BUSINESS POLITICAL ACTION NECESSARY TO CURB JAPANESE AUTO EXPORTS

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In December, 1978, the Iranian Shah's fall from power was the first in a series of developments which created turmoil in the U.S. automobile market and severe economic losses for the domestic industry. These developments caused consumer demand to shift abruptly and substantially to the small, fuel-efficient sub-compact car, a vehicle which U.S. manufacturers could produce only in limited quantities. The Japanese automobile industry was able to reap much of the benefit of this windfall marketing opportunity.

The U.S. industry's inability to compete appeared to apply only to the short run, since it was expected that after several years of product development and retooling, the industry's competitive capability would be restored. The rapidly expanding Japanese incursion into the U.S. market was viewed as a serious threat by U.S. auto manufacturers, their suppliers, dealers and labor unions, and means were sought to curb it. The objective was to prevent the Japanese auto brands from gaining even larger shares of the U.S. market, an accomplishment which would further reduce sales revenues and which would be very difficult to reverse in the future.

Although contrary to the long held free market economic philosophy of such companies as Ford and General Motors, government intervention aimed at achieving a reduction and limit on Japanese imports was the solution sought. Before ultimately succeeding in effecting this limitation in the early months of the Reagan administration, the leading U.S. auto manufacturers, their suppliers and dealers, needed to become involved in the political process in order to influence U.S. public policy. In this effort, awareness of common interest caused the auto companies to join forces with their frequent antagonist, the United Automobile Workers Union (UAW), and the supplier firms did the same.

All of the methods available for curbing Japanese auto imports required action by the United States government. These included:

(a) Persuading the Japanese government voluntarily to restrict its industry's exports to the U.S.;
(b) Requesting the President to impose a quota on Japanese auto imports, or raise the existing tariff;
(c) The U.S. International Trade Commission (ITC) could, after a proceeding under Sec. 201 of the Trade Act of 1974, recommend to the President the imposition of a quota and/or a tariff increase, or other relief;
(d) Congress could legislate a quota and/or tariff hike; and
(e) The U.S. and Japan could negotiate an Orderly Marketing Agreement (OMA) in which the Japanese government would formally agree to limit auto exports.

Any of these short-run actions were difficult to achieve because of substantial barriers both in Japan and the U.S.. But politically, the Carter Administration, especially since the President was a candidate for re-election, expressed sympathy for the industry's distress. However, the Administration maintained that it could not legally take any action, on its own initiative, without a prior recommendation from the ITC. Although candidate Reagan's long held philosophy espoused free markets and free trade, his search for auto worker votes enabled him to discern circumstances under which it would be proper for the government to curb imports. With the defeat of President Carter and a negative decision by the ITC, business proponents of import curbs had to mark time until the Reagan Administration took office.

Early in 1981, the situation confronting the auto industry was, in essence, as follows: Congress appeared willing to mandate import curbs, but the Reagan Administration preferred voluntary restraint. Such restraint, however, was opposed by Japanese auto manufacturers, and the Japanese government appeared to be trying to straddle the fence on this issue.

Efforts to achieve import curbs were complicated by a philosophical split within the Reagan Administration. The major element of this policy debate pitted those who advocated the desirability of free trade against the pragmatists who held that the President could not take the political risk of turning his back on the large number of auto industry related persons, companies and communities which were in severe economic distress. While not unanimous, the strong free trade view of important members of the Administration made it clear that the Reagan Administration would not support congressionally mandated import quotas, and would not negotiate an Orderly Marketing Agreement with the Japanese. If import relief was to be effected, it would be necessary to cause the Japanese government to conclude that voluntary unilateral reduction and limitation of auto exports to the U.S. was a better alternative than others confronting it. Such a solution was acceptable to Reagan Administration free traders since it would not be a consequence of any mandated import quotas or an official demand of the U.S. government.

The concerted effort to influence the Japanese government was undertaken by congressional leaders and Administration officials favoring import relief. The strategy was successful, and on May 1, 1981 the Japanese government announced a voluntary agreement to restrain auto exports to the U.S. during a three year period.

The Industry's experience illustrates that assistance with its short-run problem could be provided only by action of the federal government. And this action could only be obtained by the auto industry's participation in the political process.