CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

REPORT OF THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
TO ACCOMPANY
S. 2094
together with
ADDITIONAL VIEWS

DECEMBER 6 (legislative day, November 29), 1979.—Ordered to be printed

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(III)
CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

DECEMBER 6 (legislative day, November 29), 1979.—Ordered to be printed

Mr. Proxmire, from the Committee on Banking, Housing, and Urban Affairs, submitted the following REPORT

[To accompany S. 2094]

The Committee on Banking, Housing, and Urban Affairs, having considered the same, reports favorably a Committee bill (S. 2094), to authorize loan guarantees for the benefit of the Chrysler Corporation, and recommends that the bill do pass.

SUMMARY OF THE LEGISLATION

This legislation authorizes Federal loan guarantees to the Chrysler Corporation in the context of an overall financing plan involving substantial amounts of non-Federal financial assistance, for the purpose of enabling the Corporation to continue in operation as a going concern and to regain long-term viability. Such legislation is needed to prevent the adverse effects on employment and on the economy of certain regions of the country that might result if the Chrysler Corporation were to go into bankruptcy.

Based on estimates submitted by the Administration, the Committee determined that approximately $4 billion should be made available to meet the Corporation’s financing needs over the four-year period running through December 31, 1983, after which the Corporation is expected to be able to maintain its operations on a long-term basis without any additional loan guarantees or other Federal financing assistance. Accordingly, the bill ordered reported by the Committee provides financial assistance to the Chrysler Corporation in a total amount of $4 billion, which is made up of three basic components.

First, the bill authorizes up to $1.25 billion in Federal loan guarantees to the Chrysler to be provided over a four-year period ending on December 31, 1983. The guaranteed loans must mature no later than
The loan guarantee program is to be administered by a Chrysler Corporation Loan Guarantee Board established under the Act, consisting of the Secretary of the Treasury (as Chairperson), the Chairman of the Board of Governors of the Federal Reserve System, and the Comptroller General of the United States. The Board must determine that the Corporation is in compliance with all the terms and conditions of the act before it can enter into any commitments to guarantee loans or issue any guarantees. No commitment can be made or guarantee issued under the Act until there are legally binding commitments to provide all of the non-Federal components of the financing plan required pursuant to the Act.

The second component of the $4 billion financing plan required under the Act is $1.43 billion in nonfederally guaranteed assistance in the form of financial commitments and concessions parties with an existing economic stake in the health of the Corporation, and others; capital investments; and asset sales. Parties with an existing economic stake are defined to include banks, financial institutions, and other creditors, suppliers, dealers, stockholders, labor unions, employees, management, and State, local, and other governments. The Committee bill contains provisions indicated the amount of the contribution to be expected from specific parties. However, the Board is authorized to modify the amounts in each category, so long as the total aggregate amount of $1.43 billion in nonfederally guaranteed assistance remains the same.

The third component of the financing plan is a three-year freeze on wages and benefits of all Chrysler employees, both union and non-union workers, including the management. Some flexibility is provided, under limited conditions. While the value of this part of the financing plan cannot be calculated precisely, it is estimated that the wage and benefits freeze will yield approximately $1.32 billion over the 3 years in financing that would otherwise not have been available to the Corporation.

In order to provide some compensation to employees for the significant sacrifices involved in this three-year wage freeze, the bill requires the establishment of an employee stock ownership plan (ESOP) in the form of a new issue of common stock of the Corporation in the amount of $250 million to be provided over the 4 years of the loan guarantee program. The stock will be issued in equal amounts to all employees of the Corporation pursuant to the relevant provisions of the Internal Revenue Code. Should the Corporation succeed in returning to financial health under the financing arrangements provided in this Act, and with the efforts of its employees, then the value of that stock is likely to be substantially greater in future years.

In order to qualify for the guaranteed loans, the Corporation is required to submit satisfactory 6-year operating and financing plans, which are to be revised on an annual basis and in accordance with the standards set by the Board. The Board must determine that the operating plan is realistic and feasible, and that it demonstrates the ability of the Corporation to continue operations as a going concern in the automobile business and, after December 31, 1983, continue such operations without additional guarantees or other Federal financing. For the purpose of making such determinations, the Board is required to prescribe tests of viability that the Corporation must meet in order to receive the guarantees. The Board must determine that the financing plan is adequate to meet the financing needs of the Corporation as reflected in the operating plan for the period covered by such plan, and that it includes all of the non-Federal financial assistance required under the Act.

The Board is required to transmit to the appropriate Committees of the Congress a written report setting forth each determination required under the Act, and the reasons for making such determination, not less than 15 days prior to the issuance of any guarantee. The validity of any guarantee when made by the Board shall be incontestable, except in the case of fraud or material misrepresentation on the part of the holder of the guarantee.

Before issuing a loan guarantee under this Act, the Board must determine (1) that credit is not otherwise available to the Corporation under reasonable terms or conditions; (2) that there is reasonable assurance of repayment of the guaranteed loan, based on the prospective earning power of the Corporation together with the character and value of the security pledged; (3) that the interest rate on the guaranteed loan is not more than rates on similar U.S. government obligations of comparable maturities; and (4) that the borrower is in compliance with all the terms and conditions of the Act and of the loan guarantee commitment, except to the extent that such latter terms and conditions are modified, amended, or waived by the Board.

There is required to be a guarantee fee of no less than one percent per year on the outstanding principal amount of the loans guaranteed under this Act. The Board is directed to take other actions to ensure that the Federal government is compensated for the risk assumed in making guarantees under this Act, to the maximum extent feasible.

The bill established annual limitations on the issuance of the Federal loan guarantees, and makes the issuance of each guarantee conditional on the prior commitment of a larger amount of non-Federally guaranteed assistance. Only repayments of loans maturing within one year are permitted to be relented.

The bill directs the Board to require security for the loans to be guaranteed under the Act at the time the commitment is made, subordination of existing loans to the guaranteed loans, and prohibition of the payment of dividends on any common or preferred stock to the Corporation while any guaranteed loan is outstanding. The bill does not require that all future loans to the Corporation be subordinated to the Federally guaranteed loans, but under no circumstances may the guaranteed loans be subordinated to any future loan.

The bill provides certain rights and remedies to the Board for the purpose of protecting the Federal government's interest under the guaranteed loans. This includes authority for the Board to evaluate the impact of any major contract or any sale of a major asset on the Corporation's financial condition. If the Board determines that such contract or such asset sale is likely to impair the ability and capacity of the Corporation to repay the guaranteed loans as scheduled, or to impair the ability of the Corporation to continue as a going concern and regain long-term viability, then the Board may not issue further guarantees and all guaranteed loans outstanding shall be due and payable in full.
Other provisions of the bill provide for a study of long-term trends in the automobile industry, for audits by the General Accounting Office, and for regular reports to the Congress.

The bill authorizes such sums as are necessary to carry out this Act and requires that commitments to guarantee loans under this Act shall not exceed limitations provided in general provisions of appropriations Acts. Sales of any obligations guaranteed under the Act to the Federal Financing Bank are prohibited. The authority to make commitments or issue guarantees under this Act expires on December 31, 1983.

HISTORY OF THE LEGISLATION

On October 10, 11 and 12, 1979, the Committee on Banking, Housing and Urban Affairs held hearings on the Chrysler Corporation's financial situation and the implications for public policy. The purpose of those hearings was to obtain background information on a number of aspects of the Chrysler situation, including the financial outlook for the corporation, the potential economic consequences of a Chrysler collapse, the implications for competition in the automobile industry, and the applicability of the new bankruptcy law in effect as of October 1 in this situation.

On October 24, Senator Riegle and several other Senators introduced a bill, S. 3937, to authorize emergency loan guarantees to the Chrysler Corporation, under various terms and conditions. The amount of such guarantees to be authorized was left unspecified, with the understanding that this would be decided in the course of deliberations by the appropriate committees of the Congress.

On November 1, the Secretary of the Treasury announced that the Administration was proposing legislation to provide up to $1,500,000,000 in loan guarantees to the Chrysler Corporation, under various terms and conditions, to be payable in full not later than December 31, 1990. The Federal guarantees would have to be matched by at least $1,500,000,000 in nonfederally guaranteed assistance. The Administration bill was introduced by Senator Riegle, by request, as S. 1965, on November 1.

The Committee held hearings on proposed legislation to provide loan guarantees to the Chrysler Corporation on November 14, 15, 16, 19, 20 and 21. Witnesses at the hearings included Members of Congress, the Secretary of the Treasury, the Chairman of the Board of the Chrysler Corporation; representatives of accounting and investment banking firms; individuals and representatives of groups interested in free market competition, consumer problems and civil rights; governors and mayors from areas most affected by the Chrysler situation; and representatives of other parties with a direct stake in Chrysler's financial future, including banks, dealers, suppliers, and the labor union.

On November 20, Senator Stevenson introduced a bill, S. 2033, which proposed a different approach to the Chrysler problem. It authorizes a program of up to $1.5 billion in loan guarantees to be administered by the Economic Development Administration of the Commerce Department for industrial adjustment assistance in the event of a Chrysler collapse or other industrial crises assistance exceeding $500 million to one business enterprise would require approval by concurrent resolution of the Congress. The loan guarantees could be used to convert shutdown Chrysler facilities to other, more efficient uses. The bill also authorizes the waiver of limitations applicable to EDA programs to assist worker retraining and relocation.

On November 27, two other members of the Committee made legislative proposals in connection with the Chrysler loan guarantee issue. Senator Lugar introduced a bill, S. 2046, which reduced the amount of Federal guarantees authorized to $1 billion, required a three-year freeze of wages and benefits for all Chrysler employees, raised the total aggregate amount of the financing to be made available to the Corporation to approximately $4 billion, and set a schedule for providing guaranteed and unguaranteed assistance over the course of the four-year loan guarantee program. Senator Tsongas made a statement on the Senate floor announcing his intention to introduce legislation which would, among other things, specify the amounts of non-Federally guaranteed assistance to be provided by the different parties with a direct stake in the Corporation's financial health, as a condition for providing Federal loan guarantees. The Tsongas and Lugar proposals, with some revisions and together with certain amendments suggested by other members of the Committee, were subsequently incorporated into a Committee Print.

On November 29, the Committee met in executive session and agreed by a vote of 10-5 to adopt the Committee Print as the basis for mark-up of the legislation. After adopting a number of amendments, some by recorded vote, the Committee defeated, by a vote of 5-10, a motion to substitute an amended version of the Administration bill, S. 1965, for the Committee Print as amended. The Committee then ordered reported a clean bill, the Corporation Loan Guarantee Act of 1979, by a vote of 10-4. Senators voting in the affirmative were Cranston, Morgan, Riegle, Stewart, Tsongas, Garn, Tower, Heinz, Kaschubau, and Lugar. Senators voting in the negative were Proxmire, Williams, Stevenson, and Armstrong. Senator Sarbanes was recorded as voting "present".

BACKGROUND OF THE LEGISLATION

On July 31, 1979, officials of the Chrysler Corporation announced a loss of $207.1 million in the second quarter of 1979, the largest quarterly loss in the company's history, and greater than its loss for the full previous year, 1978. Total losses for 1979 were then projected to be in the range of $500-700 million.

Accompanying the announcement was a statement that Chrysler would request financial assistance from the Federal Government—in the form of a $1 billion cash advance through tax credits against future profits—in addition to its previous requests for relief from Federal regulatory requirements. Since that time, Chrysler officials have continually taken the position that the corporation must have direct financial assistance from the Federal government in some form in order to continue in operation until it can regain financial health.

The Chrysler Corporation is the third largest automobile manufacturer in the country, after General Motors (GM) and Ford. As of
the end of 1978, it ranked 10th among industrial companies in the United States in terms of sales, which amounted to $13.6 billion in 1978. In the past decade, Chrysler’s market share has plummeted from a high of 16.2 percent in 1968 to 13.7 percent in 1976 to an official estimate of 13.3 percent in 1979. It has gone from net earnings of $328 million in 1976 to a loss of $295 million in 1978, and figures issued in September and October projected a total loss of $1.073 billion for the 1979 year.

Chrysler attributes its present plight largely to “three key factors over which it has no control.” These include (1) Federal regulatory requirements in the areas of pollution control, safety and fuel economy, which are claimed to put a smaller company like Chrysler at a competitive disadvantage because the per-unit capital cost of compliance is greater; (2) this year’s gas shortages, which cut severely into the market for Chrysler’s most profitable vehicles—large cars, vans, and light trucks; and (3) economic recession accomplished by a relatively large decline in car and truck sales across the board.

However, at the Committee’s hearing, the Chairman of the Corporation admitted that Chrysler’s problems are to a large degree of its own making and stem from a record of poor management decisions. These include (1) the company’s expansion into often doubtful overseas operations in the 1960’s, which became a large financial drain in the 1970’s; (2) the decision to redesign its large cars in the early 1970’s and delay the development of smaller cars in the wake of the Arab oil embargo; and (3) a persistent pattern of production delays and delays in the introduction of new models.

On August 9, Treasury Secretary Miller delivered the Administration’s initial public response to the Chrysler request. He stated that the Administration was opposed to tax credits but would consider loan guarantees to Chrysler “in amounts considerably less than the $1 billion suggested by the company.” Secretary Miller went on to indicate that the “Administration’s willingness to consider aid will depend upon Chrysler’s submission of an acceptable overall financial and operating plan updated to reflect current conditions and prospects”, and he emphasized that the “primary responsibility for developing a plan to assure continued viability of the Chrysler operations rests with the company. The Secretary stated that such a plan “should deal with both short and longer term considerations, and should include substantive contributions or concessions from all those who have an interest in Chrysler’s future—management, employees, stockholders, creditors, suppliers, other business associates and governmental units.”

On September 15, Chrysler officials submitted to the Treasury a “Proposal for Contingent Assistance” in the form of $1.2 billion in Federal loan guarantees ($500 million in initial commitments, plus $700 million available on a contingency basis). The Chrysler submission projected a loss of $1.073 billion in 1979, and then a gradual return to profitability through a $13.6 billion capital spending program over a six-year period, culminating in net earnings of $966 million in 1985. Financing needs over that period were estimated to peak at $2.1 billion in 1982. The company indicated that it had some confidence it could raise about $900 million by 1982, and possibly an additional $700 million, but that the full $1.2 billion in loan guarantees would need to be available.

The Secretary of the Treasury rejected the September 15 plan on the grounds that it exceed the $500-750 million figure indicated to be acceptable to the Administration. Accordingly, Chrysler came back with a revised plan on October 17. That plan kept the estimated peak financing needs at the $2.1 billion level. However, it lowered the Federal loan guarantee request to $750 million and raised the amount to be obtained from other source to $1,350 billion. All other aspects of the plan remained basically the same.

A report issued on October 22 by the accounting firm of Booz, Allen and Hamilton Inc, hired as consultants to the Chrysler Corporation, questioned some of the assumptions contained in the October 17 plan. It concluded that Chrysler’s peak financing needs could rise as high as $2.8 billion in the 1983-1984 period, and it recommended, therefore, that contingent financing of an additional $700 million be available.

On October 25, the Chrysler Corporation reached agreement on a new three-year contract with the United Auto Workers (UAW) labor union. There has been some dispute as to the real amount of savings for the corporation entailed by that contract, as compared with the UAW contracts negotiated with GM and Ford, but the figure generally agreed upon is about $203 million. Further controversy has arisen from statements by Alfred Kahn, Chairman of the Council on Wage and Price Stability, to the effect that the Chrysler contract—along with the GM and Ford contracts—is in violation of the President’s wage guidelines and that any loan guarantees should be conditioned on compliance with those guidelines.

On October 30, Chrysler announced the largest quarterly loss in history, $460.6 million, bringing the total losses for the year to date to $721.5 million. This was within the range projected in the September 15 and October 17 submissions to the Treasury.

On November 1, the Administration proposed legislation to provide $1.5 billion in Federal loan guarantees to the Chrysler Corporation, and to require another $1.5 billion in nonfederally guaranteed assistance to be provided from other sources, for a total amount of $3 billion to meet Chrysler’s financing needs. The Secretary of the Treasury announced the Administration proposal in testimony before the Economic Stabilization Subcommittee of the House Banking Committee. That testimony included an analysis of Chrysler’s October 17 plan under different assumptions which projected the corporation’s cumulative financing needs through 1983 to lie anywhere from $2.342 billion to $4.789 billion. Since the date of that testimony, the Administration bill and other legislative proposals have been under consideration by that Subcommittee, by the full House Banking Committee, and by the full Senate Banking Committee.
figures on operating losses, that the $1.073 billion loss projection for 1979 is "essentially on track," and that the company's financing needs are still "about the same as included in the October 17, 1979 submission."

NEED FOR THE LEGISLATION

The Committee was told that Federal loan guarantees are needed in order for the Chrysler Corporation to continue operations as a going concern in the automobile industry and to achieve long-term viability. Without such Federal financial assistance, the Corporation might have to seek reorganization under the bankruptcy laws. According to testimony presented on behalf of the Administration by the Secretary of the Treasury at the Committee's hearings, the costs of a Chrysler bankruptcy to the Federal government would probably be greater than the costs of trying to prevent bankruptcy through a financial rescue plan involving Federal loan guarantees. Moreover, a Chrysler bankruptcy could have serious adverse effects on employment and on the economy, especially in certain areas of the country; on competition within the U.S. automobile industry; on domestic capacity to produce small cars; and on the U.S. balance of payments.

In his testimony, the Secretary of the Treasury discussed some of these points in more detail. Citing an analysis prepared by Treasury staff, the Secretary told the Committee that a Chrysler bankruptcy, if it involved a complete shutdown of operations, could cost the Federal government at least $2.75 billion in 1980 and 1981 alone. That amount includes loss of revenues, unemployment claims, welfare costs, and other incidental costs. Furthermore, he went on to state that there would be a substantial cost to the State and local governments as well. In addition, the Secretary pointed out that the figure given for the Federal cost does not take account of any cost to the Pension Benefit Guaranty Corporation (PBGC) as a result of Chrysler's unfunded vested pension fund liabilities of approximately $1.1 billion, since these would ultimately have to be covered by increases in premiums paid by other companies which are pension fund sponsors, due to the fact that the PBGC has no authority to receive appropriations from the Federal Government to meet its obligations.

The Secretary went on to state that unemployment could increase by 75,000-100,000 as a result of a Chrysler bankruptcy. This was characterized as a conservative estimate, based on calculations that there are now approximately 118,000 Chrysler employees, about an equal number of employees of dealers, and 150,000 employees of Chrysler suppliers, many of whom would be affected. Previously published analyses, one by Data Resources Inc. for the Congressional Budget Office and one by the Transportation Systems Center of the Department of Transportation, were "worst case" analyses which assumed that all of those employees would be unemployed, at least in the beginning, and thus contained far higher estimates of unemployment. However, witnesses before the Committee who were involved in both of those studies stated that the "worst case" was the least likely to happen and that a lower estimate would represent a more probable outcome.

There could also be a serious impact on employment and on the economy in certain specific regions of the country. These would include, the city of Detroit, the State of Michigan, other parts of the Midwest, and also particular localities around the country which have Chrysler plants or significant supplier or dealership facilities. The Secretary pointed out in his testimony that the impact would be especially severe in Detroit and in the State of Michigan generally. More than half of Chrysler's workers (over 60,000 employees) are located in Detroit; and there are an additional 20,000 Chrysler employees in the rest of Michigan, with more than 40,000 supplier employees located in Michigan. According to Treasury estimates, unemployment in the Detroit area could increase up to approximately 4 percentage points from its already high level of approximately 8 percent.

The Secretary testified that a Chrysler bankruptcy could raise serious questions about the ability to maintain a competitive domestic automobile industry. He contended that Chrysler has exercised an important competitive role in challenging General Motors (GM), Ford, and others throughout the market, despite its current lack of profitability. With Chrysler out of the picture, the two remaining major domestic producers would represent an even more narrow competitive base, although this would of course not affect competition from foreign automobile companies. The Secretary did not comment in detail on the competitive implications of maintaining three major domestic producers in operation by providing Federal loan guarantees to one of them.

The Secretary stated that a Chrysler bankruptcy could have important negative effects on the U.S. balance of payments. He claimed that the impact could be up to $1 billion per year through 1981 from increased imports of automobiles, largely of subcompacts but also of other models. Concurrently, the Secretary pointed out the potential loss of domestic capacity in the small car market, at a time when such capacity is critical for trade, environmental and other reasons, in the event that Chrysler's small car operations were shut down in a bankruptcy. Presumably this estimated loss is based on the assumption that these Chrysler facilities would not be taken over by any other domestic producer, as they might well be.

Witnesses at earlier hearings told the Committee that the two other major domestic producers, GM and Ford, have sufficient existing capacity to replace all of Chrysler's volume of middle- and large-sized cars, should the demand for such volume continue.

The Committee should point out that the Secretary emphasized that the Administration does not believe that Federal assistance to the Chrysler Corporation is justified by the claim that Chrysler is burdened by excessive costs of complying with Federal environmental and safety regulations. In his testimony, the Secretary contended that all companies are required to bear the cost of regulation in their respective industries, that the Administration has already sought to eliminate unnecessary burdens of regulation, and that there has been no persuasive evidence that Chrysler would not be in the same dilemma now without these regulatory requirements. Furthermore, the Committee
believes that the fuel efficiency requirements, which constitute the major part of the cost of meeting future regulatory requirements, have now become a necessary cost of competing in the marketplace, in view of changing patterns of consumer demand.

In the course of its hearings, the Committee received testimony from various experts with differing views as to Chrysler's prospects for undergoing a successful reorganization, inside or outside of chapter 11 proceedings under the new bankruptcy Act. Certain highly qualified witnesses expressed the view that the Chrysler Corporation would not be likely to emerge from bankruptcy proceedings as a viable automobile company. This view was based largely on the fact that Chrysler's product is a consumer durable, representing a major investment, and that consumers will be reluctant to buy an automobile from a company in bankruptcy proceedings because of doubts about the company's ability to continue to fulfill warranty claims and to provide spare parts. Other expert witnesses believed that chapter 11 proceedings would help Chrysler get access to new financing while carrying out necessary reorganization, and that such proceedings and that such proceedings would have no appreciable impact on the market for Chrysler products over and above that already caused by months of publicity about a possible collapse.

In any event, the Committee believes that this legislation is needed because it has determined that the risk to the Federal Government of providing loan guarantees, in the context of the bill approved by the Committee, is preferable to the risk in the possibility of a Chrysler bankruptcy. It is important to note, however, that the bill ordered reported by the Committee is significantly from the Administration bill in the amount of additional financing assumed to be needed and therefore at risk, and also in the distribution of that risk among the various parties involved.

The Administration bill assumed that $3 billion of additional financing would be sufficient for Chrysler to meet its needs through fiscal year 1983 and at the same time, to become a going concern with long-term viability. This amount is greater than the $2.1 billion forecast in Chrysler's September 15 and October 17 plans submitted to the Treasury. However, a careful reading of the Treasury Department's analyses of these plans and of possible outcomes under alternative assumptions reveals that $3 billion could be in fact be a rather optimistic estimate.

The following table provides alternative projections of Chrysler's cumulative financing needs (and profits), using figures supplied by the Treasury Department in the testimony of the Secretary and in responses to questions involving different assumptions of market share and total automobile industry volume.
In view of these Treasury projections, the Committee believed it was prudent to require that an overall Chrysler financing plan include a total aggregate amount of $4 billion in additional assistance to meet Chrysler's financing needs through 1983. This amount represents a reasonable and mid-point in the various estimates of financing needs submitted to the Committee by the Treasury Department.

The Committee wishes to make it very clear that the increase from $3 billion to $4 billion is for the reasons outlined above, i.e. in case the actual outcome is more pessimistic than the assumptions in the Chrysler plan, given present trends in the automobile market. It is not intended as an invitation to the Chrysler Corporation to increase the size of its capital expenditure program or any other part of its production, distribution or sales programs above levels projected in the October 17 plan. On the contrary, members of the Committee have expressed concern about the ambitious nature of the capital expenditure program as presently contained in that plan, and they have stated reservations about proceeding with this legislation before the alternative investment strategies plan due to be submitted by Chrysler in mid-December is available to the Committee. While the Committee did decide to proceed without having this plan in hand, it seems advisable to point out the concerns which have been expressed, and also to underscore the fact that the “Adjusted Base Case 2” projections, which the Treasury Department has stated represent the most realistic operating plan for Chrysler, rely on the Corporation's eliminating more than $1 billion in capital expenditures in the 1981, 1982, and 1983 fiscal years. Under the provisions of the Committee bill, the Board has full authority to reject any Chrysler operating plan which involves a level of capital spending that the Board determines is not realistic and not consistent with achieving long-term viability. The Committee does not intend that loan guarantees provided under this Act be used to help finance the Chrysler Corporation’s expansion into new product lines and new segments of the market. Any such expansion should await a time when Chrysler can operate in the automobile industry without the backing of Federal loan guarantees.

As regards to the distribution of risk, the Administration bill would have provided up to $1.5 billion in Federal loan guarantees, to be matched by another $1.5 billion in nonfederally guaranteed assistance from various sources. Thus the risk would have been shared equally, on a 1:1 basis, by the Federal government and by those other sources, which included “persons with an existing stake in the health of the corporation,” additional capital investments, and asset sales. And although the Secretary testified that the Federal government would not serve as the company's dominant financier, given the fact that a letter received two days before the Committee's mark-up from the Deputy Secretary of the Treasury informed the Chairman that no specific commitments could be obtained from any of the nonfederal parties until loan guarantee legislation was enacted, it was hard to see that approval of legislation along the lines of S. 1655 could accomplish anything other than put the Federal Government in the position of dominant financier and primary risk-taker.

The Committee bill reduces the extent of the Federal government’s risk and places the Federal Government in the role of lender of last resort, rather than lender of first resort. It does this in three ways:

First, it reduces the amount of Federal loan guarantees authorized from $1.5 billion to $1.25 billion. Second, it delineates far more specifically than any other proposal to date where the non-Federal components of the Chrysler financing plan are to come from, as well as requiring that there be legally binding commitments (except in the case of state, local or other governments, where there may be reasonable assurances) to provide all of the nonfederal share of the plan before any Federal guarantees can actually be issued. Third, it requires an amount of financial assistance from other sources which is twice as great as the amount of the Federal guarantees, so that the burden of the risk is borne largely by the nonfederal sources, on a 2:1 basis.

There are two main elements of that nonfederal share. The first is a three-year wage and benefit freeze applied to both employees and management. The freeze is expected to yield approximately $1,52 billion in additional financing that would not otherwise be available to the Chrysler Corporation over the period through fiscal year 1983. Some flexibility with regard to the freeze is permitted in the latter years of the plan, but only if the pace of the corporation’s financial recovery permits this. The other main component of the nonfederal share of Chrysler’s financing plan comes in the form of specific financial commitments from the various constituent groups and other categories directly tied to the Corporation, in the aggregate amount of $1.43 billion. An illustrative list of commitments expected from specific groups, based on testimony received by the Committee, is included in the bill as a guideline to obtaining the financing required. However, the Committee is authored to modify the amounts required to be provided under these categories, so long as the aggregate amount of $1.43 billions remains the same.

Other provisions of the bill further clarify the Committee’s intent as to how the Federal and nonfederal shares of the Chrysler financing plan are to be used and how the risk is to be assigned, with the continuing presumption that the major part of the risk will be borne by the nonfederal parties, especially in the latter years of the loan guarantee program. This is done by placing a number of conditions and limitations of the commitment and issuance of the Federal guarantees. The intent of the Committee in structuring the legislation as described above is to meet the basic need of the Chrysler Corporation for Federal financial assistance, but only under strict terms and conditions designed to discourage other corporations and their constituent groups from coming to the Federal government for similar assistance.

**EXPLANATION OF THE LEGISLATION**

The bill ordered reported by the Committee is an amended version of the Committee Print adopted by the Committee as the basis for mark-up of proposed Chrysler Corporation loan guarantee legislation. The Committee Print included legislative proposals by Senators Lugar and Tsongas and by other Members of the Committee. These proposals were based on information developed in the course of hearings on S. 1655, the Administration bill, and S. 1937, the bill introduced by Senator Riegle and others, which was based largely on
the Lockheed loan guarantee legislation. This section of the report will explain the provisions of the Committee bill as ordered reported and the intent of the Committee in agreeing to those provisions. To the extent appropriate, there will be references to and comparisons with S. 1965 and S. 1837.

Section 2. Definitions

Section 2 contains definitions of certain key terms which are used throughout the Act. Three of the definitions in the Committee bill are taken directly from the Administration bill, S. 1965.

Section 2(2) defines the term "borrower" to mean the Chrysler Corporation, any of its subsidiaries or affiliates, or any other entity which the Board may designate to borrow funds for the benefit or use of the Corporation.

Section 2(3) defines the term "Corporation" to mean the Chrysler Corporation and its subsidiaries and affiliates. This would include separate entities which are wholly or partially owned by the Chrysler Corporation, such as Chrysler Canada and the Chrysler Financial Corporation.

Section 2(5) defines the term "fiscal year" to mean fiscal year of the Corporation. The fiscal year of the Chrysler Corporation is the calendar year.

Section 2(9) defines the term "persons with an existing economic stake in the health of the Corporation" to mean banks, financial institutions, and other creditors, suppliers, dealers, stockholders, labor unions, employees, management, State, local and other governments, and others directly deriving benefit from the production, distribution and sale of products of the Corporation. The Committee believes this is a reasonable basis to work from in building the components of any nonfederally guaranteed share of a Chrysler financing plan.

Some definitions in Section 2 were drawn from S. 1965, but the Committee decided that the terms involved should be defined more precisely and in more detail.

Section 2(8) defines the term "operating plan" to include not only budget and cash flow projections but also details of production, distribution, and sales plans of the Corporation, together with the expenditures needed to carry out those plans, on an annual basis. This is intended to make it clear that the operating plan must contain sufficient information to evaluate the budget and cash flow projections and other assumptions contained therein.

In addition, section 2(8) requires that there be an energy efficiency plan, setting forth steps to be taken by the Corporation to reduce United States dependence on petroleum. This plan should be developed in consultation with other appropriate Federal agencies, and the form and content should be acceptable to the Board. The plan should contain, but not necessarily be limited to, the following items: an identification of all current efforts of the Chrysler Corporation to maximize the energy efficiency of its products and lessen U.S. dependency on petroleum; an outline of the Corporation's plans to maximize the energy efficiency of the present products and to develop new products that will use nonpetroleum based fuels; a description of the Corporation's research and development program; an assessment of the impact of the Corporation's activities on U.S. energy consumption; and a program for further action by the Corporation to improve its record on energy efficiency.

Section 2(6) of the bill adds a definition of the term "going concern." This is a key term in S. 1965, which requires that a satisfactory operating plan demonstrate the ability of the Corporation to continue operations as a "going concern," and after December 31, 1983, to continue such operations without additional guarantees or other Federal assistance. However, the term is left undefined in the Administration bill.

Under the Committee bill, the term "going concern" not only is defined but is also used as the key measure of the Chrysler Corporation's progress toward long-term viability under the loan guarantee program. The definition is in two parts. The first part states that the term "going concern" means a corporation whose net earnings, as projected in the operating plan defined above, are determined to be sufficient to maintain long-term profitability after taking into account probable fluctuations in the automobile market. The figures provided by the Treasury Department in the testimony of the Secretary show clearly the effect which fluctuations in the automobile market, or in other key assumptions, can have on the net earnings projections in Chrysler's October 17 plan. This definition is intended to draw the attention of the Board to the importance of net earnings and to any potential need for changes in other parts of the operating plan, such as reductions in capital expenditures, in order to insure that projected net earnings are at a level sufficient to maintain long-term profitability of the Corporation. Otherwise, Chrysler may not be able to survive in the absence of further assistance from the Federal government after 1983.

The second part of the definition of "going concern" contained in the Committee bill requires that the Corporation also meet "such other tests of viability as shall be prescribed by the Board," and in effect, mandates the Board to prescribe such tests of viability. This requirement was developed in response to suggestions submitted by the Committee's hearings. It was suggested that the primary objective of the Chrysler Loan Guarantee Board should be to determine whether or not Chrysler is a long-term viable business enterprise, and that this should be seen as the principal measure of whether there is a reasonable assumption that the Federal loan guarantees are likely to be repaid. Pursuant to that view, it was proposed that the Board should develop precise, technical, unambiguous standards by which Chrysler's long-term viability—both progress toward such viability and steps needed to be taken to ensure it—can be measured. In fact, it was suggested that Chrysler should have to meet the viability tests within some specified time frame, perhaps under an approach of specific milestones, with contingency plans to be required should such milestones not be met. The General Accounting Office (GAO) has urged such an approach with respect to the New York City Loan Guarantee Program, and the Comptroller General, who will be a member of the Board, may wish to institute a milestone system in this case. The types of tests of viability could include, but would not be limited to, the following:
(a) Ability to meet financial obligations. This would require Chrysler to be in a position to meet all payments due on any financial obligations of the corporations, including payments of interest and principal on loans, preferred stock dividends, and the funding of pension liabilities. In order to be in a position to do this, the Corporation might be required to undertake significant restructuring of its financial obligations and other operations.

(b) Net worth tests. This would require Chrysler to maintain at least a minimum level of net worth. If net worth fell below the minimum, this could trigger automatic conversions of debt to equity, or require a common stock offering or other equity infusion.

(c) Working capital tests. This would require Chrysler to maintain at least a minimum level of working capital. If working capital fell below the minimum, this could trigger concessions or infusion of new money from suppliers, dealers, lenders, and/or employees, all of which would affect the magnitude of the company's current assets and liabilities.

It is the intent of the Committee that the Board develop such tests of Chrysler's long-term viability, and any milestones or other time frame for achieving them, and submit them to the Committee no later than 15 days prior to the issuance of the first commitment to guarantee loans under the Act. That is to say, the Board's tests of viability, at least in initial form, should be made available to the appropriate Committees of the Congress at the same time that the first required determinations under the Act are made available to such Committees.

Section 2(4) defines the term “financing plan” as a plan designed to meet the financing needs of the Corporation, as reflected in the operating plan defined above, and indicating the amounts to be provided at dates specified for each year of the plan. The definition also requires that those amounts be broken down into amounts from internally generated sources (including earnings, variable cost improvement and fixed cost reduction measures, and also the effects of the three-year wage freeze required under section 6), from loans guaranteed under this Act, and from non-Federally guaranteed assistance as required pursuant to Section 4(a)(3).

Section 2(1) states that the term “Board” means the Chrysler Loan Guarantee Board, as established by Section 3 of the Committee bill.

Section 2 also contains definitions of terms specifically applicable to the wage freeze provisions of the Committee bill, section 6, which were derived from the Lugar bill, S. 2046.

Section 2(7) defines the term “labor organization” to have the same meaning as the term is defined in the National Labor Relations Act. Such an organization is any organization of any kind in which employees participate for the purpose of dealing with the corporation concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work. The term is intended to encompass labor organizations that have not been certified by the National Labor Relations Board as the exclusive representative of a bargaining unit of the corporation's employees as well as those that have been so certified.

Section 2(10) defines the term “wages and benefits” as broadly as possible to include all forms of direct, indirect, and supplementary compensation paid by the Chrysler Corporation to its employees. The forms of compensation listed in the definition are taken, in large part, from collective bargaining contracts negotiated by United Automobile Workers Union (UAW) with the major automobile companies. The term is intended to encompass such methods of employee compensation as wage rates, straight-time average hourly earnings, gross hourly earnings, weekly earnings, weekly take-home pay, annual earnings and fringe benefits. Fringe benefits would include anything from the length of vacation to employer contributions into non-governmental unemployment compensation programs, from paid personal holidays to prepaid legal services. All questions arising under this subsection as to the treatment of an economic benefit provided by the corporation to its employees should be resolved in favor of defining the item in question as a “wage and benefit.”

Section 3. Chrysler Loan Guarantee Board.

Section 3 of the Committee bill establishes a Chrysler Loan Guarantee Board consisting of the Secretary of the Treasury (as Chairman), the Chairman of the Board of Governors of the Federal Reserve System, and the Comptroller General of the United States. The Administration bill would have had the Secretary of the Treasury be the sole administrator of the loan guarantees for Chrysler. The Committee believes that a three-person board offers more balance and that the addition of two members who are independent of the Executive, the Federal Reserve Board Chairman and the Comptroller General, will enable the Board to make tough decisions on the merits of the issues without undue pressure from political considerations.

Section 4. Authority for commitments for loan guarantees.

Section 4(a) requires the Board to make certain determinations before it enters into commitments to guarantee loans to the Chrysler Corporation. Such commitments could cover guarantees to be issued at different times over the period covered by the Act.

Section 4(a)(1) requires the Board to determine that the commitment is needed to enable the Corporation to continue to furnish goods or services, and also that the failure to meet such need would adversely and seriously affect the economic condition of, or employment in, the United States or any region thereof. This language is drawn from the Administration bill, S. 1965, which would also have permitted the Secretary to determine in addition or alternatively that failure to meet the need for loan guarantees would adversely and seriously affect competition in the automobile industry in the United States. The Committee agreed to an amendment deleting this language because it did not wish to endorse the presumption that Federal financial assistance should be viewed as a reasonable means of promoting competition in the U.S. economy.

Section 4(a)(2) deals with determinations regarding the Chrysler Corporation's operating plan.

Section 4(a)(2)(A) requires the Corporation to submit to the Board a satisfactory operating plan for the 1980 fiscal year and the
next succeeding five fiscal years. That plan must demonstrate the
ability of the Corporation to continue operations as a going concern
in the automobile business, using the term “going concern” as de­

fined in section 2, and after December 1, 1983, the Corporation’s ability
to continue such operations as a going concern without any additional
Federal loan guarantees or other Federal financing. In other words,
the intent is clear that the operating plan has to show and continue to
show the Corporation’s ability to achieve long-term viability over the
course of the four-year Federal loan guarantee program authorized
under this Act, or else Chrysler cannot qualify to receive guarantees
at all.

Section 4(a) (2) (B) reinforces this point by providing that the
Board must have received such assurances as it shall require that the
operating plan is realistic and feasible. In determining whether the
operating plan is “realistic,” the Board shall perform such analyses as
are necessary to assess whether such plan is based on assumption of
sales, profit improvements, capital expenditures, and other items
which lie within a reasonable range of probability, and which allow
for contingency adjustments in the event that certain assumptions do
not materialize as projected. For instance, the Treasury Department’s
analysis contained in the testimony of the Secretary indicated that
the “Adjusted Base Case” approach presented the most realistic oper­­
ing plan. This case applied more conservative assumptions than those
used in the October 17 Chrysler plan and suggested that more than $1
purposes) could be eliminated without any significant reduction in
the size of the company, thus bringing the company’s overall projected
financing needs back within reasonable limits. This provision could be
used by the Board as a basis for requiring assurances from the
Corporation that such reductions in capital spending or equivalent al­
ternative reductions will be made in order to achieve the most realistic
operating plan. Similar assurances may also be required regarding the
feasibility of the operating plan as submitted. However, the Commit­­
tees wishes to emphasize that the Board is not authorized to direct the
Corporation to make specific revisions in details of the operating plan.
Such judgments are to be left to the management of the company,
which shall determine both the composition of the operating plan and
the actions to be taken to furnish the Board with the required assurances
that such plan is realistic and feasible.

Section 4(a) (3) requires that the Corporation submit to the Board
a satisfactory financing plan which meets the financing needs of the
Corporation as reflected in the operating plan for the period covered
by such financing plan. This subsection also requires that the financing
plan for the four-year period covered by the Federal loan guarantee
program include an aggregate amount of non-Federal guaranteed
assistance of at least $1.430 billion, to be obtained (A) from financial
commitments or concessions from persons with an existing economic
stake in the health of the Corporation in excess of commitments or
concessions outstanding as of October 17, 1977, or from other persons;
(B) from capital to be obtained through merger, sale of securities, or
otherwise after October 17, 1979; and (C) from cash to be obtained
from the disposition of assets of the Corporation after October 17,
loan or other credit, a concession shall be non-recoupable. The Committee was told that in the case of concessions, it might be difficult to obtain a "legally binding commitment" from a state, local, or other government, because a legislature or other law-making body cannot bind its successors to continue tax rebates or other similar concessions. Accordingly, the Committee amended the language of this subsection to provide that in the case of concession by a state, local, or other government, the Board must have received "adequate assurances" that such concession will be made and will continue to be made, rather than a legally binding commitment. The Committee was not convinced that any other exceptions to the requirement of legally binding commitments in the case of concessions were necessary. The requirement that a concession be non-recoupable was intended to underscore the notion that these shall be real concessions designed to assist the Corporation in meeting its financial needs on a permanent basis, and not temporary concessions which may place additional financial burdens on the Corporation in future years. The exception for a loan or other credit is provided because extensions of credit are by their nature recoupable under specified terms and conditions.

Section 4(b)(1)(C) defines the term "capital" to mean sales of equity securities, any other transactions involving non-interest bearing investments in the Corporation, or subordinated loans on which payment of principal and interest is deferred until after all the guaranteed loans are repaid. This category is intended to refer mainly to equity investments in the Chrysler Corporation, but it also covers other transactions which may have the effect of equity investments, in that they do not place on the Corporation any burden of repayments of principal and interest not during the period during which the guaranteed loans are outstanding. The Committee was told that in some cases a supplier or other interested party may prefer to make a subordinated loan with deferred repayment terms, rather than an equity investment, because any losses on such loans would receive more favorable tax treatment in future years.

Section 4(b)(1)(D) sets standards for determining the amount of "cash to be obtained" from the disposition of assets of the Corporation. It requires that the Board determine the amount of such cash in the case of particular assets by basing such determination on a conservative estimate of the minimum value reasonably expected to be realized in a sale, with reference to the potential circumstances surrounding such a sale, i.e., whether it is a regular sale in the market under more or less normal conditions, whether it is a "distress" sale, or whether it is a sale under circumstances of liquidation of the Corporation.

Section 4(b)(2) defines certain exclusions from the computation of the aggregate amount of at least $1.430 billion in non-Federally guaranteed assistance required to be provided under subsection (a)(3).

Section 4(b)(2)(A) excludes the extent of any contribution, concession, or other element that does not actually and substantively contribute to meeting the Corporation's financing needs as defined by this section. Thus, for instance, in the proposed purchase of Chrysler cars by the State of Michigan to be used as prizes in the State's lottery, the only contribution that could be computed would be the difference between the production cost or wholesale price of each car and the amount actually paid by the State of Michigan, that is, the profit made by Chrysler on the sale.

Section 4(b)(2)(B) excludes from computation the deferral of any dividends on common or preferred stock outstanding as of October 17, 1979. In view of the fact that payment of dividends on such stock is prohibited under the provisions of this Act, and was not contemplated in the October 17 plan, such deferral would not make any actual or substantive contribution to meeting the Corporation's financing needs over the course of the Federal loan guarantee program.

Section 4(c) provides a list of the amounts of non-Federally guaranteed assistance to be expected from the various interested parties and other contributors to the Chrysler financial plan, adding up to the total amount of at least $1.430 billion required under subsection (a).

Section 4(c)(1) requires that at least $500 million of that amount be provided by U.S. banks, financial institutions, and other creditors. Of that $500 million, at least $400 million is due from new loans or credits, which must be in addition to the extension of the full principal amount of any loans committed to be made but not outstanding as of October 17, 1979. The latter language is intended to make it clear that the Committee expects there to be made available the full amount of the $567 million revolving credit committed to the Chrysler Parent Corporation prior to October 17, of which only $408 million has been drawn down to date. Thus, under the conditions of this subsection, the remaining $159 million would have to be extended to the Corporation, or an equivalent amount from other lenders, and at least $400 million in new loans or credits over and above the amount of that existing commitment would be required to be made available. The second part of 4(c)(1) requires the U.S. banks, financial institutions, and other creditors to provide an additional amount of at least $100 million in form of loans or credits with respect to outstanding debt of the Corporation. Such concessions could take the form of, but shall not be limited to, reductions in interest rates, lengthening of maturities, deferrals of payment of principal and interest, or conversion of outstanding debt to equity. The $400 million in new loans and $100 million in concessions adds up to the full amount of at least $500 million provided in the Committee bill from U.S. banks, financial institutions, and other creditors, but the Board is authorized to allow some discretion in distributing the dollar amounts between the two categories, provided that there is no adverse effect on the operating or financial plans and that the target amount of $500 million is met.

Section 4(c)(2) requires that at least $150 million shall be new loans or credits from foreign banks, financial institutions, and other creditors, or from concessions with respect to outstanding debt of the Corporation. The Committee understands that the Chrysler Corporation has substantial lines of credit outstanding from foreign banks, notably a $400 million letter of credit from a consortium of 7 Japanese banks headed by the Mitsubishi Bank. That line of credit is used for the importation of Mitsubishi Motor Corporation cars into the United States, where they are sold through Chrysler dealerships. The Japanese banks suspended that line of credit, which is on an unsecured basis, as of late September or early October, with only about $250 million of the $400 million outstanding. The Committee was told that...
the Japanese banks are planning to re-activate that line of credit on an interim basis, and under the same unsecured terms, but subject to certain conditions, including passage of the Federal loan guarantee legislation. The Committee wishes to make it clear that, as in the case of domestic banks, the provisions of the Committee bill require that the amount all of the existing lending commitments by foreign lenders to the Chrysler Corporation in effect as of October 17, 1979, will be extended, in addition to the new loans or credit provided by this subsection in the amount of at least $150 million. The Committee understands that such new loans may be forthcoming, at least in part, from Canadian banks or from an arm of the Canadian government.

Section 4(c)(3) requires that at least $900 million shall be from the disposition of assets of the Corporation. Such asset sales shall be subject to the authority conferred on the Board in Section 11(b) regarding impairment of the viability of the Corporation, and the value of the amounts accrued from these sales shall be computed according to the standards developed under section 4(b)(1)(D). While the Committee believes that a certain minimum amount of asset sales as specified should be undertaken as part an overall Chrysler financial plan, the Committee would also caution against any excessively heavy reliance on asset sales to make up additional amounts of the non-Federally guaranteed assistance required, in view of the fact that a substantially larger amount of asset sales might have an adverse effect on the earnings capacity of the Corporation and on the security available for the Federally guaranteed loans.

Section 4(c)(4) requires at least $250 million from state and local and other governments. These could include foreign governments, such as the Canadian government. This amount is well within the amount that witnesses at the hearings stated should be forthcoming from the various state and local governments whose employment situation and economy would be severely affected by a Chrysler shutdown. However, in view of certain aspects of the testimony given at the hearings, the Committee cautions the Board to use particular care in computing the actual extent of any contribution or concessions from a state or local government and to make sure that the reasonable assurances provided are sufficiently strong that the Board can make a firm determination that the amount in question will actually and substantively contribute to meeting the Chrysler Corporation’s financing needs as defined by this section.

Section 4(c)(5) requires at least $180 million shall be from suppliers and dealers and at least $100 million of that amount shall be in the amount of capital. The term “capital” refers to the broad definition given above, which includes not only purchases of equity securities, but also other non-interest bearing investments in the Corporation or subordinated loans on which payment of principal and interest is deferred until after all the guaranteed loans are repaid. The $100 million figure shall be taken as a minimum and shall not be construed as discouraging additional capital investments by suppliers and dealers up to or even above the $180 million amount provided in this category.

Section 4(c)(6) requires that at least $50 million shall be from the sale of additional equity securities. This provision leaves open the question of whether such additional equity securities shall be sold in the public markets or in private placements to constitute groups or by other means. However, the $50 million requested in this category shall not include equity securities provided to employees through the Employee Stock Option Plan (ESOP) established pursuant to Section 7 of this Act, nor shall it include any such securities falling within the $100 million of additional capital required to be provided by suppliers and dealers under the previous provision.

The list of amounts of non-Federally guaranteed assistance to be provided in the categories specified above was drawn from testimony given at the Committee’s hearings, but it is intended to be illustrative rather than binding. The Board is authorized, as necessary, to modify the amounts of assistance required to be provided by any of those categories, so long as the aggregate amount of at least $1.430 billion of non-Federally guaranteed assistance required to be provided remains the same, and, thus, so long as any reduction in any category is matched by an increase in another category or by an amount provided in some new category of assistance. The Committee further emphasizes the requirement that there be formal, legally binding commitments or for state, local, or other governments, reasonable assurances to provide all of this $1.430 billion in additional non-Federally guaranteed assistance in excess of amounts of outstanding as of October 17, 1979, before any commitments can be issued or guarantees made under this Act.

Section 5. Requirements for loan guarantees

Section 5 of the Committee bill requires that the Board make certain determinations before any loan guarantee may be issued pursuant to a commitment provided under Section 4.

Section 5(a)(1) requires that the Board determine that credit is not otherwise available to the Corporation under reasonable terms or conditions sufficient to meet its financing needs as reflected in the financing plan.

Section 5(a)(2) requires that the prospective earning power of the Corporation, together with the character and value of the security pledged, furnish reasonable assurance of repayment of the loan to be guaranteed in accordance with its terms. This language was drawn from a provision of S. 1937, which was in turn drawn from the Lock heed loan guarantee legislation, and it is used in preference to the language in S. 1985, the Administration bill, which simply requires a “reasonable prospect of repayment.” The Committee believes it was advisable to require the Board to consider carefully both the prospective earning power of the Corporation and the character and value of the security pledged, since one or the other of these may bear more heavily on any specific instance involving a determination of whether there is a reasonable assurance of repayment of the loan to be guaranteed.

Section 5(a)(3) provides that the loan to be guaranteed shall bear interest at a rate determined by the Board to be reasonable and that such rate shall not be more than the current average yield on outstanding Federally guaranteed obligations of comparable maturities. Should it be necessary for purposes of making this determination, the Board may take into consideration the current average yield on outstanding
obligations of the United States. In stating that the interest rate on the guaranteed loans shall be not more than the yield on comparable obligations, the Committee intends to limit the interest paid to the banks holding such guaranteed loans to an amount which is reasonable, while maximizing the amounts to be made available to the Federal government in the form of guarantee fees and other compensation for risk assumed.

Section (5)(a)(4) requires the Board to determine that the operating plan and the financing plan of the Corporation continue to meet the requirements of Section 4, and that, where necessary, appropriate revisions to such plans (including extensions of such plans to cover the then-current six year period) have been submitted to the Board to meet such standards. The Committee intends that the Board shall conduct such continuing analyses of the Chrysler Corporation's financial condition and of its progress in meeting the targets of the operating and financing plans as are necessary in order to enable the Board to make the determinations required under this subsection, giving full consideration to the prescribed tests of long-term viability.

Sections 5(a)(5) and 6 require that the Corporation be in compliance with the operating and financing plans as further provided in subsection 4, that the Board has received assurances of such compliance, and that the Board has received such assurances as it may require that such plans are realistic and feasible, along the lines described in the explanation of Section 4(a)(2).

Section (5)(a)(7) requires the Corporation to agree, for as long as the guaranteed loans are outstanding, (A) to submit to the Board revised six-year operating and financial plans for each succeeding fiscal year after December 31, 1980, in accordance with the requirements of Section 4; and (B) to deliver to the Board within 120 days following the end of each fiscal year an analysis reconciling the Corporation's actual performance for such fiscal year with the projections contained in the operating and financial plans in effect prior to the start of such fiscal year.

Section (5)(a)(8) requires that the Board determine that the borrower is in compliance with the terms and conditions of the commitment to issue the guarantees required by the Board pursuant to Section (b). The Committee accepted an amendment of the Administration bill,宋. 1965, which has the effect of requiring such compliance "except to the extent that such terms and conditions are modified, amended, or waived by the Board." The Committee understands that the Board may need to exercise a certain amount of flexibility with respect to the terms and conditions of the guarantee commitment, but the Committee wishes to make clear its intent that any modification, amendment, or waiver provided pursuant to this provision shall not in any way be used to contravene any of the basic terms and conditions of this Act.

Section (5)(b) of the Committee bill described the conditions surrounding any determination made by the Board and the nature of any guarantee issued following such determination. Specifically, it provides that any determination by the Board that the conditions established in this Act have been met shall be conclusive, and that such determination shall be evidenced by the making of the guarantee for which such determination is required. However, in order to provide an opportunity for such determinations to be evaluated prior to the issuance of the guarantee, the Committee bill requires the Board to transmit to the appropriate Committees of the Congress a written report setting forth each such determination made pursuant to this Act and the reasons for making that determination not less than 15 days prior to the issuance of any guarantee. This requirement will provide the Committees with an opportunity to comment on any problems that may be found with respect to the determinations made, without placing any formal impediment in the way of actual issuance of the guarantee on the dates scheduled. The language of this section includes the customary assurances that the validity of any guarantee when made by the Board under this Act shall be incontestable in the hands of a holder, except for fraud or material misrepresentation on the part of such holder, and it also authorizes the Board to determine the form in which any guarantee made under this Act shall be issued.

Subsection 5(c) requires the Board to prescribe and collect no less frequently than annually a guarantee fee in connection with each guarantee made under this Act. The guarantee fee has to be sufficient to compensate the government for all of its administrative expenses related to the guarantee, and in no case may such fee be less than 1 percent per year of the outstanding principal amount of loans guaranteed under this Act computed daily.

Section (5)(d) suggests additional ways in which the Board shall insure, to the maximum extent feasible, that the government is compensated for the risk it assumes in making guarantees under this Act. The intent of this subsection is to establish the principle that the Government should be compensated for the risk it assumes when it issues a loan guarantee. There is a financial risk incurred under certain types of guaranteed loans, especially those involving large amounts of money to a single borrower, which cannot be adequately compensated by a loan guarantee fee of not less than one percent from which administrative expenses must be deducted. The Committee believes a broader compensation package, along the lines authorized by this subsection, should be designed as a means of targeting the benefits of Federal loan guarantees on National objectives rather than conferring them largely on the borrower, which might actively encourage private firms to seek such Federal assistance. In designing the compensation package, the Board would be encouraged to use well-accepted methods for evaluating contingent claims such as loan guarantees.

The Committee bill would give the Board broad authority to tailor the Government's compensation package in a way that is consistent with the objectives of this Act and responsive to the long-term financial needs of the Corporation, while assuring that the Corporation does not realize a windfall from the benefits conferred by the Federal loan guarantees. This subsection would authorize the Board to prescribe and collect a guarantee fee to be paid by the Corporation or its lenders in addition to the fee of not less than one percent per annum required under subsection (c). Since, however, such fee could increase the risk of default by drawing funds out of the Corporation while it is financially weak, the bill would also authorize the Board, as an alternative, to require as compensation for the risk assumed under the guarantees
that there be contingent contracts permitting the Federal government to participate in any future gains of the Corporation, its stockholders, or holders of its debt. Such contracts could define certain conditions under which payments to the Government would be made out of any future earnings or positive cash flows of the Corporation. As an additional option, compensation could be made from future gains of the stockholders by permitting the Government to require the Corporation to issue new shares of common stock to the public after the market value of outstanding shares rises above a pre-established trigger price and to pay to the Treasury proceeds in excess of that trigger price. It is the intent of the Committee that the Board have discretion to establish a compensation package that, in its judgment, achieves the objectives of this section, to the maximum extent feasible. Nothing in this section is intended to encourage the Federal government to acquire an equity position in the Corporation.

Section 5(e) requires that all amounts collected by the Board pursuant to subsection (c) and (d) shall be deposited in the Treasury as miscellaneous receipts.

Section 6. Requirements applicable to employees

Section 6 of the Committee bill provides for a three-year freeze of wages and benefits of all persons employed by the Chrysler Corporation, both labor and management, as part of the financing plan required under this Act and as a condition for providing Federal loan guarantees. Some flexibility with respect to certain provisions of the three-year freeze is permitted under certain provisions of this section.

Section 6 recognizes the vital contribution required of Chrysler employees if the Corporation is to renew itself as a strong business enterprise. The fact is that the Chrysler Corporation cannot afford to pay wages and benefits over the next three years along the lines of the UAW pattern settlement with the other major automobile companies, nor can it even afford the contract which it negotiated directly with the UAW, given its severe financial problems. In the view of the Committee, the wage and benefit freeze required under Section 6, which applies to all non-union employees as well, including top management, offers a far better long-term chance of retaining those jobs and restoring the Corporation to financial health than would be present if the recently negotiated UAW settlement were retained in its present form. Traditionally workers in the automobile industry have enjoyed highly paid jobs. Nonetheless, the Committee recognizes that the freeze required under this Act will cause a hardship to the Chrysler workers affected by it, in view of the extraordinarily high inflation which the nation as a whole is now suffering. Unfortunately, such a commitment to the Corporation is vital if the Corporation is to survive. This provision is not meant as a punitive measure, but rather as a recognition that all those whose economic interests are bound up with the Corporation must make substantial contributions if Chrysler is to emerge from its present problems with a stronger financial base and a stronger sense of purpose.

It is the intent of the Committee that this section, and the estimated $1.320 billion that it is expected to contribute to meeting the Chrysler Corporation’s total aggregate financing needs of $4 billion over the life of the Federal loan guarantee program, be considered a separate and integral part of the financing plan required under the provisions of this Act. This means that all of the legally binding commitments required to implement the provisions of this section must be in place before any commitments to guarantee can be made or any guarantees issued pursuant to this Act. Moreover, no contributions made toward meeting the Corporation’s financing needs pursuant to this section may be used for the purposes of computing the aggregate amount of $1.430 billion in additional non-Federally guaranteed assistance required under section 4 of this Act.

Section 6(a)(1) implements the compensation freeze applicable to those classes of Chrysler employees which have historically been represented by labor organizations. Under the subsection, the dollar amount of wages paid and the degree of benefits available relative to each employment position which has been the subject of a collective bargaining agreement must, until September 13, 1982, be no greater than the amounts and levels provided by the corporation relative to such positions on September 13, 1979. The freeze applies to all forms of compensation provided to such employees, whether paid in the form of wages or salaries or through benefits. The definition of the term “wages and benefits” found at Section 2(g) provides several examples of forms of employee compensation subject to the freeze. It is the intent of the Committee that each type of direct or supplementary income conveyed to employees covered by this subsection be frozen at its September 13, 1979, level before the Board may make commitments or guarantee loans under this Act. In addition, the factoring of any previous cost of living allowance into base wage rates or salary rates would be prohibited, as would the payment of COLA “travel” or “float” as these terms are used in the company’s collective bargaining agreements with its unions.

The committee, however, does not intend that merit should necessarily go unrewarded for the term of the compensation freeze. If a higher paying position were to become vacant, the corporation would be permitted to promote a qualified individual into that position. However, in order to maximize certainty as to the corporation’s future labor costs, under no circumstances would the corporation be permitted to increase the rate of compensation or level of benefits relative to a particular job category before September 13, 1982. With respect to seniority systems, if historically a particular job category has provided rate increases or a particular benefit program provided larger benefits based on an employee’s years of service with the corporation, such increases could still be made under this subsection as long as the increases were effected in accordance with the seniority systems in effect on September 13, 1979. Also, the Board should carefully scrutinize any new seniority system established as a result of the renegotiation of a collective bargaining agreement to comply with the requirements of this section in order to insure that the new system has not been structured for the purpose of evading the compensation freeze mandated by this section.
Section 6(a) (1)(A)(i) insures that the corporation may maintain the level of medical benefits available to employees covered by this subsection on September 13, 1979, for the duration of the compensation freeze. According to data provided by the corporation, the additional cost to Chrysler for increased premium payments to its medical insurance carriers in order to maintain the same level of benefits in effect on September 13, 1979, through September 14, 1982, will be $65 million. Thus, using the level of such medical benefits between September 13, 1976, and September 13, 1979, as the base cost permitted, this provision of the bill permits the corporation to increase its premium payments to its medical insurance carriers by an additional $65 million.

Section 6(a) (1)(A)(ii) provides an exception to the wage and benefit freeze with respect to pension benefits. The committee recognizes that the role that Chrysler's retired employees could play in the renewal of the corporation is limited. Accordingly, the freeze contemplated by Section 6 does not extend to pension benefit increases contained in current collective bargaining agreements or in agreements to be negotiated as long as the cost to the corporation of such increased benefits does not between September 14, 1979, and September 13, 1982, exceed the sum of pension fund contributions required by the Employee Retirement Income Security Act of 1974 plus an additional $23 million.

Section 6(a) (1)(B) is directed toward wage increases that are granted to Chrysler employees based on cost of living formulae found in collective bargaining agreements negotiated by the corporation with its unions. For the duration of the compensation freeze, employee wages and fringe benefits are not to be altered to reflect changes in living costs.

Section 6(a) (1)(C), while directed toward the annual improvement factors found in collective bargaining agreements negotiated between the corporation and the United Auto Workers, prohibits wage or salary rates to be increased automatically or periodically according to any predetermined plan. The improvement factor, although purely automatic, has been characterized as granting pay increases reflecting improvements in productivity. Recent contracts containing improvement factor clauses preface the tables with the statement that the parties recognize "the principle that to produce more with the same amount of human effort is a sound economic and social objective." However, the corporation, in its present financial crisis, require productivity improvements merely to survive and thus improvements must be achieved without an accompanying pay increase.

Section 6(a) (1)(D) makes clear that the compensation freeze also applies to incentive job classifications.

Section 6(a) (1)(E) prohibits the corporation from negotiating, either implicitly or explicitly, a deferred compensation increase with a labor organization. For example, the corporation's most recent collective bargaining agreement with the United Auto Workers defers traditional annual wage increases for a period of six months in the first year, four months in the second year, and two months in the third year. Nevertheless, at the end of the contract term, UAW members working for a company on the brink of bankruptcy would, on
Section 6(b) permits the corporation to grant pay or benefit increases required by law. For example, if a court were to order the corporation to alter the rates of compensation or benefit coverage on the basis of findings made in an employment discrimination suit, the corporation would be free to do so.

As stated above, the committee intends that merit should be rewarded wherever possible. However, section 6(c) specifically prohibits the reclassification of jobs or the restructuring of job positions in order to evade the compensation freeze mandated by the legislation. This does not mean that the corporation is barred from effecting changes in its workforce to become more productive. For example, if a union were to agree to the removal of a particular work rule which permitted two persons to perform the tasks which three had done formerly, such job restructuring would be commendable. Under those circumstances, a new wage rate could be assigned to the new position subject to its approval by the Board as appropriate in relation to similar positions within the corporation. Such changes, however, should be carefully reviewed by the Board to ensure that the changes have been accomplished in good faith and for the purpose of improving productivity and not for the purpose of evading the compensation freeze.

Section 6(d) of the Committee bill permits some flexibility in the three-year wage and benefit freeze for employees represented by a labor organization under certain limited conditions as determined by the Board. Basically, this section authorizes the Board to determine, after September 13, 1981, whether the total aggregate amount of approximately $4 billion in financial assistance to the Chrysler Corporation required under the provision of this Act is needed, or whether that total can be reduced by a certain specified amount without impairing the ability of the Corporation (a) to continue as a going concern or (b) to meet such other tests of viability as the Board shall prescribe. If the Board makes such determinations, and it determines further that the Corporation is in compliance with all terms and conditions imposed pursuant to this Act, then under those circumstances the Board may do the following: (A) permit the Corporation to negotiate and enter into an agreement with its employees which increases the levels and amounts of wages and benefits available in the third year of the compensation freeze imposed under this section so long as the Board determines that the amount of such increase does not exceed 50 percent of the specified amount of the reduction in the total aggregate amount of financial assistance required; and (B) when any such agreement becomes effective, implement similar reductions in the amount available for Federal loan guarantees or commitments to guarantee and in the amount of non-Federally guaranteed assistance to be obtained, each of these by not to exceed 25 percent of the specified amount of the reduction in the total aggregate amount of financial assistance required.

In other words, increases in wages and benefits are to be made available under this provision, but only in the third year, and only if there is a formal calculation that a specific reduction in the total financing needs of $4 billion is warranted, and only if the amount of such reduction is distributed in the proportions of 50 percent for wage and benefit increases, 25 percent for reduction of Federal loan guarantees, and 25 percent for reduction in commitments of non-Federally guaranteed assistance. The allocation to the employees of one-half of the amount which may be made available by the reduction in total financing needs, despite the fact that their contribution to the overall financing plan is only about one-third, was based on the Committee's view that the employees as a group are being required to make the largest sacrifice under the terms of the Act, and also on the fact that the largest contributions from the wage and benefits freeze occur in the third year of that freeze, and therefore, the employees' contribution to the financing plan for that year is well in excess of one-third.

Section 6(e) has been included in the legislation in recognition of the difficulties that labor organizations may have in negotiating and winning membership approval of a new collective bargaining agreement in a short period of time. It is unlikely that the cost savings required under the other subsections of Section 6 could be realized without a renegotiation of the UAW's recently ratified contract with the Chrysler Corporation. Subsection (e) would permit a legally binding commitment for a specified amount of cash contributions from labor organizations or employees to be substituted for all or part of the cost savings expected to be realized from the wage and benefit freeze mandated by Section 6.

For instance, if the recently ratified contract were determined to include an increase in paid personal holidays over those provided by the contract in effect on September 13, 1979, and the increase in those holidays is estimated to cost the company an additional $100 million over the life of the new contract, then the UAW could enter into a legally binding agreement to contribute $100 million to the Corporation in return for workers being permitted to receive the benefits of the additional holidays, provided that such arrangement was acceptable under the conditions established by this subsection. Viewed more broadly, this subsection could enable the UAW to avoid any renegotiation of the present contract whatsoever, if it were in a position to enter into a legally binding commitment to provide cash contributions in an amount equivalent to all of the cost savings expected to be realized from the three-year wage and benefit freeze. Before the Board could permit subsection (e) to be used in lieu of meeting the requirements of subsection 6(a)(1), it would have to determine (1) the amount of cost savings that would have been realized had the applicable collective bargaining agreement been re-written to conform with the requirements of Section 6(a)(1); (2) whether the labor organization has entered into a legally binding commitment properly secured transferring to Corporation a cash amount equivalent to the savings that would have been realized had the agreement been so re-written; and (3) whether permitting the subsection to be used in lieu of Section 6(a)(1) would result in the Corporation's realizing less savings than if the Board had required the labor organization to adhere to the
provisions of Section 6(a)(1). With respect to clauses (2) and (3) above, if the Board determines either that no legally binding commitments have been made or that the Corporation would realize greater savings if Section 6(a)(1) were adhered to instead of invoking this subsection (e) then the Board must prohibit any actions proposed to be taken in accordance with this subsection. No commitments may be made or guarantees issued under this Act until the Board determines either that all of the conditions of subsection 6 have been met in whatever form is most appropriate, according to agreements reached with the employees, with a labor organization, and with the Corporation.

Section 7. Employee stock ownership

Section 7 of the Committee bill requires the Chrysler Corporation to establish an Employee Stock Ownership Plan (ESOP) and to contribute $250 million in newly issued common stock to the plan over the four-year period of the loan guarantee program. The ESOP is required to be established under the terms of a written agreement between the Corporation and the Board which conforms to the provisions of the section and which is satisfactory to the Board. No guarantee or commitment to guarantee any loan under this Act may be made after the close of the 180-day period following the date of enactment of the Act unless the Corporation has established an ESOP meeting the requirements of this section.

Under section 6 of the Committee bill, the employees of the Chrysler Corporation are required to forego any wage or benefit increases for a three-year period. The intent of the Committee in providing for the establishment of this ESOP was to furnish some compensation to the employees for the concessions required by this three-year freeze and some additional incentive to participate actively in bringing about the financial recovery of the Chrysler Corporation and insuring the company’s long-term viability. The Committee anticipates that through the ESOP, the employees will be provided with stock ownership interest in the Corporation which will increase in each year of the guarantee program in lieu of these foregone wages and benefits increases. The $250 million in common stock of the Corporation provided in the course of the four-year loan guarantee program under the terms of section 7 is, at the present time, considerably less than the value of the foregoing wages and benefits. Nonetheless, it is important to note that this legislation is intended to facilitate the financial recovery and revitalization of the Chrysler Corporation. Thus the employees stand a chance of being compensated in whole or in large part for their sacrifice in some future year. Through their stock ownership, they will benefit from a revitalization of the company to the extent of an increase in the value of the company’s stock, as well as in the job security provided. Because the stock is held in a qualified trust for the employees while they are employed by the company, the employees are not taxable currently on the value of the stock when it is contributed to the plan or on any increases in value of the stock while it is held by the trust.

The Committee recognizes that the increasing ownership interest which the employees are acquiring in the company through the ESOP should provide them with a greater motivation to make the company profitable. Recent studies have indicated that employee stock ownership has contributed to the success of many companies. A study conducted by Mr. Paul Bernstein, entitled “Worker-Owned Plywood Firms: Steading the Team” published in the World of Work Report on June 24, 1977, reflected that employee-owned firms had a 30 percent higher productivity and 25 percent higher wages than conventional firms. In addition, the Survey Research Center study of 100 employee-owned firms, published by the United States Department of Commerce, indicated that profits were 1.5 times higher in employee-owned firms than in their non-employee-owned counterparts. Finally, a survey being conducted by the Senate Committee on Finance has indicated that in the average three-year period since the establishment of an ESOP, as opposed to the average 24 years of pre-ESOP corporate existence, the 75 responding firms experienced a 72 percent increase in sales and a 157 percent increase in profits. It is the Committee’s hope that the Chrysler Corporation ESOP will help produce similar results for this company.

An ESOP is a qualified employee benefit plan which is designed to invest primarily in the stock of the employer which establishes it. This stock is held in a tax-exempt trust for the benefit of the employees who participate in the ESOP. An ESOP must comply with applicable requirements of the Internal Revenue Code of 1954; in addition it must satisfy the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

Section 7 requires Chrysler Corporation to establish an ESOP to which it contributes an amount of newly issued common stock equal to $250 million over the next four years, in annual amounts of not less than $62.5 million. The amount of each annual contribution may not exceed the wage and benefit increases foregone by the employees to the extent of the contribution. Alternatively, this section authorizes the ESOP to purchase this stock from the company with the proceeds of a loan described in section 4975(d)(3) of the Internal Revenue Code, under such terms and with such security arrangements as may be required by the Board. In the event that the stock is sold to the ESOP by Chrysler Corporation in this manner, the company would be required to make annual cash contributions to the ESOP in an amount sufficient for the ESOP to amortize any indebtedness incurred for the purchase of Chrysler Corporation stock.

Within certain limitations, all employees of the company will participate in the ESOP. Each participating employee will receive an equal allocation of Chrysler Corporation stock to his ESOP account each year. In addition, each employee will automatically have a 10 percent ownership interest in these stock contributions. Moreover, each participating employee will be able to direct the ESOP trustee as to the manner in which any Chrysler Corporation stock allocated to his ESOP account is to be voted.

Since the ESOP is constituted by a new issue of common stock of the Chrysler Corporation provided to the employees in return for the contributions to the Corporation’s financing plan represented by the three-year wage and benefit-freeze required under section 6, it does not constitute new equity to the Corporation for purposes of this Act. Accordingly, section 7 provides that the stock contributed or sold to
the ESOP under the provisions of Section 7 shall not be deemed to satisfy any sale of equity securities by Chrysler Corporation which is provided by any other section of the bill. It also follows that, should the three-year wage and benefits freeze provisions under section 6 be modified in the course of subsequent consideration of this legislation, then the $250 million ESOP established under section 7 should be modified accordingly.

Section 8. Limitations on guarantee authority

Section 8(a) provides that the authority of the Board to extend guarantees under this Act shall not at any time exceed $1,250 billion in the aggregate principal amount outstanding. In order to prevent any unintended use of repayments of any part of the guaranteed loans provided to make new loans maturing after the date of expiration of the guarantee authority, provided under this Act, the Committee bill contained a requirement that the authorized amount of $1,250 billion in aggregate principal outstanding be reduced by the amount of any repayments. Subsequently the Committee adopted an amendment to provide an exception for repayments of loans which are repaid in full within one year of the date in which the guarantee is made. This language is intended to permit the Board to enter into certain types of revolving credit agreements, without permitting the re-lending of amounts repaid under any other circumstances.

Section 8(b), (c), (d), and (e) establish annual limitations on the amounts of guarantees to be provided in each year of the loan guarantee program, set requirements for the amounts of nonfederally guaranteed assistance to be made available prior to the issuance of Federal guarantees at any time in any year of the program, and include other conditions to be met in order for guarantees to be provided in specific years. The Committee intends, by these provisions, to limit the Federal exposure on a yearly basis and to ensure that the required amounts of commitments for nonfederally guaranteed assistance have actually been utilized prior to the issuance of any guarantees in any year. These provisions should make it clear that the major share of the risk is intended to be borne at all times by the non-Federal parties.

Section 8(b) limits the guarantee authority for the period ending December 31, 1980 to $785,000,000 or 87 percent of the non-Federal assistance as defined in Section 4(a)(3). In the first year (the period ending December 31, 1980) no more than $785,000,000 in Federal loan guarantees can be issued. This large commitment is to be made available at this time in order to provide the confidence and degree of Federal commitment needed to obtain non-Federal commitments and meet the first year requirements of the Corporation during the critical first year of the plan. Nonetheless, the non-Federal contributions are expected to provide the majority of the financing required even in the first year.

In order to ensure that the non-Federal financing has remained available, and to limit the risk to the Federal government, federal guarantees will only be available after a portion of the non-guarantee financing has been utilized. Specifically, in the first two years, 100 million in non-federal resources must actually be under the control of the corporation before 87 million in guaranteed loan authority can be issued. The legislation requires that guaranteed loan authority can be drawn down only as needed and thus, such draw downs will occur a number of times each year. Each issuance of loan guarantees will require a determination that all the requirements of the Act have been met, in accordance with the provisions of this Act.

The so-called 87% rule requires that there be full-control and use of non-federal funds prior to the issuance of federal loan guarantees. Listed below are examples of “full control and use” of non-federal commitments and concessions as contemplated by the committee:

The proceeds from non-guaranteed loans would be required to be actually transferred to the corporation to be counted as match against a federal guarantee.

A concession such as a tax abatement by a local government would be available as the value of that abatement accrued. Thus if the local tax year begins on January 1st and the amount of the property tax to be foregone during that year is $2,000,000, then on April 1, $403,150 would be available as match for federal guarantees.

A concession such as an interest free payment deferral by a supplier would be available as it accrues. Thus if payment for a supplier shipment is due and payable on January 1 and the supplier's terms normally allow 20 days to pay before an interest charge is levied and the supplier agrees to extend that period then the concession would be worth the interest foregone during the period beyond 20 days prior to the date of the guaranteed authority. In the example described, on April 1, 20 days of foregone interest would be available for match against guarantee authority.

The preceding list is not meant to be all inclusive. The Board has authority to determine the full range of concessions and commitments that may be available. It has the authority to determine when funds (or concessions) have been utilized and are thus available to be used as match for federal guarantees.

In the period ending December 31, 1980 the full guarantee authority available during that period cannot be drawn down until $900 million in non-federal commitments and concessions have been utilized.

Section 8(c) provides guaranteed loan authority for the period ending December 31, 1981 of $1.04 billion. This is the amount of total authority available minus the amount of guaranteed loans issued prior to that time or $261 million in additional authority. As in subsection (b), the authority is available only as non-federal commitments and concessions have been utilized. Also, as in subsection (b), the federal guarantee authority can be issued only up to 87% of the non-federal commitments and concessions utilized.

In the period ending December 31, 1981 of $1.04 billion. This is the amount of total authority available minus the amount of guaranteed loans issued prior to that time or $261 million in additional authority. As in subsection (b), the authority is available only as non-federal commitments and concessions have been utilized. Also, as in subsection (b), the federal guarantee authority can be issued only up to 87% of the non-federal commitments and concessions utilized.

Section 8(d) provides an additional $103 million in guarantee authority for the period ending December 31, 1982. The additional guarantee authority differs from the guarantee authority available in 1980 and 1981 in that it is available only after the full non-federal assistance as defined in section 4(a)(3) required for 1982 has been utilized. Thus $103 million of guaranteed loans can only be issued after $115 million in non-federal assistance has been utilized.
Similarly, section 8(e) provides an additional $103 million in federal guarantee authority for the period ending December 31, 1983. As in subsection (d) this authority is available only after $115 million in non-federal assistance has been utilized.

Presented below is a chart which provides a summary of the guarantee available and the required non-federal contribution for each year:

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<tbody>
<tr>
<td>Federal guaranteed loans</td>
<td>$783</td>
<td>$783</td>
<td>$103</td>
<td>$103</td>
</tr>
<tr>
<td>Non-Federal commitments and concessions</td>
<td>$500</td>
<td>$300</td>
<td>$115</td>
<td>$115</td>
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1. Issued in a 7-5 ratio to private commitments.
2. Issued after prior commitments and concessions have been utilized.
3. Does not include savings obtained from wage freeze.

Section 9. Terms and conditions of loan guarantees

Section 9 sets certain other terms and conditions for loans guaranteed under this Act.

Section 9(a) requires that such loans shall be payable in full not later than December 1, 1990, thus confining them to a maturity of approximately 11 years, and it also states that the terms and conditions of such loans shall provide that they cannot be modified or amended or have any provision waived without the Board’s consent.

Section 9(b) provides that any commitment to issue guarantees entered into pursuant to this Act shall contain all of the affirmative and negative covenants and other protective provisions that the Board determines are appropriate. This subsection also contains some important protection for the guaranteed loans. It provides that the Board shall require security for the loans to be guaranteed at the time the commitment is made, that it shall require subordination of existing loans to the Corporation to the loans to be guaranteed, and that payment of dividends on any common or preferred stock issued by the Corporation while any guaranteed loan is outstanding is prohibited.

Presumably in this case, issued by the Corporation means issued either prior or subsequent to the enactment of the loan guarantee legislation.

The Committee agreed to an amendment deleting a requirement in the Committee bill that the Board require subordination of future loans of the Corporation to the loans to be guaranteed and substituting the requirement that under no circumstances shall any loan guaranteed under this Act be subordinated to any future loan to the Corporation. According to Administration officials, it may be necessary to waive the right to subordination in some cases to obtain new loans to the Corporation on an unguaranteed basis in the future. In the event that this is done, the Federally guaranteed loans would then have to be at least pari passu with the new unguaranteed loans. Despite having accepted this amendment, Members of the Committee agreed that this authority should be used only in extraordinary and unusual cases.

Section 10. Inspection of documents; Audit by the General Accounting Office

Section 10 provides full authority for both the Board and the General Accounting Office to have access to all accounts, books, records, memoranda, correspondence, and other documents and transactions of the Corporation and any other borrower requesting a guarantee under this Act. The GAO is also authorized to make such audits as may be deemed appropriate by the Comptroller General and to report the results of such audits to the Congress.

Section 11. Protection of the Government’s interest

Section 11 provides various rights and remedies which shall be available to the Board or the United States pursuant to the commitment or issuance of guarantees under this Act.

Section 11(a) is a general provision asserting the Board’s authority to take such action as may be appropriate to enforce any such right accruing to the United States or any officer or agency therefore.

Section 11(b) is a specific provision added to the Committee bill which provides that if the Corporation undertakes a sale of any asset having a value in excess of $5 million, and if the Board determines that such sale is likely to impair the ability and capacity of the Corporation to repay the guaranteed loans as scheduled, or to impair the ability of the Corporation to continue as a going concern or to meet such other tests of viability as the Board shall prescribe, then the Board can withhold the issuance of any further guarantees and require that all guaranteed loans outstanding be non-interest and payable in full. This provision is intended to insure that the Corporation not be permitted to make any sales of significant assets for short-term financial gain or other purposes which might, in fact, impair the viability of the Corporation on a long-term basis, and thus also jeopardize the Security for and repayment of the guaranteed loans.

Section 11(c) has a similar intent to the previous section, in that it applies similar standards to contracts. It provides that if the Corporation enters into any contract having an aggregate value of $10 million or more, including but not limited to future wage and benefit settlements, then the Board must determine and certify that the performance of the obligations of the Corporation pursuant to such contract will not reduce the ability and capacity of the Corporation to repay the guaranteed loans as scheduled, will not conflict with the Corporation’s operating plan or financing plan, and will not impair the ability of the Corporation to continue as a going concern or to meet such other tests of viability as the Board shall prescribe. If such determination and certification cannot be made in the case of any particular contract, then the Board shall be precluded from issuing any further guarantees until such certification can be made, and again all guaranteed loans outstanding would be due and payable in full. This provision is intended to insure that the Chrysler Corporation does not enter into any contracts, and particularly any labor contracts extending beyond the period of the three-year wage freeze provided in the Committee bill, which might impair the Corporation’s long-term viability, and would also jeopardize its capacity to repay the Federally guaranteed loans.
Section 11(d) of the Act entitles the Board to recover the amount of all payments made pursuant to any guarantee under this Act, and upon making any such payment, to be subrogated to the rights of the recipient thereof.

Section 11(e) of the Act requires that the remedies provided under this Act shall be cumulative and not in limitation of or substitution for any other remedy available to the Board or to the Federal government.

Section 11(f) authorizes the Board to bring action in any United States District Court or any other appropriate court to enforce compliance with the provisions of the Act or any agreement related thereto.

Section 11(g) of the Act provides that no loans shall be guaranteed under this Act of the income from such loan is excluded from Federal income taxes.

Section 11(h) provides for severability if any provision of this Act is held to be invalid, or if the application of such provision to any person or circumstance is held to be invalid by a court of competent jurisdiction.

Section 12. Long-term planning study

Section 12 requires the Secretary of Transportation, after consultation with the Secretary of Energy, to submit to the Board and to the Congress as soon as practicable, but not less than six months after the date of enactment of this Act, an assessment of the long-term viability of the Chrysler Corporation's involvement in the automobile industry. The study shall involve an assessment of the impact of likely energy trends and events on the automobile industry, and shall include information on long-term capital requirements, rates of technological change, shifting market characteristics, and the capability of the industry as a whole to respond to the requirements of the 1980's. The study shall evaluate the adequacy of the automobile industry under its existing structure to make technological and corporate adjustments, and shall examine the Chrysler situation as a particular example of the problems involved.

Subsection (b) of this section requires the Secretary of Transportation, through the Transportation Systems Center, to collect data and perform the analyses necessary for the preparation of the assessment required by subsection (a). In addition, it requires the Secretary to prepare and transmit to the Congress on an annual basis a comprehensive assessment of the state of the automobile industry and its interaction in an integrated economy. Included in this annual assessment should be such issues as capital and material requirements of the industry and availability of resources to meet these requirements, the importance of personal mobility factors, national and regional unemployment, trade and balance of payments problems, the industry's competitive structure, and the effects of utilization of other modes of transportation on the automobile industry.

Subsection (c) requires the Board to take the results of the study prepared under subsection (a) and the annual assessments provided under subsection (b) into account in the process of examining and evaluating the corporation's operating and financing plans.

Section 13. Federal Reserve Banks as fiscal agents

Section 13 provides that any Federal Reserve bank which is requested to do so shall act as fiscal agent for the Board, and each such fiscal agent shall be reimbursed for all expenses and losses incurred.

Section 14. Reports to Congress

Section 14 requires that the Board submit to the Congress semi-annually a full report of its activities under this Act during fiscal years 1980 and 1981 and annually thereafter so long as any guaranteed loans are outstanding.

Section 15. Federal Financing Bank

Section 15 prohibits the Federal Financing Bank from acquiring any obligation, the payment of interest or principal of which has at any time been guaranteed in whole or in part under this Act. The intent of the Committee in adopting this provision is to prevent loans guaranteed under this Act from being converted into off-budget direct loans through being purchased by the Federal Financing Bank, which is an off-budget agency.

Section 16. Authorization of appropriations

Section 16(a) authorizes to be appropriated beginning October 1, 1979, and to remain available without Federal fiscal year limitation, such sums as may be necessary to carry out the provisions of this Act.

Section 16(b) provides that not withstanding any other provisions of this Act, commitments to guarantee loans under this Act shall not exceed such limitations on such commitments as are provided in appropriations Acts. The intent of this language is to require that the limitations on loan guarantee authority under this Act be approved in appropriations Acts without making any implication that this action should be construed as conferring budget authority.

Section 17. Termination

Section 17 provides that the authority of the Board to make commitments or to issue guarantees under this Act expires on December 31, 1983. The purpose of this termination provision is to confine the authority of the Board to provide loan guarantees to the four-year period through fiscal year 1983 which has been determined by the Administration and by the Chrysler Corporation to be adequate to permit the Corporation to re-establish itself as a going concern in the automobile business and to regain long-term viability.

SECTION-BY-SECTION analysis

Short title

Section 1 cites the Act as the "Chrysler Corporation Loan Guarantee Act of 1979".

Definitions

Section 2 defines certain key terms used in the Act.

Section 2(1) defines the term "board" to mean the Chrysler Loan Guarantee Board established under Section 3.

Section 2(2) defines the term "borrower" to mean the Chrysler Corporation, any of its subsidiaries, or affiliates, or any other entity
which the Board may designate which borrows funds for the benefit or use of the Corporation.

Section 2(3) defines the term “corporation” to mean the Chrysler Corporation and its subsidiaries and affiliates.

Section 2(4) defines the term “financing plan” to mean a plan designed to meet the financing needs of the Corporation, as reflected in the operating plan defined under Section 2(8). The financing plan is required to indicate, for each year of the plan, and in accordance with the annual limitation established under Section 8, amounts to be provided at dates specified from internally generated sources of financing (including earnings, cost reduction measures, the effects of the three-year wage and benefit freeze required under Section 6), for loans guaranteed under this Act, and from non-Federally guaranteed assistance required under Section 4.

Section 2(5) defines the term “fiscal year” to mean the fiscal year of the Corporation, which is the calendar year.

Section 2(6) defines the term “going concern” to mean a Corporation whose projected net earnings are determined to be sufficient to maintain long-term profitability after taking into account probable fluctuations in the automobile market. This definition also requires that the Corporation meet such other tests of viability as shall be prescribed by the Board.

Section 2(7) defines the term “labor organization” to have the same meaning as in Section 2 of the Labor Management Relations Act of 1947.

Section 2(8) defines the term “operating plan” to mean a document which details the production, distribution, and sales plans of the Corporation, together with the expenditures needed to carry out those plans (including budget cash flow projections), on an annual basis. There must also be an energy efficiency plan setting forth steps to be taken by the Corporation to reduce United States dependence on petroleum.

Section 2(9) defines the term “persons with an existing economic stake in the health of the corporation” to mean banks, financial institutions, and other creditors, suppliers, dealers, stockholders, labor unions, employees, management, state, local, and other governments, and others directly deriving benefit from the production, distribution, and sale of products of the Corporation.

Section 2(10) defines the term “wages and benefits” to mean any direct or indirect compensation paid by the Corporation to employees of the Corporation, and it lists a number of different categories of compensation, as drawn from the contract negotiated by the United Auto Workers (UAW) with the Chrysler Corporation.

Chrysler Corporation loan guarantee board

Section 3 establishes a Chrysler Corporation Loan Guarantee Board consisting of the Secretary of the Treasury (as Chairperson), the Chairman of the Board of Governors of the Federal Reserve System, and the Comptroller General of the United States.

Authority for commitments for loan guarantees

Section 4(a) provides that the Board, on such terms and conditions as it deems appropriate, may make commitments to guarantee the pay-

ment of principal and interest on loans to a borrower but states that the Board do this only at the time the commitment is issued, that the Board make certain determinations, as follows:

Section 4(a)(1) requires the Board to determine that the commitment is needed to enable the Corporation to continue to furnish goods or services, and that failure to meet such need would adversely and seriously affect the economy of, or employment in, the United States or any regions thereof.

Section 4(a)(2) relates to the operating plan of the Corporation. Section 4(a)(2)(A) requires that the Corporation submit to the Board a satisfactory operating plan (including budget and cash flow projections) for the 1980 fiscal year and the next succeeding five fiscal years. That plan must demonstrate the ability of the Corporation to continue operations as a going concern in the automobile business, and after December 31, 1988, to continue such operations as a going concern without additional guarantees or other Federal financing. Section 4(a)(2)(B) requires that the Board must have received such assurances as it shall require that the operating plan is realistic and feasible.

Section 4(a)(3) relates to the financing plan of the Corporation. It requires that the Corporation submit to the Board a satisfactory financing plan which meets the financing needs of the Corporation as reflected in the operating plan for the period covered by such plan. The financing plan must include an aggregate amount of non-Federally guaranteed assistance of at least $1.43 billion, to be obtained (A) from financial commitments or concessions from persons with an existing economic stake in the health of the Corporation in excess of commitments and concessions outstanding as of October 17, 1979, or from other persons: (B) from capital to be obtained through merger, sale of securities or otherwise after October 17, 1979; and (C) from cash to be obtained from the disposition of assets of the Corporation after October 17, 1979.

Section 4(a)(4) requires the Board to determine that the Corporation has commitments for all financing contemplated by the financing plan. The Board must further determine that such financing is adequate and meets all of the Corporation’s projected financing needs during the period covered by the financing plan, after taking into account the amount of loan guarantees to be made and the anticipated savings as a result of the three-year wage and benefits freeze required under Section 6.

Section 4(A)(5) requires that the Corporation’s existing creditors have certified to the Board that they will waive their rights to recover under any other prior credit agreement which may be in default, unless the Board determines that the exercise of those rights would not have an adverse effect on the operating plan of the Corporation.

Section 4(b)(1) defines the terms “financing commitment,” “concession,” “capital,” and “cash to be obtained from the disposition of assets of the corporation” for the purpose of computing the aggregate amount of at least $1.43 billion in non-Federally guaranteed assistance required to be provided under subsection 4(a)(5). Both financial commitments and concessions must be legally binding commitments which have the effect of making additional financing available to the Corporation in excess of that available as of October 17, 1979. There is an exception in the case of a concession from a state, local, or other gov-
Section 4(c) sets specific amounts of non-Federally guaranteed assistance to be provided from specific parties, adding up to the aggregate total of $1.43 billion, and sets further conditions regarding the assistance to be provided in certain cases. The Board is authorized, as necessary, to modify the amounts of assistance required to be provided by any of the specific categories referred to in this subsection, so long as the aggregate amount of at least $1.43 billion in non-Federally guaranteed assistance required to be provided under subsection (a) remains the same.

Section 4(b)(2) requires that certain things be excluded in computing the aggregate amount of at least $1.43 billion in non-Federally guaranteed assistance. These include (A) the extent of any contribution, concession, or other element that does not actually and substantially contribute to meeting the Corporation's financing needs as defined in the financing plan; and (B) deferral of any dividends on common or preferred stock outstanding as of October 17, 1979.

Section 4(c) requires that the amount of guaranteed investments, common or defined as in the aggregate amount of at least $1.43 billion in non-Federally guaranteed assistance to be provided in certain cases. The Board is authorized, as necessary, to modify the amounts of assistance required to be provided by any of the specific categories referred to in this subsection, so long as the aggregate amount of at least $1.43 billion in non-Federally guaranteed assistance required to be provided under subsection (a) remains the same.

Section 5(b)(2) provides that any determination by the Board that the conditions established under this Act have been met shall be conclusive, and that such determination shall be evidenced by the making of the guarantee for which such determination is required. However, this subsection also requires that the Board transmit to the appropriate Committees of the Congress a written report setting forth each such determination and the reasons for making it not less than 15 days prior to the issuance of any guarantee, so that the determinations can be reviewed by these committees before the guarantees are issued. This subsection provides further that the validity of any guarantee when made by the Board under this Act shall be incontestable in the hands of a holder, except in the case of fraud or material misrepresentation, and it authorizes the Board to determine the form in which any guarantee made under this Act shall be issued.

Section 5(c) authorizes the Board to prescribe and collect at least annually a guarantee fee of not less than 1 percent per annum of the outstanding principal amount of loans guaranteed under the Act computed daily.

Section 5(d) provides that, to the maximum extent feasible, the Board shall ensure that the government is compensated for the risk assumed in making guarantees under this Act, over and above compensation provided by the guarantee fee required under subsection (c), and describes certain ways in which the Board might obtain such compensation.

Subsection 5(e) provides that all amounts collected by the Board pursuant to subsection (c) and (d) shall be deposited in the Treasury as miscellaneous receipts.

Section 5(b) provides that any determination by the Board that the conditions established under this Act have been met shall be conclusive, and that such determination shall be evidenced by the making of the guarantee for which such determination is required. However, this subsection also requires that the Board transmit to the appropriate Committees of the Congress a written report setting forth each such determination and the reasons for making it not less than 15 days prior to the issuance of any guarantee, so that the determinations can be reviewed by these committees before the guarantees are issued. This subsection provides further that the validity of any guarantee when made by the Board under this Act shall be incontestable in the hands of a holder, except in the case of fraud or material misrepresentation, and it authorizes the Board to determine the form in which any guarantee made under this Act shall be issued.

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Requirements Applicable to Employees

Section 6(a) provides that no loan guarantees may be issued at any time unless the Board determines that the Corporation is implementing a three-year wage and benefit freeze applicable to all of its employees, both those represented by labor organizations and those not represented by labor organizations. Some very limited increases are permitted with respect to basic pension benefits and to insurance premiums for the maintenance of medical benefits. Certain exceptions to the three-year wage and benefits freeze are permitted under limited conditions. With respect to employees not represented by a labor organization, there may be increases resulting from increases in the Corporation's production level, in accordance with a determination by the Board. In the case of employees represented by a labor organization, there are two ways in which increases in wages or benefits may be permitted.

The first is by a determination of the Board, after September 13, 1981, that the approximately $4 billion in financial assistance added to the Corporation under this Act feeds by a specified amount, the Corporation's needs as defined in revised operating and financing plans; (2) that the reduction of such specified amount in the $4 billion required will not impair the Corporation's ability to continue as a going concern or to meet other tests of viability prescribed by the
Board; and (3) that the Corporation is in compliance with all terms and conditions imposed under the Act. Upon making such determinations, the Board may permit the Corporation to negotiate and enter into an agreement with a labor organization which provides an increase in the levels and amounts of wages and benefits for the third year of the freeze, so long as such increase is not more than 50 percent of the specified amount of the reduction in the total amount of financial assistance required of approximately $4 billion. When any such agreement becomes effective, the Board must then provide for reductions in the amount available for federal loan guarantees or commitments and the amount of non-federally guaranteed assistance to be obtained, each by not more than 25 percent of the specified amount of such reduction. A second exception to the three-year wage freeze is permitted in a case in which the Board makes a determination that cash contributions from labor organizations or employees are legally committed so that the total contribution from employees and labor organizations over the three-year period will exceed the total amount of wages and benefits foregone.

The Board may then permit an increase in the levels and amounts of wages and benefits if: 1) such increase will not impair the ability of the Corporation to continue as a going concern or to meet other tests of viability as prescribed by the Board; and 2) the amount of such increase does not exceed the amount of cash contributions committed.

EMPLOYEE STOCK OWNERSHIP PLAN

Section 7(a) provides that no commitments to guarantee may be made or guarantees issued under the Act until the Corporation, in written agreement with the Board which is satisfactory to the Board, establishes an employee stock ownership plan (ESOP) and contributes $250 million in newly issued common stock to the plan over the four-year period of the loan guarantee program. The ESOP as established must comply with applicable requirements of the Internal Revenue Code of 1954 and must satisfy the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), with certain limitations, all employees of the company will participate in the ESOP. Each participating employee will receive an equal allocation of stock in the Corporation to his ESOP account each year, and each employee will automatically have a 100 percent nonforfeitable interest in these allocations. The voting rights on such stock will flow through to the employee. No guarantee or commitment to guarantee any loan under this Act may be made after the close of the 180 day period following the date of enactment of the Act unless the Corporation has established an ESOP meeting the requirements of this section. Stock contributed or sold to the ESOP under the provisions of Section 7 shall not be deemed to satisfy any sale of equity securities by the Chrysler Corporation provided by any other section of this Act.

The bill authorizes sums that are necessary to carry out this Act, and requires that commitments to guarantee loans under this Act shall not exceed limitations provided in general provisions of appropriations acts. Sales of any obligations guaranteed under the Act to the Federal Financing Bank are prohibited.

LIMITATIONS ON GUARANTEE AUTHORITY

Section 8(a) provides that the authority of the Board to extend guarantees under this Act shall not at any time exceed $1.25 billion in aggregate principal amount outstanding, and that that amount shall be reduced by the amount of any repayments. However, the latter limitation shall not apply to any repayment of a loan which is repaid in full within one year of the date on which the loan is made.

Sections 8(b), (c), (d), and (e) establish annual limitations on the amounts of guarantees to be provided in each year of the loan guarantee program, set requirements for the amounts of non-Federally guaranteed assistance to be made available prior to the issuance of Federal guarantees at any time in any year of the program, and include other conditions to be met in order for guarantees to be provided in specific years.

TERMS AND CONDITIONS OF LOAN GUARANTEES

Section 9(a) provides that loans guaranteed under this Act shall mature not later than December 31, 1990, and that the terms and conditions of such loans shall provide that they cannot be amended or any provision waived without the Board’s consent.

Section 9(b) provides that any commitment to issue guarantees entered into pursuant to this Act shall contain all the affirmative and negative covenants and other protective provisions that the Board determines are appropriate. This subsection further provides that the Board shall require security for the loans to be guaranteed under the Act at the time the commitment is made, subordination of existing loans to the Corporation to the loans to be guaranteed, and prohibition of the payment of dividends on any common or preferred stock issued by the Corporation while any guaranteed loan is outstanding. Under no circumstances shall any loan guaranteed under this Act be subordinated to any future loan to the Corporation.

INSPECTION OF DOCUMENTS: AUDIT BY THE GENERAL ACCOUNTING OFFICE

Section 10(a) authorizes the Board to inspect and copy all accounts, books, records, memoranda, correspondence, and any other documents and transactions of the Corporation and any other borrower requesting a guarantee under the Act, at any time a request for a loan guarantee is pending or a loan guaranteed under the Act is outstanding.

Section 10(b) provides that the General Accounting Office may make such audits as it deems appropriate of all accounts, books, records, memoranda, correspondence, and any other documents and transactions of the Corporation and any other borrower. This subsection provides further that no guarantee may be made under this Act unless and until the Corporation and any other borrower agree in writing to allow the GAO to make such audits. The results of all such audits must be reported to the Congress.
Section 11(a) provides that the Board shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency thereof as a result of the commitment or issuance of guarantees under this Act.

Section 11(b) and (c) authorize the Board, in effect, to disapprove the sale of any asset with a value in excess of $5 million by the Corporation, or the entering into by the Corporation of any contract, including but not limited to future wage and benefit settlements, if the Board determines that such sale or the performance of the obligation pursuant to such contract will (a) impair the ability and capacity of the Corporation to repay the guaranteed loans as scheduled or (b) impair the ability of the Corporation to continue as a going concern or to meet such other tests of viability as the Board shall prescribe. In event that the Board makes such determinations, it shall not issue any further guarantees for loans under this Act, and all guaranteed loans made prior to such determination shall be due and payable in full.

Section 11(d) provides that the Board shall be entitled to recover from the borrower or any other person liable therefore, the amount of all payments made pursuant to any guarantee entered into under this Act, and upon making such payment, the Board shall be subrogated to all the rights of the recipient thereof.

Section 11(e) provides that the remedies provided in this Act shall be cumulative and not in limitation of or substitution for any other remedy available to the Board or to the United States.

Section 11(f) authorizes the Board to bring action in any U.S. district court or any other appropriate court to enforce compliance with the provisions of the Act or any agreement related thereto.

Section 11(g) provides that a loan shall not be guaranteed under this Act if the income from such loan is excluded from Federal income taxes.

Section 11(h) provides for severability if any provision of this Act is held to be invalid, or if the application of such provision to any person or circumstance is held to be invalid by a court of competent jurisdiction.

**LONG-TERM PLANNING STUDY**

Section 12(a) provides that the Secretary of Transportation, after consultation with the Secretary of Energy, shall submit to the Board and to the Congress as soon as practicable, but not later than six months after the date of enactment of this Act, an assessment of the long-term viability of the Corporation's involvement in the automobile industry.

Section 12(b) requires that the Secretary prepare and transmit to the Congress annual comprehensive assessments of the state of the automobile industry.

Section 12(c) requires the Board to take the results of the study required under subsection (a) and of each annual assessment required under subsection (b) into account when examining and evaluating the Corporation's financing and operating plans.

**FEDERAL RESERVE BANKS AS FISCAL AGENTS**

Section 13 provides that any Federal bank which is requested to do so shall act as fiscal agent for the Board, and each such fiscal agent shall be reimbursed for all expenses and losses incurred.

**REPORTS TO THE CONGRESS**

Section 14 requires that the Board submit to the Congress semi-annually a full report of its activities under this Act during fiscal years 1980 and 1981 and annually thereafter so long as any guaranteed loans are outstanding.

**FEDERAL FINANCING BANK**

Section 15 prohibits the Federal Financing Bank from acquiring any obligation, the payment of interest or principal of which has at any time been guaranteed in whole or in part under this Act.

**AUTHORIZATION OF APPROPRIATIONS**

Section 16(a) authorizes to be appropriated beginning October 1, 1979, and to remain available without Federal fiscal year limitation, such sums as may be necessary to carry out the provisions of this Act.

Section 16(b) provides that not withstanding any other provisions of this Act, commitments to guarantee loans under this Act shall not exceed such limitations on such commitments as are provided in appropriations Acts.

**TERMINATION**

Section 17 provides that the authority of the Board to make commitments or to issue guarantees under this Act expires on December 31, 1983.

**COST OF THE LEGISLATION**

Pursuant to section 252(a) of the Legislative Reorganization Act of 1970, The Committee accepts as its own the following cost estimate supplied by the Congressional Budget Office:

**CONGRESSIONAL BUDGET OFFICE, U.S. CONGRESS, WASHINGTON, D.C., DECEMBER 5, 1979.**

**HON. WILLIAM PROXMIRE, CHAIRMAN, COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, U.S. SENATE, DIRKSEN SENATE OFFICE BUILDING, WASHINGTON, D.C.**

**DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for the Chrysler Corporation Loan Guarantee Act of 1979. Should the Committee so desire, we would be pleased to provide further details on this estimate. Sincerely,**

**ROBERT D. RAECHAUER, EXECUTIVE DIRECTOR, CONGRESSIONAL BUDGET OFFICE.**
1. Bill number: Not yet assigned.
3. Bill status: As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs, November 29, 1979.
4. Bill purpose: The purpose of this legislation is to authorize loan guarantees to the Chrysler Corporation. The amount of outstanding principal that the Secretary of the Treasury may guarantee at any one time shall not exceed $1.25 billion. The bill also establishes the Chrysler Loan Guarantee Board to administer the program. The Board is to consist of the Secretary of the Treasury, the Chairman of the Federal Reserve System, and the Comptroller General of the United States.
5. Cost estimate: The federal government would only incur costs (other than administrative costs) as a result of loan guarantees if Chrysler were to default on the loans. At the time of default, the government would be liable for the outstanding principal balance (a maximum of $1.25 billion), plus any accrued but unpaid interest. The following table shows the estimated amount of principal outstanding at the end of each year, given all of the assumptions detailed below. As an example, if Chrysler were to default at the end of fiscal year 1982, the government's liability is estimated to be approximately $0.9 billion plus unpaid accrued interest. The Board is to require security for the loans to be guaranteed, and all existing and future loans to Chrysler are to be subordinated to the guaranteed loans. In the event that guarantee payments are required, the government would be entitled to seek to recover from Chrysler the amount of such payments and would have all rights previously held by the recipient of the payments.

**By fiscal years, in billions of dollars**

<table>
<thead>
<tr>
<th>Year</th>
<th>Outstanding Principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.7</td>
</tr>
<tr>
<td>1981</td>
<td>0.9</td>
</tr>
<tr>
<td>1982</td>
<td>0.9</td>
</tr>
<tr>
<td>1983</td>
<td>0.8</td>
</tr>
<tr>
<td>1984</td>
<td>0.7</td>
</tr>
</tbody>
</table>

As stated in the bill, the government will charge Chrysler a guarantee fee plus compensation for the risk assumed by guaranteeing the loans. Assuming all loans are repaid in full, the government would receive a total of approximately $125 million in receipts, as shown in the following table.

**By fiscal years, in millions of dollars**

<table>
<thead>
<tr>
<th>Year</th>
<th>Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>11</td>
</tr>
<tr>
<td>1981</td>
<td>29</td>
</tr>
<tr>
<td>1982</td>
<td>29</td>
</tr>
<tr>
<td>1983</td>
<td>25</td>
</tr>
<tr>
<td>1984</td>
<td>22</td>
</tr>
<tr>
<td>1985-89</td>
<td>17</td>
</tr>
</tbody>
</table>

Expenses expected to be incurred by the Board for program administration and by the Department of Transportation for the long-term planning study are shown below.

By fiscal years, in millions of dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Authorization Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1.5</td>
</tr>
<tr>
<td>1981</td>
<td>1.5</td>
</tr>
<tr>
<td>1982</td>
<td>1.5</td>
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<tr>
<td>1983</td>
<td>1.5</td>
</tr>
<tr>
<td>1984</td>
<td>1.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1.0</td>
</tr>
<tr>
<td>1981</td>
<td>1.5</td>
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<tr>
<td>1982</td>
<td>1.5</td>
</tr>
<tr>
<td>1983</td>
<td>1.5</td>
</tr>
<tr>
<td>1984</td>
<td>1.0</td>
</tr>
</tbody>
</table>

6. Basis of estimate: For purposes of this estimate, it is assumed that only $1.25 billion will be guaranteed, and that the loans will be guaranteed in accordance with the schedule given in the bill; i.e., $750 million will be guaranteed in 1980, $261 million in 1981, $103 million in 1982, and $103 million in 1983. The term is assumed to be seven years for all loans. The first loan is assumed to be guaranteed in April 1980, and loan repayments are assumed to be made on a quarterly basis. The estimated receipts to the government, totalling $125 million, are based on a charge of 1 percent of the outstanding principal as a guarantee fee, plus compensation for the risk assumed by the government in issuing the guarantees. This risk factor is assumed to be the difference in the projected average yield on outstanding obligations of the United States with comparable maturity periods and the rate Chrysler would have to pay in the private sector with no government guarantee. This difference is estimated to be 2 percent, and is applied to the declining principal.

Administrative and monitoring expenses of the Board and the required reports are assumed to cost approximately $1.5 million each year through 1983, dropping to $1.0 million in 1984. This estimate is based on the Treasury Department's expenses for administering the New York City loan guarantee program and on the Department's projected costs for this program.

7. Estimate comparison: None.

8. Previous CBO estimate: On November 27, 1979, the Congressional Budget Office prepared an estimate of the costs of H.R. 8660, as ordered reported by the House Committee on Banking, Finance and Urban Affairs. There are four major differences between the estimates for the House bill and the Senate bill. First, the total amount guaranteed in the House version was assumed to be $1.5 billion, $250 million more than the Senate bill. Second, the assumed rate of disbursement of the loans is slightly different; the estimate for the House bill assumed guarantees of $750 million in 1980, $300 million in 1981, $250 million in 1982, and $200 million in 1983. Third, the amount of the guarantee fees in the House bill was specified to be one-half of one percent, as compared to 1 percent for the Senate bill. Although the fee rate is
higher in the Senate bill, the total estimated receipts to the government are estimated to be the same as in the House bill ($125 million), because of the higher total amount being guaranteed. Lastly, the House version of the bill did not include the Loan Guarantee Board, and no costs were included in the estimate for administrative expenses.

10. Estimate approved by:
   James L. Blum,
   Assistant Director for Budget Analysis.

EVALUATION OF REGULATORY IMPACT

In accordance with paragraph 5(a) of rule XXIX of the Standing Rules of the Senate, the Committee has evaluated the regulatory impact of the bill. The Committee concludes that the bill will have no regulatory impact.

CORDON RULE

In the opinion of the Committee, it is necessary to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate in order to expedite the business of the Senate in connection with this report.

ADDITIONAL VIEWS OF SENATOR PROXMIRe

I am opposed to the Chrysler Corporation Loan Guarantee Act, as reported by the Senate Committee on Banking, Housing and Urban Affairs, even though it is a vast improvement over the bill submitted by the Administration. The bill reported by the Committee contains a more realistic assessment of Chrysler's likely financial needs over the next four years, limits the amount and degree of Federal risk, and calls for specific and more substantial sacrifices by the parties with a stake in Chrysler's survival. If we are to have a Chrysler bail-out, the Senate Banking Committee bill represents the most realistic approach for achieving the financial recovery of the Corporation. Nonetheless, I still voted against the bill in Committee because I am opposed to the basic premise of the bill, and that is that the Federal government has an obligation to prevent the failure of individual firms.

We have a free enterprise economy and free enterprise means the freedom to fail as well as the freedom to profit. Last year, over 6,000 business firms went bankrupt and no one rushed to Washington with a bill to prevent their failure. If we bail out Chrysler, where do we draw the line? On what basis do we say that some firms but not others are worthy of a Federal bail-out?

Some might argue that Chrysler deserves Federal aid because it is an innocent victim of Federal over-regulation. But even the current Chairman of Chrysler has acknowledged that at least one-half of Chrysler's difficulties, and as much as 70 percent, may be due to its own mismanagement. Moreover, much of the regulatory costs imposed on Chrysler have been in the area of fuel efficiency standards. If these standards had not been imposed by regulation, Chrysler would be in even worse shape today given the dramatic shift in consumer demand for more fuel-efficient vehicles.

In the last analysis, the only reason we are bailing out Chrysler is that the sheer size of the corporation enables it to deploy enough lobbyists, public relations specialists, dealers and suppliers to bring its claims to the attention of the government ahead of the 6,000 other firms that routinely fail every year.

Much has been made of the cost of a Chrysler bankruptcy in terms of lost jobs, lost production, lost Federal tax revenues and higher welfare and unemployment compensation benefits. It has been argued that the potential cost to the Federal government alone of a Chrysler bankruptcy exceeds the amount of the Federal guarantee. However, the same analysis could be made for virtually all of the other 6,000 business failures. If it makes economic sense for the Federal government to rescue a big firm, why wouldn't it make just as much sense to rescue a lot of smaller firms?
The answer, of course, is that it doesn’t make economic sense to bail out individual firms, large or small. The costs of a bail-out are largely hidden, but in my view, substantially exceed whatever costs may be involved in a bankruptcy.

One immediate cost of a bail-out can be measured as the foregone benefits arising from the credit resources diverted to the failing firm. In the case of Chrysler, the Federal government will divert up to $1.25 billion in credit to Chrysler that in the absence of the guarantee, would have been loaned to more productive enterprises in the economy. Any proper measure of costs and benefits should include the jobs that are not created elsewhere in the economy as a result of diverting scarce credit resources to Chrysler instead of to other firms.

A more profound but immeasurable cost of the Chrysler bail-out is its effect on managerial efficiency not only in Chrysler but in all other large firms. Once we set the precedent that large firms cannot be permitted to fail, we erode the discipline of the market place and encourage other firms to avoid some of the tough decisions needed to maintain their financial strength. We already have one of the lowest rates of productivity growth in the industrialized world. If we involve the Federal government in propping up the least efficient firms, our long term productivity can only decline further.

This is why I believe the hidden costs of the Chrysler bail-out are many times whatever short term benefits may result and why I am therefore opposed to the bill. Nonetheless, I also believe the Corporation is entitled to a prompt decision by the Congress. Accordingly, I intend to do everything I can to expedite action on the legislation through the Senate and to defend the Senate Banking Committee bill against any weakening amendments.

BILL PROXMIIRE.

ADDITIONAL VIEWS OF SENATOR WILLIAMS

I am deeply concerned about the possibility of a Chrysler bankruptcy, with the likely effects that such a bankruptcy would have on the workers not only of the Chrysler Corporation, but of its suppliers and dealers, their families, and the communities in which they live. The effect of such a bankruptcy, with its attendant effects on workers and their communities, is a subject which Congress should properly be concerned with. However, I strongly disagree with the provisions of section 6 of the bill as reported by the Committee which would effectively require, as a condition of Chrysler receiving a loan guarantee, that Chrysler and the UAW renegotiate their recently ratified collective bargaining agreement. Of more concern, the bill’s provisions would dictate the terms of the collective bargaining agreement by not allowing for any increases in wages and most benefits for the entire three-year period of the agreement. Under current rates of inflation, these provisions would force organized Chrysler workers to take a 30 to 40 percent cut in real earnings with no provisions for recovery, and condemn them to the status of second class citizens in their communities. I also strongly disagree with the provisions of the bill that would unfairly discriminate against workers who belong to labor organizations by requiring that they agree to a freeze on wages and benefits, while allowing for increases in the wages and benefits of other employees and management.

RENEGOTIATION PROVISIONS

The provisions of section 6 of the Committee bill constitute an unprecedented and unwarranted intrusion by the Federal government into the freedom of contract and of collective bargaining. They bear profound and grave implications for the structure of collective bargaining. Moreover, rather than providing assistance to Chrysler in its current economic difficulties, these provisions may actually make things worse by undermining labor-management cooperation and worker morale and productivity at a critical time for that company.

One of the fundamental principles of our Federal labor laws is the concept that most labor-management strife can best be avoided by permitting both sides to freely bargain concerning wages and other terms and conditions of employment. This principle is recognized in the findings and policies of the National Labor Relations Act and in the statutory guarantees of that Act. The NLRA requires employers and recognized labor representatives of workers to bargain collectively in good faith and if and when reaching agreement on a contract, makes that contract enforceable in a court of law. Experience has repeatedly demonstrated that attempts to dictate or impose unacceptable terms for collective bargaining, whether unilateral-
ally by employers, by the courts, or by some other outside force, is more likely to produce labor strife, reduce employee morale and impair productivity.

The currently negotiated collective bargaining agreement between the United Auto Workers (UAW) and Chrysler was negotiated and democratically ratified pursuant to laws and public policy that have been the key to labor peace in our country. Both Chrysler and the Executive Branch have recognized that the workers have, in fact, made significant concessions in the negotiation of this agreement. Chrysler workers, through concessions already granted by the UAW, have contributed $200 million by active workers and retirees that are covered by the agreement. In addition, the UAW has agreed to let Chrysler defer and roll over a $200 million pension fund payment, thereby significantly improving the company's cash flows. In negotiating this agreement, Chrysler workers departed from more than four decades of industry bargaining tradition in agreeing to a contract with wages and benefits below those at other major automobile companies. I have no doubt that if the continued survival of the Chrysler Corporation were at stake, the UAW would meet with Chrysler and do whatever was within its power to assure the continued survival of the company. On the other hand, by forcing the UAW to renegotiate its collective bargaining agreement, the Committee bill would have the predictable effect of discouraging the negotiation of other concessions by the UAW, concessions which might well be voluntarily given by the union if it, itself, perceived such a need.

The Committee bill disregards the fact that the collective bargaining process is viable and flexible enough to accommodate the needs of Chrysler and the survival of the company. Instead, the bill would put the government in the highly irregular position of forcing the breach of a freely negotiated contract, and dictating the terms of a new one. The abrogation of an existing valid contract creates the additional possibility of suits against both the company and the labor organization by disgruntled employees. In addition, the renegotiation and re-ratification process is unavoidably time-consuming and speculative.

It should come as a surprise to no one who is familiar with the strong sense of freedom and individuality of the American worker that they would resent and resist the abrogation of their ratified contract and imposition of new terms under the coercion of the government. There can be little doubt that the parties to a contract have a property interest in that contract and the benefits which accrue to them under that contract. Forcing the abrogation of this contract would deny the workers their property rights under the contract, without due process of law. Indeed, the provisions of section 6, by forcing a freeze of wages and benefits, would require the workers to give up a substantial part of their real income under current anticipated rates of inflation and productivity gains. Unlike the case of loans, which are ordinarily repaid at interest, or loan guarantees, which earn their own fee, the worker's loss would be permanent with no provisions for recovery. Notwithstanding this considerable sacrifice, there is no assurance that many of these workers will not be laid off or terminated by Chrysler during the period of the contract. These provisions are punitive beyond any need or rationale. As noted, they carry with them the very real danger of instigating labor unrest and dissension when labor cooperation is necessary.

The provisions of the Committee bill are contrary to over forty years of national labor relations policy. They would involve the government to an extraordinary and unprecedented degree in the collective bargaining process. Never before have we legislatively mandated as a condition of Federal assistance, and under circumstances of extreme duress, that a company and a union abrogate a valid existing collective bargaining contract and dictate the terms of a renegotiated contract. Only under conditions of war or national emergency has the Federal government ever intervened so extensively in the collective bargaining process. The provisions of the bill would constitute a grave and dangerous precedent of government involvement in the collective bargaining process and interference in privately negotiated contracts.

UNEQUAL TREATMENT OF UNION AND NONUNION WORKERS

The Committee bill would discriminate against workers represented by unions by imposing the requirement that their wages and most benefits be frozen under the renegotiated collective bargaining agreement. No such treatment would be imposed on the wages and benefits of management and other unrepresented employees. On the contrary, the Committee bill provides that only the total annual cost of wages and benefits for employees not represented by a labor organization would not be increased over a three-year period. Since the number of employees in this group will probably be reduced, this provision would actually allow an increase in the wages and benefits of employees not represented by a labor organization. This disparate treatment of union and nonunion employees is the most invidious kind of discrimination and would create serious practical and legal difficulties for Chrysler and the UAW.

There is no practical or rational reason for such a disparate treatment of union and non-union employees by a Federal law. By compelling the prohibition of wage and most benefit increases of any sort to union employees while permitting wage increases to non-union employees, the provisions of section 6 of the Committee bill would seem to pose serious equal protection problems.

As a practical matter, the Committee bill would place the UAW in a totally untenable position. The UAW can hardly be asked to agree to negotiate a collective bargaining agreement which would freeze the wages and most benefits of the employees it represents, with the knowledge that no such freeze would exist for management and unrepresented employees. Were Chrysler and the UAW to agree to such a provision, it would totally destroy possibilities for labor cooperation and productivity during the period of the restructuring of Chrysler Corporation. Indeed, these provisions of the Committee bill would make it extremely difficult, if not impossible, to secure the concessions necessary for the loan guarantee. Far from giving assistance to Chrysler, we may be dooming that corporation to failure.
These specific objections to the bill as reported merely underline my deep reservations about the process we have been forced to engage in—a process which I believe suggests the need for a comprehensive national policy on economic dislocations.

There is widespread agreement that Chrysler is only the precursor of a long list of firms and industries which will face serious economic difficulties as they are forced to make basic structural and technological changes in order to effectively compete in an increasingly interdependent world market. Under these conditions, the political pressure to provide quick fixes is likely to intensify, rather than subside. I believe major firms, or industries.

This Committee has been through the near failure of the Lockheed Corporation, it has been the guarantor of New York City’s very survival for several years and now the Committee has had to make basic judgments about the tenth largest corporation in the United States. Recently, the Nation’s largest steel corporation announced a massive layoff program and a major corporate retrenchment that threatens the existence of several communities and compounds the human problems of thousands of families.

It is unwise in my judgment for the Congress, and for that matter for the Federal government, to attempt to manage on an ad hoc and piecemeal basis the very fundamental issues that are raised by the dislocations we are experiencing. 

HARRISON A. WILLIAMS, JR.

ADDITIONAL VIEWS OF SENATOR STEVENSON

The Committee has decided to provide Federal assistance to Chrysler despite considerable evidence during hearings that the assumptions which underlie the Administration’s plan are unsound. Relief for the company will likely be temporary and long-term worker benefits illusory.

While the Committee's bill puts taxpayers' money at risk in this exercise, the nation enters the 1980's with an aging industrial structure. We face stiff foreign competition with no framework for an industrial policy. It is easy to regard the proposed bailout for Chrysler as a one-time phenomenon, to pretend that we can hand over $1.25 billion in a manner so grudging that no firm will again seek such assistance. But this process is a small price to pay, and vastly more comfortable, than the alternatives of bankruptcy or reorganization. We delude ourselves: we have heard this argument before. It is made for every bailout.

Conditions are always attached. And if they pinch, they are lost on the Senate floor, or in Conference, or in Committee. Even if approved, they do nothing, except to fine tune another bailout—again. The outcome is the same.

By guaranteeing these loans we divert $4 billion in capital resources to a firm which is a singularly poor risk. The entire pool of venture capital in the country invested in new, high technology and other enterprises this year was under $300 million—less than ten percent of what we are prepared to invest in Chrysler. Even if Chrysler is saved it will not generate more wealth or employment than the $300 million invested in the enterprises of the future. The Administration proposed $55 million in additional funding for industrial innovation one day—and $1.5 billion the next for Chrysler. The $1.5 billion in Federal and State assistance exceeds all the authority of EDA for adjustment assistance to all workers, all communities and all companies in the country. Comparisons of this kind and weighing of such priorities have been absent from the Committee’s debate.

Productivity is declining. Per unit labor costs are rising. Inflation continues, and our action is another bailout for an inefficient, uncompetitive firm.

We ignore the issues which brought Chrysler to this pass. We do not have to look far for evidence of the “Chrysler syndrome.” Ford has joined the billion dollar league. U.S. Steel announces it can no longer produce steel profitably in many of its plants. Five other steel companies are already receiving Federal assistance. The textile industry is in chronic difficulty.

In just the first wave of layoffs, U.S. Steel has disgorged 13,000 workers. In the auto industry, 130,000 are on temporary or indefinite layoff. And our programs of “adjustment assistance” are ineffective. Mechanisms are available, but they lack funds and a mandate. We pre-
for the illusions that Chrysler is an anomaly and that we are helping workers, while, in fact, consigning them to lives on and off the unemployment rolls.

Economic efficiency and social welfare could both be served if the Federal Government accepted its responsibility for an industrial strategy and effective adjustment assistance to facilitate the flow of labor and capital from declining companies and sectors to expanding, employment-generating ones. But this government does not resist the pressure—and so it goes the British route—resisting change, instead of adapting to it—as do the Japanese and West Germans.

The alternative to bailing out Chrysler is not Government inaction. It should be, instead, a package of guarantees, loans, and direct grants, when necessary, to firms which would reshape Chrysler's assets and, for assistance to workers in need of retraining, relocation, and new employment. The Treasury Department lacks the authorities, tools, and mandate to construct such a package. It approaches the Chrysler request—as it did Lockheed's—on an ad hoc financing basis and not in the context of U.S. industrial strategy.

A sound industrial strategy will not be developed without a change in our habit of responding with billion dollar bailouts and reserving only lip service and small change for efforts to spur research, innovation and capital for the future. With ad hoc approach to crises and no systematic approach to adjustment, as in other nations, political pressures in the United States dictate recourse to loan guarantees which simply prop up the existing structures, no matter how futile and wasteful and cruel to the human beneficiaries of our professed solicitude.

With the trade reorganization plan, the domestic policy review of industrial innovation, and the expanded EDA business development programs recently passed by both the Senate and the House, we are developing within the Department of Commerce a capacity for informed and coherent industrial policy-making. We should support and prod this process, and resist giving responsibility for fragments of industrial policy to the Treasury Department—or more ad hoc Boards.

The $1.25 billion in loan guarantees could be used to aid the survivors of Chrysler and facilitate the process of adjustment. My bill, S. 2033, gives EDA the flexibility, the authority and the mandate to assist the flow of labor and capital out of declining sectors of the economy and towards more innovative expanding, employment-generating enterprises.

No legislation can map or promise the magic balance which could minimize all the social and economic costs of a Chrysler bankruptcy, or transplant displaced workers painlessly into new and rewarding careers. No adjustment is painless. But we could move substantially in the direction of effective adjustment assistance with reform and expansion of the programs we have. S. 2033 is an option to be preferred over the bill approved by the Committee.

ADLAI E. STEVENSON.

ADDITIONAL VIEWS OF SENATOR RIEGLE

The Senate Banking Committee has completed action on “The Chrysler Corporation Loan Guarantee Act of 1979.” I voted to report this bill out of Committee so the full Senate can promptly consider this vital issue. Nevertheless, I believe the bill, in its present form, is not an adequate response to the problem of Chrysler, and some basic changes in this proposal are needed if Chrysler is to be saved.

Federal assistance to Chrysler is clearly in the national interest. After nine days of hearings, the Banking Committee acknowledged as much by its overwhelming decision to report the bill.

On the surface it may seem easy to write off the difficulties of the Chrysler Corporation as the result of bad management and tough competition. It is tempting to say that the free enterprise system provides a solution through bankruptcy—and leave it at that.

Unfortunately, the problem is far more complex than that. Deeper analysis shows that Chrysler is a major national problem and there are no easy or painless answers.

SCOPE OF CHRYSLER

I became seriously involved with this problem some months ago because Chrysler has so many manufacturing facilities and employs so many workers in my State of Michigan. I did not at first realize the tremendous size and economic reach of this firm. It is the tenth largest industrial corporation in our nation, with sales last year of over $13 billion.

Chrysler Corporation in 1978 employed some 140,000 persons in its manufacturing operations. With 20,000 independent supplier companies and 4,800 independent retail dealerships located in all fifty states, a total of 430,000 jobs are directly involved.

Payroll losses and cancellation of Chrysler’s capital spending program would send further shockwaves throughout the economy. In the event of a shutdown, some 600,000 jobs would be lost at least temporarily, and most of the affected workers would be reabsorbed into the workforce only gradually. With a national recession now clearly gathering force, this massive additional dose of unemployment could hardly come at a worse time.

A hidden fact uncovered by the Department of Transportation is that 10% of the total income of Black Americans is derived from Chrysler. This results largely from Chrysler's sheer size and the Corporation's long commitment to major inner-city manufacturing facilities and a strong affirmative action program.

IMPACT OF A COLLAPSE

A Chrysler bankruptcy would have a major impact on the Federal Budget—the Federal deficit would rise by $2 billion at the very least
and could easily rise by between $6 billion to $10 billion over the next two years. The U.S. has never experienced the financial collapse of a company of this size. No one corporation has ever unleashed such a massive windfall of tax revenues and such an enormous surge in expenditures for unemployment compensation, food stamps, home mortgage defaults and federally guaranteed pensions.

These numbers, enormous as they are, do not begin to measure the severe human impact of such an event. A difficult but inescapable fact is that the Federal Government will be deeply involved in Chrysler in one form or another.

**HISTORIC CONVERSION OF AMERICAN CAR MAKING CAPACITY**

The entire American automobile industry is now in a sales tailspin. Ford, GM and Chrysler are all reporting substantial domestic operating losses due to tight monetary policy, an emerging recession and a radical shift in car buying preferences to small, fuel-efficient cars. The Iranian oil cutoff, gas lines earlier this year and the sharply increased prices of gasoline have profoundly changed consumer buying choices.

Each domestic auto company is converting its production to smaller cars as quickly as it can. The schedules of regulations for emissions, safety features and fuel efficiency have together been forcing constant high levels of capital spending. A major segment of America's industrial base has suddenly become obsolete. Expensive plant and equipment must be replaced between 1978 to 1984 at the cost of some $80 billion.

All American automakers are under serious financial pressure. GM and Ford will have the broad financial strength needed to handle this transition despite the economic downturn and the reduction in auto sales. The Chrysler Corporation does not have those resources and so is now being pushed to the very edge of bankruptcy.

**CURRENT TRADE ADVANTAGE OF FOREIGN FIRMS**

These developments present Japanese and European auto manufacturers with an unprecedented opportunity to increase their market shares in the United States dramatically. For years public policies have kept gasoline very expensive in their own countries. They have long had strong market incentives to develop small fuel-efficient cars. So today these foreign manufacturers are perfectly positioned to meet the sharply changed U.S. market.

American automakers, on the other hand, have had fundamentally different market incentives. In fact, until very recently, the relative price of gasoline in the U.S. had been falling since 1974. Even now, just across the border in Canada where the price of gasoline is still low, large cars are the sales leaders and there is little demand for smaller fuel-efficient models.

If Congress does not act intelligently, the impact on our balance of trade will be severe. The motor vehicle trade deficit of $7 billion constituted the second largest item—after oil—in our balance of payments deficit for 1978. The motor vehicle deficit promises to be even higher this year. The capacity of GM and Ford to produce small cars is already strained.

**NEW BENEFITS FROM CHRYSLER**

The great irony is that Chrysler is only ten months away from being able to produce 500,000 new, fuel efficient cars that incorporate the latest technology. Chrysler is now spending $1 billion to install state of the art production facilities for four cylinder engines and front wheel drive transaxles. Numerous market studies have shown that these new Chrysler cars will meet this foreign competition directly and reduce our balance of payment deficit.

There is a compelling national interest in allowing Chrysler to complete those new production lines and increase the U.S. capacity to manufacture smaller, fuel-efficient cars. Even if Chrysler, in the long run, proved unable to continue as an independent auto company, the company would, one or two years from now, be a much more attractive candidate for merger or joint ventures with other firms. Those newly modernized plants would continue to operate and those jobs would remain in the United States.

By contrast, if Chrysler were to collapse now, numerous bitter lawsuits would throw the schedules of plant construction and tooling installation into turmoil. Foreign auto companies, of course, are hoping that the Chrysler loan guarantee legislation will be defeated so that they can expand their sales.

Chrysler, which certainly made its share of mistakes in the past, has an entirely new management team headed by Lee Iacocca, formerly of the Ford Motor Company. The operating plan that has been developed by Chrysler, and exhaustively reviewed by competent and independent outside professionals, indicates that this company can work through its current cash flow difficulties, remain an essential part of America's industrial base, and return to profitability.

For these reasons, I am convinced that it is in the national interest to provide effective, carefully controlled financial assistance to Chrysler.

**PRUDENT, WORKABLE LEGISLATION NEEDED**

The government has extensive experience to draw on in approaching this issue. Some $240 billion in outstanding federal loan guarantees have been extended for a wide variety of purposes to thousands of firms, large and small. Government aid was also tailored to help the American Motors Company deal with the cost of regulation and has enabled a return to profitability.

A response to the financial problems of Chrysler should protect the taxpayers' interests, require all non-Federal parties to provide substantial financial assistance to Chrysler, and avoid hobbing the corporation with Government-imposed rigidities and red tape.

Loan guarantee legislation that went to the Senate Banking Committee provided the material for drafting such a prudent, workable response. That legislation was backed by a bipartisan coalition of twelve Senators. It reflected the Treasury Department's extensive analysis of Chrysler and past experience in managing similar programs.

Unfortunately, the bill that has been reported from the Senate Banking Committee is not, in its present form, a workable response to the problem. In its present form, the bill contains requirements that go
beyond what can be reasonably accomplished. It is my hope that a modified proposal can be available for consideration when the Senate takes this matter up.

PROBLEMS WITH REPORTED BILL

Let me now indicate some of the problems with the bill as reported by the Banking Committee. First, before any Federal aid could be provided, the bill would force all non-Federal parties to make legally binding commitments based on a worst case assumption that Chrysler will incur a $4 billion financing deficit through fiscal year 1983. That amount is at least $1 billion higher than levels considered necessary by the numerous outside experts who have closely analyzed Chrysler. It would make virtually impossible the already difficult task of negotiating the contributions from all parties.

A second major problem concerns the requirement within the Committee bill that the workers of Chrysler accept a three-year wage freeze. The recently negotiated wage agreement between Chrysler and the United Autoworkers would provide a $200 million saving to Chrysler. Over the course of the three-year contract, that is the equivalent of a one-year wage freeze. With the national inflation rate at 14 percent and rising, a three-year wage freeze would mean a reduction in real income for Chrysler workers of some 30 percent to 40 percent.

While the UAW workers under contract would represent some 124,000 jobs, the remaining 476,000 jobs attached to Chrysler would not be required to accept such a wage freeze. Any new labor contract would require renegotiation and ultimate worker ratification. After meetings of all the UAW locals within Chrysler it is the opinion of the UAW leadership that a three-year wage freeze would not win worker ratification. For reasons of equity and practicality the sacrifice to be required from the workers would have to be worked out at an appropriate level between the current one-year freeze and the three-year freeze proposed by the Committee.

The United Auto Workers have committed themselves publicly to making additional sacrifices beyond the one-year freeze and it is my hope that a compromise proposal can be developed which is equitable and will enable the overall recovery plan to work.

One important point we should bear in mind is that if the wage conditions within Chrysler are made too punitive it will inevitably speed up the loss of those talents most in demand in the marketplace and which are otherwise mobile. Body engineers, for example, are highly sought employees at this time and other auto companies, domestic and foreign, could be expected to draw much of this talent away from Chrysler because of the substantial wage differentials created by a three-year wage freeze. If the purpose of the loan guarantee legislation is to enable Chrysler to return to a sound financial footing then we should not act in a manner that will impair Chrysler's ability to attract and keep the work force necessary for success.

It is therefore up to the full Senate to correct the flaws in this bill and enact a sound and workable response to this important national problem. Each day that passes without a firm federal commitment to aid Chrysler further weakens the prospects of revitalizing the corporation and further jeopardizes thousands of related firms and hundreds of thousands of jobs.

DON RIEGLE

ADDITIONAL VIEWS OF SENATOR SARABANES

Clearly the request of the Chrysler Corporation for financial assistance from the federal government raises a number of difficult questions, among which three need to be addressed at the outset. First, is federal assistance to a financially troubled private corporation appropriate, or should such assistance be precluded altogether in all cases on the basis of economic principle? Second, if assistance is, in some instances appropriate, is there sufficient reason to believe that help in this case can accomplish the stated objective of making Chrysler once again a "going concern" and thereby avoid the drastic impact upon the economy resulting from its failure? And third, a question inherent in a consideration of the second, what kind of assistance plan is most likely to be successful?

There is a sharp distinction between the first question, which is philosophical, and the others, which are practical. There can be objections on the basis of economic principle to assistance to Chrysler, and such objections were expressed by some of the witnesses who testified before the Committee, and indeed by several members of the Committee. A vote against any legislation to aid Chrysler is a logical corollary to such a philosophical position.

Very different questions arise, however, if there is not a philosophical objection is overridden by a judgment that failure to assist Chrysler will have intolerable social and economic consequences for the nation. The question then becomes, does federal assistance offer a reasonable prospect for Chrysler's recovery? And further, how should a federal aid program be set up to maximize the chances for success?

Recognizing the grave economic and social consequences which would result from a failure of the Chrysler Corporation—consequences testified to at length before the Committee—I take the position that aid to Chrysler should be undertaken. However, I regret that the bill as reported by the Committee does not serve the purpose of maximizing prospects for recovery of the Chrysler Corporation. The Committee-reported bill is so detailed and rigid in its pre-conditions as to make its implementation most unlikely, if not impossible. It thereby works against its supposed objective.

Certain of the changes adopted by the Committee represent an improvement on the administration's proposal: the use of a Board to oversee the program, rather than the Secretary of the Treasury alone; the requirement that the Board review any decisions by Chrysler management to undertake major assets sales or to enter into major contracts; the provision for an Employee Stock Ownership Plan. However, the basic approach in the Committee bill is in my view misguided. The Committee bill err ed grievously in writing into the bill the precise financial contribution that each of the parties with an economic interest in Chrysler (banks, financial institutions, suppliers, dealers, stockholders, labor unions, employees, management, state,
local and other governments, creditors, etc.) shall be required to provide. Committee members have undertaken to specify the detailed composition of the private sector's contribution without any real expertise to address this complex issue. Rather than leaving the critical responsibility for assembling the components of the private sector contribution with the Treasury (as proposed by the Administration) or with a three-member Chrysler Loan Guarantee Board (as recommended by the Committee) the Committee has itself assumed this task. It has done so without extended consultation with the interested parties and without the skilled negotiations necessary to achieve a realistic contribution package. As a consequence there is no reason to believe and every reason to doubt that the specifications in the Committee's bill can be achieved.

With all due respect to the collective wisdom of the Senate Banking Committee, it is not in a position to establish the detailed composition of the private sector package. It is one matter for the Committee to make broad judgments as to the overall amount of the recovery package needed and how that total figure should be allocated between the private and the public sectors. It is quite another matter for the Committee to seek to stipulate the precise composition of the private package (some 2.7 billion in the Committee bill) especially when it has not engaged in the process of careful consultation with the parties affected to determine what is achievable and workable. It would make far greater sense for the Board, under the lead of the Treasury, to have the authority to assemble the contributions from all interested private parties up to the total private amount required by Congress. Failure to follow this common sense approach has resulted in a Committee-approved bill which gives the appearance of helping but does not provide the reality.

Paul Sarbanes.

ADDITIONAL VIEWS OF SENATORS GARN AND TOWER

We joined in voting to report to the Senate the Chrysler Corporation Loan Guarantee Act of 1979 as approved by the Committee. In view of the complexities of the issues presented and the substantial economic consequences which may occur if no legislation is enacted, we believe that an acceptable proposal such as that embodied in the Committee's bill should be debated and decided on the Senate floor.

We approached the whole issue of proposed loan guarantees with some reservations, because we would certainly prefer to have economic decisions, including Chrysler's future, determined in an economic rather than a political forum. Reliance upon the voluntary actions of consumers, together with the responses to those actions by the competitive forces of the marketplace, has historically created in our society the highest standard of living in the world and an environment of unequalled opportunity for our citizens. We are therefore reluctant in any case to permit federal interference in the economy.

Thus it would not be difficult in a free economy to reject the type of intrusion into the marketplace which the bill envisions. However, that is not really the choice before the Senate.

Instead, we are convinced that a significant portion of Chrysler's financial problems are the result of unfortunate and ill-conceived intervention in the economy by the federal government. In reaching this conclusion we are mindful of the fact that Chrysler itself has contributed substantially to its own problems, and we have no desire to insulate Chrysler or any other company from its mistakes.

Nevertheless, it is unlikely that Chrysler would be seeking loan guarantees but for governmental actions which, taken together, have placed enormous strains on the productive segments of our society at the expense, ultimately, of the American consumer.

These actions include statutory and regulatory programs which, while designed for laudable purposes, have often been enacted without a sufficient regard for the costs associated with the goals being pursued. In addition, these policies are often at odds with each other. For example, the fuel economy standards, however justifiable their goals, are made more difficult and expensive to attain, particularly for smaller competitors, because of the coexistent requirements relating to emissions controls.

Similarly, Chrysler's current short-term problems are attributable in part to the gasoline shortage which occurred earlier this year, which in turn led to enormous inventories of many of their products. But it is misleading to assert that this is entirely a self-induced problem, caused by Chrysler's unwillingness to produce more fuel-efficient cars. In fact federal policies, particularly the control of gasoline prices, have encouraged and continue to encourage the consumption of oil and thus encouraged consumers not to demand fuel
efficiency. Under these circumstances it is not surprising that Chrysler and the other domestic automakers have elected to try to meet that demand.

Whether loan guarantees are approved or not, we believe that far more fundamental questions must soon be addressed by the Congress if we are to avoid other Chryslers. Perhaps the most important is our willingness to restore to consumers the freedom to decide what products and services they will buy and at what price.

JAKE GARN, JOHN TOWER.

ADDITIONAL VIEWS OF SENATOR HEINZ

In voting to report S. 2094, I reserved the right to oppose the measure on the Senate floor or to offer additional amendments. As the Chrysler Loan Guarantee Act comes before the full Senate for consideration, I would like to share with my colleagues the principles which have guided my evaluation of the various Chrysler aid proposals. I would also like to take this opportunity to suggest additional conditions as a requirement of federal assistance without which I fear that the Committee bill will set a dangerous precedent that can only invite more demands for Federal government “bail-outs”.

Like many of my colleagues on the Banking Committee, I have grave reservations about the Chrysler aid proposal as a matter of long held principle, I do not favor removing the incentives of profit and loss which operate to keep the American enterprise system remarkably efficient. In the long run, American economic vitality will not be restored by following the British model of pouring ever increasing amounts of taxpayer funds into declining industries and companies such as British Leyland Motors.

Such philosophical objections aside, I think that the Chrysler aid proposal warrants serious attention only because of the possible adverse effects of a Chrysler failure on an economy already in the midst of a recession, especially in terms of increased unemployment. Therefore, I have kept an open mind in considering the Chrysler aid bill and have been guided by the following major principles:

1. That any commitment of taxpayer funds must be fully protected;
2. That those with a direct stake in the survival of Chrysler—management, employees, stockholders, creditors, dealers, and suppliers—and not the American taxpayer bear the greatest burden and assume the greatest risk in restoring Chrysler to viability; and
3. That Congress must make the terms of any aid package so stringent that granting loan guarantees to Chrysler would not invite similar requests for government bailouts by the 8,000 businesses which fail every year.

With respect to these three principles, the Committee bill represents a vast improvement over the Administration proposal, which required major sacrifices only on the part of the American taxpayer. I must compliment my distinguished colleagues on the Committee, Senators Lugar and Tsongas, for their hard work in drafting legislation which requires substantial private contributions, gives taxpayer dollars priority over those of all other creditors, and requires that workers, management, and others with a direct stake in the company make the sacrifices which must be made if Chrysler is ever to be restored to viability.

Nevertheless, I am deeply concerned that as part of the proposed “solution” to Chrysler’s problems we are omitting the one group of people who would normally be expected to bear the greatest burden
of a corporate failure and who stand to gain handsomely if the bailout plan were to succeed: the company's owners, i.e., its stockholders. Assuming that Chrysler begins showing a profit by 1981, as is projected under the Chrysler aid proposal, the value of Chrysler stock will begin to move upward from its currently depressed market value of less than $7 per share.

Normally, in a bankruptcy proceeding the shareholders would be at the bottom in terms of liquidation preference. As a result of the Committee bill, rather than lose all or most of their investment, as would normally occur during a bankruptcy, the shareholders would see the value of their investment rise and eventually begin receiving dividends once the guaranteed loans were paid off.

I am deeply concerned about the precedent that would thus be set. Rather than undergo the painful process of reorganization under the bankruptcy laws, the stockholders and directors of other corporations in similar straits might be encouraged to come to the government for a bailout.

To avoid setting this dangerous precedent, I propose that as a condition of loan guarantees, Chrysler be required to make a substantial issuance of equity as additional common stock over and above the dilution of approximately 40 percent which the ESOP provision in the bill would accomplish. The purpose of this condition would be two-fold:

1. to prevent a massive windfall from accruing to the current holders of Chrysler stock; and
2. to provide Chrysler with much needed equity capital rather than additional debt.

In addition to the above, and to further protect the taxpayers' interest, I feel that the Chrysler Review Board should be required to obtain the judgment of a competent independent consultant as it evaluates Chrysler's financial and operating plans and determines the extent to which the Corporation is in compliance with the terms of the loan guarantees. As was argued during Committee hearings by Peter G. Peterson, former Secretary of Commerce and now Chairman of the Board of Lehman Brothers Kuhn Loeb, independent private sector analysis is necessary to ensure that decisions are made on the basis of prudent financial rather than political considerations. Such a requirement is particularly justified in view of the fact that members of the Board will be serving on a part-time basis and will not have access to independent staff resources.

In conclusion, I believe that without these additional conditions—a substantial equity offering and truly independent review—the Chrysler Loan Guarantee Act is not acceptable. I am prepared to offer these proposals in the form of amendments as the measure comes before the full Senate.

JOHN HEINZ.

ADDITIONAL VIEWS OF SENATOR ARMSTRONG

It would be easy to vote for this bill. I don't like to contemplate the lost jobs, economic dislocation, and hardship that may result if the Chrysler Corporation goes under. And even though I happen to believe the worst fears have been exaggerated, the situation is clearly very serious.

I sympathize with Chrysler's plight. The company has been whipped by economic and political circumstances beyond its control. The company was caught on the wrong side of the 1974 Arab oil embargo, the 1974-75 recession, and a regulatory quagmire which costs the firm $160 million monthly. These factors, along with double-digit inflation, stiff import competition, rapidly changing consumer tastes, punitive taxes and the anti-business attitude in Washington have staggered strong and well managed firms and have already ruined many weaker firms.

Indeed, Chrysler's illness is merely a warning of what is happening to the domestic auto industry and to the entire economy. Ford Motor Company and General Motors reported heavy third-quarter losses on domestic operations. U.S. Steel Corporation is laying off 13,000 employees and closing 18 antiquated facilities because it doesn't "want to become the Chrysler of the 80's." Examples abound of American businesses strapped for capital, harassed by regulations, pressured by inflation, and faced with expensive and uncertain fuel supplies.

Key indicators of the nation's economic vitality have been faltering for years; the savings rate is down; productivity has slipped; plant modernization has been deferred; the dollar has weakened; the stock market has been stagnant for a decade; countless firms—less visible and with less political clout than Chrysler—have gone under. Others are on the brink of doing so.

So if Congress approves this legislation, other firms will probably be coming to Washington with similar requests. That prospect, and the experience of other nations, notably the United Kingdom, that have tried to save failing companies without correcting underlying economic problems convinces me this bill is misguided.

This legislation may help Chrysler in the short run; over a period of time, however, it is almost certain to leave the nation worse off. George Romney, who has firsthand experience with struggling auto companies, summed up admirably in testimony before the committee:

Underwriting Chrysler loans without eliminating the conflict in national economic policy and the anti-profit, anti-investment tax policies that discourage capital formation will not save Chrysler; it will merely postpone its ultimate fate until our economy as a whole is in deeper trouble, and more companies and industries are pleading for help.
This Chrysler relief bill emphasizes the transformation of the American economy and how heavily American business has been dominated by and dependent upon government. This bill carves out for one company an exemption from the general rule that the nation’s economic well-being is best served when individual firms prosper or fail without direct government intervention. But while this direct government help of an individual firm is extraordinary, if not unprecedented, we should not overlook the fact that hundreds of industries, thousands of businesses, and millions of individuals already receive, or clamor for, federal help. And Congress responds by creating loan guarantees, direct loans, interest subsidies, operating subsidies, block grants, categorical grants, grants-in-aid, target prices, price supports, acreage set-aside, insured loans, rent subsidies, price guarantees . . . a myriad of economic policies.

Once these programs are created, political clout becomes the final arbiter in determining aid. So more and more, economic success depends on political influence, not risk-taking, innovation, satisfying consumer needs, quick wits, or good business sense. Rather than write guidelines under which all business can compete, Congress draws boundary lines between and among firms to protect them from the market . . . from their competitors, suppliers, even their own customers.

In this instance, Congress is asked to draw a boundary line around Chrysler and to suspend the rules of fair competition for credit.

What will result from the loan guarantees in this bill? For one thing, that Chrysler will be able to borrow. But also that other firms will not be able to do so. In this legislation, Congress encourages lenders to divert funds that would otherwise be available to finance firms with a better credit rating and stronger future prospects. In propping up a weak firm, we unavoidably penalize stronger, more efficient firms.

Every time the government intervenes in this way, the nation suffers the consequences of a less efficient economy. In the end, it adds up to lower productivity, fewer jobs, less profit, reduced incentives. If we insist on such intervention on a large scale, for which Chrysler could be the precedent, the United States will end up like Britain . . . subsidizing inefficient industries with capital that could have been used to create new jobs and suffering all the pains of retrenchment, trying to allocate fairly the goods and services of a shriveling economy. I am therefore constrained to vote against the bill.

Despite my skepticism about the basic idea of federal loan guarantees of the type sought by Chrysler Corporation, I acknowledge that the Banking Committee bill is a vast improvement over the original administration proposal or the House version. My colleagues Dick Lugar and Paul Tsongas have drafted, and the committee has endorsed, a bill which is light years ahead of its predecessor. To cite a few of the advantages, the Lugar-Tsongas-Banking Committee proposal . . .

... establishes financial goals that each segment of the Chrysler Corporation must meet as a pre-condition for awarding guarantees.

... places prudent limits on loan guarantee fees, payment of stock dividends, wage and benefit increases, and release of government-backed loans.

Whether this legislation passes or not, I hope Chrysler succeeds. I am impressed with the enthusiasm and leadership ability of the corporation’s new management team. The company and its dealers express confidence in the firm’s plans and product line. They believe that it is possible for Chrysler to overcome the past, regain a larger share of market and resume profitable operations. With or without loan guarantees, I wish them well in their efforts to do so.

W. L. Armstrong.