

STATEMENT OF HOWARD DUGOFF, ADMINISTRATOR  
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BEFORE THE SUBCOMMITTEE ON ECONOMIC STABILIZATION  
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
TUESDAY, OCTOBER 23, 1979

Dear Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before this Committee today to describe and discuss the Staff Study on Employment and Economic Effects of a Chrysler Shutdown or Major Reduction in Business. I am accompanied by Dr. Richard John and Mr. Martin Anderson of the Department of Transportation's Transportation Systems Center in Cambridge, Massachusetts. The subject study was prepared by staff of the Transportation Systems Center under the guidance of these two colleagues.

First, I would like to describe how the study came to be done by the Department of Transportation. As you may know, since its inception, the Department of Transportation has conducted important regulatory programs affecting automobile transportation. In addition to responsibilities in motor vehicle safety, more recently the Department's National Highway Traffic Safety Administration has been administering a congressionally-mandated program of motor vehicle fuel economy regulation pursuant to the Energy Policy and Conservation Act of 1975. These activities have contributed to the development of a considerable body of knowledge not only of the automobile technology, but also of the management and financial aspects of automobile and automobile equipment manufacturing and manufacturers.

the Department's expertise is located at our Transportation Systems Center.

So, when the Chrysler management approached the Federal Government seeking financial support, it was not surprising that the Treasury Department, the executive branch coordinating agency for the Chrysler matter, requested the Department of Transportation and other agencies to undertake certain employment and economic analyses to provide background information for developing the Administration's position. On August 15, the Transportation Systems Center staff forwarded to Treasury Department officials, with whom they had been working, a draft report addressing the specific questions that had been put to them. Subsequently, the draft study was furnished to members of Congress who requested it, and was introduced into the Congressional Record by Senator Eagleton. Since the draft study was prepared, it has been further refined, although the basic data and its implications have not changed. However, the views expressed in the draft and update remain the views of the individual authors. They have not yet received higher level review.

Having reviewed the background for the Transportation Systems Center Study, let me now turn briefly to its contents. Two primary questions raised by the Treasury Department were:

- o What employment effects would result from a complete shutdown of the Chrysler automotive production facilities?

- o What economic effects would the Nation, or more particularly several regions of the Nation, sustain under the same shutdown conditions?

The report was produced in response to these questions and consists, for the most part, of an objective aggregation of quantitative data, interpreted in light of our knowledge of the Chrysler Corporation and the automotive industry. As the report states, it is not a prediction of a shutdown; it merely estimates what would be the effects of a shutdown. The report disclaims any intention to imply that Chrysler's only option in the face of continued financial stress is to completely shut down operations. The shutdown option should be viewed as a "worst case" scenario. For this reason, the report does not discuss in detail such issues as:

- a. The long-term impact on overall employment in the automobile industry as a whole; rather, the report focuses almost exclusively on the impact of a shutdown on Chrysler's own labor force; and
- b. Options short of a shutdown such as whether Chrysler's ultimate viability requires some dispersal of its facilities outside Detroit.

The text of the report is supported by a number of exhibits which quantify various aspects of the Chrysler situation and, I believe, speak largely for themselves. At the risk of oversimplifying, what the Transportation Systems Center staff did was to consider the location of the various Chrysler plants and the employment associated with each plant. To these data were then applied multiplier factors derived from six recent studies which measured historic patterns of layoffs in the auto

industry to arrive at a projection of total job losses.

The study then went on to analyze the chances for alternative employment opportunities for those workers. Here we considered the organization and plant locations of other major automobile and component manufacturers and the capacities of those plants. The possibility that another manufacturer would assume all of Chrysler's operations was considered, as were alternative uses for the Chrysler facilities and the possibilities for employment outside of the auto industry. The numbers underscored the fact that the Detroit area would be the geographic area particularly affected by a Chrysler failure.

That observation leads me to make special reference to an important feature of the study. The analysis looks at the situation from a community point of view. As I have previously indicated, it builds from plants and community data rather than taking a national macroeconomic approach. The shutdown of an employer, even of the size of Chrysler, may not seem significant in terms of gross national product or national work force. However, it may have very different implications when assessed in terms of its impact on particular communities.

In concluding my statement, let me reiterate that the Transportation Systems Center staff study is no more than an assessment of the quantitative impacts of a hypothetical event; namely, the total shutdown of Chrysler operations. It in no way speaks to the question of the likelihood of that event, or the possible influence that Federal action or actions might have on

the likelihood of that event. Administration decisions concerning possible Federal assistance to Chrysler will be made only after careful consideration of all available data, including the proper role of Government and the relationship to all National interests.

My colleagues and I will be happy to respond to any questions which the Committee may wish to ask about the study. Thank you.