

The Voluntary Automobile Import Agreement with Japan — More Protectionism

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THE signing of “voluntary” agreements to reduce imports has made considerable headway in recent years. The recent accord to limit automobile imports from Japan is an example of such an agreement. Shipments of Japanese automobiles to the United States in the first year following the agreement (April 1981 through March 1982) are to be held to 1,680,000 cars, compared with 1,820,000 in 1980 — an 8 percent reduction.¹

The rationale given for this agreement is similar to that traditionally offered to support protectionist policies.² For example, economist Marina v. N. Whitman argued that the agreement was necessary to help the auto industry adjust to sharply changed circumstances and consumer preferences. In her view, the U.S. automobile industry is similar to an “infant industry,” one that needs time and massive investment to adjust fully to new circumstances.³

“Voluntary” Import Controls — Who Gains? Who Loses?

The purpose of “voluntary” trade agreements becomes clear when one analyzes the recent agreement with Japan. The agreement was made after months of discussion over the rising volume of Japanese automobile sales in the United States. As a consequence of these rising imports, U.S. legislation had been proposed to limit such imports to 1.6 million vehicles per year for three years. The proposed legislation was more stringent than the provisions of the so-called voluntary agreement. One government spokesman was reported to have demanded “that the Japanese restrict car sales (to the United States) to between 1.4 and 1.6 million for more than one year.”⁴ It is likely that the Japanese participated in the agreement to avoid the imposition of even more stringent protectionist measures by the United States.⁵

Some groups in the United States, specifically U.S. auto workers and stockholders of U.S. automobile manufacturers, benefited from the agreement. Presumably the agreement will lead to an

¹Christopher Conte and Urban C. Lehner, “Car Import Limit Eases U.S. - Japan Trade Rift; Domestic Makers Gain Leeway to Boost Prices,” *The Wall Street Journal*, May 4, 1981.

²For example, see Charles P. Kindleberger and Peter H. Lindert in *International Economics*, 6th ed. (Richard D. Irwin, Inc., 1978), pp. 130-47.

³William H. Kester, “Economist Outlines Auto Woes,” *St. Louis Post-Dispatch*, April 8, 1981. The infant industry argument is typically used to justify temporary tariffs or other protection measures that cut down on imports from modern manufacturers while the infant domestic industry learns how to produce at low enough costs to compete without the help of protection.

⁴Secretary of State Alexander Haig as reported in Hobart Rowan, “The Japanese Car Charade,” *Washington Post*, May 7, 1981.

⁵The agreement was not voluntary based on the usual sense of the word. The action did not proceed from the free choice of each party in the absence of coercion or legal obligation.

increase in sales of U.S.-manufactured cars. However, the current Japanese voluntary import control represents simply a protectionist action. As such, its impact on national and consumer well-being is no less harmful than that from higher tariffs, import quotas, or other devices designed to curtail foreign competition in the domestic automobile market.

Thirty Years of Expanding Trade

The major impetus for the protection of American industries from foreign competition has been rising imports in a few industries. These represent, in part, the consequences of reduced tariffs and other moves toward free international trade that began in the 1950s. These moves followed a period of highly protective tariffs authorized in the Smoot-Hawley Tariff Act of 1930. With the tariff reductions, trade with other nations began to increase. Exports of U.S. merchandise grew, rising annually at a 6.8 percent rate in the 1950s and at an 8 percent rate in the 1960s. Imports of merchandise rose annually at a 5.0 percent rate during the 1950s and at a 10.4 percent rate during the 1960s. These imports generated increased competition for some U.S.-produced goods, such as shoes, clothing and steel products.

In the 1970s, the volume of U.S. international trade spurted and other industries began to experience competition from imports. During this decade, imports and exports grew at 20 percent annual rates.

What Happened to Automobile Imports?

Automobiles were a major factor in the acceleration of import growth. In the 1970s, the U.S. automobile industry began to experience greater competition from imports, just as the shoe, clothing and steel industries had in the previous decade. In the automobile case, sharply higher gasoline prices, escalating wage rates and mandatory environmental and safety regulations increased the cost of American-manufactured automobiles relative to foreign-produced cars. These factors contributed to sales reductions and increased unemployment in the U.S. automobile industry.

The almost doubling of real gasoline prices in 1979 and 1980 led to both a sizable reduction in demand for larger automobiles manufactured in the United States and a sharp increase in demand for the smaller cars produced by foreign manufacturers.

Table 1
Imported Cars as a Percent of Total United States Passenger Car Retail Sales (thousands)

	Total sales	Percent imported	Percent imported from Japan ¹
1980	8,979	26.7%	22.2%
1979	10,671	21.9	15.2
1978	11,312	17.7	13.8
1977	11,185	18.6	12.0
1976	10,110	14.8	11.2
1975	8,640	18.4	8.1
1974	8,867	15.9	8.9
1973	11,439	15.4	5.5
1972	10,950	14.8	6.4
1971	10,250	15.3	6.9
1970	8,405	15.4	4.5
1969	9,583	11.7	3.7
1968	9,656	10.7	1.8
1967	8,337	7.2	0.8

¹Data are imports of assembled cars and are not precisely consistent with sales data included in first column. SOURCE: MVMA Motor Vehicle Facts and Figures 1981, pp. 13 and 71.

Consequently, the sales of foreign-built cars, especially those made in Japan, accelerated (table 1).

Total automobile sales leveled off in the early 1970s, and the percent imported held fairly stable until 1979, when it jumped sharply, rising from 17.7 percent in 1978 to 21.8 percent in 1979 to 26.7 percent in 1980. Most of the increase in imports came from Japan. The Japanese penetration of the American market had been rising steadily since 1970, reaching 15.2 percent of total sales in 1979. These imports then spurted in 1980 to 22.2 percent of total sales.

Contributing to the higher cost of U.S. automobiles have been the more liberal wage settlements of the automobile manufacturers since 1970. Prior to 1970, hourly earnings of production and non-supervisory workers in the manufacture of motor vehicles and car bodies averaged 30 to 32 percent more than in all manufacturing industries combined. By 1975, however, the automobile workers' hourly earnings exceeded the earnings of all workers in manufac-

Table 2
Average Wage Levels of Production Workers in Automobile Manufacturing and All Manufacturing

	Average hourly earnings		Percent earnings of automobile to all manufacturing workers
	All manufacturing	Automobile manufacturing	
1980	\$7.27	\$10.78	148%
1975	4.83	6.82	141
1970	3.35	4.42	132
1965	2.61	3.45	132
1960	2.26	2.91	129

SOURCE: U.S. Department of Labor, *Employment and Earnings, United States, 1909-1978*, and March 1981.

turing by 41 percent. By 1980 this differential had risen to 48 percent (table 2).⁶

Increased Imports Not Harmful to Economy, . . .

Because of the employment consequences of rising automobile imports, the claim is often made that the U.S. automobile market must not be opened wide to foreign automobile manufacturers. This, however, is a short-sighted view of the impact that such imports have on the U.S. economy. There are two general conclusions that follow from an understanding of the economic consequences of trading among nations. First, foreign trade (imports and exports) in the longer run are neutral with respect to total employment; that is, employment gains in some industries will offset employment losses in other industries. Second, all nations participating in trade will experience gains arising from an increase in the

⁶It could be argued that such factors as greater productivity or more overtime work can explain the more rapid wage growth in automobile manufacturing. Increased productivity of automobile workers (which rose at a 1 percent faster rate than productivity in all manufacturing) could account for part of this rise. However, automobile workers and all manufacturing workers worked essentially the same number of hours per week in 1970 as in 1980. Hence, the faster growth in hourly earnings of automobile workers does not appear to have arisen from longer work weeks in automobile manufacturing.

value of production. They will all have more real goods for consumption and investment. This occurs because trade serves to allocate production to lower-cost manufacturers, and final goods to higher-valued uses.⁷

. . . Rising Imports Lead to Rising Exports, . . .

Changes in U.S. imports of goods and services are closely associated with changes in exports. Nations sell goods and services to other nations because they wish to import goods or purchase capital assets from them. Either directly or indirectly, U.S. imports of Japanese automobiles will create income abroad that will be spent on U.S. goods and services or U.S. financial assets. Imports do not cause general unemployment; they create job opportunities in some industries as part of the very process by which they reduce others.⁸ Export industries will increase total sales and employment; industries facing increasing imports (such as automobile manufacturing) will realize reduced sales and employment.⁹

. . . Hence, Employment Gains Offset Employment Losses

Offsetting the observed employment losses in automobile manufacturing are the sizable gains in sales and employment in a number of other industries resulting from the gain in purchasing power abroad and the rising exports. Major employment gains have occurred since 1964-65 in a number of industries as a result of rising exports. Among those industries with major employment gains from exports are machinery, transport equipment (including automobiles), chemicals, and farm products. Exports have risen in these industries both absolutely and relative to domestic production. Exports of machinery and transport equipment, for example, rose from an annual average of \$12.5 billion in 1964-65 to \$37.5 billion (constant dollars) in 1979-80. As a percent of domestic production, such exports rose from 7.3 percent in 1964-65 to 15.8 percent in 1979-80 (table 3).

⁷For a discussion of the gains from trade, see Charles P. Kindleberger and Peter H. Lindert, *International Economics* (Richard D. Irwin Inc., 1978) chapter 3 and Armen A. Alchian and William R. Allen, *University Economics*, 3rd ed. (Wordsworth Publishing Company Inc., 1972), chapters 35-37.

⁸Geoffrey E. Wood and Douglas R. Mudd, "The Recent U.S. Trade Deficit - No Cause for Panic," this *Review* (April 1978).

⁹See Clifton B. Luttrell, "Imports and Jobs - The Observed and the Unobserved," this *Review* (June 1978).

Table 3
Gains in Exports for Selected U.S. Industries

	Exports annual average (1972 prices)			
	1964-65		1979-80	
	(billion dollars)	Percent of domestic production	(billion dollars)	Percent of domestic production
Machinery and transport equipment	\$12.5	7.3%	\$37.5	15.8%
Chemicals and allied products	3.1	6.8	9.2	11.9
Agriculture	8.0	14.1	18.6	25.3

SOURCE: U.S. Department of Commerce, *Statistical Abstract of the United States*, 1970, 91st ed., pp. 779-80; *Survey of Current Business*, March 1981, pp. 12, S-19; *Current Industrial Reports*, 1958-77, pp. 8, 11, 14, 24; *Current Industrial Reports*, 1972-80, pp. 28, 31, 34, 43; *Economic Report of the President*, January 1981, pp. 337, 341; U.S. Department of Agriculture, *Agricultural Outlook*, January-February, 1981, p. 25.

Table 4
Trend in Exports of Selected Major Farm Products

	1964-65 Average			1979-80 Average		
	Production ¹	Exports ¹	Percent exported	Production ¹	Exports ¹	Percent exported
Wheat	1,314	796	60.1%	2,252	1,450	64.4%
Rice (rough equivalent)	75	47	62.7	139	90	65.0
Corn	3,784	629	16.6	7,293	2,283	31.3
Soybeans	733	228	29.5	2,042	817	40.0
Cotton	15.0	3.5	23.3	12.8	7.6	59.4

¹Million bushels of wheat, corn and soybeans; million cwt. of rice and million bales of cotton.

SOURCE: U.S. Department of Agriculture, *Agricultural Outlook*, May 1981, and *Agricultural Statistics*, 1968.

Exports in the agricultural sector have achieved even greater gains relative to production than in the machinery and transport equipment sector. Exports of farm products rose from an average \$8.0 billion per year in 1964-65 to \$18.6 billion in 1979-80. As a percent of domestic production, such exports rose from 14.1 percent in 1964-65 to 25.3 percent in 1979-80.

The impact of trade on five selected categories of farm products is shown in table 4. In the case of two groups, wheat and rice, almost two-thirds of the crop is exported. Furthermore, major gains in exports since 1964-65 have occurred both in real terms and as a

percent of production for corn, soybeans and cotton.

Estimated employment gains attributed to export increases in the three selected industries with rapid increases in exports are shown in table 5. More than 130,000 workers in agriculture alone were required to produce the increased quantity of farm products exported in 1979-80, and over one million were required to produce that portion of farm production which was exported (table 6). Export gains in machinery and transport equipment accounted for over 650,000 employees. Altogether, rising exports in these industrial groups — machinery and transport equipment, chemicals, and agriculture — required almost one million additional workers.

Table 5
Number of Employees Attributed to Rising Exports in Selected Industries (thousands)

	Employees 1964-65		Employees 1979-80		Increase in employees required for exports
	Total	Required for exports ¹	Total	Required for exports ¹	
Machinery and transport equipment	5,043.9	368.2	6,598.0	1,042.5	674.3
Chemicals and allied products	893.2	60.7	1,112.0	132.3	71.6
Agriculture	5,860.0	826.3	3,782.0	956.8	130.5
TOTAL		1,255.2		2,131.6	876.4

¹Based on percent of domestic production exported (see table 1).

SOURCE: Table 3 and U.S. Department of Commerce, *Survey of Current Business*, March 1981, p. S-12; *Economic Report of the President*, January 1981, p. 339; U.S. Department of Labor, *Handbook of Labor Statistics*, December 1980, p. 152.

Virtually Everyone Loses From Import Restrictions

Just as rising imports were a major factor in the expanding market for farm products, so a reduction in foreign imports will contribute to a reduction in exports of U.S.-produced goods. For example, in 1980-81, exports to Japan alone accounted for 7 percent of all U.S. coarse grain production (corn, grain sorghum, barley and oats), 10 percent of soybean production, 5 percent of wheat production and more than 12 percent of cotton production.¹⁰ A reduction in Japanese earnings on automobile exports will reduce their demand for these products.¹¹

Of course, in U.S. exports to Japan, the loss will not equal exactly the dollar amount of the reduction in

¹⁰U.S. Department of Agriculture, *Foreign Agricultural Trade* (May-June 1981), p. 10 and *Agricultural Outlook* (June 1981), pp. 34-35.

¹¹A reduction in imports of automobiles from Japan tends to reduce the supply of automobiles on the American market (shifts the supply curve to the left). Hence, the price of automobiles will be higher and automobile manufacturers in West Germany and other nations will tend to export more cars to the United States. Thus, the decline in dollar earnings by the Japanese will be partially offset by an increase in dollar earnings in other nations, and part of this increase will be used to purchase U.S. farm products. Such bilateral comparisons overstate the decline in automobile imports from all nations combined, and, thus, overstate the foreign earnings losses and farm export losses resulting from the restrictions.

Table 6
Employment for Farm Commodity Export Sales

	Farm commodity sales		Employment on farms	
	Total ¹	Percent exported	Total ²	For exports ²
1980	140.3	29.4%	4,152	1,220.7
1979	131.5	26.4	4,375	1,155.0
1978	112.5	26.1	4,343	1,133.5
1977	95.8	25.4	4,152	1,054.6
1976	94.8	24.7	4,374	1,080.4
1975	88.2	25.2	4,342	1,094.2
1974	92.4	24.2	4,389	1,062.1
1973	87.1	20.7	4,337	897.8
1972	61.2	15.5	4,373	677.8
1971	52.9	14.7	4,436	652.1
1970	50.5	14.7	4,523	664.9
1969	48.2	12.7	4,596	583.7

¹Billions of dollars.

²Thousands of workers.

SOURCE: U.S. Department of Agriculture, *Agricultural Statistics 1980*, p. 460; *Economic Report of the President*, pp. 289, 296; *Economic Indicators*, March 1981, p. 11; FATUS, February 1979 and January-February 1981.

Japanese automobile sales in the United States. Japan will be able to purchase U.S. products with her earnings from exports to Western Europe or other nations. However, to put the potential losses in perspective, from 1969 to 1979, U.S. exports to Japan totaled about 80 percent of U.S. imports from Japan. *Moreover, Japanese imports from the United States increased at approximately the same rate as exports to the United States.* Thus, all industries with net exports to the Japanese — especially the farm sector — will suffer losses.

The greatest losses from protectionism, however, are not those employment and export losses experienced by specific industries. The greatest losses occur in the reduction in real goods available to both nations for consumption and investment. With trade restrictions there will be fewer automobiles available for consumers in the United States, and consumers will pay a higher price for each car purchased.

Similarly, there will be a smaller quantity of farm products available for the Japanese, and food prices will be higher there. While food and farm commodity prices in the United States will be slightly lower as a result of the restrictions, consumers would prefer the larger number of automobiles and smaller quantity of farm commodities. Otherwise, the prior trade pattern would not have been profitable.

The gains from trading occur because the Japanese have a comparative advantage in the production of smaller automobiles relative to the United States, while we have a comparative advantage in the production of other goods, such as farm products. With each nation specializing in the production of those goods in which it has a comparative advantage and exchanging these goods with other nations, all nations will benefit. Hence, the real gains from trade are the

greater output and wealth that occur through greater specialization and exchange. These gains will not be fully realized if protectionist policies are adopted.

SUMMARY

The Japanese “voluntary” automobile import agreement is not only involuntary, but represents another form of protectionism. Like all such measures, it is predicated on specious logic and faulty economics.

Although the major impetus for this agreement has been the observed decline in employment in the U.S. automobile industry, evidence suggests that trade among nations has no impact on total domestic employment over the long run. Rising employment in industries with rising exports will offset employment losses in those industries that experience increased competition from imports. Reduced employment has occurred in some U.S. industries due to increased imports, but the decline has been offset by employment increases in other industries such as agriculture, machinery and transport equipment, and chemicals, where sharp increases in exports were realized.

The greatest loss from such agreements, however, is the reduced wealth and well-being of the population at large. These losses occur because trade is productive. Each nation gains by specializing in the production of those goods in which it has a comparative advantage and by exchanging these for other goods produced at lower cost elsewhere. This results in more wealth for all nations. Protectionist policies reduce these gains, and, consequently, reduce the wealth of U.S. citizens as well.

