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Examining Chrysler's 1979 Rescue

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In 1979, Chrysler avoided collapse by getting \$1.5 billion in loans from the government. Charles Hyde, professor of history at Wayne State University and author of *Riding the Roller Coaster: A History of the Chrysler Corporation*, says in return Congress insisted that the company come up with some \$2 billion in cost-savings and concessions.

MELISSA BLOCK, host:

As Democratic leaders in Congress talk about bailing out Detroit automakers, we thought we'd go back to the last time a lifeline was tossed their way, December of 1979, the bailout of Chrysler, when Congress approved \$1.5 billion in federal loan guarantees.

(Soundbite of vintage recording)

Mr. LEE IACOCCA (Former Chrysler Chairman): Chrysler has a strong future. We're ready to move forward.

BLOCK: That was Lee Iacocca, then the chairman of Chrysler. Democratic Senator William Proxmire warned of dire consequences.

(Soundbite of vintage recording)

Senator WILLIAM PROXMIRE (Democrat, Wisconsin): This is a very, very bad precedent. Having bailed out Chrysler, a big and failing corporation, it's going to be very hard not to bail out others. And then, of course, the effect on the taxpayer could be perfectly enormous.

BLOCK: In 1979, Chrysler was the 10th largest corporation in America, the smallest of the big three, and it was looking at a half billion dollar loss for the year. Professor Charles Hyde wrote a history of the Chrysler Corporation and the bailout. He joins us from Detroit. Thanks for being with us.

Professor CHARLES HYDE (History, Wayne State University; Author, "Riding the Roller Coaster: A History of the Chrysler Corporation"): Thank you.

BLOCK: And why don't you tell us why Chrysler was in such lousy shape in 1979?

Professor HYDE: Well, in essence they made some very bad product choices throughout the 1970s. They decided to become specialists in large, gas-guzzling cars, and they did that right at the time there were two different Arab oil boycotts and crises with the price of gasoline. And their cars simply didn't sell. The other problem they had were very serious quality problems. Their cars were probably the worst-built cars in any showrooms anywhere.

BLOCK: Well, when Lee Iacocca came to Congress in 1979 to ask for help, what specifically did he want?

Professor HYDE: Well, he wanted \$1.5 billion in federally guaranteed loans, which would be coming from banks. These were not gifts. These were just loans that the federal government would guarantee. He hoped that that money would give Chrysler about two years to bring its new products into production and get itself turned around.

BLOCK: It sounds like, then, Congress did give Iacocca what he wanted. What did they demand in exchange?

Professor HYDE: They insisted that Chrysler give them a three-year, detailed business plan on how they were going to cut down the company, make it more efficient, and get their new products into production. They also insisted that Chrysler come up with \$2 billion worth of cost savings and concessions from organized labor, from government, from the banks, anyone else who had an interest in Chrysler's survival.

BLOCK: And I think the government also took all of Chrysler's assets as collateral. Meaning if the company went under, the government would be paid back first.

Professor HYDE: Yes. And part of the deal was that Chrysler had to issue several million dollars' worth of stock warrants to the government, and then the government had the right to sell that stock later on if Chrysler succeeded.

BLOCK: Well, after the loan guarantees did pass at the end of 1979, how did Chrysler turn things around? How did they right their fiscalship?

Professor HYDE: Well, it really came as a result, first of all, of tremendous economies. They were able to reduce their labor costs by about \$3 an hour compared to the other car companies. But most importantly, they began to introduce a series of very successful fuel-efficient, front-wheel-drive vehicles,

beginning with the so-called K-car which was introduced in September of 1980. And they followed that with minivans and a series of other very successful products.

BLOCK: I've seen a photograph of Lee Iacocca standing before a giant check made out to, I guess, the federal government, paying back the loan seven years ahead of schedule.

Professor HYDE: Yes.

BLOCK: And taxpayers did earn a profit on that loan. How much? How did that happen?

Professor HYDE: Well, federal government basically earned a profit on the stock certificates that they were given as part of the original deal. And I think they ended up making about \$500 million altogether on that deal.

BLOCK: You know, Professor Hyde, there's an argument then and now that it would have been better for Chrysler to collapse, that Detroit would have been healthier in the long run. It would have been smaller and more innovative and produced better quality cars.

Professor HYDE: Well, I know that argument was made. But the fact is that if you look at Chrysler's history since its bailout, it introduced products like the minivan, the earliest generation of SUVs, and a whole lot of other very innovative passenger cars as well. I always think it's better to have more competitors than fewer competitors.

BLOCK: Professor Hyde, thanks very much.

Professor HYDE: Well, thank you.

BLOCK: Charles Hyde is professor of history at Wayne State University. His book is titled, "Riding the Roller Coaster: A History of the Chrysler Corporation." And this is a perfect excuse to hear Tom Paxton who turned the Chrysler bailout into song.

(Soundbite of song "Changing My Name To Chrysler")

Mr. TOM PAXTON: (Singing) If you're a corporate titanic, And your failure is gigantic, Down in Congress there's a safety net for you. So I'm changing my name to Chrysler, I am going down to Washington, D.C. I will tell some power broker, What you did for Iacocca, Would be perfectly acceptable to me. I am changing my name to Chrysler, I am leaving for that great receiving line...

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