



Remarks Prepared for Delivery by

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Delivered at the

Center for Automotive Research

Detroit, Michigan

Cobo Hall

January 14, 2009

Introduction

Thank you for that kind introduction and the invitation to be with you today. With me today is Deputy Assistant Secretary of Commerce Matt Crow, and I'd like to acknowledge his service and dedication.

As the head of both the Economic Development Administration and the Small Business Administration, I have spent a great deal of time in Michigan – and other communities in the region that have proud traditions as the backbone of our automotive industry.

My experience has taught me some things expected, and some unexpected. Certainly, the expected is the challenges the regional economy faces and how the transitioning auto industry is having a profound impact. Unexpected is the renewed innovative and entrepreneurial spirit in the region as well as how nicely downtown Detroit has transformed itself into truly pleasant place to spend time – and much credit goes to local leaders, local institutions like the Chamber of Commerce, and General Motors for its investment in RenCen and the RiverWalk. So, it's a pleasure to be back in Detroit and to be with you this morning.

As you know, our country is in the middle of a transfer of political power to a new Administration. This is a time when we look forward to the inauguration of a new

President, and people like me start practicing phrases like, “*would you like a scone with that*” in preparation for our new jobs at Starbucks.

Under normal circumstances, now would be a time for those of us in the current Administration to look back and take stock of the many accomplishments we achieved over the past 8 years – and make no mistake – I am exceptionally proud of my service to President Bush and his record of accomplishment.

Of course, this is not a normal time. Our country – our economy – faces significant economic challenges. Despite a record run of 52 straight months of job creation – the longest in U.S. history – we have been reminded and humbled that even in the 21st century we are not immune to economic cycles.

So this morning, I’d like to do three things. *First*, I would like to touch on the economic challenges we face today, and its the impact on small businesses.

Second, I want to share with this Michigan audience some truths about where the country stands in regard to assistance to our American auto industry – some of these observations you may agree with, and some frankly, you may not.

Third, I'll conclude with a note about international trade and the role of protectionism has played in the past, and how it has shaped our auto industry even today.

The Economic Situation

First, our economy. We now know officially what the American people have been feeling for a while: we are in a recession. Despite almost record low unemployment rates of just a year or two ago, today our unemployment rate is 7.2%. While this level is far off the pace of previous recessions, this is a troubling figure and impacts real people in a very real way and the dispiriting media reports have a profound psychological impact on those who still have solid employment and financial situations.

The root cause of this economic slowdown is the challenge in our housing market. This led to the financial crisis, and the ripple effects are seen all over our economy, including the serious state we find the U.S. auto companies – which has potential impacts far outside Detroit and the Midwest.

What the President, the Treasury Secretary, I and others in the Administration realize is that with historically low interest rates today, the challenge we face today is an *access* to capital crisis, not a cost of capital crisis. It's a lot like finding a product you want to buy — on sale — in store front window, but the doors to the store are locked.

Remember, a good idea without capital is simply that — just an idea. Without capital, our innovators can't innovate and our entrepreneurs are without enterprise. This is a critical principle of our approach to the crisis.

In all, the President has adopted a bold “failure is not an option approach” to the credit crisis. Because understanding the problem is the first step in solving the problem – and our problem is access to capital, not cost of capital.

The Impact on Small Business

This global financial situation has a serious impact on America's small businesses. Businesses are finding it difficult to get loans to start, expand, or even maintain operations. This is troubling because small businesses create two-thirds of the new jobs in this country and we can't have a robust economy without a robust small business sector.

Small business owners are facing two serious challenges: access to capital and declining business volume. The latter challenge is tied to consumer confidence, which of course will take time to recover. The former of these challenges, access to capital, will also take time to resolve, but I'm pleased to report that the Small

Business Administration has taken several steps to get credit flowing again to small businesses.

- *First*, the Small Business Administration offers the one thing that financial institutions are looking for today – reduced risk. Through our loan programs, we guarantee up to 85% of a small business loan made by a financial institution. Because *now* is the ideal time for *more* banks to make SBA loans, we have engaged in an effort to bring more banks into the SBA family.

SBA has accelerated the roll-out of a new program, Rural and Small Lender Advantage, which targets small, regional, and community banks in both rural and urban areas. This program makes it easier, and lowers the cost for banks to make SBA loans.

- *Second*, given that 40% of all SBA-backed loans are sold in the secondary financial market, which has essentially become frozen, SBA has taken action.

SBA enacted emergency regulations that allow financial institutions to use the LIBOR rate, in addition to our long-standing Prime rate, which will allow financial institutions to maintain a profitable “spread” between the cost of their capital, and the interest they receive from small business loans.

We also developed new rules that make it easier to assemble and sell SBA loan packages in the secondary market, helping to ease the logjam that exists today.

- *Finally*, SBA worked with the Treasury Department to ensure that SBA-backed small business loans were included in the new Asset-Backed Securities Lending Facility, which will extend low-interest loans to investors purchasing SBA-backed loans. This will be an important tool, once implemented, in getting loans to small businesses flowing once again.

The Agency is exploring other options to increase access to capital, but I'm pleased that we have taken so many pro-active steps so early in this crisis. But perhaps most important is that the Agency is here and remains committed to serving the needs of the small business community through our programs to help counsel and develop businesses and help businesses get the access to capital they need through our 100-plus offices, 1,500 resource partners, and our great resources on the web at www.sba.gov.

Some Truths About the Situation of Today's Auto Industry

There are hard truths regarding the situation our auto makers, and auto-dependent States such as Michigan, find themselves. First of all, a disclaimer. I am a car guy.

I've loved cars – foreign and domestic – since I was boy. I love the product and the industry. So some of the five realities I'll share with you are out of love – and in some cases – tough love.

Reality #1: Let's start with the fact that the Big 3 still matter. Even with the declines seen in the past decades, almost one in every two vehicles sold in America is a U.S. nameplate – not bad considering that the global marketplace has given us unprecedented – and compelling – product choices from across the globe.

My friends at the Center for Automotive Research (CAR) report that 1.7 million U.S. jobs are at stake if even one of the Big 3 were to cease operations. But looking at it from a Big 3 perspective does not do the issue justice. With 70% of the components of today's automobile produced not by Ford, GM or Chrysler, but by supplier companies across the country and the world, the value chain of today's auto industry is heavily weighted to small businesses – that's why the U.S. Small Business Administration is watching the situation of the auto industry so closely.

Jeffery Sachs of Columbia University predicts an unemployment rate of about 10% should our nation not be able to resolve this auto industry crisis – that should give us all pause.

Second, Michigan's reliance on the auto industry for generations has sapped its entrepreneurial spirit. In this state, where you could live very well by going to work for one of the auto companies – and the jobs were plentiful – there was little reason to foster an entrepreneurial class.

Times have changed. The future is in smaller more innovative companies. That's where the job growth of the future will come from, and Michigan, while adapting to this new reality, needs to accelerate its focus on innovation and entrepreneurship.

This is where organizations like the Center for Automotive Research's Automotive Communities Program is playing such a vital and important role – working to diversify the regional economies of places previously dependent upon the auto industry – daring them to envision a post-automotive economy.

Other organizations, ranging from the University of Michigan's EDA University Center, led by my friend Larry Molnar, to Detroit Renaissance, led by my friend Doug Rothwell, to the Detroit Chamber of Commerce and others, are all working in conjunction with CAR to simultaneously honor the region's automotive heritage and future, while preparing for “what's next.”

Also of concern is Michigan's understanding of the importance of higher education. Despite excellent schools, such as the University of Michigan, a study last year of parents in Michigan found that over 70% believed that their child did not need to go to college to have good career prospects – that's a stunning figure.

Third, products from the Big 3 that are good enough are no longer good enough. Yes, Ford ties Toyota in quality but the domestics are chasing moving targets. Quality is no longer defined by; does the car start or does the trim piece pop off when you shut the door. Quality today is the feel of the switchgear, the number of seams in the dashboard, the sound of the engine, the comfort of the seats.

Given the damage the domestics have done to their reputation over the years – they have not protected the value of their brand – they will not only have to match the best of their foreign rivals in quality, they will have to beat them on innovation, beat them on curb appeal, gain parity on resale – and do all this at a lower cost. That's price the domestics will have to pay if they want to stop the erosion of their market share. Being as good as the competition is no longer good enough.

Fourth, while people across America believe the auto industry is important, they are suffering from “Detroit Fatigue.” The decline of the U.S. auto industry has been going on for such a long time now it seems to have become a permanent state.

It's not that the folks outside the Mid-west blame the unions, or blame management, or blame the government, or blame them all, they are just tired of this saga.

Fifth, one of the reasons for this fatigue is that the American people are not really sure what is an American car. What is more American; a Ford Fusion built in Mexico or Toyota Camry built in Kentucky? A Chevy Aveo built in Korea or a BMW built in South Carolina? Are you more patriotic if you buy a car with an American label, or one built by American workers?

By the way, my favorite example is the Saab 9-2x – a Swedish brand name, an American-owned company, a Japanese product. They should have just called it “Cybil.”

The Lessons of Protectionism

Finally, let me conclude with a note about protectionism. Given the challenges our economy faces and the election of a new president, I fear the voices arguing protectionism are once again rising.

Let's look at what protectionism has given this country. The Smoot-Haley Tariffs of the 1920's gave us the great depression and unemployment rates of 25%.

Protectionism even colors our auto industry today. Sure, there are obvious elements, such as union agreements that limit Ford and GM from importing certain volumes of certain models from Volvo and Saab – just in case the customer looking at a \$42,000 Volvo C70 convertible might cross shop a \$30,000 Ford Mustang.

What is more interesting is the unintended consequences of protectionism. Back in the 1980's, to limit the rising tide of Toyotas and Hondas from Japan, we developed a quota system, called Voluntary Restraint Agreements – VRAs. The message at the time was, VRAs were necessary for our domestic industry to regain its footing, and that if the Japanese wanted to sell here, they should build here.

Well, that's exactly what they did – and the presence of Japanese factories in the U.S. allowed them to learn our market faster, to build specifically for the U.S. consumer, and take advantage of currency rates. Once this model proved successful for the Japanese, the Germans and the Koreans quickly followed suit. Our “protectionist” actions actually accelerated the success of the foreign manufacturers in the U.S., and the U.S. auto companies are once again on the brink.

And here's the kicker. Where did these “transplants” locate? Not in Michigan, but in states like Alabama, Tennessee and other southern states. Now, overlay where the

transplants located with the Senators who voted *against* the plan President Bush supported to provide assistance to the U.S. auto industry. Talk about your chickens coming home to roost. Protectionism 25 years ago to protect the U.S. auto industry is a cause for the state we find them today, and the political clout the transplant states have today is making it much more difficult to secure Federal support for the industry. Lesson: be careful what you ask for.

Think about that the next time someone suggests that the best way to help our industries here at home is to withdraw from the world – ignore the global marketplace, or otherwise engage in non-competitive actions.

Closing

As I prepare to leave government service, and begin my new life as the chief barista at the local Starbucks, there is perhaps no more important issue to me personally than the fate of the U.S. auto industry and the communities that have given this industry life for generations, drove – literally – drove our economy, and put America on wheels. I care deeply about what the future holds for these companies and these communities, and that is why this trip to Detroit to be with you at this CAR conference is my last travel as a Federal agency head.

I have spent my entire career – in both the private and public sectors – making organizations run better. I know that the U.S auto companies can do it and are already on the right path. I have every confidence in the rebirth of the domestic auto industry and for economic recovery in the region.

Thank you for coming out today. It has been my sincere pleasure to be with you today. Enjoy the auto show.