TESTIMONY OF SECRETARY OF TRANSPORTATION DREW LEWIS BEFORE THE HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON GOVERNMENT ACTIVITIES AND TRANSPORTATION OF THE GOVERNMENT OPERATIONS COMMITTEE

MAY 13, 1981

Mr. Chairman, I appreciate the opportunity to discuss the condition of the U.S. auto industry and its prospects as a result of the President's recently announced program of actions to help that industry. As you know, one of my first actions as Secretary of Transportation was to take the lead, at the President's direction, of a Cabinet-level task force on the problems of the auto industry. We reviewed the situation in considerable detail. I met in Detroit and in other parts of the country with a great many people deeply concerned with the problems of the industry. I have had discussions with the top executives of the major auto manufactuers and many of their suppliers, with labor leaders, and with governors and mayors of the states and cities affected. Our task force was greatly helped by the expertise of the staff I inherited and the study that my predecessor prepared. All of the participating agencies contributed strongly to our effort.

We delivered our findings and recommendations to the White House in mid March and the President's program was officially announced on April 6. I am sure you are familiar with the fact sheet which accompanied that announcement. It presents in detail the several actions that the Administration is taking to help the auto industry. I would like here to summarize our findings and those actions:

First, we found that the situation is indeed serious. Every U.S. auto manufacturer suffered losses in 1980 and the total was a staggering $4.2 billion. Sales in 1980 were at their lowest in 19 years. We estimated that nearly 600 thousand workers from the auto manufacturers, suppliers and dealers were on indefinite layoff at year's end.

In the first quarter of 1981 we have seen only limited improvement. While GM did show a modest profit, the industry as a whole lost $600 million. Sales were up, to annualized rates above 9.8 million units in March, but there is still substantial unemployment.

The cause of the industry's predicament was not only the serious economic conditions facing the country. While the economic slump reduced overall sales, the sky-rocketing price of gasoline in 1979 caused an unprecented shift in consumer demand to small cars. The domestic manufacturers had made massive investments in developing new, economical smaller cars but their tooling to meet the expanding market was not yet all in place. As a result, they lost substantial market share to the imports.

The auto industry as a whole also labors under a burden of regulatory requirements which add to both the manufacturers' capital needs and to the consumer's cost. Complying with these regulations served to divert engineering and managerial talent from the serious adjustment problems of the industry.

The cornerstone of the President's initiative for the auto industry is his economic recovery program. The revitalization of the economy will stimulate sales, increase operating income, and provide jobs. We believe that the economic recovery will stimulate sales of new cars to rise from approximately 9 million units in 1980 to 11 million units in 1982 and 12 million by 1983. These sales will result in needed cash flow and increased jobs. Increased production should permit rehiring of many unemployed auto workers by the end of 1982.

Longer term effects of the economic recovery will be improved productivity, lower production costs, lower cost of capital to the industry, and a greatly improved climate for management-labor relations.

The regulatory relief program includes 34 specific actions which we can take--and are taking now--that will over five years save the industry $1.3 billion in capital that can now be used for plant modernization and product development. In addition, these actions result in consumer savings of more than $160 per vehicle. The details of these actions are in the fact sheet accompanying our April 6 package. The NHTSA and the EPA have begun rulemaking procedures to carry them out, and several actions such as the 1-year delay of the automatic occupant protection rule, will yield immediate results.

I should make clear that in providing regulatory relief, we have not needlessly backed down on environmental or personal safety. Rather, we looked through existing and future regulations to find those which are unnecessarily stringent and are no longer justified.

Beyond these present actions, the Administration will be reviewing all other regulations imposed by NHTSA, EPA and other agencies to see if they can be relaxed or eliminated without penalty to human life or the environment. We are also taking actions in the antitrust and labor areas which will assist the industry and we will accelerate government vehicle procurement to give a near-term vehicle sales boost of $100 million.

The President has asked Secretary of Commerce Baldrige to oversee the implementation of this auto industry program. The Department of Transportation, of course, will continue to work closely with Secretary Baldrige and his staff in areas which require our participation.

While I believe that implementation of the President's program will be of great benefit to the auto industry and the economy as a whole, I do not flatter myself that our task force has solved all the industry's problems. As I noted earlier, there is still substantial unemployment and three of the major manufacturers showed serious losses in the first quarter of 1981. Further, the magnitude of the investments that must still be made is staggering and would pose a problem even without the current financial difficulties which our companies are facing. As the President stated when releasing his program, these problems must be dealt with by the industry itself.

I am encouraged by the response we have received to the program. The manufacturers have made strong commitments to continued retooling and plant modernization. They are taking painful actions to trim staff, consolidate plant and facilities, and revise programs to cut costs. They are selling off non-essential fixed assets to raise capital. They have indicated an intent to hold the price line as far as possible so that the expected increase in demand will yield the maximum additional jobs. And they have expressed a willingness to include consideration of profit sharing in their next labor negotiations. I am confident that organized labor will be equally realistic in responding to the burdens the situation puts on them.

Finally, as you know, our trading partners, the Japanese, have committed to do their part in exercising export restraint during the forthcoming period of vulnerability for our industry. We sent a delegation to Japan to explain in detail the nature of our problem, the steps the government is taking to help, and the sacrifices facing both management and labor. I believe the message was effective. The Japanese government has indicated an intent to hold its manufacturers' exports of automobiles to this country at a base rate of 1.68 million for the year starting in April, 1981, and to hold their following year's market change to 16.5 percent of the overall sales change in that year. We believe this offer meets Congressional concern for action to stem auto imports.

That concludes my prepared testimony. I will submit a copy of the fact sheet for the record and I stand ready to answer any questions.