

MEMORANDUM

TO: Steven Rattner
FROM: Ralph Nader, Robert Weissman
RE: Follow-up to conversation
DATE: May 22, 2009

Thank you for the time today. This memo outlines our concerns about the task force/GM plans as we understand it, and raises a series of questions about the plan.

The drive to bankruptcy -- and the apparent excessive closure of plants, dealerships and possibly brands, along with an unconscionable increase in outsourcing -- will result in avoidable suffering around the country.

The resultant dislocation will have significant political consequences, as the public rightly asks, "Why are we bailing out the auto companies and then facilitating their moving production overseas? Why aren't we leveraging the public investment to protect jobs and manufacturing capacity, as well as facilitate investments in environmentally appropriate technologies?"

Members of Congress will not be immune to this political backlash. Indeed, the public will demand an explanation for why Congress abdicated its responsibility to oversee and legislate regarding the auto rescue. They will note the extraordinary sums poured into AIG (\$180 billion, plus), Citigroup (\$330 billion in loans and guarantees) and other financial firms to preserve the financial industry as contrasted to the much smaller amounts needed by the auto companies, and demand an explanation for the bias for speculation over production.

All of this -- the excessive job dislocation, the authorized outsourcing, and the political backlash -- is avoidable, if Congress immediately asserts its constitutional role and demands the auto task force deal return to Congress for deliberative review before there is a rush to bankruptcy.

There is a long list of questions that merit exploration. Among them:

* Has the task force evaluated the social ripple effects on suppliers, innovation, dealers, newspapers, banks and others that hold company stock and/or are company creditors, and other unique harms that might stem from bankruptcy? Has it conducted any kind of formal or informal cost benefit analysis on the costs of a GM bankruptcy and excessive closures, including the social effects of lost jobs (including more than 100,000 dealership jobs alone), more housing foreclosures, the government expense of providing unemployment and social relief, lost tax revenues, supplier companies that will be forced to close and impacts on GM industrial creditors?

- * Do GM and Chrysler really need to close as many dealerships as have been announced? Is the logic of closing dealers to enable the remaining dealers to charge higher prices? (See, for example, Peter Whoriskey and Kendra Marr, "Chrysler Pulls Out of Hundreds of Franchises," Washington Post, May 15, 2009); and if so, why is the government facilitating such a move? Is it reasonable and fair for GM to impose liability for disposing of unsold cars on dealers with which it severs relations, as Chrysler has apparently done?
- * Would a corporate and government-driven bankruptcy process comport with the rights of owner-shareholders, who are left with no say whatsoever?
- * Why has the task force maintained the Bush administration-negotiated obligation for unionized auto workers at GM and Chrysler to accept wages comparable to those in non-unionized Japanese company plants in the United States? This requirement is especially troubling given the low contribution of auto manufacturer wages to the cost of a car (10 percent), and that it may set off a downward spiral of wages, with the non-union plants no longer needing to compete with union wages, and union wages following those in non-union plants.
- * Is the task force obtaining guarantees that, after restructuring with U.S. taxpayer financing, GM cars sold in the United States be made in the United States? If not, why not?
- * How will bankruptcy affect GM's overseas operations, with special reference to China and GM's corporate entanglements with Chinese partners? Are they and their profits being exempted from the restrictions and cutbacks imposed on domestic operations? If there is such a disparity, is it reasonable and unavoidable? GM has valuable assets worldwide that may not be part of the task force's equations in or out of court.
- * How will bankruptcy affect GM's obligations to parties engaged in pending or future litigation in the courts with GM regarding serious injuries suffered because of design or product defects in vehicles sold prior to the bankruptcy?
- * How will bankruptcy affect GM's obligations to parties engaged in lemon litigation in the courts with GM regarding design or manufacturing defects?
- * What guarantees is the task force, supposedly representing the taxpayers' investment, obtaining to ensure that the GM of the future invests in safer and more fuel efficient vehicles, and what investments will the new company make in ecologically sustainable technologies? How will a potential bankruptcy filing affect, ignore or preclude any such future investments and commitments?
- * What is the conceivable rationale for permitting GM to increase manufacturing overseas, especially in dictatorships, for export back into the United States?
- * Is the task force asking for too many plants to close and the elimination of as many brands as it has demanded?

There are good reasons – namely, the millions of people who will suffer -- for the government to invest in rescuing GM and the U.S. auto industry from decades of mismanagement, and it is obvious that the company and the industry need major restructuring. It is probably the case that significant downsizing is unavoidable.

These matters, and others not mentioned in this brief dispatch, are too consequential, with too many radiating implications, not to be taken up by Congress -- in advance of any irreversible decisions -- including, above all, filing for bankruptcy. Many of them involve issues that go beyond the task force's charge, though the task force has power to determine outcomes in these areas.