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Minimize Government Risk

Loan guarantees, even though they involve no immediate cash outlay, do involve a real cost to the public---the potential call of creditors on the government's funds if the enterprise fails. Economists estimate the value of this call by comparing the interest rate that private lenders would demand from Chrysler if no government assistance was available, with the borrowing rate which government guarantees permit.

At this point, Chrysler has a severe cash flow problem and a high debt to equity ratio. I feel it would be unwise to require full compensation to the federal government until those situations are corrected. However, at some point, the government must be compensated for the cost and risk entailed in making assistance to Chrysler. If at some later date the company attains profitability, I think the federal government should have the opportunity to enjoy some of the large profits that may accrue to the stockholders. At the very least, the taxpayers should stand to gain as much as Mr. Iaccoca.

Therefore I propose the following. First, I would increase the minimum guarantee fee from 1/2% to 1%. Second, I would give the Board the authority to negotiate for greatly increased fees in the case of a Chrysler turnaround.

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As a further step toward minimizing government risk, I believe that the government-guaranteed loans should not be subordinated to other debts in the event of a corporation failure. The present legislation allows a waiver of the government's senior position. I proposed to limit that waiver authority to no more than 50% of the amount of loan guarantees, and insure that waivers be given only if they are directly related to reducing the government's risk.

Finally, I propose the formation of a board to negotiate the loan guarantees and to oversee the implementation of the corporation's operating plan and the financial plan. This board must have broad participation by both federal officials and representatives of the private sector. Only in this way can we insure that we have a non-partisan group of experts who can bring to bear tough-minded business practices which will insure the long term viability of the corporation.

The Automobile Industry

There are a number of troubling aspects to this legislation.

First, it is precedent-setting. It must not be the first of a long line of "bail-out" requests. We must make sure that the elements of the package make clear that it is a "last resort" measure for a troubled industry. I said, during the hearings, that it must be painful for those with an economic stake in the industry to come to Congress for this kind of help. Sacrifices must be made by all who have an economic stake, proportionate to their involvement. The legislation I propose will specify those commitments.

Second, the assumptions Chrysler makes about increasing its market share and about the market in general appear fragile. We are living in a period when major changes in consumer buying habits will be dictated by soaring gasoline prices, shortages and disruptions of imported fuel, economic recession, and declining birth rates. A cataclysmic event in any one of these areas will render this legislative package useless. Further, Chrysler tells us they make almost no profit from smaller cars, yet the above trends indicate that these are the cars that will sell and upon which the Big Three must rely.

Third, Chrysler assumes market penetration by its new K-body vehicle. Yet GM will be fully downsized at the same time the K-bodies come on-line. Many foreign cars continue to get higher gas mileage than American made cars and will undoubtedly continue to gain large shares of the U.S. market.