



Highlights of [GAO-09-242T](#), a testimony before the Committee on Banking, Housing, and Urban Affairs, United States Senate

### Why GAO Prepared This Statement

The current economic downturn has brought significant financial stress to the auto manufacturing industry. Recent deteriorating financial, real estate, and labor markets have reduced consumer confidence and available credit, and automobile purchases have declined. While auto manufacturers broadly have experienced declining sales in 2008 as the economy has worsened, sales of the “Big 3” (General Motors, Chrysler, and Ford) have also declined relative to those of some other auto manufacturers in recent years because higher gasoline prices have particularly hurt sales of sport utility vehicles.

In addition to causing potential job losses at auto manufacturers, failure of the domestic auto industry would likely adversely affect other sectors. Officials from the Big 3 have requested, and Congress is considering, immediate federal financial assistance.

This testimony discusses principles that can serve as a framework for considering the desirability, nature, scope, and conditions of federal financial assistance. Should Congress decide to provide financial assistance, we also discuss how these principles could be applied in these circumstances. The testimony is based on GAO’s extensive body of work on previous federal rescue efforts that dates back to the 1970s.

To view the full product, including the scope and methodology, click on [GAO-09-242T](#). For more information, contact Katherine Siggerud at (202) 512-2834, J. Christopher Mihm at (202) 512-3236, or Gary L. Kepplinger at (202)-512-5400.

## AUTO INDUSTRY

### A Framework for Considering Federal Financial Assistance

#### What GAO Found

From our previous work on federal financial assistance to large firms and municipalities, we have identified three fundamental principles that can serve as a framework for considering future assistance. These principles are (1) identifying and defining the problem, (2) determining the national interests and setting clear goals and objectives that address the problem, and (3) protecting the government's interests. First, problems confronting the industry must be clearly defined—separating out those that require an immediate response from those structural challenges that will take more time to resolve. Second, Congress should determine whether the national interest will be best served through a legislative solution, or whether market forces and established legal procedures, such as bankruptcy, should be allowed to take their course. Should Congress decide that federal financial assistance is warranted, it is important that Congress establish clear objectives and goals for this assistance. Third, given the significant financial risk the federal government may assume, the structure Congress sets up to administer any assistance should provide for appropriate mechanisms, such as concessions by all parties, controls over management, compensation for risk, and a strong independent board, to protect taxpayers from excessive or unnecessary risks.

These principles could help the Congress in deciding whether to offer financial assistance to the domestic auto manufacturers. If Congress determines that a legislative solution is in the national interest, a two-pronged approach could be appropriate in these circumstances. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government’s interests.

**Number of Vehicles Sold By the Big 3, 2004 to 2008**

