

## Interview Transcript

**WRVA 1140AM**  
**Richmond**

**INSERT TIME AM 11/14/2008**

**HOST: Jimmy Barrett**

**EXPERT: Dr. Ray Brastow**

(Automated voice) 1140 WRVA.com.

**Jimmy Barrett:** Alright who else is in line this morning? 7:38 here on Richmond's morning news. The automakers are of course in line. They've got big Democratic support for that. Certainly the United Autoworkers wants to see the automakers get their loans because they want to protect what they've got left of their contracts, that's for sure. But, does it make more sense to let, if General Motors needs to go bankrupt to get its act together should we just let it go bankrupt? And who else potentially could stand in line here? Did you see that auto supply companies, the people who are the secondary suppliers of automotive companies, they'd like to get in that line too. Ray Brastow is an economics professor at Longwood University, an advisor to the Fed. Does it make sense for us to give automakers 25 billion at this point Ray?

**Ray Brastow:** Boy that's a tough one. I guess my quick answer would be that we'd need to be really careful. You know, the problem that the automakers have is that we're not buying enough of their cars.

**JB:** Well part of the problem, part of the reason why we're not buying enough of their cars is we can't get the credit to buy them.

**RB:** Yes, and they can't get credit in a tough time. And those are difficult problems together. So, if part of the problem I think, is of their own making. General Motors, in particular, gosh you think about General Motors, the beacon of American manufacturing corporations, at one point the world's largest corporation, could be in line for taxpayer money. But, and they have a couple of problems. One is that we're not buying the cars they're making. They haven't turned a profit since 2004. And so, you know, I think we have to ask, is this something if we give, if you buy a car from General Motors you get a car, if as a taxpayer you give them money, what do you get?

**JB:** Well you don't get a whole heck of a lot. I guess you get some worthless stock. At least. What's GM trading at? Last I heard is like 2 dollars and some odd cents a share. I never thought I'd ever say that. But, that certainly doesn't sound like a whole lot of protection for the American taxpayer. And there doesn't seem to be any Republican support in the US Senate for this measure right now. But the big question to me, Professor Brastow, why not allow them to go Chapter 11? What's wrong with going Chapter 11 and reorganizing?

**RB:** Obviously, General Motors management is reluctant to do that. I don't know the ends and outs of their situation well enough to know why exactly they're so reluctant.

**JB:** Wouldn't that get them out from underneath a lot of deals they have with the unions that are dragging them down and making it difficult for them to compete?

**RB:** It certainly could, depending on how the restructuring goes. And so yeah, there is something to be said for that. That, allowing General Motors to restructure. General Motors cost per car are the highest in the industry. They're also still the world's largest automaker. They've been able to get away with that by building large cars that had a lot of pricing margin. We're not buying those now. And at four dollars a gallon we probably won't. At two dollars we might. And I guess the question is, as taxpayers are we willing to take that bet? Are we willing to have our tax dollars go to a company that may or may not make cars we want?

**JB:** Well, I guess on one end of the coin, there is some precedent for loaning car companies money. We did it for Lee Iacocca and Chrysler Corporation. I don't know if we can trust the current situation to work itself out as well as that one did. Not only did Lee Iacocca pay us back but he paid us back with interest and he paid us back early. But, I don't know if we could look forward to that happening this time.

**RB:** Well, I think that's the real issue. Is this a company that is viable long term? All car companies are in trouble this year. But Toyota and others, other American firms have enough reserves and business plans that either they can finance themselves now or they can attract private creditors to give them a line of credit.

**JB:** Yeah, course part of what concerns all of us right now is that lack of oversight that has occurred on all of this, the seven hundred billion dollar rescue plan, bailout plan, whatever you want to call it. And right from the get-go, we've been concerned about giving banks money and then the banks sitting on the money and hoarding the money. And yesterday, I saw where Senator Chris Dodd came right out and told them "you've got to start loaning out this money." Is part of the problem here, with all this taxpayer money was just given to all these financial institutions, without any sort of accountability for how the money was going to be used, without any requirement on how the money was used?

**RB:** It is true that what the Federal Government did was to buy preferred stock and what it is doing. We know that the first 125 billion went to nine large banks, those have all been publicly announced. As soon as the deal goes through the banks gets the money, the federal government gets the preferred stock. Notice that these are five percent, essentially, loans. So, the federal government's going to be receiving five percent annual return for a 20 billion dollar investment in a bank's preferred stock. We're going to be getting a billion a year for the first five years and then it goes to nine percent. And those claims stand in front of common stockholders, so it's not clear that we're out the money. What we do know...

**JB:** Well, but how are they going to pay us back with that kind of interest unless they're loaning out the money and making money off of us?

**RB:** Well, that is right. The idea is to make banks more stable. And stable banks make money by lending, so. I did notice in yesterday's USA Today that Bank of America took out a full page ad announcing an 11 billion dollar program to restructure mortgages. Bank of America had a 15 billion dollar part of the first half of the 250 billion that is, they have sold the government 15 billion dollars in preferred stock. And so this was either part of their plan all along or there's been some pressure put on them by Congress and the Administration to kind of step up. I take that as a positive sign. I don't know where else the ad appeared but I know it was in yesterday's USA Today.

**JB:** I think there's no doubt that there's going to have to be a lot of pressure put on these banks in order to make sure this money does get loaned off. And if we don't unfreeze the credit markets then what have we really accomplished here? Professor good to talk to you! Thank you.

**RB:** Thank you very much.

**JB:** That's Ray Brastow. He's an economics professor at Longwood University and an advisor to the Fed.

(Automated voice) More than just the headlines. This is Richmond's morning news with Jimmy Barrett. On 1140 WRVA.