STATEMENT OF DONALD R. TRILLING, DIRECTOR, OFFICE OF INDUSTRY POLICY, U.S. DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON ENERGY, NUCLEAR PROLIFERATION AND GOVERNMENT PROCESSES OF THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS IN ROCKFORD, ILLINOIS, APRIL 16, 1981

Mr. Chairman, (Members of the Subcommittee), I appreciate the opportunity to appear before you today to discuss regulation of the automobile industry. As I'm sure you know, our Secretary recently chaired a task force on the problems of the auto industry at the request of President Reagan. Also, the Department of Transportation has been involved in the issue from both the regulatory and industry analysis standpoints for quite some time.

The U.S. automobile industry, which had a 1978/79 peak employment of about 1 million workers and 1.4 million related supplier workers, is currently going through what is perhaps the most difficult period it has ever faced.

o The downturn in auto sales has exacted a severe human toll. Over 180,000 auto workers are on indefinite layoff, 300,000 more are estimated to be unemployed in supplier industries, and another 100,000 are out of work in the dealer network.

o In 1980 a stagnant and inflationary economy reduced sales of U.S. made cars to the lowest point in 19 years. Compared with only three years earlier, total auto sales (domestic and imported) were down 20 percent, and sales of light trucks and vans were down 35 percent.

o The domestic companies incurred unprecedented losses of $4.3 billion in 1980, with the likelihood of continued losses this year. These losses are being incurred at a time when the industry is required to spend approximately $80 billion over the next five years to position itself to meet new market demand for smaller, more fuel efficient vehicles. In addition to the investments of the prime manufacturers, the various supplier industries will be required to invest a sum of similar magnitude.

The problems of the domestic auto industry are both cyclical and structural. While sales levels have been depressed along with other sectors of the economy, the doubling in gasoline prices over the last two years has caused consumer demand to shift dramatically to small cars. Partly as a result, imports increased from 18 percent to 28 percent of all auto sales during that same period.

All of these factors have had an impact on the highly specialized manufacturing network as well.

The cornerstone of the President's initiative for the auto industry is his Economic Recovery Program. There is no doubt that revitalization of the economy is the single most important remedy for the auto industry's problems, and the President's program will provide immediate relief by stimulating the sales of new cars and trucks.

- Renewed growth in real incomes and higher employment will give consumers added income to buy new cars.
- Reduced interest rates will lower the costs of automobile financing, further encouraging new car sales.
- The investment tax credit provided under the Accelerated Cost Recovery System will increase commercial and fleet purchases of cars and trucks.

- A stable economic environment will renew consumer confidence and encourage individuals who have deferred purchases in recent years to buy new cars and trucks.

The sales recovery induced by the President's program will improve the industry's financial condition and restore job opportunities.

- Sales of new cars (foreign and domestic) should rise from approximately 9 million units in 1980 to 11 million units by 1982 and 12 million by 1983; truck sales should show similar growth.

- Since every 500,000 units of additional car or truck sales generate nearly $1 billion in additional net operating income, by 1983 this should amount to an additional $6 billion per year (before taxes) for U.S. auto makers.

- Increased production should permit the rehiring of most unemployed auto workers by the end of 1982.

In addition to improving the economic conditions which will foster sales, the Administration recently announced a major program designed to substantially ease the regulatory burden imposed on the auto industry. The President recognizes the importance of protecting health, safety, and the environment. Nevertheless, some of the regulations governing the auto industry's plants and products are unnecessarily stringent, and can be relaxed or rescinded with little or no cost to worthwhile regulatory goals. Other regulations now pending may be needed over the long run, but can be safely postponed until the industry has completed its structural adaptation. On January 21, The President established a Task Force on Regulatory Relief, chaired by the Vice President, to oversee the process of reducing the excessive burdens of regulation throughout the economy.

In the case of the auto industry, regulatory relief will benefit it and its customers by:

- o Reducing substantially the cost of producing and operating a new car or truck. This will not only benefit consumers but further stimulate sales.
- o Freeing capital needed for essential investments in new plant and equipment.
- o Improving U.S. manufacturers' international competitive position.

Working together, the Auto Industry Task Force, the Presidential Task Force on Regulatory Relief, and the major regulatory agencies have reviewed their regulations and proposed specific actions to rescind, revise, or repropose a total of 34 specific regulations.

EPA and NHTSA estimate that these actions would save the auto industry more than $1.4 billion (over the next five years), which can be used to modernize existing plants, allowing domestic manufacturers to more efficiently meet the challenges of a changed marketplace. Additionally, consumers will save more than $9 billion over this period, through a reduction in cost of a car or truck by about $150 per unit. The actions are described in considerable detail in the April 6, 1981, report "Actions to Help the U.S. Auto Industry." Summaries of these actions and their savings appear in Figures 1 through 3.

The Administration, through its overall Economic Recovery Program, will deal with the cyclical problem of lagging sales. Through the regulatory relief measures announced on April 6, it will also help to ease the capital burden on the industry, allowing it to make the investment necessary to make it fully competitive in the marketplace. Both programs will help communities as improved sales and a stronger competitive position act together to put workers back to work.