Statement of Steven Rattner

Before the Subcommittee on Government Operations,
House Oversight and Government Reform Committee

September 11, 2013

Chairman Mica, Ranking Member Connolly, and members of the Subcommittee, good afternoon and thank you for the opportunity to speak to you today about the extraordinary and successful effort, which spanned two Administrations, to save the American auto industry. As you know, I served in the Treasury Department from February to July 2009 as lead auto advisor, reporting to the Secretary of the Treasury and the Director of the National Economic Council. Because I left government service in July 2009, I want to remind the Subcommittee that I am not in a position to discuss events that occurred after that date nor current policy.

It is sometimes difficult to recall that just five years ago, the American auto industry was in a severe crisis that threatened its very existence and the broader American economy. It is incontrovertible that absent government intervention, both General Motors and Chrysler would have been forced to cease production, close their doors, and lay off virtually all workers. Those shutdowns would have reverberated through the entire auto sector, causing innumerable suppliers to almost immediately also stop operating. More than a million jobs would have been lost, at least for a time. Michigan and the entire industrial Midwest would have been devastated.

Everything we in the government did at that time was driven by our profound desire to prevent such an economic calamity, while honoring our responsibilities to the taxpayers. And by any objective measure, I believe our efforts were a success.

Today GM is once again profitable and healthy. It has gone from a company that was hemorrhaging money before the financial crisis to one that turned a $1.2 billion profit in its most recent quarter, driven by strong North American sales. The restructuring of GM's contract with the United Auto Workers provided the company with new flexibility to use its work force efficiently and expanded its ability to hire new workers at considerably lower costs. And GM has vastly improved its product lineup, so that it is once again selling the kinds of cars consumers want to buy and demonstrating the power of American ingenuity, engineering, and manufacturing.

At the same time, the government is successfully winding down its ownership stake in GM and returning it to private hands. Of the $51 billion that the taxpayers invested in GM, more than $34 billion has been repaid to the Treasury. And Treasury has stated that further GM stock sales are planned in the coming year. This makes clear that the government's actions were a necessary and prudent emergency measure to get GM back on its feet, not a permanent government takeover of private industry, as some at the time feared.

This remarkable turnaround could not have occurred without significant restructuring at GM—a restructuring that regrettably, but inevitably, involved painful sacrifices from all of GM's stakeholders, but particularly its bondholders, dealers, suppliers, employees, and retirees. It is not easy to make these kinds of decisions under any circumstances; it was particularly challenging in the crisis atmosphere GM was facing at the time. No one wants to get cents on the dollar of their investment, or have their dealership closed, or see their incomes or benefits reduced. These are personal, pocketbook issues for those affected, and unfair almost by definition.

To understand the decisions that were made, I believe it is important to appreciate that the Auto Task Force had two overriding goals: to restore a viable and thriving auto industry while acting as a prudent custodian of taxpayer funds. To achieve these goals, we were guided by the principle that Treasury, as GM's investor and partner in bankruptcy, was entitled to set parameters and provide guidance to GM that was consistent with what would be commercially reasonable. In accordance with that principle, the Auto Task Force helped GM determine the broad strategic policies that would return the company to competitiveness at the least cost and risk to taxpayers. Day-to-day management remained the responsibility of GM.

I know that the Subcommittee is interested in one of those decisions in particular, which was GM's decision to honor a pre-existing commitment to provide supplemental pension benefits, or "top-ups," to certain hourly employees at Delphi, a critical GM parts supplier that was itself in bankruptcy. Other hourly employees and salaried employees at Delphi were not provided similar top-ups. Although I fully understand that it was painful for the salaried employees who saw their pensions cut—and perhaps made more painful by the fact that some of their hourly colleagues did receive top-ups—I believe the Special Inspector General's report makes clear that GM's decision to honor its top-up agreement in bankruptcy was consistent with a commercially reasonable approach.

The Delphi hourly employees who received top-ups were differently situated from the salaried employees who did not, for reasons that pre-dated GM's bankruptcy and the work of the Auto Task Force. GM had fully funded the salaried employees' pensions, but not the hourly employees' pensions, before the Delphi spin-off in 1999. At that time, the hourly employees negotiated for a top-up agreement from GM but the salaried employees, who were fully funded, did not. As the Special Inspector General's report explains, GM was therefore under no obligation to top-up the salaried employees' pensions, and indeed, doing so on its own initiative would have been like paying for the pensions twice. Such an action, while generous, would not have been consistent with the goals of restoring GM to viability or protecting U.S. taxpayers' investment.

It is certainly true that in bankruptcy, GM had the option of refusing to honor its agreement to top-up the hourly workers' pensions as well. Again, I think the Special Inspector General's report makes clear that its decision to honor the prior agreement was consistent with what was commercially reasonable. Those employees were represented by the UAW, the same union that represents 99% of GM's unionized workforce. The UAW was an absolutely critical party to bring to the negotiating table. They had the power to hold up a deal in bankruptcy or to strike, either of which could have been devastating to GM's efforts to get back on its feet and in turn, to the U.S. economy. This disparity in bargaining leverage may not seem fair, but it was the reality. And as I mentioned earlier, GM extracted considerable concessions from the UAW in order to reduce GM's labor costs going forward and get it on a sustainable, profitable path.

Five years later, I think it is clear that the government's extraordinary intervention into the auto industry has been a success. Today, the Big Three are alive and well, turning consistent profits, and helping to anchor the recovery of the American economy and lead a renaissance in American manufacturing. A million jobs were saved and more are being added. It is important to remember that this outcome was not inevitable. It involved creativity and shared sacrifice and a considerable investment by the American people. I deeply wish that the actions we took did not have to be taken, but I am proud we avoided a devastating dissolution of this vital sector of the economy and gave the American auto industry the opportunity to once again lead and succeed.

Thank you, and I am happy to answer any of your questions.