxpayers will be only $5 billion to $7 billion. This expense has resulted in net savings to federal, state, and local governments of between $94 billion and $515 billion, a return on investment of between $10 and $78 per dollar invested in saving the industry. Furthermore, federal taxpayers alone enjoy a net gain of at least $61 billion on their $5 billion to $7 billion investment in the recovery plan. This was a wise investment, at a time when the alternative would have been catastrophic for the domestic economy.
Endnotes

1. See Table 1 for a summary of three major studies of the likely impacts of a collapse of the one or more domestic auto producers. Zandi (2008) also estimated that approximately 2.5 million jobs would be at risk if one or more domestic automakers had shut down. See also Bloom and Montgomery (2010).

2. This estimate includes the combined impacts of changes in spending and tax receipts. This estimate seems low based on a review of Census data on state and local finances for 2008, which shows that sales, property and individual income tax receipts exceed 10% of state GDP for a number of states. Thus, state expenditures on the first 26 weeks of unemployment insurance compensation are estimated here separately.

3. CARE (2008) developed their own estimate of the likely impacts of an auto industry shutdown on income tax receipts, social security tax receipts, and transfer payments. The sum of these estimates ranged from $108 billion to $156 billion over the 2009-2011 period. These estimates are substantially smaller than the fiscal impact estimates for the CAR study shown in Tables 2 and 3 of this report. The estimates developed here are based on broader, economy-wide estimates based on the overall impact of a shutdown on GDP, while the CAR estimates were less inclusive and were based on income estimates for average workers.

References


Mr. KUCINICH. Thank you.

I just want to quote from that report which I have asked to be submitted in the record. It said, “The return on investment for the public from the restructuring of the domestic auto industry was extraordinary. Federal, State and local government stayed between $10 and $78 for every dollar invested in the auto industry restructuring plan. Federal taxpayers are likely to recoup most of all their investment in GM and will enjoy a net gain of at least $61 billion on their 5 billion to 7 billion investment in the auto industry recovery plan.”

Now, back to Mr. Bloom, would you agree that the actual return on Treasury's investment of the domestic auto industry in terms of actual return, plus amount saved, would be greater than the amount of financial taxpayer assistance extended to companies?

Mr. BLOOM. I think a number of independent studies have indicated that, Congressman.

Mr. KUCINICH. And you say a number of independent studies, can you present the committee with any independent studies that indicate that?

Mr. BLOOM. We would be happy to provide you with additional data on that.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the subcommittee.]

Mr. KUCINICH. So would you tell this committee what are the taxpayers getting out of their investment in GM besides just monetary payback?

Mr. BLOOM. Well, again I think they are getting the fact that we have an automobile industry here in America, General Motors employs tens and tens of thousands of people, the supply base employs three times what GM employs. There are tens and tens and thousands of dealers. There are numerous communities, small businesses. When a large manufacturing plant closes, wherever it is, the impact on the overall community is enormous. And so all those communities that have GM plants, all of which would have lost those employers would have suffered far, far greater harm than in fact they have suffered during the recession. And your example of large town, for better or worse, is only one of dozens of what we would have seen across this country if we had allowed General Motors and Chrysler to fail.

Mr. KUCINICH. I want to say again that my colleagues in this room have complained quite correctly about the government picking winners and losers. I join them on that theme with respect to what happened on Wall Street, because I not only voted against the bailout, I was one of the leaders against the bailouts. But I am looking at something a little bit different from the finance economy which has paper transactions and actually works to put people out of work. This is American manufacturing, this is our core, this is part of our strategic industrial base. And while some could argue that what the government did was actually pick a winner, if that is true, the winner it picked was the American automotive industry and the American auto workers, and all of the small businesses that depend on that industry.
So I just want to mention that, and I have a great deal of respect for my colleagues who are concerned about how taxpayers’ money is being spent here. And I think in this one it sounds like the Auto Task Force was cognizant of their responsibilities.

Mr. JORDAN. I thank the gentleman. Mr. Snowbarger, we haven’t forgotten about you. I guarantee I will have at least one question for you at some point.

I first want to go to Mr. Bloom. You said earlier, we did not involve ourselves in the day-to-day operations. That is your statement.

Mr. BLOOM. Yes, sir.

Mr. JORDAN. Can we put up on the slide the e-mail from Mr. Feldman to—okay, good, can you look at this e-mail?

Mr. BLOOM. I would like to, sir, but I can’t.

Mr. JORDAN. I will read. This is from Mr. Feldman, part of the Auto Task Force, correct?

Mr. BLOOM. Yes.

Mr. JORDAN. You know him.

Mr. BLOOM. Yes.

Mr. JORDAN. Served on the task force with him, okay.

Have you guys begun a dialog—this is to General Motors—have you begun a dialog with the UAW over your desire to see the hourly plan terminated? At a minimum this could be messy and UAW should probably be brought into the loop.

Are you aware of this correspondence between the Auto Task Force and the group you served on?

Mr. BLOOM. I was, and I don’t think I am copied on this e-mail.

Mr. JORDAN. Well, let me just ask this question, is that involvement of the Auto Task Force in day-to-day operations?

Mr. BLOOM. I think this is a matter that touches on the Delphi litigation, so I am unfortunately not in a position—

Mr. JORDAN. Let’s go to the next one, let’s go to the next one. We have the next one. This is I think from Jennie Ingbretson to Greg Martin at General Motors: Greg, we would ask that you move the reference to Treasury down to the third paragraph taking it out of the lead.

So this is on a press release that was going to go out where we now have the Auto Task Force involving themselves with General Motors on a press release. So again, I just want to ask, is this involvement in day-to-day operation?

Mr. BLOOM. No, I think what this is is involvement regarding the Treasury Department. So in other words, when the company is talking about us, meaning the Treasury Department, I think it is proper that we would have interest in how we would be characterized.

Mr. JORDAN. Some would argue this, Mr. Bloom, some would argue if Treasury is involving themselves in press releases that the company is doing, but not making any other decisions, not picking winners and losers and not deciding which manufacturing facilities stay open and which stay closed, even though we have taxpayer dollars at risk, some would say that is really what is going on? This is what the Auto Task Force did they were coordinating how press releases went out, but we—GM made the decisions which facilities stayed open and which ones were closed.
Mr. Bloom. What we were doing is——

Mr. Jordan. I am just asking you this, do you see how someone could gather and reach that conclusion?

Mr. Bloom. No, I wouldn't, Congressman.

Mr. Jordan. Really? Really?

Mr. Bloom. Yes, I would answer the question, what we did is if General Motors was going to talk about the Treasury Department we would obviously want it to be done properly. General Motors came forward to the Treasury Department with a restructuring plan. We scrutinized that plan, we criticized that plan, we examined that plan. But we did not——

Mr. Jordan. Let me ask you something, can we look at that plan? Let me ask you this, the first restructuring plan that you guys gave the thumbs down to, are Members of Congress allowed to see that?

Mr. Bloom. I believe those plans were actually posted on the Web, the February plan.—

Mr. Jordan. The last time I got a chance to talk about this in the Judiciary Committee we were told that was proprietary information, we couldn’t look at that.

Mr. Bloom. To the extent the companies provided us information under confidentiality agreements——

Mr. Jordan. So, oh, oh, we can’t see what you saw.

Mr. Bloom. I didn’t say that. I said to the extent the companies provided us information that they believed implicated their proprietary technologies or business plans, we were not in a position.

Mr. Jordan. Well, answer my question. We won’t be able to see the same thing you saw?

Mr. Bloom. I am happy to take that——

Mr. Jordan. Yes or no.

Mr. Bloom. I am happy to take back a particular request. And if there is a document——

Mr. Jordan. If it is changed, because it was no before. I would like to see what you saw. You made a decision. GM had a restructuring plan, you said no, yet you are not involved in day-to-day operations, yet you are influencing press releases and everything else. We would like to see the same plan you saw.

Mr. Bloom. If you have documents you wish to see, I am happy to review the list. I am not at Treasury, but I am sure Treasury would be happy to review the list and provide you those documents that would be appropriate.

Mr. Jordan. Let me put up one more e-mail. This is from General Motors to Treasury. As indicated in this morning’s call—so I understand, you probably had daily calls, weekly calls, it says in this morning’s call, so there was some reference to a call that was taken. I assume some kind of conference call: We will await a further, ‘‘temperature check from Jennie on whether to go Friday.’’ This is an announcement on your new small car.

So again timing when the company will announce what it is going to do while the task force was giving the thumbs up or thumbs down to that. Yet no influence, no picking winners or losers, no involvement in day-to-day operations. Do you still stand by that statement?

Mr. Bloom. Yes.
Mr. JORDAN. You see this here, though? Temperature check, getting a temperature check from the Auto Task Force before GM can release another press release.

Mr. BLOOM. Again if General Motors——

Mr. JORDAN. They are not talking about Treasury, they are talking about the new car they are building. You can't say that this involves Treasury.

Mr. BLOOM. I believe this press release was—again, I don't know the specifics of this particular press release. We obviously communicated with General Motors on a regular basis, particularly prior to the bankruptcy. We communicated with them on a regular basis regarding their plans. But that did not mean that we gave them direction about which plants to close or which cars to make.

Mr. JORDAN. It seems to me you just can't—common sense says you can't have it both ways. You can't have all this taxpayer money at risk, an Auto Task Force selected by the President, you replaced the board, you replaced the CEO of General Motors, and say we are not running the company. It just has to be one or the other.

Mr. BLOOM. We absolutely did.

Mr. JORDAN. Yet you maintain this fine line and yet you are influencing how they write the press release.

Mr. BLOOM. What I said was—I said in my statement we absolutely were involved in picking the Board of Directors at the conclusion of bankruptcy. And as I said, after the bankruptcy we relied on the Board of Directors to be responsible for overseeing the day-to-day operations——

Mr. JORDAN. Let me do one question, and I will go a second round first to Mr. Kucinich and then Mr. Kelly and Mr. Johnson.

Mr. Snowbarger, throughout this process what kind of interaction was there between the Auto Task Force and—because were you heading up the Pension Guaranty board then. Well, throughout this process you were running—you were involved with Delphi in this process. So what kind of interaction took place between the two of you?

Mr. SNOWBARGER. In regard to General Motors?

Mr. JORDAN. In regard to both, Delphi General Motors overall.

Mr. SNOWBARGER. My recollection was that very early in the process PBGC had a conversation with Mr. Rattner, I believe. Mr. Bloom was invited to that meeting but it was held up at another occasion, at which we discussed the consequences of the General Motors failure on the pension system of General Motors and what the impact of that might be on the pension insurance system.

Mr. JORDAN. What discussions did they have with you relative to the hourly being topped off and not the salary?

Mr. SNOWBARGER. None.

Mr. JORDAN. Any comments, any correspondence that they gave you on that specific question?

Mr. SNOWBARGER. I don't recall any, no.

Mr. JORDAN. Okay. The ranking member is recognized for an additional 5 minutes or a second round of questioning.

Mr. KUCINICH. Thank you very much, Mr. Chairman. I just want to say that, well, that the chair's line of inquiry here whether or not the Auto Task Force was running GM is an appropriate line of inquiry. He has an interest in knowing that. I would have an
interest in knowing that because the outcome is so stunning it may give you more credit than at this point you apparently are willing to want to claim. But I want to say, Mr. Chairman—Mr. Chairman, I am going—okay—When the chair comes back, I am going to state this for the record because it relates to something that he said and I will be glad to enter it into a colloquy with him if he has any response, but the e-mail that was put into evidence that the chair had quoted about the press release may inadvertently prove Mr. Bloom’s case because the e-mail shows that Treasury is actually not in control. If you look, “Greg, we would ask that you move the reference to Treasury down to the third paragraph taking it out of the lead.” If they were in control they wouldn’t have asked. They would tell, they would be dictating. That didn’t happen. Just a subtle difference, but I just want to call that to the attention of the committee.

And what the e-mail does is it concerns GM’s characterization of Treasury and of course you can have an interest in a characterization without actually dictating the policy. That is a point that I wanted to make.

I have a few questions to Mr. Snowbarger. The PBGC takes over a pension when a corporation decides to stop offering the pension to its retirees, either through a bankruptcy or corporate decision not to do so. Can you briefly describe the circumstances that led to the creation of the PBGC to protect defined benefit pensions?

Mr. SNOWBARGER. First of all, let me correct a misimpression there. Companies can’t just decide not to continue their pension plan.

Mr. KUCINICH. They have to file.

Mr. SNOWBARGER. Well, but they have to show they cannot continue their business and maintain the plan.

Mr. KUCINICH. Okay, can you tell us what——

Mr. SNOWBARGER. Well, I don’t know how far back you want to go.

Mr. KUCINICH. Let me go—no, for the retirement plans that have taken over by the PBGC have you found that their original sponsoring corporations had been making the appropriate contributions to their retirement funds to keep them fully funded or not?

Mr. SNOWBARGER. Pension plans don’t come to the PBGC if they have been properly funded.

Mr. KUCINICH. My understanding is that Delphi Corp. failed to make necessary contributions to its retirement plans and when PBGC assumed trusteeship of them you found them to be underfunded, is that true?

Mr. SNOWBARGER. That is correct.

Mr. KUCINICH. And when PBGC takes over an underfunded retirement plan how does the PBGC meet its funding obligations particularly when a pension fund for which it assumes trusteeship does not have enough assets even to pay the benefits that PBGC is allowed to pay under law?

Mr. SNOWBARGER. We basically have four sources of revenue. One is premiums, they are set by Congress. The second is recoveries and recoveries from bankruptcies and from settlements with corporations, investment income and then bankruptcy recoveries which are typically pennies on the dollar.
Mr. KUCINICH. So do you have the ability in the bankruptcy process to recover assets that can be put to use to pay benefits?

Mr. SNOWBARGER. We are unsecured creditors in a bankruptcy for most purposes.

Mr. KUCINICH. And that means?

Mr. SNOWBARGER. That means we get pennies on the dollar, if there are assets at all.

Mr. KUCINICH. Does Congress normally provide top-up support for insufficient pensions that PBGC has taken over?

Mr. SNOWBARGER. No.

Mr. KUCINICH. Would that require special legislation?

Mr. SNOWBARGER. Yes.

Mr. KUCINICH. Can you meet your current—the long-term obligations with your current assets?

Mr. SNOWBARGER. If you look at the long-term picture, at this point we are $23 billion in deficit. We have plenty of money for meeting immediate obligations, but over the long term we are $23 billion short assets to liability.

Mr. KUCINICH. And could you translate that, how many millions of retirees are actually looking at receiving or having retirement benefits that are far below what they anticipated when they were in the work force?

Mr. SNOWBARGER. Well, we cover the pensions of approximately 1.5 million people. Approximately 80 percent of those we pay the full amount of their benefits and so they aren't reduced, more like 84 percent. So it is only 16 percent that receive some reduction in benefits although that can be fairly substantial.

Mr. KUCINICH. So just to wrap it up, Mr. Chairman. Those 1.5——

Mr. SNOWBARGER. One and a half million.

Mr. KUCINICH. They are in trouble and the PBGC is in trouble because the corporations who had made a commitment to fund those programs didn't keep their end of the deal, isn't that right?

Mr. SNOWBARGER. Again, plans don't come to PBGC unless they are underfunded.

Mr. KUCINICH. So is that right?

Mr. SNOWBARGER. Yes.

Mr. KUCINICH. Okay. I want to thank Mr. Chairman. I would like to thank the ranking member also.

Mr. Johnson, give you 5 minutes.

Mr. JOHNSON. Thank you, Mr. Chairman. Mr. Bloom, did you know when you were working at the Treasury that GM was paying their loan with the taxpayers dollars from one pot to another, did you know that?

Mr. BLOOM. We knew that they were using their corporate resources, which were legally theirs, to repay the loan.

Mr. JOHNSON. And it was taxpayer funding, you knew that, right?
Mr. Bloom. We knew that all funds invested in General Motors had come from either ourselves or the Canadian Government.

Mr. Johnson. Did you have any sense of responsibility to the American people to divulge that? I mean this is the Treasury, this is the group that handles and manages the Nation’s wealth and it is being pillaged. Did you not have a sense of responsibility to let the American people know that a corporation that had defaulted was playing a shell game with taxpayer dollars?

Mr. Bloom. I don’t think in any way, shape, or form we deceived the American people, and I don’t think anybody was being pillaged in any way, shape, or form.

Mr. Johnson. Do you think it was appropriate to claim that they were paying down their debt from one part of taxpayer dollars that was essentially a pop up in the first place into another?

Mr. Bloom. I think the Treasury’s characterization of what General Motors did, which is that we invested money in this company, after we made the investment the money was the property of the company. At that point they chose to use some of their corporate resources to repay a debt that they had taken out from the Treasury.

Mr. Johnson. You called it an investment, I think the American taxpayers saw it as a bailout, right? That was money that was supposed to be paid back, correct?

Mr. Bloom. The money was invested in three forms, some of it was in the form of preferred stock, some of it was in the form of common stock, and some of it was in the form of a debt instrument.

Mr. Johnson. We have to move on. I have another e-mail clip that I want to have shown up here if it could come up. You said a few minutes ago that you had no specific knowledge of the small car—what is it called, the revised small car release? Look at the cc line up there that is highlighted in red. Who is ron.bloom?

Mr. Bloom. No, I didn’t say that, Congressman. What I said is I wasn’t on the e-mail you referred to Mr. Feldman.

Mr. Johnson. You said you had no specific knowledge of that release?

Mr. Bloom. No, I did not.

Mr. Johnson. Oh, that is what you said. We can have it read back.

Mr. Bloom. We can have it read back, yeah, that would be fine. If I said that, I misspoke. What I said was I was not involved in the e-mail that was asked about Mr. Feldman. I was aware that General Motors had made decisions regarding the construction of a new facility or the revitalization of the facility to make small cars. Yes, I was aware of that.

Mr. Johnson. I think it is pretty clear that you jest with a very straight face because I am having trouble understanding when you are joking and when you are not, because this all looks like a joke to me and to the American taxpayer.

Mr. Snowbarger, was the PBGC pressured by the Auto Task Force or anyone else involved in the bailout process to make the determination to terminate the Delphi salaried employees pension plans?

Mr. Snowbarger. No.
Mr. Johnson. If not, why then did the PBGC decide to terminate a plan that was funded in a similar manner and at a similar level at the average of the top 100 pension funds in America at the time? Why was that decision made?

Mr. Snowbarger. Well, I disagree with your characterization that it was funded at that level. We applied the same standard to all of the Delphi plans and the standards are in ERISA, and by statute in other words, and we made the decision on that basis, as well as the fact that Delphi was no longer——

Mr. Johnson. We have a short time fuse here. Why then is the PBGC fighting so hard against releasing the records of the PBGC decisionmaking process that led up to that determination?

Mr. Snowbarger. I disagree with that characterization.

Mr. Johnson. Have you released those records?

Mr. Snowbarger. I believe we have.

Mr. Johnson. You have released those records?

Mr. Snowbarger. I believe so, yes. We released them to this committee as well as to the IG, Special IG for the TARP, as well as to GAO, as well as Freedom of Information Act requests from Barry Selfikes, hourly employees, and in the court case as well.

Mr. Johnson. Okay. Well, I apologize then, I was misinformed. Thank you for clearing that up.

I have no further questions, Mr. Chairman. I think this is regrettable and I can assure you that I am going to continue to look for the answers to find out how we rectify this and bring justice to the Delphi retirees.

Mr. Kelly. Thank you, Mr. Johnson. Mr. Burton from Indiana.

Mr. Burton. I apologize for just getting here, Mr. Chairman, but one of the concerns that I have had, and I am not sure who can answer this question, is why the salaried employees—and I have heard that you can't comment on this because it is in litigation, but to the degree that you can answer any questions, I would like to know why the salaried employees got chopped up so badly compared to the others that were under contract. It just doesn't make any sense to me and it doesn't seem fair.

When I look at—I don't know if there is a chart. Do we have any of those charts? There was a chart or a slide we could show. Hello—oh, there we have it. If you look at this slide I just want to concentrate on the last column there, those are the salaried employees. You see they took 100 percent cut in their life insurance, 100 percent cut in their health care, 100 percent cut in their vision and dental, 100 percent cut in medical, and between 30 and 70 percent cut in their base pensions. And I just don't understand why. What did they do that was so bad that they didn't get the same consideration as those that were under contract?

Mr. Bloom. Well, Congressman, as I indicated earlier I am not in a position to comment specifically on the allegations in the Delphi litigation. I can——

Mr. Burton. Excuse me, I don't think it is allegations. You may not be able to comment, but these aren't allegations. A lot of these salaried employees live in my district and I have talked to them about that, so this isn't allegations. They were cut. So anyhow go ahead.
Mr. BLOOM. Again, I am not in a position to comment on that. I am certainly in a position to agree with you that many stakeholders in the entire General Motors and Chrysler bankruptcy unfortunately received far, far less than they were promised and not everyone received the exact same amount as a percentage of what they were promised. As I indicated earlier, for instance, the number of the suppliers, probably many of whom do business in your district, received 100 cents on the dollars. And that was because the company came forward with a restructuring plan that they believed provided the treatment of the various stakeholders that was required in order to successfully effectuate the bankruptcy. We did not insist that they pay everybody 100 cents on the dollar because that would have cost the taxpayer a multiple of what was eventually invested in General Motors. And we did judge that the management had made a good faith effort to be commercial and fair in their judgments about how to treat people.

Mr. BURTON. Let me interrupt here. I mean this is pretty damn- ing when you look at this, because the union workers that were under contract and the others that were under contract they were treated at least somewhat fairly. In fact, some of them were treated very well considering the bankruptcy. But the salaried employees, just for what reason I know not, just got killed, and it just seems almost un-American that you would show deference to one segment of the employee population for a company like General Motors and then throw the rest of them to the dogs. And it just seems really bad.

I am not saying this because they are from—Delphi has a plant near Kokomo in our district. I would say this about any company in the United States. If there is a bankruptcy, it seems like it should be shared pain. And there certainly is no shared pain as far as the salaried employees were concerned.

Mr. BLOOM. It may be, Congressman, that the bankruptcy laws of the Nation should be reviewed on that question, but the company's action were entirely consistent with bankruptcy law. Two judges ruled over that very, very carefully, extensive hearings, and judged that the company's actions were completely in concert with bankruptcy law. I agree with you that it is terrible when any individual or business isn't able to receive the entire promise that they were made. All stakeholders to this tragedy had to take sacrifice. And there were circumstances where some received more than others. It was based on the commercial judgments, as I said.

Mr. BURTON. Well, if judges rendered that kind of a decision based upon current bankruptcy laws we probably ought to take another look at them, because if a major corporation goes bankrupt like this and leaves one segment of the employee population hanging out to dry, that needs to be reevaluated.

So I will talk to my staff. Thank you, Mr. Chairman, for the extra time. I will talk to my staff about taking a look at the bankruptcy laws. Thank you.

Mr. KELLY. I thank the gentleman from Indiana. Also back to the ranking member, Mr. Kucinich.

Mr. KUCINICH. I want to thank the chairman. And I want to thank the gentleman from Indiana because of a point that he makes about people in his district and Delphi employees who were
not protected in the bankruptcy is well received here. And as I mentioned earlier when Chairman Jordan was in the chair, I look forward to working with my colleagues to see what we might do to be able to provide some relief to those individuals who were essentially left out, because all we are trying to do here is to make sure that our constituencies who may have been involved in this are not going to be destroyed financially.

Which goes to the question, Mr. Bloom, that the concern that so many Members have expressed here about what has happened in dealerships. Now the Auto Task Force didn't deal with that question. I understand that, you have testified to that. But, you know, in my district and other places around the country GM essentially put people out of business like that, people who had auto dealerships in their families for generations. And there is a lot of hard feelings about that. Those feelings are not going to easily go away, because there were people who were embedded in a community, gave everything they had to a business and then suddenly with the government providing the money this is what gets people. The government provides the money, you save the corporation, the corporation turns around and destroys dealerships so—you can respond.

Mr. Bloom. Congressman, nobody again is glad that General Motors believed that in order to survive it had to substantially restructure its dealer base. But General Motors unfortunately had become a much smaller company than it was when it had the number of dealers it had. The company believed that in order to be successful and to not have the investments that the President made simply be for naught that they needed to rationalize their dealer network. We examined that proposition in addition to many other propositions, including that they close factories. And the chairman pointed out earlier that one of the factories was closed in his district. That is a terrible thing when a factory is closed and all those workers are told to go home. But the alternative was no General Motors at all. And if there had been no General Motors at all, then everybody would have lost their job, everybody would have lost their pension.

Mr. Snowbarger began to talk about what would have happened to the PBGC if the General Motors pension plan had terminated or the Chrysler plan had terminated. They have a million and a half beneficiaries; General Motors all by itself has almost that many. So we have to evaluate this against the real world alternative and the real world alternatives is if General Motors is allowed to entirely liquidate and everybody loses——

Mr. Kucinich. I understand, but you need to understand from our side of the table here is that a whole lot of this looked arbitrary to us. Just so you know. I am not putting this on you, I am just saying that is the way it looked. You need to be aware of that. I just want to——

Mr. Bloom. I appreciate that.

Mr. Kucinich. For the record here, Mr. Chairman, my friend Mr. Johnson inserted into the record an e-mail from Greg Martin referencing the revisions made by Frederick Henderson. And I think it is important to identify who the people are. Greg Martin was an official at General Motors, Frederick Henderson was the CEO of GM, and the fact that Mr. Bloom was on a cc really doesn't prove
anything here, I don't think, other than the fact that GM was in control of GM. The Treasury Department represented observers having to ask not having to dictate to GM. And frankly I think that is what we found here, that GM throughout the bailout remained under private control. And I don't see from this memo which has Mr. Rattner and Mr. Bloom up here as a cc, that this coming from GM officials, that this in any way indicates that it was—that it was non-GM officials who were leading the dance.

So I just want to point that out. And I again I do that because I understand the concerns that my colleagues have, share many of those concerns, I would just want to correct the record, and I thank you, Mr. Chairman.

Mr. KELLY. I thank the ranking member.

I am going to allow myself 5 minutes, Mr. Bloom and Mr. Snowbarger. I think today the most important thing we can understand about this hearing is it is not about Democrats and it is not about Republicans, it is about the American people, and I would think that this hearing is indeed essential when we talk about taxpayer dollars being invested.

If you could, Mr. Bloom there was $50.2 billion in total TARP assistance. Can you tell me how that was divided up?

Mr. BLOOM. Congressman, I am not familiar with that particular number. There is $49.5 is the total assistance to GM. I am familiar with that number. I am not—I am trying to be responsive to your question. I am not familiar with a $50.2 number.

Mr. KELLY. Do you know how that was divided up?

Mr. BLOOM. Well, the 40—again the rough numbers are that had the total assistance provided to General Motors was $49.5 billion. The total assistance provided to Chrysler was $12.5 billion, there was $1.5 billion provided to Chrysler Financial, $17.2 billion provided to General Motors Acceptance Corp., now called Ally Financial, and there is about $4.1 billion between assistance provided to suppliers and to guarantee warranties. Not all of those funds were drawn down and so the amount of funds that were drawn down is about $4 billion less than that, but that is roughly the total amounts that were at one point allocated to those companies.

Mr. KELLY. Well, I know quite a bit of money was put in escrow. And as we referenced early, some of the moneys that were put in escrow were used to pay down the loan with interest. I am just going to walk you through something, I have done this for many, many years, I am sure most the people in the gallery have done the same thing. When you buy an automobile there are stipulations put in—there are stipulations put in what we would call putting a deal together. A lot of it has to do with the total amount of money you are going to borrow and the stipulation in most cases requires some down payment money. And I am just trying to relate this so that the American people understand this. The down payment money required at the time an individual buys a car is usually referred to as cash. And it is truly cash. It is not part of another loan structure because that in fact does distort the total amount that that car is owed on. I think what bothers me more than anything else, we used borrowed money, taxpayer money in order to pay off a loan. It wasn’t cash that was paid down. I don’t know I am getting that across.
My point is, again this is for the American people to understand, this truly was a very odd and very strange bankruptcy and one that is so complicated that in 40 days it could right from the dead and be on its feet again and be no problem, no problem. That is truly—that was a remarkable activity. I know myself that had I declared bankruptcy, I don’t think I would be given that same opportunity.

So the American people really do need to know that this was in fact as the President described, a historic structuring of a loan. But the bottom line is these are all taxpayer dollars and I think that is the thing most discouraging. And you made a reference earlier that the new GM, I have absolutely no idea that the old GM is still in bankruptcy and the new GM is not.

General Motors has survived, it would have survived in some form having going through bankruptcy on its own. Old GM is gone forever and we know that because it did follow a little different route and bought into a program that absolutely led it down a road that it could never recover from. It is just difficult to sit here and listen to the premise that General Motors in its wisdom was able to eliminate private businessmen, people who had franchises. I was one of them. One of my franchises was taken away, not because I didn't know how to run it, not because it wasn’t profitable, not because I wasn’t hitting my market share and doing all the things I had to do. I had friends who absolutely—not only were they terminated as dealers, they chose to exit as individuals. Some people took their own lives because a business was taken from them by a procedure that had absolutely nothing to do with natural events.

So while this may have been historic in the President’s way of talking about it, it was absolutely catastrophic for small business people. And I am not blaming you, but I am saying the American people better understand that there is something going on right now that makes absolutely no sense to me. I have to tell from you somebody who was a General Motors dealer now for 60 years, General Motors never gave me anything. Every car, every car, every part, everything I have ever done was purchased with my own money or my family’s money. So to sit there—and I am not blaming you again, I am just saying this premise that General Motors could not afford its dealers is absolutely ridiculous. We were all on our own, we were living outside of that home and we were supporting our own families.

So I think the American people have always believed that they want what is fair, not what is legal because at 63 years old I know there is no correlation between what is fair and what is legal. It is absolutely horrendous that we were able to do these type of thing to individuals who had made such great contributions in their communities. And if you don’t believe that, I would suggest you go into any of these little communities and find out these dealerships that are no longer there. Their names are still on the outfield fences of all the Little Leagues, they were the people who supported the Girl Scouts, the Boy Scouts, their local bands, everything that was going on in their high schools. These are the guys they go to first.

To me picking and choosing winners and losers is absolutely up to the free market, it is not up to the government. The government
made a very serious mistake and overstepped their bounds. I do appreciate your being here today.

Mr. Bloom, I will just say one thing, and I would agree with almost everything you said. Where I would respectfully disagree is if the government had not stepped in I do not believe General Motors would have faced a fate other than a complete liquidation and the elimination of all dealerships who sold General Motors cars.

Mr. Kelly. But we will never know.

Mr. Bloom. We won’t know, sir. But at the time I think we could find no evidence whatsoever that private capital markets financed this company in bankruptcy.

Mr. Kelly. And I do understand that but there were bankruptcies they could go through, a structured bankruptcy. Unfortunately, it was taken out of their hands and it was taken care of by the government. I have to tell you, I was there, I walked the walk, and I know people who lost not only their dealerships, but they took another exit, too. And I got to tell you it was absolutely horrible and should never, ever, ever happen again. And at that point I am going to recognize Mr. Issa for 5 minutes.

Mr. Issa. I thank the chairman. Mr. Bloom, I am just old enough and unlike the chairman I wasn’t in the car business directly, but I was a supplier to the car business. Do you remember Potamkin Cadillac in New York? Do you remember ever hearing that name? Largest Cadillac dealer in America, largest limousine provider? Victor Potamkin once challenged General Motors by trying to get a replacement of the President. You know how General Motors fixed that? They paid him twice what his dealership was worth, then handed it to Roger Penske, just to get him out of the business. At that time they didn’t have you to do their dirty work, so they simply paid him a lot of money to get rid of a thorn in their side who they felt was agitating against the then President.

Do you think at least in some way that General Motors had a reason to make selections that had something to do other than with the absolute monetary hard core dollar and cents best interest when they used you to order to cut their number of dealers?

Mr. Bloom. Congressman, I am not familiar with the story you have related, so I can’t speak to it.

Mr. Issa. It’s famous enough that I say it knowing that Roger Penske is a dear, wonderful guy that I have raced against. But the bottom line is General Motors over the years hated some of their dealers, loved others, cut all kinds of deals. The difference is they didn’t have the government to do it free for them.

Mr. Bloom. Congressman, as I said, I don’t have any evidence one way or the other. I am not doubting the veracity of your story. You asked——

Mr. Issa. But do you think——

Mr. Bloom. To your question which I can answer——

Mr. Issa. Since in retrospect we found that dealerships that made sense that were cut and others that were preserved. There were huge amounts of mistakes in that decision process.

Mr. Bloom. I think what we did when we looked over General Motors’ plan to rationalize their dealer network is we satisfied ourselves that the company had acted reasonably. We did not review
dealer-by-dealer decisions because again we did not want to inter-
vene in the day-to-day operations of the company.

Mr. Issa. So in that case you were vulnerable to whatever their
underlying reasons were because you weren’t able to audit the le-
gitimacy of something that was ordinarily not doable?

Mr. Bloom. Again we were not in the position and we did not
want to place ourselves, we did not think it would be appropriate
to put ourselves in the position to become the management of the
company and decide whether it be a dealership decision or a fac-
tory decision.

Mr. Issa. Let me follow up with a question. I chair this com-
mittee but I also serve on the Judiciary Committee. And I was
there for the revisions to the patent or to the—I was there for the
patent, but I was there for the revisions to the bankruptcy laws.
Do you think that what you did in circumventing the bankruptcy
laws, what otherwise would ordinarily have happened in any con-
ventional bankruptcy and bypassing the decisions that could have
been made, not by you but by a bankruptcy judge and other trust-
es, do you think that you set a good precedent for a model for the
future, a bad precedent, or do you think you are simply a one-time
event?

Mr. Bloom. I think that two bankruptcy judges have found that
we did absolutely nothing to circumvent the bankruptcy laws, that
this was in fact an ordinary course bankruptcy. So I don’t think
there is any change in the basic status of our Nation’s bankruptcy
laws.

Mr. Issa. So you think that maintaining the pensions for union
workers while screwing the salary workers was in the ordinary
course of what would have happened in any other bankruptcy?
Isn’t it true in any other bankruptcy everybody would have been
in the same pot of losing their pensions? They would have been all
or nothing? This differentiation has never happened in bankruptcy
to my knowledge. Has it happened to your knowledge?

Mr. Bloom. Yes, it has quite a bit actually.

Mr. Issa. Oh, really?

Mr. Bloom. Yeah.

Mr. Issa. And your basis is salary people are not important but
union workers are?

Mr. Bloom. It is not my basis. My basis is companies make deci-
sions how to best effectuate bankruptcies and sometimes that de-
cides that certain unsecured creditors, sometimes like suppliers,
sometimes like warranty holders are treated differently because
the company concludes in order to maintain.

Mr. Issa. I suspect you probably find that bond holders getting
a haircut ahead of general creditors is also typical.

The gentleman, the former chairman wants a little time. So I
yield the remaining time to him.

Mr. Kelly. Mr. Burton.

Mr. Burton. I thank the gentleman for yielding.

But the bankruptcy judge just approved the plan. They didn’t ac-
tually make any decision on how the funds were to be dissemi-
nated. They just approved the overall plan.

Mr. Bloom. I think what they did, Congressman, was determine
that the bankruptcy laws of our country had been followed.
Mr. BURTON. Well, okay. But they made no changes; they just said the bankruptcy laws had been followed?
Mr. BLOOM. Yes.
Mr. BURTON. But they didn’t actually make any determination on whether there was fairness or not.
I ask unanimous consent for another minute or so.
Mr. KELLY. Without objection.
Mr. BLOOM. I think the determination was that the bankruptcy laws had been followed, that they hadn’t been turned on their head, or any phrase like that.
Mr. BURTON. Okay. You were on the Auto Task Force. You were a part of that. I am looking here at some notes. It says in a piece of correspondence: Have you guys begun a dialog with the UAW over your desire to see the hourly plan terminated? At a minimum, this could get messy, and the UAW should probably be brought into the loop.
Do you know about that comment?
Mr. BLOOM. Yes. I answered a question about that earlier.
Mr. BURTON. Well, answer it again. I didn’t hear it.
Mr. BLOOM. No, I am happy to, sir.
Yes. I wasn’t on that particular e-mail chain, and given that that is part of the litigation, I am not in a position to comment on it.
Mr. BURTON. Well, did you say this at a dinner? There was a dinner, and it was reported by David Shepardson, Washington correspondent for the Detroit News, at a farewell dinner of the Auto Task Force held in the restaurant Rosa Mexicano in late July 2009, that you allegedly said, “I did this all for the unions.”
Mr. BLOOM. No, I did not say that.
Mr. BURTON. You did not say that?
Mr. BLOOM. No, sir.
Mr. BURTON. So you were misquoted?
Mr. BLOOM. That’s correct.
Mr. BURTON. Well, I am going to call that guy up and ask him if you said that. You know that you are under oath here?
Mr. BLOOM. I am fully aware.
Mr. BURTON. You made no comment like that at all?
Mr. BLOOM. No, sir.
Mr. BURTON. Well, Mr. Chairman, we will check that out. I am going to call this reporter and we will just see what he said.
The other thing, though, is you did see the graph and you did see how the salaried employees were treated as opposed to the union workers.
Mr. BLOOM. I did.
Mr. BURTON. You did. And you were involved in that decision-making process?
Mr. BLOOM. No, I was not.
Mr. BURTON. Who was involved in the decision?
Mr. BLOOM. General Motors came forward with a plan. As I said, I am not in a position to comment on the particulars of the Delphi situation. But like, as in all the aspects of this bankruptcy, General Motors came forward with a plan about how they thought best to reorganize themselves. We looked at that plan.
Mr. BURTON. And the Auto Task Force had nothing to do with that?
Mr. Bloom. No, I said no, we had very much to do with it.

Mr. Burton. But you can't comment because it's in litigation?

Mr. Bloom. This particular question about the treatment of the Delphi salaried employees I am not in a position to comment on. I would be delighted to talk with you about the treatment of other stakeholders, about other groups, about other aspects of the bankruptcy. I am happy to talk with you about that at whatever lengths you would like.

Mr. Burton. Well, if you look at the graph, the other employees weren't treated all that badly. The union workers, the UAW was treated extremely well. Some of the others were treated a little less well, but the salaried employees really got screwed.

And if you were on the Auto Task Force and had anything to do with that, you ought to be ashamed of that. That's terrible. Those people should never have been treated like that.

Thank you, Mr. Chairman.

Mr. Kelly. I thank the Member.

Just 1 minute, Mr. Bloom, and we are going to be finished here. We have had references to the fact that it was the board of directors, the General Motors board of directors that made these decisions.

Mr. Bloom. Let me try to be more accurate. What I said was we were involved in putting a new board of directors in after the bankruptcy.

Mr. Kelly. Okay.

Mr. Bloom. During the runup to the bankruptcy, it was the management. There was a board of directors, but it was the GM management board.

Mr. Kelly. If you could, because I know you know the answer to this.

Mr. Bloom. Yes.

Mr. Kelly. Under the old GM, how was that board of directors determined?

Mr. Bloom. Elected by the shareholders.

Mr. Kelly. And under the new GM, how was that board of directors determined?

Mr. Bloom. The original board, the original board of the new GM, was put forward by the Treasury Department as the largest shareholder.

Mr. Kelly. So to say that, really, the decisions were not made by the Treasury Department—these are all folks that were appointed, in fact, by this administration. These were not elected by shareholders; is that a correct statement?

Mr. Bloom. We were the largest shareholder.

Mr. Kelly. I understand.

Mr. Bloom. But I think the distinction I was trying to make, Congressman, was that as the employees of the administration, we did not make these decisions. After the bankruptcy, we entrusted a group of independent men and women.

Mr. Kelly. And I understand that, but I also know that the appointments came out of the administration, and I think you and I both know that. So having said that, there's a huge difference between a shareholder, the old GM that was elected by shareholders, board of directors, and the new GM that, because of the way you
divvied up the company, you established who the board of directors would be. So it wasn’t really done in the same way it had been done in the past. So I think it’s important to be honest about it.

I am going to recognize the ranking member for 1 minute.

Mr. KUCINICH. Just briefly, and I thank the gentleman for yielding because, you know, this question about whether or not the government controls GM’s decision, that’s the focal point here, and the points that the chair just made, Mr. Kelly just made, the relationship between the new board decisionmakers that resulted in a lot of dealers closing, I see that as a legitimate line of questioning. But one of the things it does not establish—and I just want to say this for the record—and if Mr. Bloom himself had anything to do with it, and you kind of indicated that when you were charging the—on behalf of those who lost their dealerships, and it’s not necessarily that Mr. Bloom had anything to do with it, but I think the chair is well taken in probing further how those decisions were made. I think the public has the right to know. I think the public has the right to know.

Thank you, Mr. Chairman. Thank you.

Mr. KELLY. With that, I am going to thank the panel. Mr. Bloom, thank you very much. Mr. Snowbarger, thank you very much. We are going to recess for 1 minute, and then we have a final panel after that. Thanks so much.

[Recess.]

Mr. JORDAN [presiding]. I want to welcome our second panel of witnesses. Again, I apologize for today’s schedule. And as you see, unfortunately, all your great wisdom is only going to get to a couple of Members of Congress, it looks like, because there are so many different things at this hour, but we really wanted to get this hearing in.

Our first witness is Mr. Dan Ikenson, associate director of the Herbert A. Stiefel Center for Trade Policy Studies, Cato Institute. We appreciate you being here.

Mr. Bruce Gump, vice chairman of the Delphi Salaried Retiree Association; Dr. Thomas Kochan, did I get it right?

Mr. KOCHAN. Pretty close.

Mr. JORDAN. Pretty close. That means I didn’t get it right. I know you are being kind.

Dr. Kochan is the George Maverick Bunker professor of management at the Massachusetts Institute of Technology. And Ms. Shikha Dalmia, senior analyst at the Reason Foundation.

As I said, if you were here earlier, it’s the custom of the committee to swear everybody in. So would you please stand and raise your right hands.

[Witnesses sworn.]

Mr. JORDAN. Let the record show everyone answered in the affirmative.

Let’s go right down the list. Mr. Ikenson, you are up first.
STATEMENTS OF DAN IKENSON, ASSOCIATE DIRECTOR, HERBERT A. STIEFEL CENTER FOR TRADE POLICY STUDIES, CATO INSTITUTE; BRUCE GUMP, VICE CHAIRMAN, DELPHI RETIREE ASSOCIATION; THOMAS KOCHAN, PROFESSOR, MASSACHUSETTS INSTITUTE OF TECHNOLOGY; AND SHIKHA DALMIA, SENIOR ANALYST, REASON FOUNDATION

STATEMENT OF DAN IKENSON

Mr. I KENSON. Thank you. Good afternoon, Chairman Jordan, Ranking Member Kucinich, and members of the subcommittee. I am Dan Ikenson, associate director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute.

Since 2009, I have followed closely the events surrounding the auto company bailouts and bankruptcies, and I am grateful for the opportunity to share my concerns regarding the lasting implications of the GM bailout. The views expressed today are my own and should not be construed as representing any official positions of the CATO Institute.

With help from some pundits and various media outlets, the administration is pitching the narrative that the auto bailouts were successful. The evidence in support of that conclusion seems to be limited to the fact that GM has been profitable over the last five quarters and that Chrysler has repaid much of its debt to the U.S. Treasury.

But calling the bailout successful is to whitewash:

One, the diversion of funds from the Troubled Asset Relief Program by two administrations for purposes unauthorized by Congress.

Two, the looting and redistribution of claims against GM's and Chrysler's assets from shareholders and debt holders to pensioners.

Three, the unprecedented encroachment by the executive branch into the finest details of the bankruptcy process to orchestrate what bankruptcy law experts describe as sham sales.

Four, the cost of denying Ford and the other more deserving automakers the spoils of competition.

Five, the costs of insulating irresponsible actors such as the United Autoworkers from the outcomes of an apolitical bankruptcy proceeding.

Sixth, the diminution of U.S. moral authority to counsel foreign governments against similar market interventions.

And, seven, the lingering uncertainty about the direction of policy under the current administration that pervades the business environment to this very day.

I think if the President wants to take credit for saving the auto industry, he should also take responsibility for the regime uncertainty that has persisted during his administration, since much of that uncertainty, which is manifest in weak business investment and hiring, flows from lessons learned from the auto intervention.

Acceptance of the administration's pronouncement of auto bailout success demands profound gullibility or willful ignorance. If proper judgment is to be passed, then all of the bailout's costs and benefits must be considered. Otherwise, calling the bailout a success is like plotting the recovery of a drunken driver after an accident while ignoring the condition of the family he severely maimed.
The lasting implications of the bailout will depend on whether or not Americans ultimately accept the narrative that the bailout was a success. If it is considered a success, the threshold for interventions will have been lowered and Americans will have to judge even more bailouts in the future. If it is considered a failure, as it should be, the lasting implications will be less destructive because the threshold that tempts interventionists will be higher.

On that score, contrary to what the administration would have the public believe, gauging the success of the GM bailout requires consideration of more than just the ratio of finances recouped over financial outlays. There are numerous other costs that don’t factor into that equation.

If the bailout is considered a success, some of the lasting implications likely will include the following:

One, an increase in government interventions and bailouts of politically important entities.

Two, fear-mongering will be considered an effective technique to stifle debate and enable a stampede toward the politically expedient outcomes.

Three, Americans will be more willing to extend powers without serious objection to the executive branch that we would not extend in the absence of a perceived crisis.

Four, a greater diversion of productive assets is likely to occur, from productive assets to political ends, such as resources for research and development engineering to lobbying and lawyering.

Five, a greater uncertainty to the business climate as the rule of law has weakened and higher-risk premiums are assigned to U.S. economic activity.

Less prudent decisionmaking from Ford Motor Co., for example, knowing that it has banked its bailout.

A greater push for the administration for a comprehensive national industrial policy and less aversion to subsidization of chosen industries abroad.

The objection to the auto bailout was not that the Federal Government wouldn’t be able to marshal adequate resources to help GM. The most serious concerns were about the consequences of that intervention, the undermining of the rule of law, the property confiscations, the politically driven decisions, and the distortions of market signals. Any verdict on the auto bailout must take these crucial considerations into account.

GM’s recent profits speak only to the fact that politicians committed more than $50 billion to the task of subsidizing and reconfiguring GM. With debts expunged, cash infused, and efficiencies severed, ownership reconstituted, sales rebates underwritten, and political obstacles steamrolled, all in the midst of a recovery in U.S. auto demand, only the most incompetent operations could fail to make profits.

But taxpayers are still short a minimum of $10 billion to $20 billion, depending on the price that the government’s 500 million shares of GM will fetch. That is a lot of public money in the balance. Nevertheless, the administration should divest as soon as possible without regard to the stock price.

Keeping the government’s tentacles around a large firm and an important industry will keep the door open wider to industrial pol-
icy and will deter market-driven decisions throughout the industry, possibly keeping the brakes on the recovery.

Yes, there will be a significant loss to taxpayers, but the right lesson to learn from this chapter in history is that government interventions carry real economic costs, only some of which are readily measurable. Thank you.

Mr. JORDAN. Thank you, Mr. Ikenson. We appreciate the great points you made in your testimony.

[The prepared statement of Mr. Ikenson follows:]
STATEMENT of Daniel J. Ikenson
Associate Director, Herbert A. Stiefel Center for Trade Policy Studies,
Cato Institute, Washington, DC

before the
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending
Committee on Oversight and Government Reform
United States House of Representatives

Lasting Implications of the General Motors Bailout

June 22, 2011

Introduction

It is galling to hear administration officials characterize the auto bailouts as “successful.” The word should be off-limits when describing this unfortunate chapter in U.S. economic history. At most, bailout proponents and apologists might respectfully argue—and still be wrong, however—that the bailouts were necessary evils undertaken to avert greater calamity.

But calling the bailouts “successful” is to whitewash the diversion of funds from the Troubled Assets Relief Program by two administrations for purposes unauthorized by Congress; the looting and redistribution of claims against GM’s and Chrysler’s assets from shareholders and debt-holders to pensioners; the use of questionable tactics to bully stakeholders into accepting terms to facilitate politically desirable outcomes; the unprecedented encroachment by the executive branch into the finest details of the bankruptcy process to orchestrate what bankruptcy law experts describe as “Sham” sales of Old Chrysler to New Chrysler and Old GM to New GM; the costs of denying Ford and the other more deserving automakers the spoils of competition; the costs of insulating irresponsible actors, such as the United Autoworkers, from the outcomes of an apolitical bankruptcy proceeding; the diminution of U.S. moral authority to counsel foreign governments against similar market interventions; and the lingering uncertainty about the direction of policy under the current administration that pervades the business environment to this very day.

In addition to the above, there is the fact that taxpayers are still short tens of billions of dollars on account of the GM bailout without serious prospects for ever being made whole. Thus, acceptance of the administration’s pronouncement of auto bailout success demands profound gullibility or willful ignorance. Sure, GM has experienced recent profits and Chrysler has repaid much of its debt to the Treasury. But if proper judgment is to be passed, then all of the bailout’s costs and benefits must be considered. Otherwise, calling the bailout a success is like applauding the recovery of a drunken driver after an accident, while ignoring the condition of the family he severely maimed.

This testimony provides a more comprehensive assessment of the costs and lasting implications of the GM bailout than the administration has been willing to undertake publicly.
Crisis Mongering

On November 5, 2008, the Center for Automotive Research, a Detroit-based consulting firm, released the results of a study warning that as many as three million jobs were at stake in the automotive sector unless the U.S. government acted with dispatch to ensure the continued operation of all of the Big Three automakers.¹ Detroit's media blitz was underway. It was timed to remind then-President-Elect Obama, as he contemplated his victory the morning after, of the contribution to his success by certain constituencies now seeking assistance themselves. The CAR report's projection of three million lost jobs was predicated on the fantastical worst-case scenario that if one of the Big Three were to go out of business and liquidate, numerous firms in the auto supply chain would go under as well, bringing down the remaining two Detroit auto producers, then the foreign nameplate U.S. producers and the rest of the parts supply chain. The job loss projections animating the national discussion were based on an assumption of a total loss of all automobile and auto parts production and sales jobs nationwide. Importantly, the report gave no consideration to the more realistic scenario that one or two of the Detroit automakers might seek Chapter 11 protection to reorganize.

The subsequent public relations effort to make the case for federal assistance was pitched in a crisis atmosphere with an air of certainty that the only real alternative to massive federal assistance was liquidation and contagion. The crisis-mongering was reminiscent of former-Treasury Secretary Henry Paulson's and Federal Reserve Board Chairman Ben Bernanke's insistence six weeks earlier that there was no time for Congress to think, only time for it to act on a financial sector bailout (i.e., TARP), lest the economy face financial ruin.

About the economic situation at that time, incoming White House Chief of Staff Rahm Emanuel said, "You never want a serious crisis to go to waste ... [t]his crisis provides the opportunity for us to do things that you could not do before."²

The mainstream media obliged the script, elevating the automobile industry "crisis" to the top of the news cycle for the next month, and helping to characterize the debate in the simplistic, polarizing dichotomy of "Main Street versus Wall Street." The notion that some financial institutions took risks, lost big, and were rescued by Washington became the prevailing argument for bailing out the auto companies, and the specific facts about viability and worthiness were all but totally ignored.

But public opinion quickly changed when the CEOs of GM, Ford, and Chrysler laid waste to months of public relations planning and millions of dollars spent trying to cultivate a winning message when they each arrived in Washington, tin cups in hand, aboard their own corporate jets. That fateful episode turned the media against Detroit and reminded Americans — or at least


opened their minds to the prospect — that the automakers were in dire straits because of bad
decisions made in the past and helped convince many that a shake out, instead of a bailout, was
the proper course of action.

A few weeks later, on the same day that the CEOs returned to Washington, attempting to show
contrition by making the trip from Detroit in their companies’ most eco-friendly cars, a new
automobile assembly plant opened for business in Greensburg, Indiana. Although the hearing on
Capitol Hill received far more media coverage, the unveiling of Honda’s newest facility in the
American heartland spoke volumes about the true state of the U.S. car industry—and provided
another example of why the bailout was misguided. The U.S. auto industry was not at risk. Two
companies were suffering the consequences of years of incompetence and inefficiency
exacerbated by persistent overcapacity and a deep recession. Normal bankrupctcies for the two
automakers were viable options, but certain stakeholders didn’t like their prospects under those
circumstances.

Today, when President Obama contends that his administration saved the auto industry, he
evokes memories of those CAR projections of 2-3 million job losses in the absence of
government intervention. Without those inflated figures concocted during a time of “crisis,” the
225,000 jobs lost in the auto sector since November 2008 seem quite mild—even worthy of
praise.3

That Which is Seen

While bailout enthusiasts hail GM’s first-quarter earnings as proof that the administration saved
the auto industry, President Obama should know better than to gloat. No such feat was
accomplished and the imperative of extricating the government from GM’s operations has yet to
be achieved.

With profits of $3.2 billion, the first quarter of 2011 was GM’s best performance in ten years and
its fifth-consecutive profitable quarter. That’s good for GM, and predictably those earnings have
been hailed by some as a validation of government intervention. The Washington Post’s E.J.
Dionne asserted: “Far too little attention has been paid to the success of the government’s rescue
of the Detroit-based auto companies, and almost no attention has been paid to how completely
and utterly wrong opponents of the bailout were when they insisted it was doomed to failure.”

Former Michigan governor Jennifer Granholm tweeted: “To all of you in the strangle-
government crowd, who said the bailout would never work — I’m just sayin.”

Dionne and Granholm have created a straw man, contending that bailout critics thought that the
government couldn’t resuscitate GM. But the most thoughtful criticism of the bailout was not
predicated on the notion that GM couldn’t be saved by the government marshaling the vast

3 At an event in Toledo, Ohio in May, President Obama said, “Supporting the American auto industry required tough
decisions and shared sacrifices, but it helped save jobs, rescue an industry at the heart of America’s manufacturing
sector, and make it more competitive for the future.” http://www.whitehouse.gov/blog/2011/05/27/another-big-week-for-
resources at its disposal. That opposition was borne of concern that the government would do just that, and in the process impose many more costs and inflict greater damage. And that’s what it did.

But Dionne and Granholm, like others before them, stand slack-jawed, in awe, ready and willing to buy the Brooklyn Bridge, donning blinders and viewing just a narrow sliver of the world, oblivious to the fact that related events have been transpiring in the other 359 degrees that surround him. They are the perfect Bastiat foils, incapable of discerning the costs that are not immediately apparent.4

But only the most gullible observers would accept GM's profits as an appropriate measure of the wisdom of the auto bailout. Those profits speak only to the fact that politicians committed over $50 billion to the task of rescuing a single company. With debts expunged, cash infused, inefficiencies severed, ownership reconstituted, sales rebates underwritten, and political obstacles steamrolled—all in the midst of a cyclical U.S. recovery and structural global expansion in auto demand—only the most incompetent operation could fail to make big profits. To that point, it's worth noting that more than half of GM's reported profit—$1.8 billion of $3.2 billion—is attributable to the one-time sales of shares in Ally Financial and Delphi, which says nothing about whether GM can make and sell automobiles profitably going forward.

In the process of "rescuing" GM, the government opened a Pandora's Box. Any legitimate verdict on the efficacy of the intervention must account for the costs of mitigating the problems that escaped the box.

That Which is Not Seen

Spoils of Competition Denied—Market Process Short-Circuited

The intervention on GM's behalf denied the spoils of competition—the market share, sales revenues, profits, and productive assets—to Ford, Honda, Hyundai, and all of the other automakers that made better products, made better operational decisions, were more efficient, or were more responsive to consumer demands than GM, thereby short-circuiting a feedback loop that is essential to the healthy functioning of competitive market economies.

Corporate bailouts are clearly unfair to taxpayers, but they are also unfair to the successful firms in the industry, who are implicitly taxed and burdened when their competition is subsidized. In a properly functioning market economy, the better firms—the ones that are more innovative, more efficient, and more popular among consumers—gain market share or increase profits, while the lesser firms contract. This process ensures that limited resources are used most productively.

It has been suggested that I view GM's fate as a matter of national indifference. That's correct, because I have not made the mistake of conflating GM's condition with that of the U.S. auto industry. Whether or not there are so-called "national interests" in ensuring the existence of a healthy domestic auto industry (and I'm not convinced there are), health comes through an

evolutionary process in which the companies that have made the right decisions survive and grow, and those that have made bad decisions contract and sometimes even disappear.

It is not only fair, but efficient and wise that the market rewards companies that make better products at better prices with higher profits and larger market shares, while the companies that make undesirable products at high cost lose profits and market share.

There is still enormous overcapacity in the U.S. auto industry, reconciliation of which the bailout of GM (and Chrysler) has deferred at great cost to the other firms and their workers.

Weakening of the Rule of Law

Although legislation to provide funding for an auto bailout passed in the House of Representatives in December 2008, the bill did not garner enough support in the Senate, where it died. Prospects for any form of taxpayer bailout seemed remote and the proper course of action for GM and Chrysler, reorganization under Chapter 11, appeared imminent. An interventionist bullet, seemingly, had been dodged.

But then, just days after then-Secretary Paulson claimed to have no authority to use TARP funds to support the auto companies, President Bush announced that he would authorize bridge loans from the TARP of $17.4 billion to GM and Chrysler. That opened the door to further mischief and, ultimately, another $60 billion was diverted from TARP by the Obama administration for unauthorized purposes related to the auto bailout.

Likewise, the Obama administration treated the GM (and Chrysler) bankruptcy as a Section 363 sale, which are known among bankruptcy lawyers as “Sham” sales. These 363 sales are intended to sell assets out of bankruptcy from one company to another, but are not intended as vehicles to facilitate entire corporate restructurings. In a reorganization process, all creditors are given the right to vote on the proposed plan, as well as the opportunity to offer competing reorganization plans. A 363 asset sale has no such requirements, and is being used increasingly by companies seeking to avert paying legitimate claims to creditors.

That the U.S. executive branch would pretend that the restructuring of GM was nothing more than an asset sale and deny creditors the right to vote or to offer competing bids wrecks of crony capitalism.

Though it is a difficult cost to quantify, executive branch overreach—to put it mildly—is a threat to the U.S. system of checks and balances and an affront to the rule of law.

Executive Encroachment into Bankruptcy Process

General Motors was a perfectly viable company that could have been restructured through normal bankruptcy proceedings. The big question was whether GM could have received financing to operate during bankrupt, given the problems in credit markets in 2008 and 2009. Instead of commandeering the bankruptcy process as a condition of providing debtor in possession financing, the Obama administration could have provided the funds and allowed an
apolitical, independent bankruptcy process to take place. But the administration’s rationale for a
hand-on approach was that it wanted to ensure that taxpayers weren’t just throwing good money
after bad, chasing empty promises made by executives with credibility problems. Yet, even with
the administration’s plans for GM’s post-bankruptcy ownership thrust upon the company without
allowance for consideration of competing plans, taxpayers will lose between $10-20 billion
(without considering the $12 to $14 billion costs of the unorthodox tax breaks granted GM by the
administration).

The administration’s willingness to insulate important political allies, like the UAW, from the
consequences of their decisions, to shift possession of assets from shareholders and debt-holders
to pensioners, and to deny “deficiency” claims to creditors who were short-changed, will make it
more difficult for companies in politically important industries to borrow from private sources
when they are in trouble, thereby increasing their reliance on the government purse.

The government’s willingness to intervene in the auto market under false pretenses to pick
winners and losers is a significant cause of the regime uncertainty that has pervaded the U.S.
economy, deterred business investment and job creation, and slowed the economic recovery ever
since.

Outstanding Financial Costs

As Washington has been embroiled in a discussion about national finances that features figures
in the trillions of dollars, one might be tempted to marginalize as paltry the sum still owed
taxpayers from the GM bailout. That figure is estimated to be about $27 billion, which accounts
for the $50 billion outlay minus approximately $23 billion raised at GM’s IPO last November.
But that is a very conservative figure considering that it excludes: $12-$14 billion in unorthodox
tax breaks granted to GM in bankruptcy; $17 billion in funds committed from the TARP to
GM’s former financial arm GMAC (which was supported to facilitate GM sales); GM’s portion
of the $25 billion Energy Department slush fund to underwrite research and development in
green auto technology; and the $7,500 tax credit granted for every new purchase of a Chevy
Volt. There may be other subsidies, as well.

With respect to GM, taxpayers are on the line for much more than is commonly discussed.

The administration wants to put maximum distance between the episode of GM’s nationalization
and the 2012 campaign season, which is nearly upon us. In that regard, the administration would
like to sell the Treasury’s remaining 500 million shares as soon as possible. But the
administration would also like to “make the taxpayers whole.” The problem for the president on
that score is that the stock price — even with all of the happy news about the auto industry
turnaround — isn’t cooperating. As of this morning, GM stock is hovering just under $30 per
share. If all of the 500 million remaining publicly-owned shares could be sold at that price, the
Treasury would net $15 billion. Add that to the $23 billion raised from the initial public offering
last November, and the “direct” public loss on GM is about $12 billion — calculated as a $50
billion outlay minus a $38 billion return. (And not considering all of the extra costs identified
above.)
To net $50 billion, those 500 million public shares must be sold at an average price of just over $53 — a virtual impossibility anytime soon. Why? The most significant factor suppressing the stock value is the market's knowledge that the largest single holder of GM stock wants to unload about 500 million shares in the short term. That fact will continue to trump any positive news about GM and its profit potential, not that such news should be expected.

Projections about gasoline prices vary, but as long as prices at the pump remain in the $4 range, GM is going to suffer. Among major automakers, GM is most exposed to the downside of high gasoline prices. Despite all of the subsidies and all of the hoopla over the Chevy Volt (only 1,700 units have been sold through April 2011) and the Chevy Cruze (now subject to a steering column recall that won't help repair negative quality perceptions), GM does not have much of a competitive presence in the small car market. Though GM held the largest overall U.S. market share in 2010, it had the smallest share (8.4%) of the small car market, which is where the demand will be if high gas prices persist. GM will certainly have to do better in that segment once the federally mandated average fleet fuel efficiency standard rises to 35.5 miles per gallon in 2016.

Reaping what it sowed, the administration finds itself in an unenviable position. It can entirely divest of GM in the short term at what would likely be a $10-to-$20 billion taxpayer loss (the stock price will drop if 500 million shares are put up for sale in short period) and face the ire of an increasingly cost- and budget-conscious electorate. Or the administration can hold onto the stock, hoping against hope that GM experiences economic fortunes good enough to more than compensate for the stock price-suppressing effect of the market's knowledge of an imminent massive sales, while contending with accusations of market meddling and industrial policy.

The longer the administration retains shares in GM, it will be tempted to meddle to achieve politically desirable results.

Redefining Success

Or, the administration can do what it is going to do: first, lower expectations that the taxpayer will ever recover $50 billion. Here's a recent statement by Tim Geithner: "We're going to lose money in the auto industry ... We didn't do these things to maximize return. We did them to save jobs. The biggest impact of these programs was in the millions of jobs saved." That's a safe counterfactual, since it can never be tested or proved. (There are 225,000 fewer jobs in the auto industry as of April 2011 than there were in November 2008, when the bailout process began.)

Second, the administration will argue that the Obama administration is only on the hook for $40 billion (the first $10 billion having coming from Bush). In a post-IPO, November 2010 statement revealing of a man less concerned with nation's finances than his own political prospects, President Obama asserted: "American taxpayers are now positioned to recover more than my administration invested in GM, and that's a good thing." (My emphasis).

Lasting Implications
The lasting implications of the bailout will depend on whether or not Americans ultimately accept the narrative that the bailout was a success. If it is considered a success, the threshold for interventions will have been lowered and Americans will have the opportunity to judge similar bailouts in the future. If it is considered a failure—as it should be—the lasting implications will be less destructive because the threshold that tempts interventionists will be higher. On that score, contrary to what the administration would have the public believe, gauging the “success” of the GM bailout requires consideration of more than just the ratio of finances recouped over financial outlays.

There are numerous other costs that don’t factor into that equation.

If the bailout is considered a success, some of the likely lasting implications will include the following:

- Fear mongering will be considered an effective technique to stifle debate and enable a stampede toward the politically expedient outcome
- Americans will be more willing to extend powers without serious objection to the executive branch that we would not extend in the absence of a perceived crisis
- An increase in government interventions and bailouts of politically important entities
- Greater diversion of productive assets (resources for R&D and engineering) to political ends (lobbying and lawyering)
- A greater uncertainty to the business climate, as the rule of law is weakened and higher risk premiums are assigned to U.S. economic activity
- Riskier behavior from Ford Motor Company, knowing it has “banked” its bailout
- A greater push from the administration for a comprehensive national industrial policy
- Less aversion to subsidization of chosen industries abroad

Conclusion

The objection to the auto bailout was not that the federal government wouldn’t be able to marshal adequate resources to help GM. The most serious concerns were about the consequences of that intervention — the undermining of the rule of law, the property confiscations, the politically driven decisions and the distortion of market signals.

Any verdict on the auto bailouts must take into account, among other things, the illegal diversion of TARP funds, the forced transfer of assets from shareholders and debt-holders to pensioners and their union; the willingness of the executive branch the higher-risk premiums consequently built into U.S. corporate debt; the costs of denying Ford and the other more worthy automakers the spoils of competition; the costs of insulating irresponsible actors, such as the autoworkers’ union, from the outcomes of an apolitical bankruptcy proceeding; the diminution of U.S. moral authority to counsel foreign governments against market interventions; and the lingering uncertainty about policy that pervades the business environment to this day.

GM’s recent profits speak only to the fact that politicians committed more than $50 billion to the task of rescuing those companies and the United Auto Workers. With debts expunged, cash infused, inefficiencies severed, ownership reconstituted, sales rebates underwritten and political
obstacles steamrolled — all in the midst of a recovery in U.S. auto demand — only the most incompetent operations could fail to make profits.

But taxpayers are still short at least $10 billion to $20 billion (depending on the price that the government’s 500 million shares of GM will fetch), and there is still significant overcapacity in the auto industry.

The administration should divest as soon as possible, without regard to the stock price. Keeping the government’s tentacles around a large firm in an important industry will keep the door open wider to industrial policy and will deter market-driven decision-making throughout the industry, possibly keeping the brakes on the recovery. Yes, there will be a significant loss to taxpayers. But the right lesson to learn from this chapter in history is that government interventions carry real economic costs — only some of which are readily measurable.
Appendix:  
Auto Bailout-Related Articles, Op-eds, and Blog Posts by Daniel Ikenson

Articles  
Hard Lessons from the Auto Bailout, Cato Policy Report, November/December 2009,  

Congressional Testimony  
Daniel J. Ikenson  
Associate Director, Center for Trade Policy Studies,  
Cato Institute, Washington, DC  
before the  
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United States House of Representatives  
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July 22, 2009  

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http://www.cato-at-liberty.org/a-cancer-on-the-big-three/ (11/13/08)
   (11/7/08)
Mr. JORDAN. Again, just so you know, obviously your testimony will be part of the record. We will get that to each Member so they can hear your good words.

I do have to leave here in a couple of minutes. I want to preside for Mr. Gump’s testimony, and then Congressman Kelly will take over for our last two witnesses.

Mr. Gump, you are recognized for 5 minutes.

STATEMENT OF BRUCE GUMP

Mr. GUMP. Thank you. Chairman Jordan, Ranking Member Kucinich and members of the committee, thank you for the opportunity to represent the thousands of Delphi retirees who were in fact mistreated by the Obama administration during its unprecedented intervention in the auto industry, particularly in respect to the remaking of General Motors.

I know you have had an opportunity to read my written testimony, so I will summarize quickly.

And I want to start off by saying that I am not a lawyer, I am an engineer. I will do the best I can with some of this, but you have to understand that I may not be able to get all of it right.

From the time Candidate Obama said in May 2008 that if a company goes bankrupt and workers need to be our top priority, not an afterthought, to the weekly radio address by Vice President Biden just a few weeks ago when he said, We are focused on making sure that if you work hard, play by the rules, you will be able to get ahead, put your kids through college and retire with dignity and security, we have learned that talk is cheap in this town and action and determination to do what is right is hard to come by.

In this situation, a purposeful decision was made to create a government that was commercially minded instead of being bound by the precepts of our Constitution, such as due process and equal protection.

Decisions were discriminatory and politically motivated that were made behind closed doors, out of sight of any supervisory board or committee. And for the last 2 years the records of those decisions have been protected and fiercely guarded by both the PBGC and the Treasury. The only explanation so far was that there was no commercial necessity to do anything for those people. In reality, it was done for the expediency of GM’s bankruptcy exit, not for the benefit of the people of the country.

A quick chronology would include the fact that GM was forced into Chapter 11 bankruptcy by the administration. Delphi, a GM spinoff, had already been in bankruptcy for several years but remained a major supplier to GM, and so was needed in order for GM to be able to survive. Because Delphi had not made contributions to their pension plans, the PBGC had placed liens on Delphi’s foreign assets which made it impossible for Delphi to sell those assets. So the Treasury cut a deal with GM, the PBGC, and Delphi such that the PBGC gave up their liens in favor of an equity position in new Delphi, a one-time $70 million payment from GM, and a $3 billion unsecured claim. Thus, GM could keep their major supplier, but the participants in the pension plans lost a great deal, unlike the pensioners at General Motors.
In May 2009, the PBGC met along with Treasury, Delphi, GM and the UAW to come to a mediated settlement on the GM and Delphi bankruptcies. We were not represented, even though our government is charged with equally protecting all of the citizens of this country. They did nothing for the groups of workers, especially the salaried workers who were considered too weak to retaliate at the bad treatment that they planned, but they well cared for the groups that were well organized, rich, and large enough to retaliate. That is what is meant by commercial necessity.

The PBGC also followed an involuntary termination process whereby they simply took over without any adjudication or outside review, thus denying us the opportunity to be represented or follow any kind of due process. Simply put, our decades of effort for the company were considered to be valueless to this administration, and so they kicked us to the curb while taking good care of their supporters, the only worker group represented at the negotiating table.

In short, this administration’s unprecedented involvement from the perspective of the retirees who could not protect themselves was political, illegal, unethical and immoral. They had the ability to treat every worker in a fair and equitable manner, and they still can, but they refused then and they continue to refuse to do so.

The long-term effects of these decisions are horrendous, indeed. According to a study by Youngstown State University extended to include the national consequences, every year, $1.6 billion of economic activity has been lost and will continue to be lost every year for the next two decades or more.

Clearly, in violation of the requirements of TARP, thousands of retirees have completely lost their futures. They will struggle to survive at or near the poverty level for the rest of their lives. The lost health care insurance on top of the reduced pensions results in many not being able to pay mortgages or put their kids through college. They have to compete for the same nonexistent jobs that so many others are trying to find.

One such person is here with me today. She has to deal with several other issues, including a husband who is fighting a debilitating disease. She and thousands of other retirees are in an unsustainable situation.

Others have seen their homes foreclosed. They have had to declare personal bankruptcy. Some have seen their families break up, or worse.

This is simply shameful and it must be corrected.

We need help, your help, to bring true transparency to this issue, to reveal for all to see the records of the agreements that helped some, but excluded others. We need your help to achieve a fair and equitable settlement for all the Delphi retirees, especially the salaried retirees who worked just as hard, contributed just as much, and depended on the company and our government, to live up to the promises made over decades.

We are here because the administration believed that we were too weak to fight back, but this is an issue of right and wrong. It is not Democrat or Republican or administration versus the legislature. We must not allow a precedent that allows the U.S. Government to classify citizens based on their perception of political
strength to stand, nor should we allow an unprecedented step to be done in such a nontransparent manner. We will stand on this side of right, and we will fight. That is why we are here, and we need your help to win.

Mr. JORDAN. Thank you, Mr. Gump.

[The prepared statement of Mr. Gump follows:]
Written Testimony from Bruce Gump, Vice-Chairman, Delphi Salaried Retiree Association to the House Oversight and Government Reform Sub-Committee on Regulatory Affairs, Stimulus Oversight and Government Spending. June 22, 2011

Chairman Jordan, Ranking Member Kucinich, and Members of the Committee; thank you for this opportunity to represent the thousands of Delphi Retirees who were mistreated by the Administration during its unprecedented intervention in the Auto Industry, particularly in respect to the re-making of General Motors and Delphi Corporation.

I would like to begin by stating our agreement with President Obama concerning his 2008 campaign statement "Pension protection is something we should put at the top of our priority list. Right now, bankruptcy laws are more focused on protecting banks than protecting pensions and I don't think that's fair. It's not the America I believe in. It's time to stop cutting back the safety net for working people while we protect golden parachutes for the well off. If you work hard and play by the rules, then you've earned your pension. If a company goes bankrupt, then workers need to be our top priority, not an afterthought."¹ I only wish his administration had actually followed this concept in their unprecedented involvement in the bankruptcies of GM and Delphi. We worked hard and played by the rules, we did everything right but this administration determined that our pensions were not worth saving while others' were. That is discrimination in the workplace to put it bluntly.

In this hearing I am hopeful that we will finally hear an explanation of what was meant in testimony offered almost exactly two years ago by the head of the President's Auto Task Force Mr. Ron Bloom when he told the House Judiciary Commercial and Administrative Law Subcommittee "From the beginning of this process, the President gave the Auto Task Force two clear directions regarding its approach to the auto restructurings. The first was to behave in a commercial manner by ensuring that all stakeholders were treated fairly and received neither more nor less than they would have simply because the government was involved. The second was to refrain from intervening in the day-to-day management of these companies."² From our perspective neither of these "directions" was successfully accomplished except perhaps for the transforming of our elected government into a totally commercial enterprise not constrained or obligated to inconvenient constitutional or ethical requirements. The Merriam-Webster Dictionary defines "fair" in this context as "marked by impartiality and honesty: free from self-interest, prejudice, or favoritism." We contend that the settlement reached between the Treasury, the PBGC and others was none of these. The final settlement in fact treated some groups that were more important politically very well, and those groups retained their full pensions with the plan

¹ http://www.youtube.com/watch?v=HJkTkJxGk&feature=fvr Candidate for President Obama speaking to a group of seniors in Gresham Oregon May 18, 2008

² Statement by Ron Bloom, Senior Advisor at the U.S. Treasury Department Before the House Judiciary Commercial and Administrative Law Subcommittee. "Ramiifications of Auto Industry Bankruptcies, Part II" July 21, 2009
being raised to 100% funding status and their health care plan one of the best in America. Another group, made up of people who were perceived to not have the same political importance, were treated very poorly. As a result the Delphi Salaried Retirees especially were singled out to see their promised and earned pensions turned over to the PBGC in a manner that allowed them to be reduced in many cases by 30% to 70%, and to lose ALL of their promised and earned health care insurance, and ALL of their promised and earned life insurance. A member of the Auto Task Force justified treating some groups of workers very well compared to other groups by explaining that there was “no commercial necessity to do anything for those people.” But, we think that “commercial necessity” is just a code for “political expediency.” The fact is, the groups well treated just happen to be groups that supply millions of dollars in campaign contributions to the President’s party and millions more in lobbying efforts. And even they see the injustice of this treatment. The previous UAW President Ron Gettelfinger has said “This is a grave injustice. Our Union advocates for working people. We are advocating for the salaried retirees whose pensions have been eroded, though their dedication to the company and their years of service remained steady. No one should sit silently by and say nothing about the unfair and inequitable treatment these people are receiving. Such silence goes against the founding principles of our Union.”

This has been reaffirmed by the current International UAW President Bob King in the press. Also, the Ohio Senate passed unanimously a resolution calling for fair and equitable treatment of all the Delphi Retirees and the Speaker of the House wrote a personal letter stating essentially the same thing. Furthermore the Ohio AFL-CIO wrote “On behalf of Ohio’s working families and the Ohio AFL-CIO’s 700,000 members we offer our support for the introduction of a Senate Resolution that urges the President of the United States, the Secretary of the Treasury, the head of the President’s Auto Task Force, and the members of the United States Congress to treat all of the General Motors-Delphi retirees fairly and equitably and provide for the full earned pensions and other post employment benefits in the same manner for all groups regardless of their representation.” This support is recognition by many in government and private industry that there has been a terrible injustice done and that it must be corrected. Dozens of Governors, Senators and Congressmen have written and spoken to the Administration and to GM in an attempt to have them act to correct the issue. But it has all fallen on deaf ears so far and so the precedent that many have recognized as unjust, unfair and inequitable treatment of citizens based on their perceived “commercial necessity” has been allowed to stand.

Even more upsetting is the fact that even now, almost two years since our plan was terminated, we still don’t know even the most basic details about the basic facts of our pension plan’s termination, what happened, who was involved, and the extent that our governmental representatives played in the PBGC’s decision-making. For example, we know that actuarial reports, completed mere weeks before the PBGC terminated our Plan, showed that the Plan was well funded, but the report

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3 Letter from Ron Gettelfinger to Mike Husar, Delphi Salaried Retiree Association dated January 15, 2010
4 Ohio Senate 128th General Assembly Regular Session 2009-2010 Sub. S. C. R. No. 23
5 Letter from Armond Budish, Speaker, Ohio House of Representatives to the Honorable Barack Obama, President of the United States dated January 17, 2010
6 Letter from Joseph P. Ragola President, Ohio AFL-CIO to Members of the Ohio General Assembly dated November 25, 2009
appears nowhere in the PBGC’s official administrative record. In fact, that record excludes any facts or events that took place after mid-April, despite the fact that the terms of the termination were negotiated after that time. Moreover, the Plan’s actuary has indicated that the PBGC commissioned yet another report that has been hidden from us so far.

Similarly, we have not seen any records of the substance of the PBGC’s many closed-door meetings with the Treasury and Auto Task Force over these issues, including the “Poughkeepsie Meeting” where the final deal between the PBGC and the Treasury (among others) was finally cut. In fact the PBGC has fought “tooth-and-nail” to prevent us from obtaining any records beyond its so-called administrative record, or learning how the decisions were made that allowed billions of taxpayer provided dollars made available through the TARP program to be used for the benefit of some but not all. It has been estimated that had the Treasury had a budget of what it spent to fund the pensions of some at a 100% level, it could have funded all at a 93% level. That would normally be considered excellent coming from a bankrupt company at the bottom of a recession! But instead, some groups were funded at a 100% level because they were considered too powerful to not treat well while others were considered too weak to be able to protect themselves and so nothing was done to treat them in a fair and equitable manner. Both Old and New GM wrote in court documents that they were NOT obligated to pay the pensions of some groups of workers and they were allowed to exit bankruptcy without being held to the original contracts. However, after one visit to GM by an official from the Treasury, suddenly they announced that they were able to “top up” the pensions of some, but refused to do anything for other groups. “Top up” means that the workers receive two checks to make up their full pensions – one from PBGC and one from GM. GM even said in their 10-k document filed with the SEC that these payments were “gratuitous in nature” rather than obligatory. Some believe that because the well-treated groups strongly support the Administration, they in turn were strongly supported by the administration. In fact that belief is sufficient enough that both the GAO and the Special Investigator General for TARP have started investigations into the issue.

To be clear: the Delphi Salaried Pension Fund was not in distress when the PBGC chose to terminate it, and was in fact funded in a similar manner and at a similar level as the average of the top 100 pension funds in America at the time. Instead, it was unnecessarily and illegally terminated using a process that denied the participants any due process or even representation at the negotiating table. Those that were represented included the Treasury, the PBGC, GM, Delphi and the UAW, but who of that group should have represented the Salaried Retirees? It was certainly not the function of the UAW. GM and Delphi had already turned their backs on us. The United States Treasury, a function of our elected government not only did nothing to represent us, but found it convenient to purposely treat us badly. In fact, during this process we have been told by some that we were simply considered not big, rich or powerful enough to matter, and that we were “just a bunch of Republicans.” That, I believe, is the source of the statement from the Auto Task Force when they said there was no “commercial necessity to do anything for those people.” In this unprecedented intrusion of the United States Government into a private industry bankruptcy, some groups were able to find hope, but all we got was the audacity!

It is frightening to even think about allowing this precedent to stand when it could be used as a justification in almost anything else the government does! Consider Social Security – when will some groups be considered “commercially unnecessary”? What about Medicare or even the Military in which my own son will soon be serving as are many other of our members’ sons and...
daughters. Will this “commercially necessary” precedent now established allow some government official to decide one group of soldiers is not “commercially necessary” and arrange for them to take on the most dangerous tasks while some other more powerful and politically supportive groups are protected? Simply stated, this is a precedent that must not be allowed to stand. The taxpayers expect the government to follow the concept of “commercial necessity” when it comes to commodities like pens and paper, but the citizens of this country are NOT commodities, and this decision, this precedent makes them into less than citizens – all of whom deserve to be treated with respect and dignity. The Constitutional precepts of “Equal Protection” and “Due Process” must be followed by our government at all times, not just when it is politically or commercially convenient. This is why we must not allow our government to become simply a commercial enterprise and “behave in a commercial manner.”

In the end it was political expediency which caused the Treasury to orchestrate our current situation. The Treasury was simply in a hurry to get GM out of the bankruptcy which they had forced it into. Because GM needed Delphi to remain a major supplier, and the PBGC held liens on Delphi’s foreign assets to protect the pension plans, the Treasury brokered a deal where the PBGC gave up their liens on those assets on the cheap. Instead of obtaining the full value of those liens for the benefit of the pensioners whose plan they were supposed to be protecting, for example by insisting that GM fund or “top up” the funding of the Salaried Plan, the PBGC and Treasury instead agreed to a deal whereby everybody wins except the Salaried Retirees. Amazingly, the PBGC, as administered by the President’s Cabinet Members is acting exclusively for the benefit of GM instead of the benefit of the citizens for whom it is a trustee.

The economic effect of this decision on my community was calculated by the Youngstown State University Department of Urban and Regional Studies. Dr. Frank Akpadock announced that the result on the local economy was nothing short of “catastrophic.” When his results are extended to include the other lost benefits along with pensions for all the affected groups, the overall cost to the economy of the United States is about $1.6 billion per year, every year, for the next 20 to 30 years. In addition, because the economic activity is reduced so significantly, about 85,000 American Citizens who had nothing to do with the Automotive Industry have or will see their employment simply evaporate.

When the Emergency Economic Stabilization Act of 2008 that created the Troubled Asset Relief Program – called TARP – was written, Congress wrote in section 113 titled “Minimizing Negative Impact”: “The Secretary shall use the authority under this Act in a manner that will minimize any potential long-term negative impact on the taxpayer, taking into account the... overall economic benefits of the program, including economic benefits due to improvements in economic activity and the availability of credit, the impact on the savings and pensions of individuals, and reductions in losses to the Federal Government.” We respectfully submit that the Secretary of the Treasury did not do everything possible to meet this obligation.

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7 Measuring the economic impact of pension reductions and health care cuts on the salaried retirees of Delphi Packard Electric Systems resident in the Mahoning Valley, Ohio. Frank Akpadock, Ph.D. Senior Research Associate and Regional Scientist, Public Service Institute Center for Urban and Regional Studies Youngstown State University, September, 2009.
Consider just a 10 year time horizon: $16 billion of economic activity has been lost because the Delphi Retirees did not receive the same benefit of protection and support that other groups in the auto industry did. Each of those transactions represents income for somebody, and if taxed at 15% then the US Government will NOT collect $2.4 billion and local governments will NOT collect $960 million in sales taxes calculated using an average 6% rate. This does not include the INCREASED COST to the US Government for programs supported by them such as unemployment compensation and retraining. Nor does it include the devastating long term costs of personal bankruptcies and home foreclosures – many of which have already happened along with family breakups and other horrible situations.

And so as a result of this discriminatory decision by the US Treasury to fully fund pensions and benefits for one group while leaving other groups out, economic activity is significantly REDUCED, there is a strong NEGATIVE impact on the savings and pensions of thousands of individuals, and the Federal Government will see significantly more LOSSES than they would otherwise. To me, that obviously is not living up to the requirements of the TARP, and is a policy error that MUST be corrected.

This hearing is titled “Lasting Implications of the General Motors Bailout” so I would like to explain some of those lasting implications from the perspective of the retirees. If the retiree was a member of the most favored group, there are no significant changes in their future. They can participate in the economy and pretty much just follow the plan they had when they retired. If they are in a less favored group, then while they still have their full pensions thanks to the allowed use of TARP funds provided to General Motors, their health care insurance was drastically reduced and until they reach Medicare eligibility, they will have to reduce their participation in their local economies by several hundred dollars per month. But if they were part of the least favored, the least protected group, like me, then for many their pensions were reduced by 30% to 70% - a devastating blow that will require they either curtail nearly any other activities, or that they go back to the workforce and try to take jobs from those who were already competing for them. To make it worse, the complete loss of health care insurance requires an additional several hundred dollars per month expenditure or be one slip-on-the-stairs away from total financial ruin. The loss of their pensions is for the rest of their lives, and for the salaried group there is no inflation adjuster, so the extremely low income they now have will at some point, and for many that point will be very soon, they will fall below the poverty level for income in the United States. This will be their fate after 30 or 40 or more years of service to the company that was just as important and just as significant as those who are in the more favored groups. The only difference between them and the other groups is that the United States Government chose winners and losers, and they were simply chosen to be the losers. This effect will be lasting indeed, and the entire economy of the county will feel it. The administration constantly points to, and wants everybody to ONLY see the jobs that were saved, but at what expense? The loss of credible expectation of fair government, the loss of their futures, and in some cases their health and their families. That is a very high expense to pay by one group so another group can live well!

To explain just some of the effects on the citizens of America, I have taken a few excerpts from more than 800 written testimonies offered at a field hearing of the Oversight and Investigations subcommittee of the House Financial Services Committee held in Canfield, Ohio last July – nearly a year ago:
From David Clute: During the GM/Delphi bankruptcy exits, those whose duty it was to protect the basic rights of all working men and women, gathered together and using TARP funds, unfairly facilitated an outcome that benefited only selected groups. As a result of this discrimination my annual income in retirement is more than $6500.00 BELOW POVERTY LEVEL GUIDELINES for the state of Indiana and all of my Health Insurance has been eliminated. I do not exaggerate when I say my life has been devastated. I worked 30 years to earn my promised pension and benefits just like many of those at the same company whose pensions and benefits were protected by our government. I cannot understand why I am not worthy of the same protection.

From Albert Campbell: The inequitable treatment I have received at the hands of the Treasury and the PBGC has destroyed me financially. Two days ago I received the foreclosure notice on my home. So where do my family and I go now that we are losing our home due to this treatment by Treasury and the PBGC?

From David Guldge: Suddenly I was losing 50% of my pension because I am salary and in the Obama Administration words "you have no commercial value". My wife has now lost her job, I am a heart attack quadruple bypass survivor that is 61 years old now and no one will hire because of medical history. I will most likely lose my house, and am having a hard time because bills outnumber the money coming in. My government has taken my honor and betrayed me. This country is not the country my father fought for, why am I losing everything I have and have worked for? Please answer me that, I am a citizen with no rights. I don't see any need in going on anymore, when a person's word is nothing, and a person's country slams them, why even live anymore.

From Brenda Jones: I am now 58 years old cannot find a job to supplement my income; I still have a mortgage and car payment. I was pretty self-sufficient but now I rely on my children to help pay my bills.

From Carl Nagy: I have applied for literally dozen[s] of engineering jobs. No one wants to hire a 58 year old even though I have an engineering degree, MBA, and a Professional Engineers License. ... I have been substitute teaching for [just above minimum] wages to help make ends meet. They are not meeting. I need new hearing aids. I can't afford them. I don't know when I will ever be able to buy a new car, let alone a new GM car. We don't go out to eat anymore. We don't go shopping. I need to have surgery on my neck, but have put it off due to the having to pay the deductibles.

From Charles Smith: I have looked for a job but even with a college degree and experience it has been difficult. I have a 90 year old mother whom I must help take care of and I cannot leave the area for any amount of time. My mother has given me money to keep me going but her nest egg is running out. My family, wife Bev, and I need the pension [reinstated] so we can continue to make payments and get out of debt. I am really disappointed being a US citizen to be treated so unfairly by our government.

From Dan Shapiro: I deeply request that you help me answer my granddaughters when they ask: Grampa, Should I go to college? (Answer: Whatever you do, be sure to join a really big union!)
From Barbara Burns: I have lost almost 50% of my pension. It's difficult to find a decent paying job. Currently my income is below the poverty level. I am definitely worse off today than I was before President Obama was in office. All I am asking for is fair and equitable treatment.

From Bill Martindale: After more than 40 years with this company, I have been forced to find other work (at lower pay) in order to support myself and my family as the pension I get from PBGC is insufficient... I am at poverty level. I can no longer assist my two daughters with helping to repay their college loans ... I drive two old G.M. vehicles ('03 and '04 Chevys) and will not be able to ever purchase a new car again and, if I do, it will not be a G.M. product.

From Brian Bower: GM & Delphi bankruptcies and the recent unfair use of TARP funds by the Treasurer have destroyed my retirement security. I am forced to accept these unfair changes without any representation or consideration while others who worked side by side with me will continue to be awarded full retirement benefits. That is not equality as stated in our constitution.

From Bruce Nayler: my pension was absorbed by the PBGC and reduced by 38%. I lost my job and was declined unemployment. Now we are always late on our house payments, and scramble to cover utilities. My plan to educate myself for a real service role of teacher is out of reach...

These citizens, these people who are not just commodities, always felt they had done the right thing. They obeyed the law and their superiors at work, they believed the promises made by those employers, and certainly by their government. Now they feel betrayed; they are angry, they are hurt and they are scared because of the discriminatory treatment they have received. Can anybody blame them?

We call on our elected officials to correct what amounts to a policy error and cause a fair and equitable settlement to be achieved for all of the Delphi Retirees. It was the US Treasury itself that established the “standard of fairness” when they chose to help protect the represented workers from GM and Delphi. That same standard must be used for all workers, not just the chosen groups. We also call on the members of this committee to obtain the records of the “Poughkeepsie Meeting” where all the deals were cut. Finally, we call on the Congress to correct the ERISA laws and the Bankruptcy code so that workers are protected from conditions beyond their control. Just do what the President said and our children won’t have to deal with having to prove their “commercial necessity” to this government. “If a company goes bankrupt, then workers need to be our top priority, not an afterthought.”

We look forward to the Obama Administration living up to the Vice-President’s statement from one of the weekly addresses to the nation: “That’s why the President and I remain focused on, not just recovering from this recession. We’re focused on making sure that if you work hard, play by the rules, you’ll be able to get ahead, put your kids through college, [and] retire with dignity and security.”


Gump-Testimony

June 22, 2011
Mr. JORDAN. Dr. Kochan.

STATEMENT OF THOMAS KOCHAN

Mr. KOCHAN. Thank you, Mr. Chairman, and members of the committee. Thank you for the opportunity to testify today.

I am going to make three points in my testimony.

First, government actions to restructure General Motors 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.

Two, support of the UAW and other unions with ongoing relationships with GM during this restructuring process was critical to the survival of these companies and to the entire U.S. automobile industry. Further support and cooperation between the company and the union are essential for GM as well as for other auto industry companies for building sustainable jobs and enterprises.

Three, the specific top-up provisions governing Delphi hourly workers were negotiated as a 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 initial bankruptcy proceedings in 2006.

To retrospectively single out and renege on this provision during the 2008 and 2009 restructuring and bankruptcy processes would have materially harmed the ongoing relationship between the union and company and would have jeopardized the industry’s restructuring and rebuilding process.

Let me expand on these points a bit.

The combined actions of the Bush and Obama administrations to support the restructuring of the auto industry is likely to be assessed by historians as one of the most important and effective steps taken during that perilous time to avoid the great recession from descending into a Great Depression. The 1 to 3 million jobs saved in 2009 were probably expanded in subsequent years.

The actions also avoided setting off a cascading set of costs and losses of revenues to State, Federal, and local government budgets which would have resulted from increased unemployment insurance costs of between $8 billion and $25 billion, losses in GDP that would have in turn reduced revenues of State governments between $15 billion and $48 billion, and reduced Federal revenues somewhere between $59 billion and $170 billion.

The combined effects of the loans and the structural adjustments and the additional concessions from workers and creditors, the leadership changes that were put in place, and, in the case of Chrysler, the joint venture with Fiat, have now positioned the automobile industry to reemerge as a world-class competitor.

For the first time in a decade, the three companies are reporting profits, are expanding capacity, hiring workers, and collectively gaining market share.

I emphasize the effects of these actions on the entire automobile industry in the United States because of the high degree of interdependence that exists across assemblers, suppliers, and dealers.
The effect of the largest firm, in this case General Motors, entering a bankruptcy without a debtor-in-possession financing option would have produced at best a long and uncertain restructuring process and at worst a potential liquidation of the company. Either of these outcomes would have set off a chain reaction that would likely have brought down a significant number of automobile suppliers and significantly harmed other assembly firms and even more dealers than were already harmed across the country.

Indeed, it's the interdependence across these major assemblers and suppliers that have grown over the years as more output has been outsourced to the supplier base.

In 1980, it was about 1.2 to 1, where jobs from the supplier base to the assemblers existed. In 2008, this has grown to 3.5 to 1. Moreover, most of these suppliers provide components to multiple assemblers. Delphi, for example, is the sole-source supplier of cockpits for vehicles in 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 this nature. Ford, in particular, would have been put at risk by an extended and uncertain outcome of a GM bankruptcy because it outsources a higher proportion of its components to outside suppliers than does Chrysler or GM. Instead, Ford not only avoided bankruptcy, it used its time gained in these past several years to build a very strong partnership with the UAW that will serve as a model for the industry in years ahead.

Let me speak to the role of the UAW in this industry. The survival of GM and Chrysler through these processes required the support of the UAW and other key unions with ongoing relationships with the companies. Moreover, for these companies to prosper and to build sustainable jobs and enterprises in the future, labor and management relations will need to continue to be transformed, that transformation process that began prior to the crisis. This involves not only deep economic concessions by the work force, it also involves joint union-management efforts to work together to pull—to improve quality on the shop floor, to improve the quality of the negotiations process, and to engage in consultation and information-sharing processes at the highest levels of the companies and the unions.

In 2007 negotiations, prior to this crisis, all three of the major companies in the United States and the UAW agreed to restructure and lower the costs of health care, of pensions for current and retired employees, and cut wages of starting salaries in ways that matched or came close to matching their major competitors.

Each of these companies, to varying degrees, has also been working to engage its workers in building the kind of knowledge-based work systems that foster innovation, productivity, and quality improvements. Years of research and evidence and experience has demonstrated that, to these companies and to the union, that they need to work together as partners in leading and sustaining this kind of transformation.

Finally, this issue of the top-off, is worth some commentary and it needs to be put in its historic context.
The UAW negotiated 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 significant risk that Delphi might not survive. And as a responsible union, it negotiated a number of contingency provisions to protect its members and retiree benefits.

These negotiations and subsequent ones that took place when, indeed, Delphi was forced to declare bankruptcy in 2006 involved multiple issues, multiple tradeoffs, economic concessions, and sacrifices by of the stakeholders: current workers, salaried workers, future employees, retirees.

Mr. KELLY. Dr. Kochan, I am going to ask you to——

Mr. KOCHAN. Yes, I will. I will finish in 30 seconds.

To single out one provision to the so-called top-out clause for scrutiny at this late, without considering this overall package in tradeoffs, would be inappropriate and highly counterproductive. Moreover, there is a well-established provision in the Bankruptcy Code of honoring contracts of suppliers and other shareholders with critical ongoing relationships with the company. This is exactly the case here.

Finally, I will close with one comment. And that is, this statement has nothing to say about the question of fairness to the salaried employees. As an individual, as a professor who studies and works with all members, all segments of the labor force, I find it very upsetting that the salaried workers were left out of this process. My testimony has nothing to say about the fairness or unfairness of that, other than what I have just referred to.

Mr. KELLY [presiding]. Thank you. Thank you very much.

[The prepared statement of Mr. Kochan follows:]
Thomas A. Kochan
Testimony before the Committee on Oversight and Government Reform on “Lasting Implications of the General Motors Bailout”

Thomas A. Kochan\(^1\)
June 22, 2011

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

\(^1\) Thomas A. Kochan is the George M. Bunker Professor at the MIT Sloan School of Management, Co-Director of the MIT Institute for Work and Employment Research and co-founder of the Employment Policy Research Network.
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. 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. 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. Moreover, most supplier firms provide components to multiple assemblers. Delphi, for example, is the sole source supplier of

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3 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 3.

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

“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.⁵ 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 ongoing 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.⁶

**Top-up Provision History and Context**

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⁶ 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-Gershfenfeld, 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.² 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.

Ms. Dalmia. Thanks for having me here.

I am a senior analyst at Reason Foundation, a nonprofit think tank. I have lived in the metro Detroit area for the last 23 years—I think I am the only one here on the panel who lives in Michigan—and written extensively about the auto industry.

As a homeowner in the area, my fate is intimately tied to that of the auto industry and, hence, I am among the region's hundreds of thousands of homeowners who are rooting for the Big Three.

But I don't think that the $95 billion or so taxpayers—that the taxpayers have spent to bail out GM and Chrysler has positioned them for future success. Taxpayers stand to lose $28 to $34 billion dollars. But beyond that, there are at least four hidden costs that would plague the U.S. economy in the years and decades to come, and I will address each of them very briefly.

The first is—and in my view, the most unfortunate aspect of the bailout—is that it has completely undermined the rule of law in bankruptcy. One of the main arguments for the bailout was that GM and Chrysler didn't have the cash on hand, nor could they raise it from moribund financial markets to finance a Chapter 11 bankruptcy. Hence, if the government did not step in and bail out the companies, they would face liquidation.

Many experts doubt that liquidation was a plausible scenario for GM. But if it were, and GM were unable to raise private bankruptcy financing, there was an argument for the government to guarantee the loan amount to private lenders—which arguably would have been a lot less than the bailout amount—and then let longstanding bankruptcy law determine how much of a loss the various stakeholders—unions, lenders, shareholders—would have to suffer.

Instead, this administration essentially wrote its own bankruptcy laws as it went along, throwing out longstanding established precedent.

For example, and we have talked about this earlier, normally secured creditors are paid back on a priority basis in bankruptcy proceedings. But the government put unions, who are regarded as low-priority unsecured creditors ahead of them. The whole process was riddled with myriad examples of unorthodox practices.

Such flouting of bankruptcy law essentially signals to future lenders that should they loan money to politically important private companies, they can't count on the standing rule of law to protect them.

Additionally, the other big unintended hidden cost of the bailout is the opportunity cost. One of the ironies of the bailout is that it constitutes a missed opportunity, not a second chance for GM and Chrysler. At best, it has prepared these companies to compete with the industry leaders of yesterday rather than those of tomorrow.

American automakers have been losing market share to foreign competitors even before the current recession began, and one big reason was their uncompetitive labor costs. Bankruptcy should have been an opportunity for them to significantly rationalize their obligations to labor, clean up their balance sheets, and start afresh.
GM and Chrysler’s post-bankruptcy labor costs are comparable to Toyota’s, which are about $56 an hour. But Toyota no longer sets the industry’s cost curve. Smaller Asian firms such as Hyundai and Kia, whose labor costs are $40, do. It is an open question whether GM can compete with the Kias of the future.

Also, GM did not get meaningful relief from its legacy costs, something it would have under a normal bankruptcy. Without the bailout, these companies would have carried on in some form, but they would have looked very different from what they do right now. The bailout has further entrenched the status quo in the auto industry.

The third big problem with the bailout is that it has unleashed a systemic moral hazard that will fundamentally weaken America’s market-based economy. In the 2 years prior to the bailout, GM had accrued $70 billion in losses, thanks to an unwieldy and bloated operation that supported eight brands. It had amassed a debt that was 24 times its market capitalization. Yet it had no cash on hand for product development or to weather a rainy day.

By contrast, in those 2 years, Ford laid off workers, sold money-losing brands, and mortgaged all its assets, including its logo, the blue oval, to build $25 billion in reserves that it invested in product development and for use in an economic downturn.

But the bailout rewarded GM’s irresponsible, reckless behavior and penalized Ford’s prudent, forward-looking one. Given such precedent, any company that feels that it is too big to fail, or is a national icon, or is deeply enmeshed in the broader U.S. economy, or is a major regional employer, will wonder whether it makes more sense for it to save for an economic downturn or hold out for taxpayer assistance. Just as the Wall Street bailout became a justification for the auto bailout, the auto bailout will become justification for future bailouts.

And the last problem with the bailout is that it has legitimized increased government management of private companies. Government help means government control, and given the controls of the bailout are not identical to those of returning the companies to profitability, it was inevitable that there would be political meddling in the operations of the companies in the name of protecting jobs, taxpayer investment, and so on.

The Wall Street Journal has extensively documented what a huge role politics played in determining which and how many dealerships the companies would shutter. There are many other examples.

The bailout has opened the door for a kind of direct government involvement in private business that makes a mockery of the constitutional scheme of a government of limited and enumerated powers. Ultimately, this might be the most damaging legacy of the bailout.

Mr. Kelly. All right. Thank you for your testimony.

[The prepared statement of Ms. Dalmia follows:]
Testimony of Shikha Dalmia  
Senior Analyst

Reason Foundation  

Before the Committee on Oversight and Government Reform  
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending  

U.S. House of Representatives  

June 22, 2011
Chairman Jordan, Ranking Member Kucinich, and members of the subcommittee, thank you for inviting me to address you about this important matter. My name is Shikha Dalmia and I am a senior analyst at Reason Foundation, a non-profit think tank that researches the consequences of government policy, works to advance liberty, and develops ways the free market can be leveraged to improve the quality of life for all Americans. I have lived in the metro Detroit area for the last 23 years, working for 10 of those on the editorial board of the Detroit News followed by Ford Motor Credit Company in 2005 before joining Reason Foundation where I have written extensively about the auto industry for major newspapers such as the Wall Street Journal, Los Angeles Times, Forbes and The Daily.

Nine years ago, my husband and I spent a large portion of our nest egg building a house in West Bloomfield, a suburb of Detroit, the mainstay of whose economy is the auto industry. A few years later, the Big Three entered a downward spiral, and along with it home values in our area. If we were to sell our house now, it would be at a price significantly below what it cost us to build it. Our fate is very much tied to that of the auto industry and hence we are among the region’s hundreds of thousands of homeowners who are rooting for the Big Three. However, although I am cheered by the return to profitability of Detroit’s automakers, I don’t think that the $95 billion or so that taxpayers spent to bail out GM and Chrysler has positioned the companies for future success. Nor was it worth the long-term cost to the broader American economy. Taxpayers stand to lose $28 billion to $34 billion of the bailout amount. But that’s just the tip of the iceberg. There are at least four hidden costs that will plague the U.S. economy in the years and decades to come.

**Undermining the Rule-of-Law in Bankruptcy**

This, in my view, is in some ways the most unfortunate aspect of the bailout because it was the most avoidable. One of the main arguments for the bailout was that GM and Chrysler didn’t have the cash on hand nor could they raise it from moribund financial markets to finance a Chapter 11 bankruptcy. (Chapter 11 bankruptcy allows companies to restructure their balance sheets by shedding their liabilities to creditors and employees and make a fresh, clean start.) Hence, if the government did not step in and bail out the companies, they would essentially face Chapter 7 bankruptcy or liquidation. This would mean that they would be shuttered, their assets sold off, disrupting the auto supply chain, costing tens of thousands of jobs and
dumping millions of retirees on to the government’s Pension Guaranteed Benefit Program.

Although liquidation might have been in the realm of possibility for Chrysler, many experts, including Todd Zywicki, a bankruptcy expert at George Mason University, highly doubt that GM would have faced liquidation. That’s because the company was financially distressed—but not economically unviable. If GM had put together a credible restructuring plan, it would have been able to obtain debtor-in-possession financing under which, as the name suggests, the debtors would have essentially possessed the company. This means that once GM returned to profitability, the debtors would have claimed first dibs on being paid. If the company had been unable to obtain this DIP financing from the private market, the government could have helped by guaranteeing the private lenders the loaned amount, which, in all likelihood, would have been far smaller than the bailout amount.

The government should then have let longstanding bankruptcy law determine how much of a loss the various stakeholders—unions, lenders, shareholders—would suffer.

Instead, the administration essentially wrote its own bankruptcy rules, throwing out established precedent. For example, consider what it did to Chrysler. Normally, secured creditors, meaning creditors to whom a company has offered a piece of its assets in exchange for a loan, are paid back on a priority basis in bankruptcy proceedings. But under the government bailout, Chrysler’s secured creditors received 29 cents on the dollar. By contrast, its unions were paid 40 cents on the dollar even though their claims against the company are equivalent to those of low-priority, unsecured creditors.

Another example is that, in a normal bankruptcy, secured creditors who are not paid in full are entitled to a “deficiency claim”—meaning that the bankrupt company has to pay back at least a portion of what they are owed at a later date. Chrysler and GM creditors received no such right.

Likewise, under typical bankruptcy, a company is not allowed to take a tax write off of its old debts against the profits of the new, restructured company. But GM will be allowed to deduct up to $45 billion of its previous
losses from its future profits, something that works out to about $14 billion in tax savings for GM that its competitors don’t enjoy.

Such flouting of bankruptcy law essentially signals to future lenders that should they loan money to private companies, they can’t count on the standing rule-of-law to protect them. They can’t know the full risks of such loans because the rules could change for political reasons at any time. The government may step in and rearrange creditors’ normal priorities in order to reward favored stakeholders while giving them the short-end of the stick. This might make it harder, not easier, for such industries to obtain private credit going forward, increasing the need for government—or, rather, taxpayer—assistance. In effect, the government would crowd out private credit markets.

The Opportunity Cost of the Bailout

One of the ironies of the bailout is that it constitutes a missed opportunity, not a second chance for GM and Chrysler. At best, it has prepared these companies to compete with the industry leaders of yore rather than those of the future.

American automakers had been losing market share to foreign competitors even before the current recession began. One big reason is their uncompetitive labor costs. Bankruptcy should have been an opportunity for them to significantly rationalize their obligations to labor, clean-up their balance sheets and start afresh. Although GM managed to negotiate lower wages and benefits, it did not get meaningful relief from its legacy costs. Under normal bankruptcy rules, UAW, as an unsecured debtor, would have had to forgo most of its pension and health care claims. That didn’t happen in this case, so the company has unfunded pension obligations to the tune of $27 billion whose bill is due in 2014. This will be a major drag for the company going forward, and may only have delayed the inevitable day of reckoning for these companies.

GM and Chrysler’s post-bankruptcy labor costs are $58 an hour—compared to $70 an hour pre-bankruptcy. This is comparable to Toyota’s labor costs of $56 an hour. But Toyota no longer sets the industry’s cost curve. Smaller Asian firms such as Hyundai and Kia whose labor costs are $40 an hour do. (Kia’s sales volume has climbed 45 percent this year, the fastest pace among
the 10 largest automakers in the U.S.). It is an open question whether GM can compete with the Kias of the future.

In contrast to the American auto industry, consider the experience of the U.S. steel industry that did not receive a major bailout. Until about 1945, Big Steel—consisting of companies such as U.S. Steel that produced steel from iron ore in large mills—dominated the world market, producing about half of the global steel output. This hegemony, notes University of Dayton economic historian Larry Schweikart, led the industry to precisely the same problems facing the Detroit-based car makers today: bloated corporate bureaucracies; a pampered, unionized workforce with unsustainable legacy costs; and inefficient production methods.

By the 1960s, Big Steel was facing stiff competition from overseas producers, first from Japan and Europe and then from Third World countries such as Brazil. About a quarter of American steel producers went bankrupt between 1974 and 1987. The industry's global market share shrank to 11 percent and employment dropped from 2.5 million in 1974 to 1 million in 1997. But this fight for survival, spanning decades and several recessions, eventually restored the overall industry to profitability. Led by companies such as Nucor, domestic steel makers discovered new ways to turn scrap into steel in sleeker, smaller factories called "mini-mills," using workers who are paid competitive wages and a leaner management team.

But beyond the missed opportunity for GM and Chrysler, there are other opportunity costs for the auto industry and the economy as a whole. Without the bailout, these companies would have carried on in some form, but they would have looked very different from what they do right now. It is always tricky to draw up counterfactuals, but it is possible that GM and Chrysler might have merged into one, eliminating excess capacity in the industry while pooling together their expertise and resources to form a more viable unified entity. This was a possibility that both had actively considered before the federal government handed them taxpayer dollars to keep them afloat as separate entities.

Alternatively, it is also possible that other automakers or automotive entrepreneurs might have purchased GM and Chrysler's more viable brands and run them as independent companies. For example, Roger Penske, owner of the Penske Automotive Group Inc., a Michigan-based auto supplier, tried unsuccessfully to put together a plan to buy the Saturn brand from GM.
Others might have stepped in if the government hadn’t intervened, replacing the few, large, vertically integrated players with a myriad smaller, more efficient ones. The excess workers and resources released in the process would have been absorbed by other industries, diminishing their costs and increasing the overall efficiency of the economy. To return to the example of the steel industry, the physical and human resources that the steel industry squeezed out in its quest for more efficiency didn’t simply go up in smoke. They were utilized by other sectors of the economy. For example, employment in the plastic industry, which replaced steel for some uses, grew over 18 percent between 1980 and 2006. We will never know what new industries the auto bailout might have strangled in the crib.

The bailout has further entrenched the status quo in the auto industry instead of exposing it to the winds of creative destruction that have made other sectors of the American economy so dynamic and resilient.

The Moral Hazard of the Bailout

Another big problem with the bailout is that it might well have unleashed a systemic moral hazard that fundamentally weakens America’s market-based economy. In the two years prior to the bailout between 2007 and 2009, GM had accrued $70 billion in losses, thanks to an unwieldy and bloated operation that supported eight brands, many of them money losers. It had amassed a debt that was 24 times its market capitalization. Yet it had no cash on hand for product development or to weather a rainy day. By contrast, in those two years, Ford laid off workers, sold money-losing brands such as Jaguar Land Rover and Aston Martin, and mortgaged all its assets—including its logo, the Blue Oval—to build $25 billion in reserves that it invested in product development and for use in an economic downturn.

But the bailout rewarded GM’s irresponsible, reckless behavior and penalized Ford’s prudent, forward-looking one. It handed GM an undeserved edge vis-à-vis its competitors, especially since the vast bulk of the bailout amount was given to it through the purchase of equity rather than a loan. This relieved GM from debt service costs that consumed $251 billion of Ford’s revenues last year.

Given such a precedent, any company that feels that it is too big to fail or is regarded as a national icon or is deeply enmeshed in the broader US economy or is a major regional employer will wonder whether it makes
more business sense for it to save for an economic downturn or holdout for taxpayer assistance. It will introduce a consideration in the business planning of companies that has nothing to do with enhancing their efficiency or consumer welfare. It will encourage unnecessary risk-taking and undermine the U.S. economy.

And should the companies seek government help, the government will find it harder and harder to refuse. Indeed, just as the Wall Street bailout became a justification for the auto bailout, the auto bailout will become a justification for future bailouts of other industries. For example, it will be very hard to justify to West Virginia steel mills, should they ever find themselves in economic trouble, why they are less deserving of a bailout than Michigan’s auto industry.

The Bailout Has Legitimized Increased Government Management of Private Companies

The one who pays the piper calls the tune, they say. And so it is with the bailout. Government help means government control. Therefore, despite the administration’s protestations that it had no interest in running GM or Chrysler, the fact of the matter is that the goals of the bailout are not identical with those of returning the companies’ to profitability and hence there has been a great deal of political meddling in the day-to-day operations of the companies in the name of protecting jobs, taxpayer “investment” and so on.

For example, the Wall Street Journal has extensively documented what a huge role politics played in determining which and how many dealerships the companies could shutter. Likewise, GM was not allowed to replace its Montana supplier of the mineral palladium with a cheaper one from overseas because that would have meant that the bailout dollars were going to prop up businesses abroad rather than those at home, defeating the bailout’s stated purpose.

One particularly egregious example of what can go wrong when the government involves itself in the management of a private company was uncovered through a FOIA request by the Competitive Enterprise Institute. It found that GM’s TV ad campaign last year that misleadingly claimed that the company had paid back its government loan in full was approved by the administration. The FOIA uncovered e-mails between GM CEO Ed
Whitacre and various Treasury and other federal officials a month in advance of GM’s announcement. These emails included draft schedules, draft remarks to be given by Mr. Whitacre, and draft press releases from both GM and the Treasury Department.

The bailout has opened the door for a kind of direct government involvement in private business that makes a mockery of the constitutional scheme of a government of limited and enumerated powers. Ultimately, this might be the most damaging legacy of the bailout, because it inevitably rewards narrow, powerful, politically-favored interests at the expense of American consumers and taxpayers. The bailouts may or may not save GM and Chrysler. But they have created many bad incentives that will distort our economy and system for years to come.

Thank you for the opportunity to discuss this important issue with you. I look forward to answering any questions.
Mr. KELLY. I will grant myself about 5 minutes.

Mr. Ikenson, would you do me a favor and just kind of walk through the metrics of this successful government intervention in the free market? And I am trying to understand, because in the real world there’s a different way of defining success.

Mr. IKENSON. Yes.

Mr. KELLY. If you could tell me, at the end of the day, the total taxpayer investment versus the total loss.

Mr. IKENSON. I believe there was $50 billion invested in GM, and that doesn’t count some of the tax exemptions that have been granted. There’s about $12 to $14 billion in tax exemptions granted to the company to offset losses. It was an unorthodox provision, given what transpired with GM.

GM also is getting—GMAC, was also kept afloat to the tune of about $17 billion. And the main reason for GMAC’s preservation was to help facilitate the sales of GM cars. And my understanding is that there is a tax credit to purchasers of the Chevy Volt.

So the number that the public has grabbed a hold of is $50 billion, but I think it’s probably more than that.

In November, there was an IPO, and 23—I think $23 billion was raised, leaving taxpayers on the hook for about $27 billion. And GM still holds—the government holds about 500 million shares of GM.

In order to be made whole financially for that first $50 billion, the price of GM stock needs to be about $53, or the average price for selling 500 million shares needs to be $53 million. As of this morning, it’s $30, and it’s been hovering in that neighborhood for the past several months. And the reason it’s not going to appreciate substantially anytime soon is because the market knows that the largest shareholder of GM stocks wants to dump about 500 million, so that’s keeping downward pressure on the value. So I think it’s a safe bet that taxpayers will be stiffed about $10 to $20 billion on that. But those are just the financial costs.

The other costs, which Shikha and I described in terms of rule of law, in terms of denying the spoils of competition to companies like Ford, Honda, and Hyundai, those are other costs. There are plenty more difficult to observe, those costs which are unseen, that need to be factored into this. It’s not just a financial cost.

Mr. KELLY. So if you could, the total figure that you come up with.

Mr. IKENSON. Left right now? I am assuming that there’s going to be a sale of GM and the average price of that sale is going to be around—in the thirties. So taxpayers are out about $12 billion there. Then there is the tax exemptions, $12 to $14 billion; some of that is a direct hit on taxpayers, not all of it.

And then there is the GMAC $17 billion which, to my knowledge, has not been paid back. So if you have a pencil.

Mr. KOCHAN. That is 41.

Mr. KELLY. I do. I am up to $41 and pretty soon we are going to get to some serious money, are we not?

Mr. IKENSON. Yes, that’s right—and the $7,500 credit, tax credit for purchases of Volts. I don’t know whether General Electric is going to be getting its major tax credit there. They are on the hook for 50,000. I think Jeff Immelt told the President that he would
buy 50,000 of these volts. So it's a lot of money. It's more than what——

Mr. KELLY. I will comment, I am a Chevrolet dealer. The main purchasers of Chevrolet Volts are not the American public. And I would suggest or submit to anybody that if it takes $7,500 of taxpayer money to make that car viable, that's probably not a car you really want in the market.

Mr. IKENSON. Right.

Mr. KELLY. I have a bad habit of only buying cars from General Motors that I can actually sell and make a profit on; which is an unusual concept in Washington, by the way.

Mr. KOCHAN. Mr. Chairman, may I comment?

Mr. KELLY. Just 1 minute, Doctor.

I do find it unusual that we are going through the pains of the Dodd-Frank, and I have a lot of friends in the small banks. I mean, can you imagine any bank being able to walk away from a $41 billion loss and say, “You know, that was a great investment.” Only in this Beltway do we come up with these types of metrics, and I think it's absolutely astounding that we can say that with a straight face.

And as far as the American car company recovery, are we also taking credit for the disaster in Japan? Because a lot of those cars would have been sold here, had they been able to be produced. And I think that we are really, we are making a very unstable argument for the recovery process.

Dr. Kochan, you wanted to make a comment.

Mr. KOCHAN. Thank you, Mr. Chairman.

The $41 billion is a good number to use as the total cost. But you have to balance that against two things: first, just the numbers on the low end of the savings of unemployment insurance and other government expenditures, the loss of revenue that would have resulted to State and local governments and to the Federal Government; at the low end of all of those estimates, from three different sources, comes to $82 billion. And so you get really a one-to-two.

Mr. KELLY. But your premise is based on the idea that General Motors would have failed completely had it gone—okay—see, I don't——

Mr. KOCHAN. A long, unstructured bankruptcy would have had substantial costs, and that's the low end. The liquidation costs would have been a factor of about five more than that. That's liquidation. This is only a long, unstructured debt.

Now, the second thing that has to be considered here, and you know this as an experienced person in the industry, the cascading effects across the industry would have been devastating; not only your dealership, but many, many others; not only Delphi but many other suppliers; not only GM and Chrysler. Ford's CEO testified that he would put—he would see his company at risk. So we have to take an industry perspective, not just——

Mr. KELLY. I hear you. I hear you.

Mr. KOCHAN. I agree with my colleagues on the panel. We are not in the business of saving specific companies. We are in the business of protecting the American economy, jobs, communities, and the future of the industry. And that's what was at risk.
Mr. KELLY. I appreciate the model that you are speaking of, but I think there would have been some survival of General Motors at some level. So a lot of this of is purely academic.

Mr. KOCHAN. No, it's not just purely academic, Mr. Chairman.

Mr. KELLY. Mr. Kochan—Ms. Dalmia, please.

Mr. KOCHAN. Mr. Chairman, let me finish.

Mr. KELLY. No, I will come back to you. I will come back to you. Ms. Dalmia.

Ms. DALMIA. You know, just to put this question of metrics in some context, Toyota and Hyundai have lost 2.5 percent of their market shares between January and May. Out of that, 1.4 percent of that market share has been picked up by Hyundai and Kia. And automakers, the Big Three have picked up 0.8, out of which a bulk of it is by Ford which is a non-bailed-out company.

So the $80 billion, or however much we have spent, has gone to protect about 0.4 or 0.5 percent of the market share of GM and Chrysler. I just find it hard to believe that GM would not have survived to capture that kind of market share at this stage in the game, you know, when car sales have been going up a little bit.

So, you know—I mean, these are all counter factuals—but I agree with Dan that if we are going to credit GM and Chrysler for saving jobs, then we also need to take the cost of the broader economy of the jobs lost.

The very fact that the UAW's pensions and their wages have been protected more than at a competitive level suggests that we have fewer jobs in the economy, because the worker cost of these workers is really quite high. If we were paying them a little less, you might have had more jobs, in fact.

Mr. KELLY. Yes, and I can appreciate that.

But as I said earlier, the whole purpose of the hearing today was for the American public to actually understand where their tax dollars went. And there's an argument on both sides, and I do understand it. But I do think a lot of what we are talking about—and one of the things I don't understand is we are willing to say that that is something we can write off.

Maybe somebody can explain to me, why is this unrecoverable; the losses that we are projecting? I know as an independent person if I borrow money, I am actually responsible for the whole amount.

Mr. IKENSON. I am sorry; you are asking what?

Mr. KELLY. Well, we are saying, we are willing to write off——

Mr. KOCHAN. I don't think anyone is willing. I think Mr. Ikenson explained it; the real issue would be if the stock value rises to the level to recoup the full investment, then you would get it. But we can't control the stock market. I think that's where the losses come.

I think the direct loans have been paid and there was a debate about, you know, where those dollars——

Mr. KELLY. Where those dollars came from, right. I understand that.

Mr. KOCHAN. The loans will be repaid, or have been repaid. It's—the loss on the direct investment may come if the current value of the stock stays the same. I think that's the situation.

Mr. KELLY. And I would go back to the original purpose of the hearing today was to talk about the government injecting itself into a free market; and, again, whether we determine right or wrong,
it's up to the American people to determine was their money spent properly, was it spent the right way. And at the end of the day, did it do what it was supposed to do? And a lot of it, there's differing opinions on both sides. And I can appreciate that.

But I do know one thing. At the end of the day, every single penny came out of the taxpayers' wallet, and that's my main concern. And I just have this undying belief that free markets really do determine where we are going to end up, and things are going to rise and fall depending on conditions which we don't really have the ability to do. And there's nothing more dangerous than to, you know, project—figure out what the future forecast, what the future is going to do.

Things do change, and they change very rapidly. And I know in the automobile business, what looks like a really smart move one day can turn around very quickly. A little thing like Katrina blows in off the coast and all of a sudden gasoline that was $2.39 or $2.49 goes to $4.09, and a market that was one time stable goes completely upside down. So there's unseen things in the future.

The question really does come down to the investment in taxpayer dollars and the benefit, and I think there's something to be said for both sides. And having said that, and I know it's been a very long day, I really do appreciate your appearing here.

And in the future I would appreciate also if you weigh in and let us know, because it's really important to the American people to understand this process and how their government does make decisions and the consequences of those decisions. So I want to thank you for appearing.

With that, we are going to adjourn. Thank you.

[Whereupon, at 5:06 p.m., the subcommittee was adjourned.]