

Public Forum Page

To Freedom:

The other day a union leader from Oregon called me to urge my support for the Chrysler Loan Guarantee Act, a bill to be voted in the House this week that would provide government backing for \$1.5 billion in loans to the Chrysler Corporation.

The caller pleaded for my help and noted that his organization had always been supportive of me. He reminded me that members of the union local in Oregon had walked door-to-door on my behalf during my first campaign for Congress. One by one, he gave their names. He urged me not to forget them on the Chrysler bill.

For him, and for them, there is but one issue with Chrysler: keeping their jobs. It isn't hard to understand why in the eyes of these men and women that's all there is to the Chrysler decision.

The problem is that Congress might see things the same way. The real issue is what will happen to our economy if the government steps in and props up a company whose products have been rejected in the marketplace.

As a member of the House Banking Committee which considered the Chrysler bill, I am convinced that it would be a mistake for the government to guarantee \$1.5 billion in loans to Chrysler.

A mistake not only because Chrysler is a bad risk, though the company's performance in recent years justifies that assessment; a mistake because it would undermine the structure of our economy and assure that it will never be the same again. If the government insulates Chrysler from loss, then any and every consumer product company that gets in trouble can make the same claim. How can Congress say no? How can it discriminate?

No one can be indifferent to the prospect of Chrysler falling into bankruptcy, particularly the employees whose jobs are on the line. But what about the 200,000 workers who lost their jobs in October because of the slowdown in our economy? Many of these workers are the perennial recession victims — the first to be laid off in a recession and the last to be hired in a recovery. These people may well have a higher claim for assistance than more highly skilled workers. But who is stepping in today with a \$1.5 billion program to save their jobs?

In Oregon last year, 129 small businesses went under. The year before that, 192 failed. Who at any time suggested that the federal government should have kept them afloat? Each year about 25 percent of the commercial licenses issued to offshore troll fishermen in Oregon go unrenewed. No one has proposed a federal bailout for unsuccessful fishermen. Small family farms in Oregon continue to disappear. There has been no government safety net for them.

Should Chrysler be any different?

There are two principles that have made our economic system the most dynamic in

history: the opportunity for profit and the risk of loss. When you take away the risk of loss, as the Chrysler bill would do, you take away incentives for business executives to economize, to innovate and to increase efficiency and productivity.

A Chrysler bailout will send a signal to other companies that the federal government will act as a banker of last resort if they get in trouble. With the risk of loss removed, there will be less incentive for corporate managers to make the careful, tough decisions needed to keep a company vigorous.

The Chrysler bailout, and the others that are sure to follow, would only perpetuate the problems of lagging productivity, job layoffs, aging plants and machinery that exist in other industries and are dragging our economy now.

The answer is not to pour money down a sinkhole, but to encourage investment in more productive companies that will help expand their operations, creating new jobs.

Sometimes loan guarantees are a necessary tool for accomplishing important national goals — such as providing housing for low- and middle-income families. But those loan guarantees should not be used to aid an individual company, large or small, whose troubles result from poor management and consumer rejection of its products.

At a time when smaller companies — including many Oregon electronics companies — are crying for scarce venture capital, it makes no sense to pass a bill that could divert investment capital they need to expand operations, create jobs and produce new products.

If the logic behind the Chrysler bailout is allowed to prevail, the result will be clear: billions of government dollars propping up inefficient companies that make products people don't want. Had this logic prevailed years ago, the government would now be spending a fortune to support the makers of buggy whips and washboards.

The real choice for Congress comes down to this: A sluggish economy where government props up inefficient, mismanaged companies, thereby perpetuating inflation and low productivity, or a vigorous economy that encourages innovation, productivity and intelligent management.

The Chrysler Corporation, its employees, its dealers, and its bankers have been pressing hard for federal help. While they warn of massive economic dislocation without quick action, Chrysler and its friends have failed to make a convincing case. The principal arguments:

•“Jobs”: Job-less estimates of 500,000 if Chrysler goes under are based on a worst-case set of assumptions. First of all, Chrysler under bankruptcy proceedings would still be able to operate at a reduced level. Chapter XI of the Bankruptcy Act was written by Congress with precisely this form of corporate failure in mind. It provides an orderly way for a company to operate while undergoing reorganization

— a way to stand its creditors in line, to liquidate assets and to begin to show a profit once more.

Second, demand for cars doesn't depend on the financial condition of Chrysler. Someone will build those cars — most likely GM and Ford, since their products most closely resemble Chrysler's. That means some people will lose jobs. But others will change employers.

Moreover, even with a bailout, Chrysler will have to lay off workers. Under the plan submitted to the Banking Committee, some plants — the most inefficient — will be closed.

•“Close to the federal government”: One of the arguments put forward by Treasury Secretary Miller is that without a federal bailout, the treasury stands to lose \$2.75 billion in taxes and extra payments for unemployment compensation. That figure is so exaggerated as to be absurd. First of all, while Chrysler is losing money, it pays no federal income tax. Even if Chrysler gets help, it won't become a money-making operation for years. And the job losses, as we have already seen, would be nowhere near the 500,000 assumed by Mr. Miller.

•“The Lockheed precedent”: Lockheed Aircraft also received a federal loan guarantee. But unlike Lockheed, a major defense contractor which subsequently paid off government-guaranteed loans, Chrysler fundamentally is a producer of consumer products and thus doesn't even have the thin veil of “national security” in its favor.

•“Government regulation is to blame”: It has been argued by Chrysler and others that the federal government — by imposing safety and air pollution standards — has caused the company's financial woes.

There may in fact be a need to re-examine those standards in the light of Chrysler's problems. Still, the standards have been applied uniformly to other car companies, large and small. While some are having financial difficulties of their own, none are in danger of imminent collapse.

In fact, if we carried this argument one more step, the federal government would have to set different standards for companies, depending on their size. That's like saying that the pollution from a Chrysler is less harmful than the pollution from a Chevy.

The preponderance of evidence is that Chrysler's problems are of its own making. Among the factors contributing to its difficulties were these:

Chrysler tried to match the overseas business ventures of GM and Ford. However, the expansion was poorly timed and Chrysler wound up acquiring only failing companies abroad: Simca in France and Rootes in Great Britain. This siphoned off capital that should have been used at home to meet fuel economy and safety standards and other capital needs.

In 1971, rather than meeting subcompact market competition by GM (Vega) and Ford (Pinto), Chrysler opted to redesign its big cars.

After the Arab oil embargo of 1973, rather than redesigning cars and undergoing retooling, Chrysler instead cut costs by laying off hundreds of engineers, styling and sales personnel at the very time they were needed most.

Chrysler has never been able to meet demand for its smallest car, the Omni/Horizon, because it contracted with Volkswagen to build the engines; only 300,000 of them a year.

•“A loan guarantee for Chrysler is a good risk”: The argument for an investment in Chrysler runs something like this: Lee Iacocca is a masterful businessman and administrator who will be able to turn Chrysler around. And Chrysler is retooling some of its plants to produce more small cars. With that kind of momentum, Chrysler's sales and market share are bound to increase.

The Banking Committee heard testimony that was less optimistic. First, Chrysler's bankers said they wouldn't give the company another dime without a federal guarantee. If Chrysler is such a good risk, why do they want taxpayers' money to prove it?

Second, the Treasury Department testified that if Chrysler's market share does not increase over the next two years, then the \$1.5 billion in loan guarantees won't be enough. That means that Chrysler will be back at the doorstep of Congress asking for more. And Chrysler will get it. Like any other investor, the federal government will want to keep its

investment in sound condition.

Recently, in preparing for the Banking Committee's hearings on the Chrysler bill, I came across an interesting article from *Barron's* magazine. The article, entitled “The Big Two-and-a-Half,” talked about prospective gains in market share for GM (No. 1) and Ford (No. 2) and a decline in car production for Chrysler (the half). In part it said: “The truth would seem to be that GM and Ford have styled their cars to catch an increasing share of any market, whether small or big. The Chrysler company, on the other hand, has gone . . . with cars that are generally spoken of in automobile circles as ‘out of fashion’ . . . A check of machine tool companies indicates that Chrysler faces a tall order to rectify its styling mistakes in time to get ahead of GM and Ford . . .”

The article was published in February of 1954 — 25 years ago.

Chrysler's problem now is the same as it was a quarter of a century ago. The only difference is the seriousness of the crisis, and the fact that Chrysler has turned to the government for help.

If the government bails out Chrysler now, we would be taking a giant step backward in what must be a massive effort to reduce inflation, stimulate productivity and invigorate our economy. For then Chrysler will know — as will other companies — that though it may be inefficient, though it may misjudge the market, and though consumers may reject its products, there nonetheless would be a pot of gold at the end of the rainbow. It is a fairy tale this country cannot afford.

Les AuCoin
Congressman

To Freedom:

Two weeks ago, I wrote a letter to the paper in which I made a critical comment about the academic quality of the schools. One of the Vernonia teachers has pointed out to me how discouraging it is for her to hear so many negative comments about the school when she herself works so hard to provide a good program. There are some things happening in the school that I really do appreciate, among them, the films being shown at noon, the small class sizes, and the dedication of many of the teachers. I would like to apologize for my overall negative statement to those teachers who do really care about what our children learn.

Susan Miller
Mist

Behind the Walls

The Only One Left

by David Wright

When I walked through the security gate, she was sitting on a blue settee clutching a locker key and occasionally straightening the change so evenly arranged on a formica table. It had been five years since I had seen her, longer yet since, in a fit of anger, she had told me where all bad children go. I remembered the fury in her eyes, the clenched fists, and the belts, hair brushes, and shoes, still warm from contacting my bottom side. The fury is gone now, replaced by a deep hurt, but the fists are still clenched sweating, and holding dearly to that key.

I hugged her, called her Mom, and felt the dampness of a tear on my cheek. Taking the key from her hand, I noticed its number, fifty-four, the year of my birth, and returned it to her fingers, the look in her face telling me how much the irony meant to her, how hurt she was to be here. I hurt too, but I could not match the pain in her face.

Didn't she know of the grandfather clock, the green plants and colonial wooden entrance signs that cheered our movements from destination to destination? At her first words, solemn utterances of contempt, it was obvious she was not impressed. The back of her mind contained steel gates, uniforms, nine hours of freeway, and a question for me — why? Why had I hurt her so? And I'm prepared to explain how three hot meals a day, recreation, and twice a week movies hurt, but I don't.

Last time I hurt, lying in a hospital bed with thirty stitches in my abdomen, a journey to Reno kept her from my side. When I needed a friend and sent her plane

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