

November 17, 2008 The Honorable Richard Shelby United States Senate 110 Hart Senate Office Building  
Washington, DC 20510

Dear Senator Shelby:

On Sunday, November 16, I watched with great interest Meet the Press, during which you and Senator Carl Levin debated the merits of (or, concerning your position, the folly) providing financial aid to America's domestic auto industry. I must admit that I was more than a little taken aback by how out of touch you really are about what Detroit's Big Three automakers have been doing for some time and continue to do to transform their businesses to both survive in today's debilitating economic climate and thrive in the future. The steps have been extremely significant and take it from me—someone who lives and works in the Motor City—incredibly painful as well.

Frankly, I could go on for pages in an effort to educate you about these measures, but I think Senator Levin did a good job of providing the high-level facts about these transformation efforts. As the ranking member on the Senate Banking, Housing and Urban Affairs Committee, I can only trust that you will take some time and conduct the proper due diligence before continuing to espouse your inaccuracies. At minimum, I believe the domestic auto industry (and its millions of hardworking, taxpaying employees), which helped make America great, deserve as much.

Don't you?

The intent of this letter, however, is not to take you to task for the inaccuracy of your comments or for the oversimplicity of your views, but rather to point out the hypocrisy of your position as it relates to Alabama's (the state for which you have served as senator since 1987) recent history of providing subsidies to manufacturing. During the segment on Meet the Press, you stated that:

We don't need government—governmental subsidies for manufacturing in this country. It's the French model, it's the wrong road. We will pay for it. The average American tax payer is going to pay dearly for this, if I'm not wrong. I trust it is safe to say that when you refer to "government subsidies," you are referring to subsidies provided by both federal and state governments. And if this is in fact true, then I am sure you were adamantly against the State of Alabama offering lucrative incentives (in essence, subsidies) to Mercedes Benz in the early 1990s to lure the German automobile manufacturer to the State.

As it turned out, Alabama offered a stunning \$253 million incentive package to Mercedes. Additionally, the State also offered to train the workers, clear and improve the site, upgrade utilities, and buy 2,500 Mercedes Benz vehicles. All told, it is estimated that the incentive package totaled anywhere from \$153,000 to \$220,000 per created job. On top of all this, the State gave the foreign automaker a large parcel of land worth between \$250 and \$300 million, which was coincidentally how much the company expected to invest in building the plant.

With all due respect, Senator, where was your outrage when all this was going on? Perhaps on principal you did disagree with your colleagues in the Alabama State Government over these subsidies, but I don't recall you ever going out and publicly decrying Alabama's subsidization strategy. I certainly don't recall you going in front of the nation (as you did this past Sunday) to discuss what a big mistake Alabama was making in providing subsidies to Mercedes Benz. If you had, however, you could have talked about how, applying free market principles, Alabama shouldn't have had to resort to subsidies to land Mercedes Benz.

Competitively speaking, if Alabama had been the strongest candidate under consideration (i.e. highest quality infrastructure, workforce, research and development facilities, business climate, etc.), then subsidies shouldn't have been required.

The fact is that Alabama knew that, on a level playing field, it could not compete with the other states under consideration and, thus, to lure the German car builder to the State, it offered the aforementioned unprecedented subsidies. In effect, Alabama—your state—did exactly what you said government should not do: provide subsidies for manufacturing. It's no great mystery why Alabama politicians went to such dramatic anti-free-market measures to secure Mercedes Benz—they did it for the betterment of their state through job creation and increased tax revenues. And who could blame them? Is that so different than what would occur by providing financial aid to help rescue the domestic auto industry?

Such aid would save millions of jobs and millions of dollars in lost tax revenue. Additionally, unlike the giveaways Alabama bestowed upon the foreign automaker in question, United States tax payers would be reimbursed with interest (as they were when Chrysler received government aid in the early 1980s) for their investment in what is clearly a critically important industry for America's present and future.

Best Regards,  
Peter Karmanos, Jr. Chairman and CEO Compuware Corporation