United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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Opening Statement of Chairman Christopher J. Dodd
Hearing on "Examining the State of the Domestic Automobile Industry: Part II"

Remarks as Prepared:

Today, the Committee meets for second time in as many weeks to consider the state of the domestic automobile industry.

As we consider the challenges facing this industry, I want to be clear that Congress has already given the Administration the authority to stabilize this industry. I would like to note that I invited the Treasury Department and the Federal Reserve to testify today, and they declined the invitation. Yesterday, I sent a letter to Chairman Bernanke requesting his comments on the industry's plans.

When we last met, I said that the fate of this industry is an important subject for our Committee's consideration. That statement is even truer today than it was then.

In fact, the purpose of this hearing is fundamentally to answer two straightforward questions: First, are the auto companies in dire straits? Second, if they are, should the American government do something to help?

In just two weeks time, the clouds on the economic horizon have grown even darker and greater in number. Just this week, we learned what many of us have long believed: that the economy is mired in a deep and sustained recession. A recession that began some 12 months ago. A recession that has contributed to the greatest loss of manufacturing jobs – including in the automobile industry – in over a quarter century. And a recession that was in many respects precipitated by the massively irresponsible actions of those in the financial sector – including lenders who are now the recipients of hundreds of billions of dollars in federal taxpayer bailout assistance.

Amidst this backdrop of intensified economic turbulence and uncertainty, the leaders of the domestic automobile industry are here once again to explain why they are seeking assistance from the Committee and the Congress. None of us relishes the task we are asked to consider. Yet who among us believes we should risk the consequences of the collapse of one or more domestic automobile manufacturers?

Make no mistake about it: those consequences would be severe and sweeping. Tens if not hundreds of thousands of jobs would be lost in the auto industry itself. More would be lost among suppliers, dealers, and all of the other businesses – from restaurants to garages – that in ways large and small depend on a domestic auto industry for their livelihoods.

Moreover, at a time when taxpayers are already bearing an extraordinary burden in funding economic recovery efforts, that burden would only increase in the event of a failure by one or more auto companies. Pension obligations alone could run into the tens – and maybe hundreds – of billions of dollars.

A partial or complete failure of the domestic automobile industry would have ramifications far beyond manufacturing and pensions. It would affect virtually every sector of the economy. That includes the financial sector – which is a particular focus of this Committee.

A collapse within the auto sector would unquestionably worsen the credit crisis. By some estimates, the domestic auto companies already comprise more than 10% of the high-yield bond market and one of the largest sectors in leverage finance for banks. The Big 3 have hundreds of billions in outstanding debt liabilities – including tens of billions in short- and long-term debt obligations.

In addition to their outstanding debt, these companies hold billions in credit default swaps. A failure in the auto industry could trigger obligations by manufacturers and counterparties that could leave financial firms reeling. Ultimately, the ability of those firms to inject credit and liquidity into the overall economy could be impaired, stifling job creation and income growth. None of us wants to see that outcome.

So let us be clear: we need to act. Not for the purpose of protecting a handful of companies. If that were the extent of the issue – I would let them fail.

I acknowledge there are those who advocate such a course on the assumption that pressure from the outside will produce the desired results. My concern with such an approach is to play Russian roulette with our entire economy.

Inaction is no solution. Inaction would only add more uncertainty and instability to the economy. These are ingredients that it currently has in overabundance – ingredients that are contributing to the crisis of confidence that has gripped the markets and precipitated the worst economic crisis since the Great Depression.

It seems to me that the request being made by the automobile industry – while huge by any measure – is modest in comparison to what this Committee has lately witnessed in the financial sector. If the Federal Reserve and Treasury Department under President Bush can find $30 billion for Bear Stearns; if they can concoct a $150 billion rescue of AIG; if they can commit $200 billion to Fannie Mae and Freddie Mac; and if they can back Citigroup to the tune of more than $300 billion; then there ought to be a way to come up with a far smaller dollar figure to protect this economy from the unintended consequences that would be unleashed by the collapse of the automobile industry.

With regard to the automobile industry, certainly we should not throw good money after bad – nor should we subsidize ineffective performance and inefficient production. We must demand that the auto companies demonstrate their commitment to reform. We must insist that, if they are going to be backed by the American taxpayer, they owe it to those same taxpayers to make vehicles in a more environmentally and economically sound manner.

The latest plans submitted by these companies are not perfect by any means, but on average they represent, in my view, a commitment to that kind of necessary reform that Detroit must adopt if our country is to have an automotive industry in the 21st Century. Some of the companies are to be commended for going back to the drawing board, making tough decisions, and stepping forward today. You have come a long way in two weeks. Some may ask whether their proposed changes go far enough. In addition, I think that these plans still leave many questions unanswered. In particular, will taxpayer assistance truly ensure long-term viability for these companies? Or will they be back here within weeks seeking yet more taxpayer assistance?

But let's be clear. There is no doubt that the automobile companies have done far more – far more – than the financial companies to show that they deserve taxpayer support. The Treasury Department has given the nation's largest lenders hundreds of billions of dollars.

Even now, weeks after the fact, Americans are still waiting for most of them to show that they deserve those dollars. Still waiting for them to appropriately increase lending to consumers and businesses. Still waiting for them to more aggressively act to mitigate foreclosures. And still waiting for these lenders to rein in bonuses and other forms of excessive compensation while the American taxpayer is sacrificing on a daily basis.

The nation's largest financial institutions are among the largest culprits in causing the credit crisis. Yet Sec. Paulson and the Treasury, despite being given complete authority to condition aid to financial institutions, have in no meaningful way insisted that these banks and insurance companies adopt tough reforms to ensure that the kind of shabby lending practices that they engaged in will not happen again.

On the contrary, the Treasury Department's largesse with taxpayer funds has been remarkably free of conditions placed on the recipients of those funds.

Indeed, in the spirit of the season, Sec. Paulson has given the nation's largest financial institutions the biggest holiday present in the history of American capitalism.

In my view, if we are going to insist on reforms by the auto companies as a condition of federal funding, we ought to do the same for the financial companies. For that reason, I will do all I can to insist that any auto company loan bill also place tougher conditions on any loans to financial firms – including provisions that require tax dollars to be used for responsible practices like lending, that requires lenders to get much more aggressive about attacking the foreclosure crisis that is still at the root cause of the larger financial crisis, and that prohibits executives from paying themselves obscene sums while they are essentially receiving a welfare check from the American taxpayer.

At a time when average Americans are sacrificing mightily for the sake of our nation's economic recovery, we must insist that companies benefitting from those sacrifices act as if they deserve them. At the same time, I believe we need to take action to help our domestic auto industry in order to protect our country's economy and America's workers.

Finally, I want to respond to recent stories indicating that the Administration is considering asking for access to the final $350 billion we provided in EESA. We passed a bill that gave this Administration broad authority to use the funding to address the economic crisis we find ourselves in.

Regrettably, they have misused that authority in two ways:

First, they are not doing what we clearly expected them to do. Most importantly, they are not using the money to help homeowners in distress. The FDIC has put forth a program that could help 2 million homeowners keep their homes, and the Treasury Department is refusing to fund the program.

Second, when they have spent the money, they have done so in an *ad hoc* and arbitrary manner – they seem to be careening from pillar to post. Both the Treasury and the Federal Reserve have spent trillions of taxpayer dollars without adequate controls and without adequate transparency.

I do not believe that this Administration should seek the use of this additional funding unless they can present to the Congress and the public a comprehensive plan for addressing these concerns.

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