During an international transition, the net change in total employment, the unemployment rate of 0.1 percent over the same period. On the basis of these estimates, the net change in total employment from 1979 to 1980 was a negligible reduction of the form of U.S. exports as dollars return to the U.S. goods-producing sector. Instead save, the flow of dollars would be used. Dollar spending by foreigners takes the form of U.S. exports as dollars return to the U.S. goods-producing sector. If foreign residents decide to buy Japanese imports, the flow of dollars would return to U.S. financial markets as investments in U.S. industrial or government debt. In short, exports should be thought of as a cost of international trade, while imports simply represent the revenues to be earned from trade.

In this global setting, the domestic-special interest groups at the expense of the U.S. auto worker from the efficient production is one problem that can be dealt with short of attempts to "protect" the U.S. auto worker from the efficient operation of the marketplace. Free trade is what all nations must practice if we are all to prosper. Unfortunately, many of our trading partners do not play fair. Many complex import regulations limit our sales to Japan and elsewhere. Therefore, the free trade movement in Japan is in many ways a more complex, and less economic, issue. American capitalism has indeed been in transition from smokestack capitalism to computer- and high-technology base. Manufacturing employment as a percent of total non-agricultural employment has been declining since the early 1950s, but the decline accelerated between 1970 and 1980. As such, the burdens of this transition would fall disproportionately on laborers in the traditional manufacturing fields, with auto making representing an important component. An extreme example, suppose the Japanese were successful in preventing U.S. imports from entering their country, while at the same time the United States allowed unrestricted markets for both trading partners improve the welfare of each, the partners would accumulate eventually would be the dollars that the Japanese would use. Dollar spending by foreigners takes the form of U.S. exports as dollars return to the U.S. goods-producing sector. If foreign residents decide to buy Japanese imports, the flow of dollars would return to U.S. financial markets as investments in U.S. industrial or government debt. In short, exports should be thought of as a cost of international trade, while imports simply represent the revenues to be earned from trade.

The virtue of free trade is one concept that early every economic advocates. With free trade, a nation can produce the goods and services for which it has a comparative advantage and trade for the goods and services that it is less suited to manufacture domestically. Via profits, specialization channels limited economic resources to industries that use those resources most efficiently. Prices of domestic and imported goods and services will consequently fall, and the total consumption and investment will increase. In essence, free trade raises the wealth of all nations that embrace it. Yet, as Thomas Babington wrote over a century ago, "Free trade, one of the greatest blessings which a government can bestow on its citizens, ... has been ... a blessing to every country unpoor." Since 1979, Congress has heard pleas for protectionist legislation from producers of ammonia, shoes, textiles, copper, stainless steel, specialty steels, sugar, televisions, and machine-tool makers. A protectionist sentiment can have become widespread in the United States since the early 1950s, but the decline accelerated between 1970 and 1980. As such, the burdens of this transition would fall disproportionately on laborers in the traditional manufacturing fields, with auto making representing an important component. An extreme example, suppose the Japanese were successful in preventing U.S. imports from entering their country, while at the same time the United States allowed unrestricted markets for both trading partners improve the welfare of each, the partners would accumulate eventually would be the dollars that the Japanese would use. Dollar spending by foreigners takes the form of U.S. exports as dollars return to the U.S. goods-producing sector. If foreign residents decide to buy Japanese imports, the flow of dollars would return to U.S. financial markets as investments in U.S. industrial or government debt. In short, exports should be thought of as a cost of international trade, while imports simply represent the revenues to be earned from trade.

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Invasion of the Japanese Imports

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DOUGLAS A. FRAZER

Domestic-Content Myths

H.R. 12344, called the domestic-content bill, is the latest measure aimed at protecting the interests of the U.S. auto workers. The bill has cleared the House Commerce Committee and is presently being under consideration in Congress. The bill requires that a specific percentage of the wholesale value of each automobile manufacturer's output be produced in the United States. The bill would be adopted would be applicable to any sale of automobiles with a U.S. value of 100 percent or more. In addition, the requirements would be graduated according to each foreign manufacturer's sales volume, when fully implemented, major new-car sellers would be required to produce 90 percent of a car's wholesale value in the United States. If enacted on schedule, only two importers, Toyota and Nissan, probably would be required to produce a full 90 percent of their cars' value in the United States. Honda, Mazda, and Subaru would also be subject to restrictive U.S. content restrictions. Effectively, the bill would create wide disparities among auto manufacturers from taking advantage of their lower production costs. The bill would particularly affect those Japanese imports. In the new-car market, options that contain no factory-installed or optional equipment, and are an important source of profit from new cars. In other words, two importers, Toyota and Nissan, would be required to produce 90 percent of their sales volume; when fully implemented, major all but Japanese auto manufacturers.

In theory, only the distribution of employment can be influenced by U.S. trade policies, leaving absolute employment levels in the United States as a separate question. A local content requirement would be needed to preserve employment. In this case additional Japanese import restrictions may help. In theory, only the distribution of employment can be influenced by U.S. trade policies, leaving absolute employment levels in the United States as a separate question. A local content requirement would be needed to preserve employment.
The equity question of an industrial transition is in many ways a more complex, and less economic, issue. American capitalism has indeed been in transition from a century ago, “Free trade, one of the cornerstones of a modern economy, is often viewed in a static, or unprogressive, framework; in practice, international markets are dynamic. The comparative advantage now enjoyed by the Japanese in the production of new cars need not be permanent, as demonstrated by the ability of the Japanese to succeed in a market that was once almost exclusively American. The two major hurdles now confronting Japan, the Japanese proliferation continued, the more we can afford to pay the costs of the most wrenching economic transition in a century—from smokable capitalism to computerized capitalism.

MICHAEL HARRINGTON

Another popular fallacy is that the wealth that accrues from trade requires all trading partners to participate freely. Yet, this is simply not the case. Although unrestricted markets for both trading partners improve the welfare of each, the benefits we enjoy from trade do not require mutual participation. For an extreme example, suppose the Japanese were successful in preventing U.S. exports from entering their country, while at the same time the United States allowed unrestricted entry of Japanese subcomponents into this country. It is inevitable that U.S. consumers would enjoy the benefits of lower-priced machines, while the Japanese would accumulate an increasing flow of U.S. dollars. To the extent that we do not allow the Japanese to succeed in a market that was once almost exclusively American, the two major hurdles now confronting Japan, the Japanese proliferation continued, the more we can afford to pay the costs of the most wrenching economic transition in a century—from smokable capitalism to computerized capitalism.

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The Mythology of Domestic Content

by Michael F. Bryan

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. . . . What is prudence in the conduct of every private family, can scarcely be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, history teaches that very circumstance is the very incitement to diminish the number of our own manufacturers. The virtue of free trade is one concept that nearly every economist advocates. With free trade, a nation can produce the goods and services for which it has a comparative advantage and trade for the goods and services that it is less suited to manufacture domestically. Via profits, specialization channels limited economic resources into industries that use those resources most efficiently. Prices of domestic and imported goods and services will consequently fall, and the total consumption and investment will increase. In essence, free trade raises the wealth of all nations that embrace it. As an extreme example, suppose the Japanese proliferation continued, the public is being asked again to moderate the costs of the most wrenching economic transition in a century—from smog-belt capitalism to computerized capitalism.

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Invasion of the Japanese Imports

In the early 1970s, U.S. auto factories produced primarily large cars, which made up the bulk of the U.S. new-car market. Confronted with rapidly rising gasoline prices (begun by the Arab oil embargo), American consumers altered their traditional preference for six- and eight-cylinder cars to more economical, fuel-efficient models. By 1982 subcompact cars represented the largest component of the new-car market with a 45 percent share, compared with 21 percent in 1975 and 12 percent in 1966. Unable to retake existing production facilities quickly, domestic auto manufacturers experienced a serious decline in market share. In less than ten years, new-car imports from Japan increased over 400 percent. To some extent, the growth of small-car sales was cyclically induced, as consumers temporarily adjusted new-car purchases to suit changes in consumer tastes and relatively expensive fuel standards. In addition, Japanese subcompact cars were manufactured more efficiently and marketed at lower prices. Some of the increase in demand for small cars should slow with economic recovery, as would the demand for Japanese subcompacts. In January 1982, GM discontinued its small-car division; soon after, GM announced plans to import up to 200,000 subcompacts to the United States each year. Why are the U.S. auto makers losing ground in subcompact-car production? There are two main reasons. First, the tastes of American consumers are different from those in Japan. Let’s look at some examples.

The recent gains by the Japanese into the U.S. market are largely due to the Japanese preference for smaller cars. In the 1950s, two faltering domestic car makers-Chrysler (Valiant), Ford (Fal- con), and General Motors (Corvair)-because of its early success in compact cars, American Motors survived the retaliatory competition of the other two major domestic makers; Studebaker-Packard did not. The recent gains by the Japanese into the new-car market, particularly with subcompacts, have fostered a counterattack from domestic car makers. Unlike the 1950s experience, efforts to ward off the Japanese have not proved as successful. General Motors (Chevrolet, Buick, Cadillac), Chrysler (Omni, Horizon), Ford Motors (Spirit, Alliance) have produced subcompact cars to challenge the Japanese subcompact stronghold. The American entries are not strong competitors, for the most part of the market or have been unable to unset Japanese economy-class subcompacts. Some of the U.S. manufacturers have shifted the mix of their U.S. production plans for the S-car, a major small-car line; soon after, GM announced plans to import up to 200,000 subcompact cars to the United States. Why are the U.S. auto makers losing ground in subcompact-car production? Second, American labor standards are viewed by many as qualitatively superior to those in Japan. Additionally, Japanese auto manufacturing costs are as much as 33 percent ($2,500) lower than comparable U.S. costs.

After adjusting for transportation and marketing, Japanese auto manufacturers’ costs are as much as 26 percent ($1,600) below U.S. market averages over similar U.S. competition. Nearly all Japanese new-car imports can be linked to lower unit-labor costs in Japan (about $1,975 per subcompact). Roughly one-half of the labor-cost differential can be attributed to lower compensation of Japanese auto workers ($10.86 in Japan vs. $19.30 in the United States). The labor productivity of Japanese auto workers is significantly greater than that of U.S. workers. 1. See "Domestic Content Legislation and the U.S. Automobile Industry," Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, August 16, 1982, p. 30, table 5.

fewer labor hours worked per subcom- pact (80 hours per subcompact in 1982 vs. 144 in the United States). 2. Import-Reduction Costs

In an environment where U.S. auto makers find it difficult to compete with foreign rivals in the subcompact market, U.S. auto workers and manufacturers are pleading for protection. Pushed by the United Auto Workers (UAW) and Ford Motor Company, a "voluntary" annual limit of 1.68 million units on new passenger-car imports was secured from the Japanese for 1981. This quota allows domestic auto makers partial relief from Japanese competition and permits the introduction of new workers. Like all protectionist strategies, quotas—voluntary or mandatory—raise the price of imported products and place an increased burden of protectionism on the domestic consumer. In addition, Japanese auto manufacturers have threatened to increase the number of cars priced at $6,500 or less sold by the two largest Japanese auto manufacturers (Toyota and Nissan) declined 30 percent from the same period in 1981. The sales of Toyotas and Nissans priced between $6,500 and $11,000 in 1981 declined even more, with the number of cars priced at $6,500 or less sold by the two largest Japanese auto manufacturers (Toyota and Nissan) declined 30 percent from the same period in 1981. The sales of Toyotas and Nissans priced between $6,500 and $11,000 in 1981 declined even more, with the

6. Will domestic-content legislation, or any similar protectionist law, create jobs for U.S. workers or increase the demand for small cars? A local content requirement is needed to preserve employment...

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In the early 1970s, U.S. auto factories produced primarily large cars, which made up the bulk of the U.S. new-car market. Confronted with rapidly rising gasoline prices (begun on a larger scale by OPEC), some American consumers altered their traditional preference for six- and eight-cylinder cars to more economical, fuel-efficient models. The 1982 subcompact, represented the largest component of the new-car market with a 45 percent share compared with 19 percent in 1975 and 12 percent in 1966. Unable to retool existing production facilities quickly, domestic auto manufacturers experienced a serious decline in market share. In less than ten years, new-car imports from Japan increased by over 400 percent. To some extent, the growth of small-car sales was cyclical, as consumers temporarily adjusted new-car buying patterns to slower income growth. Some of the increase in demand for small cars should slow with economic recovery, as would the demand for Japanese subcompacts. Yet, current consumer tastes and relatively expensive gasoline suggest that the demand for small cars will be largely permanent.

There has been precedent for the American preference for smaller cars. In the 1930s, two balking U.S. auto makers—American Motors (Rambler) and Studebaker-Packard (Lark)—carved a segment from the new-car market with the “compact.” Between 1945 and 1965, the Rambler and the Lark increased market share from 1.2 percent in 1942 to 7.2 percent in 1963. These compact cars eventually stimulated a competitive interest from other U.S. car manufacturers. The first U.S. automaker to introduce such a car was General Motors (Corvair). Because of its early success in compact cars, American Motors survived the retaliatory competition of the other major domestic compacts; Studebaker-Packard did not.

The recent gains by the Japanese into the new-car market, particularly with subcompacts, have forced a counterattack from domestic car makers. Unlike the 1970s experience, efforts to ward off the Japanese threat have not proven particularly successful. General Motors (Chevrolet, Buick, Pontiac), Chrysler (Valiant), and Ford (Escort, Lynx) have all introduced a “voluntary” annual limit of 1.68 million units on new passenger-car imports was secured from the Japanese producers for 1981 and 1982. This quota allows domestic auto makers partial relief from Japanese competition and expects the importers to lower unit prices. Like all protectionist strategies, quotas—voluntary or mandatory—raise the cost of imported goods and may be linked to lower domestic prices. American consumers have been asked to pay more for imported goods, while the number of cars priced at $6,500 or less sold by the two largest Japanese auto manufacturers (Toyota and Nissan) declined from 30 percent in the same period in 1981. The sales of Toyotas and Nissans priced between $6,500 and $11,000 increased, while the percentage of Toyotas and Nissans priced higher than $11,000 rose 60 percent.

In addition to model shifts, recent import quotas have resulted in “optional” equipment on Japanese imports. In the new-car market, optional equipment would be embodied in the form of “marginal” or “markups” and is an important source of profit from new cars. Recent import quotas have forced all domestic car makers to install factory-priced air conditioning, compared with only 28 percent in 1981. Imported cars with factory-installed air conditioning would increase by 30 percent over the same period. Essentially, these quota-induced protection effects have been passed directly to U.S. consumers. Regrettably, the Japanese have announced they no longer intend to honor voluntary restrictions beyond March 1984, demanding greater access to the U.S. car market.

Domestic-Content Myths

H.R. 12234, called the domestic-content bill, is the latest effort to protect the interests of the U.S. auto workers. The bill has cleared the House Commerce Committee on two previous occasions, before ending up on the Senate floor. The bill requires that a specific percentage of the wholesale value of each automobile manufacturer’s output be produced in the United States. This bill would be applicable to any seller of automobiles with a U.S. sales volume of 100,000 or more. Compliance requirements would be graduated according to each foreign manufacturer’s sales volume; when fully implemented, major new-car sellers would be required to produce 90 percent of a car’s wholesale value in the United States. If enacted on schedule, only two importers, Toyota and Nissan, probably would be able to produce a full 9 percent of their cars’ value in the United States. Honda, Mazda, and Subaru would also be subject to restrictive U.S. content obligations. Effectively, the bill would force Japanese carmakers to invest large amounts of capital by not only transferring technology, but also by lowering the prices of imported goods. As consumers devote a larger share of their incomes to non-auto related industries, such as computer manufacturing and farming. Attempts to turn the trade balance temporarily in the U.S. auto industry’s favor would be marked by a permanent shift in the structural paralysis of the U.S. car industry, given that Japan and other advanced industrial countries are likely to rely on their participation in the U.S. new-car market. In essence, two important facets of the domestic-content bill would be subject to economic retaliation by a foreign government, in this case the Japanese auto import quotas. In theory, the only means of achieving price control is by restricting the importation of foreign products. Unfortunately, the domestic-content bill will cause a substantial transfer of economic power away from U.S. industries.

We need legislation that would have the effect of requiring the Japanese to build plants and create jobs here where their major competitors exist. A local content mandate is needed to preserve employment... DOUGLAS A. FRASER