## Real Economy Support by the United States in Response to the Economic Crisis

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## Why an Industrial Strategy (policy)?

- Three Reasons Why Governments today need to have an Industrial Strategy (policy):
- 1. There is more capacity than demand globally,
- 2. Underemployment requires wisely positioning existing industries and supporting industries of the future, and
- 3. Other countries are doing it.



### Observation

## **Economic Theory**

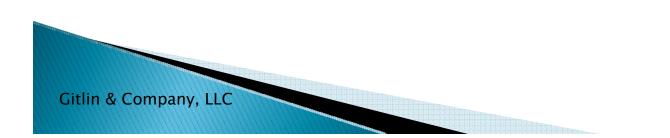
### must give way to

## **Economic Strategy**



# Four Elements of an Industrial Strategy

- 1. Policy
- 2. Decisions
- 3. Execution
- 4. Managing and Exiting the investments

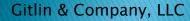


# Applying the Four Elements to the US Auto Industry

- 1. Policy
  - Confusing
  - Most likely the US must have a strong manufacturing industry to remain a super power.

### 2. Decision

- The US Auto industry is essential to maintain a strong manufacturing industry.
- Chrysler and GM will fail without urgent and significant government support.



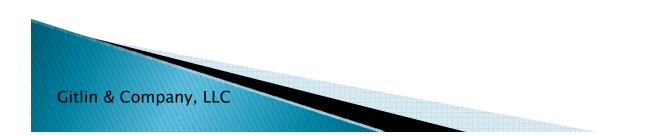
# Applying the Four Elements to the US Auto Industry (continued)

- 3. Execution
  - Must make fundamental changes for financial support.
    - Shareholders must be wiped out
    - Most of Top management must change
    - Restructured company must have low leverage and strong business prospects
    - President Obama "We will not simply kick the can down the road."



# Applying the Four Elements to the US Auto Industry (continued)

- Top outside professional brought into US Treasury to form Auto Industry taskforce.
- Must use Chapter 11 to accomplish goal . . Very quick Chapter 11
- Result was US government owned 60% of the new GM and 80% of the new Chrysler



# Applying the Four Elements to the US Auto Industry (continued)

#### 4. Managing and Exiting the Investments

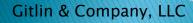
- No active management by the US government
- Appoint strong independent directors
- Execute the equity positions "as soon as possible".



## **Observations - Auto Bailout**

#### 1. Policy unclear

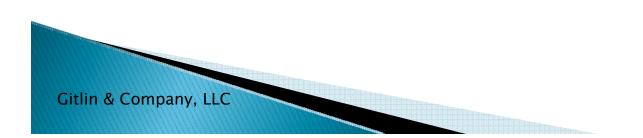
- Will other industries receive same treatment?
- Who will decide?
- Will auto industry be supported at any cost?
- 2. Decisions sound
  - Good to focus on industries, not simply on a company or companies.
  - Ford does not appear to be hurt by the support to Chrysler and GM
- 3. Execution Excellent
  - Real fix, not simply given money to fix balance sheet \_\_\_\_\_\_\_and cash flow.



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## **Observations (continued)**

- 4. Managing and Exiting the Investments Challenging
  - Will there be continuity of team...many independent professionals have left.
  - Congressional oversight Committee should put interests in an independent trust, similar to AIG, to avoid conflicts.



#### Example of US Support of a Growth Industry of the Future – Electric Vehicles Three key provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA")

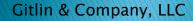
#### 1.Battery development

- 2 billion dollars of grants
- Ion batteries, hybrid electric systems, component manufactures and software designers

2.30% tax credit for manufacturing facilities for electric / hybrid batteries

#### 3. Tax credit for vehicle purchase

- Hybrid plug in
  - \$2,500 \$7,500
  - First 200,000 vehicles
- Slow electric vehicles, 2 and 3 wheel electric vehicles 10% up to \$2,500



### Policy to Support Investment in Electric Vehicles

- 1. Large potential market
- 2. Battery technology is key to success
- High-tech manufacturing that can be done in the US
- 4. US can lead research and development
- 5. US assistance essential to build industry before the market develops



### A Few Observations Regarding Industrial Strategies

- Successful execution requires collaboration of government, industry, banks and the academic community.
- 2. Support at the highest political level is important.
- 3. Danger: Do not chase failed strategies
- 4. Governments must enter to help and exit to preserve.

Note: I recommend the following paper: "Industrial Policy for the Twenty-First Century" by Dani Rodrik, Harvard University; September 2004