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UNITED STATES-JAPAN ECONOMIC RELATIONS

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HEARINGS AND MARKUP

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS

AND ITS

SUBCOMMITTEES ON ASIAN AND PACIFIC AFFAIRS

AND ON

INTERNATIONAL ECONOMIC POLICY AND TRADE

HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

H. Con. Res. 363

SEPTEMBER 16, 17, 18, 29; OCTOBER 1 AND 16, 1980

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PREFACE

The hearings herein published were held jointly by the Subcommittee on Asian and Pacific Affairs and the Subcommittee on International Economic Policy and Trade in an effort to clarify issues relating to United States-Japan economic relations.

The initial hearings in this series focused on the issue of Japanese automobile exports to the United States and, in particular, on House Concurrent Resolution 363, a resolution calling on the President to negotiate with representatives of the Japanese Government a temporary restraint on the export of Japanese automobiles to the United States.[1]

In subsequent hearings the subcommittees expanded their inquiry to include such issues as market access, nontariff barriers, government procurement, and investment opportunities and to explore both short- and long-term approaches to their resolution.

The subcommittees also attempted to address issues relating to industrial policy in both the United States and Japan and to weigh the advantages and disadvantages of various approaches to reindustrialization in the United States.

Finally, the subcommittees attempted to relate the hearings to specific district concerns with respect to United States-Japan trade.

Clearly, there are no easy solutions to the issues addressed during these hearings but it is the hope of the subcommittees that these hearings will help to define and clarify the issues and to develop and assess policy options.

LESTER L. WOLFF,
Chairman, Subcommittee on
Asian and Pacific Affairs.

[1] See text of H. Con. Res. 363, and the amended version which was reported out by the Committee on Foreign Affairs.

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UNITED STATES-JAPAN ECONOMIC RELATIONS

TUESDAY, SEPTEMBER 16, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEES ON ASIAN AND PACIFIC AFFAIRS
AND ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
Washington, D.C.

The Subcommittee on Asian and Pacific Affairs and the Subcommittee on International Economic Policy and Trade met jointly at 2:05 p.m. in room 2172 of the Rayburn House Office Building, Hon. Lester L. Wolff, chairman of the Subcommittee on Asian and Pacific Affairs, and Hon. Jonathan B. Bingham, chairman of the Subcommittee on International Economic Policy and Trade, presiding.

Mr. WOLFF. The subcommittees will come to order.

Today the Subcommittee on Asian and Pacific Affairs, together with the Subcommittee on International Economic Policy and Trade, chaired by Chairman Bingham, are holding the first in a series of hearings on United States-Japan economic relations and industrial policy.

Our objective in this series of hearings is to examine the major economic issues that are involved in United States-Japan relations today: Auto imports, Government procurement, market access, nontariff barriers, and investment opportunities; and to explore both short- and long-term solutions to existing problems.

Additionally, we will seek to explore popular perceptions of United States-Japan economic relations and the extent to which those perceptions correspond with economic realities.

AFFECTING POLITICAL RELATIONSHIPS

As the geographical and functional subcommittees of the House Foreign Affairs Committee charged with oversight responsibilities for the United States-Japan relationship, we approach these hearings with the concern that the current issues affecting the relationship, while overwhelmingly economic in nature, if left unresolved, may significantly affect the overall political and diplomatic texture of our relations.

Thus, the issues involved are appropriate for the exercise of our oversight jurisdiction.

This afternoon, and again tomorrow at 3 p.m., which is a change in time, in this room, we will focus on the auto import issue and take public testimony from industry and Members of Congress on H. Con. Res. 363, introduced by the Honorable Carl Pursell of Michigan, and referred to the Foreign Affairs Committee.

We will be particularly interested in developing recommendations regarding the advantages and disadvantages of action by the U.S. Government in the present situation.

Additional hearings in this series are scheduled for Thursday, September 18, at 2 p.m., in room 2172, Rayburn House Office Building, and on September 24 at 2 p.m. in room 2200, Rayburn.

NONTARIFF BARRIERS

On the 18th, we will expand our focus to include issues relating to nontariff barriers, market access, investment opportunities, and Government procurement.

On that occasion our witnesses will be the Honorable Robert Ingersoll, former Ambassador to Japan, and presently chairman of the United States Wisemen's Group of the Japan-United States Economic Relations Group; the Honorable Richard Cooper, Under Secretary of State for Economic Affairs; the Honorable Robert Hormats, U.S. Deputy Special Trade Representative; and the Honorable Jim Jones of Oklahoma, chairman of the House Ways and Means Subcommittee on Trade Special Task Force on United States-Japan Trade.

INDUSTRIAL POLICY

On September 24, our subject will be industrial policy and our witnesses will be the Honorable Andy Ireland of Florida; Prof. Amitai Etzioni of George Washington University; Mr. Thomas Hout of the Boston Consulting Group; Prof. Gary Saxonhouse of Columbia University; and Dr. Stephen Cohen of American University.

Today's witnesses are Mr. Will Scott, vice president of North American Ford Motor Co.; Mr. Wendell Larsen, vice president, Chrysler Corp.; and then our second panel, Mr. Robert McElwaine, president of the American International Automobile Dealers Association.

I would now like to yield to my cochairman, Mr. Bingham.

SLIPPING IN ECONOMIC STRENGTH

Mr. BINGHAM. Thank you, Mr. Chairman. I am delighted to join with you in this important series of hearings and in welcoming our witnesses.

Not so long ago the United States was unquestionably the strongest economic power on Earth. I would argue that we still are, but we are certainly slipping. Today we lag behind industrial competitors in a number of key product lines.

The reasons for this decline are many, intertwined, and still not fully understood. That is why this series of hearings beginning today are so important. We must get moving again. We can succeed, just as we have responded well to challenges in the past. But first we need answers. We need to map out the dimensions of our problem, and we need to move forward quickly with solutions.

Here are just a few of the issues the Congress must sort out immediately, if we are to regain a competitive edge in international trade. On tax policy, we all note that our industries, thankfully spared from hostile bombs in World War II, did not have to recon-

struct in the aftermath of that terrible upheaval, but now many plants are old and must be rebuilt. What is the best way to proceed? What depreciation on investment policies will work most effectively to stimulate modernization?

INCREASE R. & D.

On research and development, evidence also shows that we must increase our expenditures which have fallen behind the Japanese, but what R. & D. requirements are most pressing? In which areas has the great American genius for innovation lagged the most?

As to export promotion, no doubt we can do more to enhance U.S. export promotion, but precisely how can we improve export financing and export awareness? Are there laws presently hindering exports that ought to be amended?

Of special focus in these hearings is the possibility of a moratorium for 2 years on shipments to the United States of Japanese automobiles, as proposed by House Concurrent Resolution 363. Exactly what would be the effect of this so-called breathing space?

Does the proposal violate the spirit of the multilateral trade agreements recently approved by the Congress?

Would endorsement of this proposal by Congress lead to widespread protectionist efforts and retaliation by the Japanese and others?

The list goes on. We know some answers to these questions, but of course we need more information. So I am delighted, once again, to join my colleague from New York, Congressman Wolff, in these hearings which, although they may not provide definitive solutions to our current woes, I am sure will carry us further along the road toward proper remedies.

Mr. WOLFF. Thank you very much, Mr. Bingham.

Mr. Scott and Mr. Larsen. If you would like to summarize your statements, you are perfectly at liberty to, or to read them in toto. Without objection, the statements will be included in the record at the appropriate point.

Go ahead, Mr. Scott. Would you please proceed.

STATEMENT OF WILL SCOTT, VICE PRESIDENT, GOVERNMENT RELATIONS, FORD MOTOR CO.

Mr. SCOTT. Thank you. I am Will Scott, the vice president of Ford Motor Co. We welcome the interest of these committees in an issue so critical to our industry. Surely the issue of United States-Japanese economic relations centers around automotive trade.

The automotive trade deficit more than accounted for the total U.S. trade deficit with Japan last year, and automobiles are the single largest U.S. trade deficit item after oil.

A look at the history of Japanese automotive trade policies quickly reveals the reasons for these deficits. As Japan developed its automotive industry, it imposed restrictions on imports of foreign cars and on foreign automotive investment.

Its tariffs were among the highest in the world. At the same time, the Japanese Government bestowed upon its own producers a great variety of special tax credits and export subsidy benefits to accelerate growth to what we call world scale.

It was only in the early 1970's, after its position in its home market was unassailable and Japanese domestic demand saturated that Japan began, first, to advocate free competition for world automotive trade by lowering its own tariffs; and second, to initiate a massive increase in car and truck exports.

These Japanese trade practices were contrary to those followed in the rest of the world—where world-scale automotive markets have been served primarily by local auto production open to foreign and domestic investors alike.

This pattern outside Japan has created automotive jobs, technology and investment vital to the growth of the host countries without producing large trade deficits.

Some of the leading European auto producers now are extending this pattern to production ventures here in the United States.

JAPANESE SHARE OF U.S. MARKET

In the United States, the Japanese share of the market has risen sharply over the last decade:

Japanese imports increased from 2 percent of the U.S. car market in 1969 to 16.6 percent in 1979 and over 21 percent so far this year.

The growth in the Japanese truck share has been just as dramatic—escalating from 1.6 percent in 1969 to 19.4 percent in the first half of 1980.

Total Japanese-produced cars and trucks are being sold in the United States at an annual rate of more than 2.5 million units.

In 1977 and 1978, these rising imports began to injure the domestic industry, but boom sales years masked the effects. In the last 2 model years, however, the increase in imports has come directly at the expense of U.S. production and, more importantly, U.S. jobs.

Sales of domestically produced cars in the second quarter of this year were at a 1959 sales rate, about 5.5 million units.

The truck story is about the same. The rate of domestic truck sales, after more than doubling between 1970 and 1978, declined by about an equal amount from 1978 to the second quarter of this year.

DECLINE IN DOMESTIC PRODUCTION

As a result of this decline in domestic production, all four domestic manufacturers reported losses in the second quarter, and according to estimates by industry analysts, all may report losses for the entire year.

Nearly 240,000 autoworkers are on indefinite layoff and hundreds of thousands more in supplier industries while Japan is providing much of its volume on overtime.

More than 1,600 domestic automotive dealers have closed their doors.

In these last 2 years, the Japanese have taken a windfall advantage of the extremely abrupt U.S. market shift that occurred when gasoline prices—held at artificially low levels for years—suddenly doubled. Although U.S. producers were well along the way to doubling the fuel efficiency of their fleets, we were not yet equipped to meet the sudden change in U.S. consumer buying habits.

The Japanese were there with small cars designed for a home market long used to high gasoline prices, congestion and short distances, and with a production capacity far in excess of the needs for the Japanese home market.

In 1979, the United States received 45 percent of Japan's automotive exports. It's likely that the United States will remain the primary target of exports because: First, most of the major countries in the rest of the world have already acted to restrict Japanese imports in some way or another; second, the United States is the largest market in the world, and even small percentage increases translate into large numbers of vehicles; and third, the U.S. tariff structure for cars is among the world's lowest and without any formal or informal local content or other rules that generally restrain imports in other parts of the world.

IMBALANCE IN TRADE

So, in summary, the imbalance in the United States-Japanese auto trade has reached crisis proportions and it shows no signs of abating. This year the Japanese production rate is up 1.4 million units from 1979 and reports available to us indicate additional capacity—more than a million units—will be installed by 1982.

With the U.S. industry in the midst of an $80 billion program to convert its production and facilities, and Japan evidently intent on paying its oil bill with auto exports, there is grave danger that the Japanese will take an even greater advantage of this open U.S. market.

In our view, time has run out for easy solutions. One would have hoped that Japan long ago would have recognized the damage being done to the U.S. economy and the productive sector by its trading policies and would voluntarily limit its exports to the United States during the unprecedented conversion period.

VOLUNTARY CUTBACKS

Japan's Ministry of International Trade and Industry (MITI) has itself urged the producers to voluntarily cut back on shipments to the United States, but previously the companies have not heeded MITI's request, so it remains to be seen whether they will act now. Meanwhile, the Japanese companies continue to report record high exports to the United States.

Ford Motor Co. has urged the Carter administration to initiate government-to-government talks with Japan. When it became clear that the administration was unwilling to take any action, we availed ourselves of the remedy route set forth in U.S. trade laws. We and the UAW, separately, have petitioned the International Trade Commission, asking for a temporary remedy to restrain injurious imports from Japan.

Our proposed remedy would not penalize imports from other countries, which have not increased substantially in this period.

We think that our petition is precisely in line with the purposes for which section 201 of the trade law is intended—that is, to provide temporary relief from a sudden, harmful, and unanticipated surge in imports.

As you all know, the ITC process is a lengthy one—we understand the ITC will not finish its work before November 24. The administration then has another 60 days to decide whether to accept, reject, or modify the ITC recommendation, which means that negotiations will probably not begin until after the first of the year.

In these circumstances, the route of congressional action is appealing, as it offers the opportunity to accelerate this process.

SUPPORT OF HOUSE CONCURRENT RESOLUTION 363

The letter of invitation to this hearing referred to House Concurrent Resolution 363, which would urge the President to enter into negotiations with Japan with respect to a temporary auto import restraint.

We would, of course, support such a resolution. From our point of view, however, given the administration's reluctance on this issue, a joint resolution would be preferable in that the authority would have the force of law.

For this reason, we are urging support of House Joint Resolution 598 and its companion, Senate Joint Resolution 193 in the Senate. These resolutions would authorize, but not require, the administration to enter into auto import restraint negotiations.

Congressional approval of such a resolution would be a strong and unmistakable signal to the Japanese Government that the United States simply does not intend to tolerate the loss of American jobs, production capacity, and trade dollars that Japanese trading policies have caused.

[Mr. Scott's prepared statement follows:]

PREPARED STATEMENT OF WILL SCOTT, VICE PRESIDENT, GOVERNMENT RELATIONS, FORD MOTOR CO.

We welcome the interest of the Committee in an issue so critical to our industry. Surely the issue of United States-Japanese economic relations centers around automotive trade. The automotive trade deficit more than accounted for the total United States trade deficit with Japan last year and automobiles are the single largest United States trade deficit item after oil.

HISTORY OF JAPANESE TRADE POLICIES

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These Japanese trade practices were contrary to those followed in the rest of the world—where world-scale automotive markets have been served primarily by local auto production open to foreign and domestic investors alike. This pattern outside Japan has created automotive jobs, technology and investment vital to the growth of the host countries without producing large trade deficits. Some of the leading European auto producers now are extending this pattern to production ventures in the United States.

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RISING IMPORTS INJURE DOMESTIC INDUSTRY

In 1977 and 1978, these rising imports began to injure the domestic industry, but boom sales years masked the effects. In the last two model years, however, the increase in imports has come directly at the expense of United States production and United States jobs:

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TRADE IMBALANCE

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In our view, time has run out for easy solutions. One would have hoped that Japan long ago would have recognized the damage being done to the United States economy and productive sector by its trading policies and voluntarily limit its exports to the United States during this unprecedented conversion period. Japan's Ministry of International Trade and Industry (MITI) has itself urged the producers to voluntarily cut back on shipments to the United States but previously the companies have not heeded MITI's request so it remains to be seen whether they will act now. Meanwhile, the Japanese companies continue to report record highs of United States exports.

UNITED STATES-JAPAN TALKS

Ford has urged the Carter Administration to initiate government-to-government talks with Japan. When it became clear that the Administration was unwilling to take any action, we availed ourselves of the remedy route set forth in United States trade laws. We and the UAW have petitioned the International Trade Commission, asking for a temporary remedy to restrain injurious imports from Japan. Our proposed remedy would not penalize imports from other countries, which have not increased substantially.

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URGE APPROVAL OF HOUSE CONCURRENT RESOLUTION 363

The letter of invitation to this hearing referred to H. Con. Res. 363, which would urge the President to enter into negotiations with Japan with respect to a temporary auto import restraint. We would, of course, support such a resolution. From our point of view, however, given the Administration's reluctance on this issue, a joint resolution would be preferable in that the authority would have the force of law. For this reason, we are urging support of H.J. Res. 598 and its companion S.J. Res. 193 in the Senate. These resolutions would authorize—but not require—the Administration to enter into auto import restraint negotiations.

Congressional approval of such a resolution would be a strong and unmistakable signal to the Japanese government that the United States does not intend to tolerate the loss of American jobs, production capacity and trade dollars that Japanese trading policies have caused.

[Mr. Scott subsequently submitted the following:]

FORD MOTOR CO.,
Dearborn, Mich., October 14, 1980.

Hon. LESTER L. WOLFF,
Chairman, Subcommittee on Asian and Pacific Affairs,
House of Representatives, Washington, D.C.

DEAR CHAIRMAN WOLFF: Enclosed is the transcript of my remarks at the September 16 hearing on U.S./Japan economic relations.

Ford's relationship with Toyo Kogy needs some clarification. While Ford has a 25 percent equity interest in Toyo Kogyo, we do not participate in any way in Toyo Kogyo's distribution of vehicles sold in the U.S. under the Mazda trademark. We do purchase and distribute a relatively limited quantity of light trucks from Toyo Kogyo, called Ford Couriers. This is in contrast with Chrysler's serving as the only U.S. distributor for Mitsubishi. Since Ford has no voice in Mazda U.S. distribution matters, we are not involved in export planning for those vehicles. Indeed, the agreement under which we acquired 25 percent of TK precludes Ford participating in Toyo Kogyo's U.S. distribution.

Also, we have included a page from the House Ways and Means Committee report of June 16, 1980. This was misquoted in the questioning—which led to a somewhat confusing line of responses.

We appreciated the opportunity to appear before these subcommittees and welcomed the subsequent adoption of a concurrent resolution on U.S./Japan trade by the full committee.

Sincerely,

WILL SCOTT.

Enclosures.

* * * * * * *

During the 1970's Detroit again introduced its answer to imports: the Ford Pinto/Bobcat and the Maverick, the General Motors Vega/Astre, and the Chrysler Aspen/Volare. Many of the Vegas' engines failed after only 30,000 to 40,000 miles of use because of overheating. The early Pinto engines had underhood fire problems, while many of the later engines have failed because of premature camshaft wear or "piston scuffing." The Chrysler Aspen/Volare has been classified as "among one of the most recalled cars ever," mainly on account of faulty brakes and stalling engines. In addition, Chrysler has agreed to recall 1976/77 Aspens in order to repair fenders that rusted after 2 years of use.[10]

Did these "import fighters" fail because the U.S. automakers did not have the technology available to produce a quality built, reliable small car or because they simply did not make the effort to compete seriously in the U.S. small car market? A quote from Robert R. Reilly, executive director for business strategy development

[10] "Chrysler Will Fix Rusted Fenders for $45 million." by Peter Behr, Washington Post, May 12, 1980.

for Ford Motor Co. may provide part of the answer: "Traditionally, small cars have not been profitable products * * * In simple terms, the cost-revenue structure hasn't been right." [11]

U.S. manufacturers believed that the investment in equipment needed to produce a small car simply would not guarantee the return that a similar amount invested in equipment for a large car would return. The rationale was that they could not load a small car with the high return options such as power steering, brakes, windows; large V-8 engines; air conditioning; and automatic transmissions. It appears their strategy could be stated as follows:

"We know we will lose the small market to imports, so what? Let them hold 15 percent of the U.S. market because these are low-profit models. We will produce a few small cars, but won't spend much to develop them, and maybe we can still make a little money on small cars."

Even when U.S. producers had the opportunity to drive out Japanese imports, they appeared to be more interested in increasing their profit margin on small cars than in increasing their market there.

For example, in 1978 the yen appreciated dramatically causing Japanese auto dollar prices to increase. Instead of capturing the market away from the suddenly more expensive Japanese cars, Detriot's prices floated up right behind the price of Japanese imports. Consumer Reports discusses this phenomenon.[12]

"As the dollar cheapened in relation to the Japanese yen, Japanese subcompacts became expensive for artificial reasons. The quickly increasing prices of Japanese cars did not reflect increases in manufacturing costs or added quality so much * * *."

Mr. WOLFF. Thank you very much, Mr. Scott. We will withhold questions until Mr. Larsen has had an opportunity to present his statement.

Mr. Larsen?

STATEMENT OF WENDELL LARSEN, VICE PRESIDENT, CHRYSLER CORP.

Mr. LARSEN. Thank you, Mr. Chairman.

We at Chrysler appreciate this opportunity to appear and testify in support of House Concurrent Resolution 363. It does echo precisely what we at Chrsyler have been arguing for, for some time.

I won't read my entire statement. It is brief. I'll summarize it very quickly.

CHRYSLER'S DIFFICULTIES

Those of you who were here with us last fall when Chrysler Corp. worked its way through the very difficult loan guarantee process, might be interested in knowing that with the help of the $800 million of loan guarantees we have drawn down to this point, we have now, I think to the surprise of some people, reached the point at which we have introduced in fact and are now sending out to dealers, an entire new family of small, very fuel-efficient cars. We are delighted still to be here. We are on our road back, and it looks as if with a little luck and a little break and some help from the economy, Chrysler Corp. could again be profitable.

We appreciate the help of those of you who worked with us. With the help of those guaranteed loans, we are now bringing into the marketplace entirely new lines of very fuel-efficient cars to meet the demands of the American consumer.

However, even in our expensive and difficult transition to totally new technology, front wheel drive technology, a whole transition of the company, we continue to be severely disadvantaged by the

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[11] "The U.S. Auto Industry—Under Foreign Siege," National Journal, Mar. 15, 1980, p. 427.
[12] Consumer Reports, April 1980, p. 219.

sharply increased penetration of the U.S. market by foreign automobile manufacturers, particularly the Japanese.

A very quick look at the facts. Most of you know what they are. The hysteria over fuel availability in 1979; gasoline lines and riots in some parts of the country, in order to buy gasoline; a doubling of gasoline prices virtually overnight; and the inability of our industry to convert quickly enough to meet the sudden demand for 30-mile-per-gallon cars.

Into that disrupted market, unlike anything we have ever seen before, moved the Japanese manufacturers. Today, one in four automobiles sold in the United States is built abroad, and the overwhelming majority of those are built in Japan. The Japanese share of the U.S. market has almost doubled in 2 years, from 12 percent in 1978 to more than 20 percent thus far this year.

All the U.S. automobile manufacturers, as Mr. Scott pointed out, are losing money, supplier plants are closing, automobile dealers are going out of business, and from all of this, hundreds of thousands of American workers are left without jobs.

Obviously, there are many reasons for our current crisis, and I think most of those reasons were discussed in our hearings last year.

JAPANESE OVERTAKING MARKET

The Japanese certainly did not create the gasoline shortage, the high interest rates and the double digit rate of inflation; nor did we. But the fact is that in this environment, when all of us are scrambling to react to these unforeseen external forces, the Japanese auto manufacturers have deliberately and effectively launched a massive campaign to capture and maintain permanently an inordinately large share of the U.S. auto market.

The resulting injury to the domestic industry is real and substantial. In the face of this onslaught, we believe it is necessary and appropriate for our Government to act responsibly to make sure the injury is not permanent.

We do not advocate unreasonable steps to start a trade war. We make no proposals that would abridge our obligations under international trade agreements, but we do believe that constructive solutions to the problem can be found within the framework of the trade laws, and of sound bilateral relations.

JAPAN SHOULD DECLARE A 2-YEAR MORATORIUM

Specifically, we recommend that the President and his Special Trade Representative, with the support of Congress, call upon the Japanese Government and the Japanese auto manufacturers to declare a moratorium for 2 years, not on all shipments of their vehicles to the United States, but on their shipments of vehicles produced in Japan on overtime.

This approach has these advantages:

First of all, it will not threaten the jobs of Japanese workers. All of the Japanese workers now employed under this proposal would continue to work full time, but they would not work overtime for shipment into this market.

Second, such an agreement can be accomplished voluntarily, we believe, within the framework of existing trade agreements.

Third, it would reduce Japanese auto sales in the United States by a total of slightly more than 1 million units which in turn would be sufficient relief to preserve U.S. auto production capability, to maintain necessary standards of consumer loyalty to U.S. products, and to prevent lasting damage to the U.S. dealer network, which is of extreme importance.

Such a reasonable measure of restraint by the Japanese would provide the domestic industry with 2 years of breathing space in which to accomplish the very costly and time-consuming transition to an entirely new generation of automobiles that are responsive to the consumer demand.

Fourth, hundreds of thousands of U.S. workers, now drawing TRA and unemployment payments, would be reemployed by virtue of this modest, yet important, agreement with the Japanese.

Fifth, the United States would be asking no more—indeed, we would be asking far less—than other auto-producing nations have demanded long since in their auto trade with Japan.

Chrysler supports this resolution, 363. We have stated our support of a similar proposal before. We think it is the kind of voluntary restraint that the Japanese ought to be asked for, and is doable under this resolution. We support it.

I won't complete the reading of my testimony, and I'll take any questions you might have.

[Mr. Larsen's prepared statement follows:]

PREPARED STATEMENT OF WENDELL LARSEN, VICE PRESIDENT, CHRYSLER CORP.

Mr. Chairman, on behalf of Chrysler Corporation we appreciate this opportunity to testify in support of H. Con. Res. 363. As the Subcommittee knows, this Resolution calls upon the President to negotiate with Japan a temporary limit on Japanese autos exported to the United States. The Resolution further calls for negotiations to address the prices charged for domestic and foreign sales of Japanese autos and barriers to the sale of U.S. Products in the Japanese market.

With the help of federally guaranteed loans Chrysler is now bringing into the marketplace new lines of very fuel efficient cars to meet the demands of the American consumer. However, even as our expensive and difficult transition to totally new technology continues to take place, we continue to be severely disadvantaged by the sharply increased penetration of the U.S. market by foreign automobile manufacturers, especially the Japanese.

AUTOMOBILE MARKET

Let us look at the facts: The hysteria over fuel availability in 1979, a doubling of gasoline prices virtually overnight, and the inability of our industry to convert quickly enough to meet the sudden demand for 30 mile per gallon cars. Into that disrupted market—into that vacuum—moved the Japanese manufacturers. Today, one in four automobilies sold in the U.S. are built abroad, the overwhelming majority of those in Japan. The Japanese share of the U.S. market has almost doubled in just two years, from 12 percent in 1978 to more than 20 percent thus far this year. All U.S. automobile manufacturers are losing money, supplier plants are closing, automobile dealers are going out of business, and from all of this, hundreds of thousands of American workers are left without jobs.

Obviously, there are many reasons for our current crisis. The Japanese did not create the gasoline shortage, the high interest rates, and the double digit rate of inflation. Nor did we. But the fact is that in this environment, when all of us are scrambling to reach to these unforeseen external factors, the Japanese auto manufacturers have deliberately and effectively launched a massive campaign to capture and to maintain permanently an inordinately larger share of the U.S. auto market. The resulting injury to the domestic industry is real and substantial. In the face of this onslaught, we believe it is necessary and appropriate for our government to act responsibly to make sure the injury is not permanent.

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CONSTRUCTIVE SOLUTIONS

We do not advocate unreasonable steps that could start a trade war; we make no proposals that would abridge our obligations under international trade agreements. But we do believe that constructive solutions to the problem can be found within the framework of the trade laws and of sound bilateral relations. Specifically, we recommend that the President and his Special Trade Representative, with the support of the Congress, call upon the Japanese government and the Japanese auto manufacturers to declare a moratorium for two years on shipments to the U.S. of vehicles produced in Japan on overtime work shifts.

This approach has these advantages:

1. It will not threaten the jobs of Japanese workers.
2. It can be accomplished voluntarily within the framework of existing trade agreements.
3. It would reduce Japanese auto sales in the U.S. by a total of slightly more than one million units which, in turn, would be sufficient relief to preserve U.S. auto production capability, to maintain necessary standards of consumer loyalty to U.S. products, and to prevent lasting damage to the U.S. dealer network. In sum, such a reasonable measure of restraint by the Japanese would provide the domestic industry with two years of breathing space in which to accomplish the very costly and time-consuming transition to an entirely new generation of automobiles that are responsive to consumer demand.
4. Hundreds of thousands of U.S. workers, now drawing TRA and unemployment payments, would be reemployed by virtue of this modest, yet important, agreement with the Japanese.
5. The U.S. would be asking no more, indeed, we would be asking far less, than other auto producing nations have demanded in their auto trade with Japan.

SUPPORT H. CON. RES. 363

Chrysler supports H. Con. Res. 363 because we believe it provides the framework to execute this approach which we are recommending to the Congress and the Administration. We are sensitive to the need for sound economic and trade relations between the United States and Japan. We are also sensitive to the plight of hundreds of thousands of U.S. workers, thousands of small businesses, and hundreds of supplier companies who have been the victims of the Japanese policy on auto exports.

We believe we have put forth a responsible solution to the problem, and we believe favorable action on H. Con. Res. 363 will promote the realization of that solution.

Mr. WOLFF. Thank you very much, Mr. Larsen.

We are at this particular meeting interested in the political relations and the relations between the United States and Japan, and the effect this legislation might have upon both of our nations.

FREE ENTERPRISE SYSTEM

I take it Mr. Bingham's subcommittee will get involved in some of the economic aspects. I take it that both your companies and you gentlemen are interested in the free enterprise system, the maintenance of the free enterprise system.

It just seems that the statements that have been made here, and the comments that have been made generally, are for protectionism, how would restrictions of this sort be consistent with the maintenance of the overall international free enterprise?

Mr. SCOTT. I'll speak to that, Mr. Chairman. You are quite correct, we are free enterprisers, and we also happen to believe on a long-range basis in what is euphemistically called free trade.

What we are asking for here is not protectionism on a going basis. Instead, we are seeking to avail ourselves of the very feature of the Trade Law of 1974 which provides for unusual treatment of unusual circumstances, and we think that's what we face now, a situation where an abrupt change in the market in this country

has occurred with the suddenness that makes it impossible for a long lead industry to convert so quickly.

As a result, we are watching our market being sapped away by imports which happen to be available, and which happen to be the type of product which more nearly meets what consumers' changed buying habits are calling for.

We are asking for temporary relief. We are asking for assistance to get through a difficult period, so that we may convert our plants and proceed to redesign all of the products in a manner necessary to meet the public requirements.

Mr. WOLFF. Mr. Scott, I'm playing the role of devil's advocate here. I don't hold any position for the Japanese. I certainly am interested in the American market and American jobs.

AUTO PROBLEM RESULT OF MARKETING STRATEGY

However, I would like to quote from a report of the Subcommittee on Trade of the House Ways and Means Committee. They quoted Mr. Robert Riley, executive director of business strategy for Ford Motors. He said:

> Traditionally, small cars have not been profitable products. In simple terms, the cost-revenue structure hasn't been right.

And it goes on to say something about:

> U.S. manufacturers believe that investment and equipment needed to produce small cars simply would not guarantee the return. Even when the U.S. producers had the opportunity to drive out Japanese imports, they appeared more interested in increasing their profit margin on small cars and increasing the market share.

I think a lot of the marketing community—I'm not one of the lawyers in the Congress—I'm just wondering whether or not this situation we find ourselves in today was a result of marketing strategy by the major automobile companies, or was it a condition that just was thrust upon us?

Mr. SCOTT. Well, I can approach that with several viewpoints. First, I will say this: The statement that small cars in the past have not been profitable for the domestic producers, I can speak for Ford, that is true. I was the product planning manager of Ford back in the late 1950's, when we developed the Falcon and other small cars, and I can assure you there was great opposition within the financial community in Detroit to try to make a small car that would compete against imports being sold in this country, for the simple reason that our costs were hundreds of dollars higher than the laid-down cost of imported cars. This reflected currency differences, in large part.

So that is a historical pattern. On that basis, the U.S. industry—I'll speak for Ford—Ford reluctantly concluded in the late 1950's and early 1960's that it would watch part of this market go to the producers of small cars overseas who had enormous cost advantages. Later, that could not be countenanced as the market moved to small cars and, of course, today we face a situation where the market for small cars is the big market, and is going to become larger. And it is essential that the domestic producers be able to proceed with their plans to redesign their products and convert their facilities to meet this market.

It is a changed world.

Mr. WOLFF. Mr. Larsen, would you like to respond, or do you agree totally with Mr. Scott?

Mr. LARSEN. I would take a guess that the testimony you read from was about 3 years old.

Mr. WOLFF. No, the testimony is from a report to the 96th Congress, auto situation, 1980.

COST OF FUEL IMPORTANT

Mr. LARSEN. I would have guessed 2 years earlier, before gasoline became a buck and a quarter.

There is no question that the market has tipped upside down. Traditionally it's true, the domestic automobile industry lost money on all the small cars that it sold, for all the reasons that Mr. Scott pointed out, plus the difference in labor rates and difference in trade barriers between us and Japan, and so forth.

The fact is that no matter whether it was 2 years ago, or a year ago, now gasoline is a dollar and a quarter, perhaps ready to rise more, depending on OPEC. The market has not just shifted, it has been revolutionized, and there is now a huge demand for more fuel-efficient cars. We can provide them. We are all in the process of doing that. It's tremendously expensive. It does take time. We at Chrysler, quite frankly, are in somewhat of a good position today. We were not a year ago. But now 80 percent of our production has already been transferred to small cars.

CAN UNITED STATES FILL DEMANDS

Mr. WOLFF. But, Mr. Larsen, will U.S. automobile makers be able to supply the existing market, even if you are able to withhold that portion of the Japanese production? Will the United States automobile producers be able to fill that market demand today?

I understand that production, according to some of the figures that came out of the Department of Commerce, is that you can fill only about one-quarter of that demand. Am I correct in that or not?

Mr. LARSEN. I don't know how much the total industry can supply of the total demand, but certainly part of the problem we are addressing today is that we have a 1- to 2-year, short-term problem. That's why we have addressed ourselves to a 2-year voluntary restriction of imports from Japan, not a total ban on imports from Japan, but simply restricting them to the number of imports they can produce on straight time.

That would give this industry a couple of years in which to get itself turned around, retool its plants and produce small cars.

In answer to your question, the answer is no, we cannot. That's why we need the 2 years' relief. If we had all the 30-mile-per-gallon cars that the market is demanding, we wouldn't be here today. We need some time. We need a year or two in which to get our feet on the ground, and primarily to prevent long-term lasting injury to our dealer networks, to the U.S. customers' loyalty to U.S. brands. We are trying to avoid permanent damage to an industry. We can come back and beat them in the marketplace. We have before, we can again. But there is a problem in the short term which we are

trying to prevent, long-term lasting damage and loss of jobs to this industry.

NUMBER OF JOBS AFFECTED

Mr. WOLFF. One final question. We have a vote on, and we will return.

Mr. Scott, about how many jobs have been affected in this country as a result of the intrusion of the Japanese into this market?

Mr. SCOTT. Well, may I answer by saying that today there are some 240,000 autoworkers who work for the four major companies unemployed—on indefinite layoff—plus thousands of salaried people, and we think there probably are another 750,000, maybe as many as an additional million people, in other industries—rubber, steel, glass, aluminum, dealerships and so forth—who also have lost their jobs because of the contraction in the market for the domestic cars.

So it's well over a million. I can't say how much of that is ascribable solely to the Japanese, but it is a crisis.

Mr. WOLFF. Thank you, Mr. Scott.

Mr. Bingham.

WARNINGS IN 1965

Mr. BINGHAM. Thank you, Mr. Chairman. I would just like to refer for the record to the fact that in June of 1965, Mr. Scott, I wrote to the Ford Motor Co., urging them at that time to get in and compete with the imported foreign small cars. I noted that there was a growing demand in the United States for those small cars, that they were letting most of the market go at that time. I guess it was Volkswagen that was the principal competitor. The Japanese weren't so much of a factor.

But this was clearly a coming problem and a growing problem, and I wrote to all the major car manufacturers, and the answers I got back in every case were, "Well, the small car market isn't that important. It's too expensive for us to get into it. We are going to"—as you suggested just now, in effect—"we are going to let that share of the market go."

In retrospect, wouldn't you say that was a mistake in judgment?

Mr. SCOTT. Mr. Chairman, 18 months ago, we were operating our V-8 engine plants on overtime, because we couldn't meet the demand for large cars with V-8 engines. Since that time, the world has turned completely around. In the years up to 1979, we found an increasing public demand for cars of commodious capabilities. Gasoline was not a particularly serious problem. In fact, the real price of gasoline between 1965 and the embargo was declining, year after year. The cost of gasoline became less a factor in a person's deliberation as to his transportation requirements.

So I wish you had sent me that letter in 1965. I was very busy on that subject at the time, and could have used your support. But at the same time, I think management made the right decision, in that we did seek to meet customer requirements.

The fact we did do so and saw a market share improvement throughout that period suggests we did make the right decision at that time. Now is the time for a totally different decision. This country has accepted the fact we have an energy crisis and a long-

term gasoline pricing problem that has to be responded to with different kinds of products.

OVERTIME PRODUCTION

Mr. BINGHAM. Let me ask you this. Turning to the current problem, and what you are suggesting; you are suggesting a 2-year moratorium on sales from overtime, as I understand it.

How in the world would you measure what cars are manufactured from overtime? How would you determine that?

Mr. LARSEN. It's fairly easy to measure. The Japanese 18 months ago were shipping into this country at an annual rate about a million less than they are shipping today. They did not increase their productive capability overnight. You can't do that overnight. That's our problem. They did it on overtime. It is very easy to track what you can build on straight time and on overtime. It's about a million units a year in Japan right now.

Mr. BINGHAM. Has that been translated simply into total production? I can understand how you can do that, but how can you tell what cars that are being imported into this country?

Mr. LARSEN. One has to have a little poetic license with all of that. I think two people have to sit down, the Japanese and the U.S. Government, and say to the Japanese Government, "We would like you to roll back the number of imports into the United States, the amount that you rolled in last year, we would like to take it back by a million," for example.

That happens to be about the number that they are producing on overtime. Just by way of illustration, there will be no Japanese workers laid off as a result of such an agreement. If that million units come out of their imports to this country and they went back to the traditional 1977–78 levels, this industry would have the breathing space it needs.

The Japanese workers who have been working on overtime would not be laid off. There would be no need for any kind of retribution in trade.

That's the reason we have compared it on an overtime basis. It's simply a million units we would like out.

SUCCESS OF PROPOSED NEGOTIATIONS

Mr. BINGHAM [presiding]. You're referring, as I understand it, to negotiations that would achieve this. What reason do you have to suppose that such negotiations would be successful?

Mr. LARSEN. We have hoped fairly consistently for the last year or so that the Japanese Government itself might recognize that in this country there appears to be a growing desire on the part of the American people for some kind of protectionism. People without work in Detroit are not particularly fond of Japanese imports being shipped in.

We think that resentment is growing. We are concerned that it could be translated into a foolish protectionism, some kind of a tariff barrier, that would force retribution, and we'd be in a trade war. We don't want that.

What we hope for is a gentleman's agreement between the Japanese and U.S. Government for a 2-year period to restrict their

imports to a number they were in, let's say, 1977 or 1978, a million less than today, while this industry finishes the conversion to its own fleet of small fuel-efficient cars.

Mr. BINGHAM. Thank you very much. We have a vote on, and the subcommittees will be in recess for a few minutes.

[Recess.]

Mr. WOLFF. Since the committees will be moving back and forth to the House, our committee has now come in en masse, and we can resume.

I would just like to ask Chairman Bingham, have you concluded your questions, Mr. Bingham?

Mr. BINGHAM. Yes.

Mr. WOLFF. I will then turn to Mr. Guyer.

PEOPLE OUT OF WORK

Mr. GUYER. Thank you, Mr. Chairman, and our very fine witnesses.

This has been a subject on all of our hearts for a long time, because it affects everybody, not only in this room, but across the country. I know in my little district I have around 18,000 autoworkers, not counting our very fine tank plant in Lima, which is run by the Chrysler Corp. It has nothing to do with the automobile industry, but the work force is there. And I also have around $30 million in individual suppliers, not counting dealers. When you go to talk numbers, you talk about more people than just the 240,000 that are out of work.

You know, I think what should happen in a hearing like this is we ought to start out with statements, rather than questions. There are many things that we look back on, and most all of us are very unique in our gift of predicting the past. We are not very good in foreseeing the future. It's easy to sit here and say we should have known better.

Mr. Bingham, I think, rightly said when he wrote some years ago, that the small car was a thing of reality, and not very many people were getting the message.

I came to Congress 8 years ago, I put an article in the paper, it was about the energy crisis, and I got the most humiliating letters you ever read. There was no such thing, it's a put-on, a ripoff, it never happened, it never could happen. Nobody believed anybody. They still don't.

USED TO LUXURY

And we have not talked in terms of how we got to where we are. For example, we built big cars because people like them. There wasn't another country in the world that could have highways big enough to accommodate them, like ours could. So we are used to luxury. If you don't think so, just shut off your gasoline 1 week and watch people writing their Congressmen. Because we are creatures of luxury, we love it. We are two-car people. We have our campers, our trailers, we have our speedboats, our snowmobiles, and we love energy in any form we can get it.

So we are not really properly stating as to how we got to where we are.

I think one of the most crucial things that has been in our disfavor has been our very, very poor tax laws, something we haven't mentioned here at all. For example, I don't think Japan should be the No. 1 culprit. It just so happens Japan is a great producer of automobiles, and I can tell you one thing, if you shut off production with Japan, they'll start coming in from every other country in the world. It doesn't matter where they come in from. They'll come in from Germany, Sweden, France, Italy. It doesn't matter.

But there are some things we do not hold in equanimity, and let's face those. I heard the president of Ford tell us that it costs roughly about $7½ per hour more for a worker, for an American worker, than it does in a Japanese plant. I think that's probably true. We are not going to go back and tell our people to lower the standard of living. So that's not the answer.

UNITED STATES HAS ENERGY

It's also true that we are not No. 1 in production, in productivity. We are way down the list, and that's not Japan's fault. That's our fault. Because the Japanese people have to buy about 98 or 99 percent of their energy from outside their country, where we don't. We are sitting on top of ours.

So there are many things, I think. Our steel plants have been harmed, and there have been many funerals over Youngstown. They closed a plant or two and everybody went to the services, and we wondered why we couldn't build a steel plant on Lake Erie, and the whole reason was it takes 12 to 14 years to get your investment back in the United States, and only 3½ years in Canada. So they built it across Lake Erie in Canada instead.

These are some of the inequities I'm talking about.

An LTD in Tokyo costs around $34,000, not because of 15 percent tariff, but because in Japan there is a tax on every part of the car not made in that country. You can check me out on this.

So there are some things not exactly fair in the manufacturing setup. But I think we are going to have to look to ourselves for some of these remedies at home. We can't blame it on Congress or the people who are in the business. As long as we were getting 25 or 30 cent gasoline, the Moon was our world, and it wasn't a problem. But even at that time, they were paying $2 a gallon in Europe and $3 in Asia, but we didn't believe it, because it hadn't caught up with us yet.

I think, and I'm going to vote for anything that will remedially help us, but it's going to take more than a Band-aid, it's going to take a transfusion. You're not going to solve this problem with just some temporary lift or gift. It's not going to happen that way.

PRIDE OF WORKMANSHIP

I would like to see an indepth resurrection of the pride of workmanship, of the foreseeability of those in charge of management. I would like to see labor and management in a partnership, rather than adversarial role, which they do enjoy in many other countries. Because it's going to take partnership to make this thing happen. And I would like to see some of the labor—or rather, not the labor,

but the existing tax laws revised and reformed immediately, where the tax investment credit becomes reality, and where there are incentives for those who have capital that they want to risk and invest. Because it's going to take that.

And I think that we have a good starting vehicle here with our resolution. I do not know about the 2-year moratorium. I have reservations about it, because all that would do, would be close one gate up, and open some other ones, and that's what you call selective discrimination, when you ask one country to close down for 2 years, and everybody else to keep going full blast.

So I think it's going to take maybe more than that, but I would hope, as we hoped with Mr. Strauss when we talked with him about this, that we would give him a No. 1 priority and let it begin with the White House. Let us make the automotive business, which is responsible for one out of every six or seven jobs in this country, and which has been truly an all-American kind of productivity, an all-American way of life. Let us give that priority, and let us begin by passing this resolution, or one to improve it, as a starting point.

I'd like to see it accompanied by such things, as I say, reforming the entire tax field. I'd like to see us face the reality of energy instead of passing it around. We are still 11 or 12 years away from gasified or liquefied coal. We knew this 10 years ago and we didn't build the plants.

Forty-three percent of all the land in the United States is Government land, either State, local, or Federal, and many of our answers are not in our private lands, but in the Federal lands. Here we are looking all around the world instead of home for some of our answers.

I happen to believe that we have the wisdom, the capability, and I know we have determination and the people who comprise it. I am not just talking about the doers, the planners, the engineers; I'm talking about the people who day by day make the wheels turn, make the plants run.

We have the potentiality to make this thing work. I don't have a single question, because I think we need more of a statement.

Mr. WOLFF. Could I ask you to repeat the question? [Laughter.]

Mr. GUYER. Thank you, sir. But I have confidence and the utmost faith in our ability to be idea inventors like we have been in the past, and that is our salvation, not just a temporary loan or a subsidy.

Mr. WOLFF. Thank you, Mr. Guyer.

Mr. Hall.

PUTTING PEOPLE BACK TO WORK

Mr. HALL. Thank you, Mr. Chairman.

This question—it doesn't really matter who answers the question, but the first question is: How would import restrictions put laid-off people back to work? And in regard to the inventories that you presently have, how are you going to sell those present inventories, knowing the buying habits in recent months of the American public?

Mr. LARSEN. It's a fairly simple equation. If we were to get a gentleman's agreement with the Japanese to restrict their imports voluntarily by a million units a year, there are another million units of U.S.-made cars out there which will get equal fuel econo-

my, or perhaps a half a gallon or a gallon less, at competitive prices.

We believe that the customer then would buy those. That can be argued.

Now let's assume that they do. If they buy that million units of equally fuel-efficient cars from U.S. builders, that should put about a quarter of a million U.S. automobile workers back to work, and then the multiplier effect goes back into dealers and supplier services as well.

But for a million units, it is about 250,000 direct labor increase.

RETOOLING

Mr. HALL. You are assuming this would happen right away. It would take quite a long time to retool, to get the capital formation together, to modernize the plants, I would imagine, and these people have already been laid off for quite a long time.

Mr. LARSEN. You're working somewhat on the assumption that I think is a conventional bit of wisdom around the country, and that is that Japanese automobiles get 50 miles per gallon and ours get 5. A Toyota that gets 23 goes up against a Dodge Mirada that gets 22, for example. It's on the market today. We can build all they want to buy.

If Toyotas were restricted from sale on the U.S. market, and a U.S. consumer wanted to buy a fuel-efficient car, he might have to buy one that gets 22 instead of 23. Same price, competitive product group, we think, built by American workers. If we sold more of those, we would employ more American workers immediately. We don't have to retool to build 22-mile-per-gallon cars. We've got all kinds of them. We have lots of others that are 25 and 30 as well coming onstream now, but they are 1981 products.

We build quite competitive with Japanese imports on fuel economy.

Mr. HALL. Why aren't our people buying them?

Mr. LARSEN. Lots of reasons. We could get into a long marketing discussion of why there is a perception of greater value, of greater quality, a perception that they never get recalled and ours do. None of those are true. It is a long and difficult road back, I think, to get all of the American people to believe what is the fact, that in terms of cost and maintenance, numbers of recalls, safety performance, overall quality, our cars are as good or better than theirs today.

That's a job we have to do, and we are working on that. I think that perception has to be changed.

Mr. HALL. Do the performance magazines show that our cars are—they show they are competitive, but do they show they are as durable?

Mr. LARSEN. The way to check durability is probably the easiest of all. You simply take a sample population of foreign cars and our cars over a 10-year period, and see what it costs to maintain them and keep them running. And ours win.

TAX CREDITS FOR BUYING AMERICAN

Mr. HALL. There's been some talk and some legislation introduced in Congress regarding tax credits for purchase of American cars. What are your thoughts on those pieces of legislation?

Mr. LARSEN. We have proposed, if everybody would listen, that if you really want to get American workers back to work quickly, the way to do it is to grant a personal investment tax credit for the purchase of a new 1981 American-built car, if you trade in a pre-1976 American-built car. The average fuel economy in a pre-1976 American-built car is 13 or 14 miles per gallon, real mileage. The average for a new Chrysler 1981 is about 26. So on that purchase you about double your fuel economy and certainly lessen the dependence of the United States on OPEC oil. You'd get a lot of Americans back to work in a hurry.

There is no question that that kind of personal investment tax credit would do it. You can argue the political feasibility of doing it all day long, but in answer to a question, what would it take to get American workers back to work quickly, that's the way to do it.

Mr. GUYER. Mr. Hall, would you yield just a minute?

Mr. HALL. I'd be glad to.

SALES TAX IN MICHIGAN

Mr. GUYER. Since you brought that subject up, I would like to ask the gentleman, what difference did it make in the Michigan law when they took away the sales tax, as compared to other States? Did it make a difference in the sales of cars?

Mr. LARSEN. It made a big difference, yes, sir, in a hurry. It also made a difference in Ontario, Canada, when they removed the sales tax for short periods. Sales of cars shot up dramatically, yes, people buying cars, buying American-built cars. Particularly if they have some kind of incentive. It can take many forms. In Ontario it was simply a tax cut.

BOUNCING BACK

Mr. HALL. One last question, Mr. Chairman. If we don't have import restrictions or some kind of tax incentive, what is your feeling on the ability of our manufacturers to bounce back?

Mr. LARSEN. It's going to be very difficult to get back to the position it once held. I think we can make it, but I think the United States has to make a basic decision on whether it wants to suffer permanent damage to this huge network of suppliers and dealers and small businesses which comprise the U.S. automobile manufacturing group. It's not just three large companies in Detroit. It is hundreds of thousands of small companies and dealers around the country, and I think as a nation we have to decide whether or not we want to put up with permanent damage that could be caused if this situation continues.

We can come back in some form, some shape. We at Chrysler probably will improve. We will struggle back, perhaps smaller and wiser, but again profitable. I think it would be in the interests of the Nation that we employ more American workers, as many as possible. That's what we'd like to do.

Mr. HALL. Thank you.

RESTRICTING U.S. GOODS

Mr. WOLFF. I would like to get into the area—and I'll get on to Mr. Lagomarsino in a moment—but I'd like to get into the area of what restrictions there are on the Japanese side to the sale of American automobiles.

Now, as I understand it, there has been a loosening of those restrictions on a governmental basis, but trade practices and the like, and customs and procedures, have severely restricted the American penetration of the Japanese market.

Am I correct on that?

Mr. LARSEN. I'll let Mr. Scott answer that. I think he has more experience in the field. I'll just make one point. I took the trouble before we came of finding out what a Dodge Omni would retail for in Japan. It's between $14,000 and $15,000, more than double what it retails for here.

Mr. WOLFF. Why is that?

Mr. LARSEN. The list of hidden tariff barriers and extra costs in Japan is as long as your arm, and we can give them to you in detail, and maybe you don't want to take the time to do it. But there are so many ways that translate into an extremely higher cost. But it's worth spending some time on it if you have the time.

On the contrary side, a $6,000 car in Japan, a Japanese car that sells for $6,000 in Japan, sells for less over here. Our car sells for more than two times as much over there. That's the starting place. There are lots of reasons for that, and we can get into that.

Mr. WOLPE. Would the gentleman yield?

Mr. WOLFF. Yes.

RESTRICTIONS ONLY ON U.S. IMPORTS

Mr. WOLPE. I thank the gentleman for yielding. Are there restrictions to which you are alluding that are imposed upon American imports to Japan of a different sort than the requirements that are imposed upon Japanese automobiles manufactured for sale in Japan?

Mr. LARSEN. Oh, yes. Oh, yes.

Mr. WOLPE. Could Mr. Scott perhaps detail some of those differences?

Mr. SCOTT. To keep it brief, let me make the assertion or statement first, the interest in greater access to the Japanese market for the sale of Mustangs, Omnis, and so forth, is not really the No. 1 priority of our concerns here at all.

The Japanese market is virtually closed for economic reasons, now that the Japanese industry has been built to its world class strength, following decades of protection for domestic producers, and blocking of imports from the United States and other countries. The job has been done.

In the late 1950's, the Japanese had 60- and 40-percent tariffs that in effect kept U.S. exports out. Japan lowered these tariffs progressively as their efficiency increased. I spent a lot of time in Japan in 1968 through 1972, trying to get the Japanese market open to our products, and I was a total failure, as my supervisor pointed out to me later. The problems were largely that we were not permitted to invest in any manner over which we could have

control. But on top of that, it became clear to me very quickly that the emerging efficiency of a higher and higher volume Japanese market was such that with the low wage rates there, there was no manner in which one can make cars in Europe at $14 an hour or here at the same cost, and ship them to Japan and sell them in a market where the labor costs are much lower, and where efficiency is high, where equipment and plant are new, and where government shadows the market by favoring domestic production versus imports.

Today there is no duty to enter a car into Japan. Zero duty. They don't need one because the job has been done to effectively exclude all the producers, and now we are kept out on an economic basis. But even so, there are barriers that are costly and annoying.

As an example, every single car that Ford ships to Japan—we do ship 8,000 or 10,000 cars a year there—every single car must be individually taken to a government inspection station. I think it takes all day for people to examine it and look at it and open and close the doors, check the wiring, check the homologation efforts, where we modify the car—for example, there's a left-hand drive, right-hand drive situation. Our headlights aim a little bit to the right, theirs have to aim a little bit to the left, off bias. These changes have to be made, and they are done individually with what I will call shelf-type labor costs.

And on top of that, we pay a commodity tax that is higher on our cars because of the size of the car. But that is true of a European car as well. But it does serve to shadow somewhat the problems with domestic cars.

So it's a never-ending list, and I want to make certain you understand. We do not consider equal access to the Japanese market of our products to be a prime objective; nor do we think it should be one.

UNFAIR COMPETITION

Mr. WOLFF. We understand that, Mr. Scott, but the point involved is a question as to whether or not there is unfair competition, and on that basis, we have posed this question. Because if the same requirements are not made here, it may be that area of reciprocity that has to be considered, rather than the mandatory exclusion, of certain products coming into the United States.

I understand—I just recently picked up this issue of Business American, and it very clearly delineates a number of procedures that have to be engaged in by American manufacturers and which in a sense prove to be discriminatory against our vehicles. And these are impediments to our penetration into the Japanese market.

Now I think it is important for us to look at these areas, because I, for one, as an old businessman from the private sector, I'm one of the Democrats who doesn't believe in government getting involved. That's why I asked you the question about free enterprise. I feel that any type of artificial barrier that is created will not serve either the public or the business community.

However, I feel the area that is involved here goes far beyond just the idea of setting up and saying, well, we don't want any more Japanese cars to come in here, because we want time for the American manufacturers to catch up. If the Japanese are doing

something exclusionary to our products, then I think we should see to it that we have that fair chance at the market.

Mr. SCOTT. You certainly have described something that is unfair. I would not want the conversation to stop without adding this, however, the outlook for increased sales of the U.S.-type cars in Japan, given all the circumstances we have described, even if all these frustrating nontariff barriers were wiped out, the prospects are not great enough for us to design cars for Japan. And I say this because the common allegation is, well, we care nothing about the Japanese market, because we don't even bother to design a car with right-hand drive, which is the way all Japanese cars are. That is very true. We used to ship right-hand drive cars from England to Japan, and that was the manner in which Ford, for one, sought to serve the Japanese market with products better tailored to their requirements.

But there is no way in which we could consider investing today in redesigning a Mustang or the new Escort, which gets 30 miles a gallon in the city, 44 in the highway and would be a very, very competitive car. There is no way we could put on the cost of making the right-hand drive to sell a few thousand of those in Japan, and have them move over there into a $4,000–$15,000 price class against locally produced merchandise.

So I wish to emphasize while it's a serious problem, we are talking about something that has happened, it's been accomplished. The plan worked. We are not in that market in any reality. Nobody else is, either.

Mr. WOLFF. Mr. Lagomarsino.

RAW MATERIALS

Mr. LAGOMARSINO. Thank you, Mr. Chairman. The competitiveness of U.S. automobile products and others is certainly partly at least a function of price. In the case of automobiles, has the cost of primary products like steel been a major factor in cost increases in dollars?

Mr. SCOTT. Yes.

Mr. LARSEN. Basic raw materials of any kind, lead, zinc, copper, steel, rubber, glass.

Mr. LAGOMARSINO. How would that compare with the labor cost percentagewise with the increases?

Mr. LARSEN. There are some basic raw materials which in 1979 doubled in price. Certainly labor did not, so you'd have to pick your raw material base. One of the reasons is certainly some increases in raw material prices, some labor increases, some cost of Government regulations—we have a new 1981 emission standard this year to meet. It costs $300 to $400 a car to meet it. There is no way to avoid that. It's just a cost we have to tack onto the price of the car.

Mr. LAGOMARSINO. Would it be your thought, if we are really going to catch up—I'm not talking about the long run, but the 2 or 3 years you're talking about here today—that we would also have to do something to protect the interests of the steel industry, for example?

Mr. LARSEN. Well, you would be protecting the interests of the steel industry if you could increase the sale of U.S. cars, I would think.

Now there are people in the steel industry who talk about providing some kind of protection against the importation of steel in this country. But it's the old wheelbarrow gag. The Japanese are importing steel in the form of automobiles, with no restrictions.

REGULATIONS—TAX POLICY

Mr. LAGOMARSINO. I was interested that neither of you, except in response to questions, made much out of this. I think Mr. Scott did mention it, and you just did, Mr. Larsen, but not in your prepared statement. You made very little mention of the comparison of the situation in Japan and here with regard to such things as tax and investment policies, regulations, and probably the most important, cooperation against antagonism on the part of government, or at least your perception of that, and something probably even as important is the predictability of what regulations of policy will be down the road a few years, as compared to here. We don't even know if the regulations we are putting into effect one day will still be there the next day.

Mr. LARSEN. We have a long speech on each subject, if you'd like to address them.

Mr. LAGOMARSINO. The fact that you didn't doesn't mean you're not concerned about it?

Mr. LARSEN. We have not lost our emotionalism about regulation and tax policy.

Mr. LAGOMARSINO. Mr. Larsen, in your statement you refer to the hysteria over fuel availability in 1979, and the 30-mile-per-gallon cars. Has the demand really been that sudden? Has it really been coming since 1973?

Mr. LARSEN. No, in 1973 and 1974, the first oil embargo, there was a short-term concern, there was a short-term change in the market that we thought might be long term. Remember also, most of the decisions—we brought out the Omni and the Horizon and the K car—most of the decisions for those cars were made in that period. But that 1973–74 switch was short term. In 1976, that quickly, the market moved back toward larger cars.

Remember that the price of gasoline in 1976 was about 50 cents a gallon still, and then there was the slow and deliberate conversion going on. As I say, those decisions were made to move to smaller cars. There was an orderly process then going on to convert the whole industry to smaller fuel-efficient cars.

What happened in 1979 was a sudden, abrupt, and deeper than ever and longer lasting than ever change in first of all the price. It literally almost doubled overnight, went to a buck and a quarter.

But more than that, it was the second shock, and I think the second shock finally convinced the American consumer that, by George, there really was an energy problem. As Mr. Guyer said, the conversion was permanent, we believe. We sincerely hope it's permanent, because I can tell you if gasoline went back to 50 cents a gallon next year, we would all be in here explaining how we missed the market one more time.

MOVING TO SMALLER CARS

Mr. SCOTT. Might I point out, sir, that ever since the late 1950's, there has been a consistent and steady movement toward smaller cars in this country, and it was not in the late 1950's so much as because of gasoline costs or the costs of ownership. Back then we saw the introduction of the VW in this country. We had a few Toyotas in here. We bought the first three Toyotas that ever came into this country and tore them apart.

We saw the movement toward small cars because people were interested in lower prices, they were concerned about traffic congestion, they were concerned about the lack of need to have two large cars—when they had a second car, a wagon and a small car made more sense for so many people. So there was a movement, and we were on track doing something about that. Falcons came out in 1960, Mavericks and so forth followed. We tended to make these cars a little bit bigger when we replaced them, because that's what people wanted, because people would pay more for them, and because our competitors were doing that to us, and taking our market away.

But give and take the changes as they went along, there was such a movement. What really happened with the 1973, 1974 situation we had the shock, we ended up converting to make more small cars, and 1½ years later were paying $500 rebates to get them out of the dealership. Our dealers were stuck with small cars.

Then came the Iran situation, and a very sudden change. What really happened here is we have telescoped into a very brief period what I think probably would have been a decade of change with which we were dealing. We thought we were on the road to doing it right, but we could not handle the abruptness with which the public changed their buying habits. They can change their habits faster than we can change our products, and that's where the problem lies.

RESTRICTIONS ON JAPANESE IMPORTS

Mr. LAGOMARSINO. Mr. Scott, have other markets restricted the Japanese? You mentioned that in your statement, but can you give us some idea how they do it, how other markets, the European and so on, have restricted Japanese imports?

Mr. SCOTT. Oh, certainly. I'd be happy to comment just briefly on it. The Latin American markets typically deal in terms of high tariffs, or they demand local content. We operate in Brazil, for example. There are almost no Japanese cars in Brazil. You can count them on your left hand. I was down there a couple of months ago. I didn't see one in 2 weeks.

The reason is that you have to make 95 percent of the car in Brazil. We do that, we invest there, we hire Brazilians, we make cars, we make profits.

In Europe, it's pretty much the same thing. The Common Market has now pulled itself together in a way that's made itself the second largest or maybe the third largest market for cars in the world. We operate there, and in the several countries in which we manufacture—Spain, Germany, England, Belgium, France—we are major factors in the market. We outsell GM outside the United

States, and we find that's a market that takes very few U.S. cars, and for very good reasons:

Cars sold in Europe, generally speaking, are cars designed for the European market. They are smaller, more efficient than the cars here, for the very reasons Mr. Guyer discussed.

Markets tend to shape their products, and the circumstances of older cities, narrow streets, very high gasoline prices in Europe shaped small products. We are leaders in small car production in Europe. The Europeans have a common external tariff in the European community now. I believe it's about 11 percent, but it works out to be a little closer to 14 percent, because of the manner in which they apply it on taxable products.

INROADS INTO ENGLAND-GERMAN MARKETS

The Japanese are now jumping that duty, and they are making very serious inroads into England and into Germany, two very large car-producing countries. The Japanese dominate many markets where there are no local industries. The poor Norways and Swedens and so forth, where there is at best a minor car industry, are heavy with Japanese penetration. But today the Germans and the British—in fact, the EEC commission itself—is rising in great concern about what they consider the Japanese threat.

The Germans are very upset that the Japanese have gone from 5- to 11-percent penetration of their market. The British have had deals with the Japanese, illicitly made in Acapulco, Mexico, we are told, in which the Japanese finally accepted an ultimatum from the British producers and Government that they would not take more than 10 to 11 percent of the market in Britain.

In fact, when the British market slowed down 2 months ago, the Japanese cut their shipment to Britain by 50 percent, in an attempt to honor the agreement they had made.

The French do many things. We don't quite understand how it works, but never more than 3 percent of their market is Japanese cars.

Mr. WOLFF. Are you suggesting we take a trip down to Acapulco? [Laughter.]

BREATHING SPELL NEEDED

Mr. SCOTT. It would be illegal for us to do many things that are done in other countries, as you know. I must cite the point that many people express concern that protectionism for a few years—some kind of a breathing spell for us—would lead to great retaliation.

I consider that a very questionable statement for anyone to make, because we are the last ones. Everyone else has done it. Other nations have already learned how to restrict each other and keep people out of the markets. We are still wide open. We are being taken advantage of.

We know the Japanese are installing more capacity today in their plants in Japan. We know the Japanese market is flat, it is not increasing in volume. It is, in fact, tapering off, yet they are setting more capacity in place, and it seems extremely clear to me where those cars are coming, unless we do something about it.

Mr. WOLFF. The gentleman's time has expired.

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Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Neither of you gentlemen mentioned mandatory quotas in your testimony, mandatory import restrictions. Is that correct? Neither company approves or is asking for mandatory restrictions?

Mr. LARSEN. We are not asking for mandatory restrictions.

Mr. SCOTT. We didn't mention it in our testimony, Mr. Pease, because we didn't take it upon ourselves to tell you how to do this. We are saying, slow this down, somehow. We are petitioners to the International Trade Commission, and will appear before them October 8, and we have in our petition recommended a quota. We have set the 1976 shipment of automobiles as representative of the 1974–76 period, before the Iranian situation created this sudden windfall for the Japanese, and we urged consideration be given to setting the quota at the 1976 level. If that were to be done, it would be about 1.7 million imported cars, about a million from Japan, and about 700,000 from other countries. And in those circumstances, at those numbers, only the Japanese would be affected. The other foreign country producers have not increased their shipments to this country during that time period.

AWAITING ITC DECISION

Mr. PEASE. Thank you. I understand that you are petitioning to the ITC. Has Ford Motor Co. arrived at a fall-back position if the ITC denies any relief on the petition process? Will you then come to Congress and support mandatory quotas?

Mr. SCOTT. Well, in a sense we are here appealing to Congress today. We are encouraging the approval of the resolution, in ways we indicated in our testimony. We would favor a resolution that would be the joint resolution, that would have the force of law, that would be an alternative and could perhaps lead to action before the ITC events unfold.

We are very, very concerned that time is running out, and it seems too critical to move. If moves are to be made, we feel they should be made before the Japanese set more capacity in place, before they create excess capacity in the world markets that will redound to their problems as well as ours, and perhaps the resolution route is a faster one to cause something to happen.

LETTER TO CONSTITUENTS

Mr. PEASE. You gentlemen may be interested that I recently sent out a newsletter to my constituents in the 13th District of Ohio, which has a very large Ford assembly plant, a large Ford parts plant, a large GM parts plant, and a smaller Chrysler parts plant, and I gave my constituents an opportunity to sign a letter which I said I would forward to Japanese automakers, suggesting that the Japanese do just what you have talked about today, and that is to restrict their production to straight-time production, and not shift into overtime for cars produced for the United States.

I received a modest positive response from constituents to whom I sent the letter. I am surprised at how much negative response I have gotten from my constituents, who are not associated with the auto industry. I would have thought that my constituents would

be—even if they are not in the auto industry—conscious of how important the automobile is to the economy of our area. I really have been taken aback somewhat by the negative, almost vindictive, attitude of a lot of people who in no uncertain terms are telling me that the auto company management and UAW have gotten themselves into this, let them get themselves out.

So I don't know how much general popular support there would be in the country for that kind of approach.

Mr. SCOTT. We found the broader knowledge there is of the facts associated with the problem, the bigger the support is.

We are quite well acquainted, however, with the reaction you described. I think that's the conventional reaction in some quarters. The companies have made their bed, let them lie in it; or we've overpaid our workers, or something.

We obviously don't subscribe to those theories. We need to get better productivity. We are working to do that, and I think we have had an adequate discussion of the gasoline prices and the public perception of that.

Mr. PEASE. Might I ask what you would do if by one means or another the U.S. auto industry were afforded that 2-year respite you have been talking about today, and at the end of 2 years, you have foreign penetration still at a very high level and showing no signs of slacking off? And if there was still substantial underutilization of the U.S. auto-building capacity, would you be willing at that point to sink or swim, or would you want to extend the control beyond 2 years?

Mr. SCOTT. Ford's petition utilizing the time periods indicated in the Trade Act of 1974 calls for a 5-year adjustment to the declining rate of adjustment through the period.

Mr. LARSEN. Our position has been somewhat feisty, and that is in effect to say that if after 2 years, when we have completed the transformation of our country to all front wheel drive, four cylinder powered cars, that are equal to the Japanese, we will take them on in the marketplace. If then we lose head to head, then a pox on us all.

EPA RATINGS

Mr. PEASE. Very well. Apropos of that, I noticed in magazines or newspapers about a week ago, the new EPA ratings for 1981 model cars, and again the top 10 were all foreign cars, a few of them marketed by Chrysler, and that's in the face of K cars coming on line, and Escort coming on line, and so on.

Do you feel that that will change by 1983, that U.S. cars will break into the top 10, or that if you get reasonably close to it, other factors will lead people to buy American cars versus foreign?

Mr. LARSEN. Can I do a commercial?

Mr. PEASE. I think you're entitled to equal time. I did a commercial before on the Escort.

Mr. SCOTT. That was just a beginning. [Laughter.]

Mr. LARSEN. The EPA derby, as they call it—they call it derby day when they announce those numbers, because everybody wants their car up in one of those top 10, and some strange things get done as they qualify those light little diesels, and so on, and that's fine, they can have it. If the purpose is to save oil, then our entire fleet of cars all the way from the small ones to the large ones has

the best fuel economy in the whole business. We're 3 miles per gallon over GM or Ford.

In addition, we have more, in actual numbers, more cars that get over 25 miles per gallon than Toyota, Datsun, Honda, VW and all the rest. We will save more oil with our total fleet than they.

I regret that we don't have a little Pony car up there at 60 miles per gallon that we could get in the paper, but that won't save much fuel, certainly.

Mr. PEASE. I am told again from newspaper sources that VW is already working on a car that will get 80 miles to the gallon. When we get our fleet up to 30 miles, are they going to be way ahead of us? Are we going to be able to catch up?

Mr. LARSEN. Our fleet average today is better than VW's across the board. There is always someone out there somewhere—and the newspapers love to cover it—this 70-mile-per-gallon Moody-Mobile, which everybody remembers. I wonder whatever happened to that. The 80-mile-per-gallon vehicles and so on.

I think you do have to protect the poor passengers who are going to ride in that car. They must be safe and protected. There are some limits beyond which you can go in downsizing and making them small. Eighty miles per gallon is a fantastic fuel economy for a car, since the average motorcycle on the road today gets 65.

Mr. PEASE. Well, let me just say that as a person who represents a district with a lot of auto industry people and employment, I'm very much interested in your testimony today and your optimism for the future. I hope it pans out.

Thank you.

Mr. WOLFF. The gentleman's time has expired.

Mr. Pritchard.

AUTOMOBILE MANUFACTURING

Mr. PRITCHARD. Thank you, Mr. Chairman. It seems there are several routes we can go here. One is to go the route a number of countries in the world are doing, which is to set up barriers or processes or time frames whereby we guarantee a greater share of the American market for our own manufacturers.

I gather that's being done by a substantial number of countries that manufacture automobiles. Is that correct?

Most countries that manufacture automobiles give some sort of preference to their own product?

Mr. SCOTT. Absolutely. Every country that has a home automotive industry, except Japan which does not now charge a duty, but——

INCENTIVE SYSTEM

Mr. PRITCHARD. But when we are looking in the world market, that is a factor. I guess the other thing is whether we set up quotas or whether we set up some incentive system whereby we encourage more sales, or we set up some type of an incentive, or help plan, which makes our products more competitive in the world market. I guess your suggestion to us today is that a time factor of 24 months, where we make some limit which would take off some of the Japanese pressure. Aren't there other things that have to be

done if we are to be competitive? As far as tax incentives and other modernizing of the plants?

Mr. SCOTT. We would certainly hope so. We have been quite vocal over the years in making the point that in an inflationary economy, as we have been living, and operating what we call a very high fixed cost and long leadtime industry, that we are severely damaged by the ravages of inflation.

It's bad enough to have a million-dollar machine depreciated and about to be replaced, and find that its replacement is $3 to $4 million, but it's even worse when we throw the machine away at the end of 2 years because it made V-8 engines and we are trying to reconvert. So you can see or sense the enormous capital requirements we have. And unfortunately we are not generating the cash at Ford to make these changes. It is very difficult.

So obviously we are seeking some help in the tax area that's realistic, a realistic appraisal of the requirements of heavy industry.

I might add that one of our strong urgings is that consideration be given to making the investment tax credit refundable. As you know, presently it's of no value. The companies that need it the most are now making these multibillion dollar investments, some with borrowed moneys. The companies that need the help the most are the ones that are losing money and they, of course, cannot get it, because of the tax law, the administration, or other things. So it's that kind of problem. It's serious for us, and we do need help there.

We need to do many more things, we can do ourselves, and we are doing them. We have a new partnership with the UAW. I have been privileged to participate a number of times in small meetings with Mr. Fraser and Mr. Caldwell, and I can assure you that we are together on the recognition that many actions have to be taken to improve the productivity and management planning in the manner in which we run this business. It's a healthy, welcome, and necessary move.

PRODUCING FOR WORLD MARKET

Mr. PRITCHARD. What you're really saying is that a variety of things must be done if you people are going to be competitive in the U.S. market. What I think has to be done is you have to produce for the world market. If you only produce for the U.S. market, toward which I personally think you leaned a little more than you should have, because the world market was more oriented to the small car and the U.S. market was oriented to the large car. It seems to me that you have got to produce a world car, and it's got to be competitive in the world market, at least those markets that don't have home-based manufacturers.

What is your argument to those who say that what America should be doing, if we are going to give help and incentive to industry, is to be backing winners rather than our losers, and that what we are doing is picking up all our weakest and not giving help to those that are strongest? In the long run, we are going to end up not very competitive in any of the areas in the world market, and that we should try and pick our best shots and give that tax incentive to them.

Mr. SCOTT. I would only say there have been something like 2,800 companies that manufactured cars in this country since 1903. You're looking at two of the survivors, and I guess that has to make us winners. Any company that's still here must be doing something right about satisfying public demands and wants, and I would suggest that by elimination we are the winners.

Mr. PRITCHARD. You are the winners.

Mr. LARSEN. Could I answer that question just briefly? There was some question last fall to the effect of Chrysler being a loser at that time, it ought to be allowed to die, and the winners, namely Ford and GM and AMC ought to be declared winners, and get the benefits of these tax breaks. That kind of talk isn't around any more, because they are all losing money, a lot of money.

The proposal we once had, a year ago last May, was for a refundable tax credit for Chrysler instead of a loan guarantee, so we could get the money to do the capital investments we are forced to make. We got very little support at that time, but we got a lot of support now because we are all losers.

I don't think it would be appropriate to declare the entire automobile industry, which is going to lose a ton of money this year, the whole industry losers, and therefore do nothing on the tax base to provide the capital they need to convert their industry. I would suggest that is shortsighted.

BROAD APPROACHES NEEDED

Mr. PRITCHARD. It's my own opinion that all of these approaches should be made as broad as possible, and the approaches to reinvigorate American industry should be done on the broad scale. People love to talk about this rifle shot business, but if we get competitive pushes from this industry to that industry, one wanting a little better overseas treatment and one wanting better tax break, or how we apply the taxes, it seems to me if we are going to do it, we have to keep these efforts to make American industry healthy. We will have to do it in a broad brush, which in the long run I think would be most helpful.

I thank you gentlemen for coming, and once again, it points up the fact this is a far more complicated subject than just that American car owners or manufacturers didn't produce a small car. There are a whole lot of market factors that made it, I think, apparent that if you were sitting at that time with the stockholders and all, you would have done the same thing, even though it turned out to be a bad guess because of the shortage.

Mr. BINGHAM [presiding]. The gentleman's time has expired.

Mr. Mica.

PRIORITIES IN NEGOTIATIONS

Mr. MICA. Thank you, Mr. Chairman. Let me just ask each of you what would be your first priority if we were to have these negotiations as called for in the resolution? Would it be in fact the overtime production?

Mr. SCOTT. Speaking for Ford, we would recommend if negotiations between the United States and Japanese Governments were authorized by the resolution we would encourage that the priority should be to seek the establishment of an orderly marketing agree-

ment that would be definitive in nature, specifically along the lines we discussed in terms of the cutback in unit volume. An orderly marketing agreement that has a time certain and that is enforceable.

Mr. MICA. Are you talking about strictly Japan?

Mr. SCOTT. Yes.

Mr. MICA. Strictly Japan.

Mr. LARSEN. Yes. And our proposal translates obviously into a specific agreement which essentially rolls it back to the level of imports into our country from theirs to about 1977 or 1978 levels. We would settle for 1977 at that level, to roll them back to that level and make that an agreement enforceable.

Mr. MICA. From a businessman's viewpoint, you consider that—I assume you do, but I'd like you to comment on the effect it would have—a realistic proposal that would not substantially cause problems in the Japanese economy?

Mr. LARSEN. Other countries have imposed far harsher import restrictions.

Mr. MICA. Before or after the action? In other words, we are already in a situation where this is occurring. We're coming in to do it now. Had we done this before, we would not be in the situation of taking away production that already exists. We would have stopped the production.

Did other countries do it before or after?

Mr. LARSEN. All I can say is it hasn't happened in Germany. My guess would be they are concerned about the same increase in imports from Japan we are. Whatever action they will take will probably not bring retribution. I doubt that ours would, as well. We are not asking for them to close down their automobile plants. We are simply saying by way of illustration, if you will just stop shipping overtime units, you won't lay anybody off in Japan. So you've done no harm to the Japanese worker that might call for retribution, by way of illustration.

Mr. MICA. Have you had any discussions with Japanese representatives to this effect?

Mr. LARSEN. We have not. We feel that's a government-to-government discussion that ought to take place.

ELECTRIC CARS

Mr. MICA. Let me mention one thing. I keep getting a lot of newsletters from the Electric Car Institute, and we are talking about new approaches and initiatives. Is there anything on the horizon?

Mr. LARSEN. We have a great horizon, yes.

Mr. MICA. And that's it?

Mr. LARSEN. No, we are working on electric cars, I think everybody is. We have one of the best electric cars we've worked out with the Electric Storage Battery Co. and General Electric. We built the car, Electric Storage Battery built the batteries, and GE built the motors that drives them, and we built lots of them. We have tested lots of them.

Everybody, I think, is still hung up on the same basic problem; that is the need for some kind of a real technological breakthrough in battery technology. They still don't compete.

Mr. MICA. If your first priority is that of the overtime units, and it does not come to pass, is your fallback position, or would you advocate trade barriers and restraints? Mr. Scott?

Mr. SCOTT. I'm not the one who has cited overtime units as the quantity to be cut back. We are formally on record seeking a restraint to a given numerical level.

OTHER ALTERNATIVES

Mr. MICA. The point, though, if these negotiations don't work out in a cooperative agreement, will you be back to us looking for a tariff barrier or a definitive quota?

Mr. LARSEN. I don't know. That's hard to say. We haven't really made that decision. Our hope is—and don't let Mr. Scott mislead you, we are quite close in our position, we also want a specific number. We are illustrating by the overtime business.

We are extremely hopeful that some resolution will be made on that basis, of a voluntary agreement. I'm not prepared to say today whether we would not come back and petition for formal tariff barriers.

I think, quite frankly, we can bring in information, extent of damage, what the future will hold, if something isn't done. But I think the U.S. Congress, the Government, the administration, whatever, needs to make a basic decision about the health and strength of its largest industry. We ought to answer any questions you have, we ought to explain the problem.

But I don't think it's a decision that we ought to make.

TIME IS OF THE ESSENCE

Mr. MICA. Do we have a limited amount of time? I mean are you saying if we don't do this within 6, 8, 12 months, it's too late?

Mr. LARSEN. Yes.

Mr. MICA. Yes?

Mr. LARSEN. Well, what's happening is, Mr. Scott pointed out the Japanese are now putting in place large additional capacity for production of cars in that country. The Japanese market is saturated and flat. The other countries of the world have already set up barriers against more Japanese products. There is no place those products can go but in here. As they come in with a quantum leap, and cause attrition in this market, there is structural and long-term damage that's done. Dealers and customers are lost, factories are closed, and cannot be reopened. There is long-term structural damage that we are concerned about trying to bring to the Congress.

Mr. MICA. How long do your people estimate we have to take some action before we pass that?

Mr. LARSEN. It's hard to say in days or weeks, but I would measure it in months.

Mr. SCOTT. There are any number of things that can be done. Let me say one more thing. It is just urgent that this issue be addressed. It seems incredible to me that we can continue to talk over many months while we have a million men on the street in this country, and the Japanese are sending us cars made on overtime. Something is out of joint. That isn't the way things are supposed to

work in this world, and it's only that way because a catastrophic kind of change occurred here in the market because of the public realization that we really do have an energy shortage, gas prices going up, and the concern following it. Something needs to be done, and there are so many ways it can be approached.

We have a number of fallback positions, I suppose one might say.

Mr. MICA. Thank you. Mr. Chairman, I believe my time is up. I would agree with the closing statement, something is out of joint, as you put it. We need to take some action, if we can do it very quickly.

Mr. BINGHAM. Thank you.

Mr. Gilman.

QUOTA SYSTEMS

Mr. GILMAN. Thank you, Mr. Chairman. I want to thank the witnesses for giving us some of the best of their thinking.

There apparently is a general consensus that we are in need of a smaller, fuel-efficient vehicle. You are recommending that we try to withhold some of the Japanese imports during the period of time we need to gear up and produce those vehicles.

What's going to prevent our marketplace from reaching out to other countries for this smaller vehicle in the interim, once we impose a moratorium on Japanese vehicles?

Mr. SCOTT. The Ford petition to the ITC recognizes the need to treat everything at once around the world, and we have suggested a quota system that would or could impact the European producers, but it so happens most European producers are shipping to us at a level far below their 1976 rate adjusted to this 1,700,000 proposed. So they would not be impacted unless they increased their shipments appreciably.

More importantly than that, Mr. Gilman, price is a factor that has limited the European penetration and future increasing penetration of this market.

Mr. GILMAN. You don't think once we impose a restriction on the Japanese market, that the European producers are going to try to pick up that portion of the market by either price adjustment or in other manners?

Mr. LARSEN. They are trying now, and the point is, in terms of price, they are not that competitive. They have every opportunity to come into this market today.

Mr. SCOTT. Generally speaking, European cars are quite high-priced cars. There are increasingly more unusual types, the Porsches and so forth, and the higher priced, diesel-equipped cars. It is not the equivalent of what I'll call the 30-mile-per-gallon syndrome.

RELATIONSHIP WITH JAPANESE MANUFACTURERS

Mr. GILMAN. Do either of your firms have any relationship with any of the Japanese manufacturers at the present time?

Mr. SCOTT. Ford has a 25-percent interest in Toyo-Kogyo.

Mr. LARSEN. We have a 15 percent in Mitsubishi of Japan.

Mr. GILMAN. Both of those are producing and selling vehicles to this country, are they not?

Mr. LARSEN. We sell Mitsubishi products through our dealership here, yes.

Mr. GILMAN. Are you suggesting a restriction on the importation of those vehicles?

Mr. LARSEN. We have not increased at all the number of Mitsubishi products we have sold through dealers in this country in this same period. They are held at the levels they were in 1977, 1978. We have not had this quantum leap in imports from Mitsubishi that the other Japanese manufacturers have.

Mr. SCOTT. We have suggested a minimum for duty-free, quota-free, that in effect really impacts our recommendation against the largest of the Japanese producers.

Mr. GILMAN. I'm not quite certain I understand that, Mr. Scott. Could you explain that a little bit further? You are suggesting a floor?

Mr. SCOTT. Yes. I think it's 100,000 per country. We suggested a no-duty, no-problem entry of something like 100,000 units, something like that; which in effect eliminates any impact on the smaller producers.

Mr. GILMAN. What product is Mitsubishi?

Mr. SCOTT. Toyo-Kogyo sells under the brand name Mazda. Mazda, GLC, Mazda RX-7, and so forth. The petition we filed would limit Japanese car imports in absolute totals to 930,000 units per year. I don't have a breakdown here how we calculate the impacts of separate companies.

Mr. GILMAN. Does your petition recommend any quota for the different countries?

Mr. SCOTT. We do not describe it in terms of producer. We talked in terms of country source.

Mr. GILMAN. But it would include the Mazda?

Mr. SCOTT. Yes, presumably, so.

Mr. BINGHAM. Will the gentleman yield?

Mr. GILMAN. I'd be pleased to yield.

MITSUBISHI CARS IN UNITED STATES

Mr. BINGHAM. Mr. Larsen, under what name are the Mitsubishi cars sold in this country?

Mr. LARSEN. If you will just sit for another commercial, our Plymouth Champ and our Dodge Colt are the highest mileage gasoline-powered cars sold in this country this year. We have a 50-mile-per-gallon highway car, called Plymouth Champ, Dodge Colt, and some other models spun off of those.

Mr. GILMAN. What portion of the Japanese market does the Ford Japanese product have and the Chrysler Japanese product?

Mr. LARSEN. What share of the Japanese market does Mitsubishi have? I can't tell you the specific number.

Mr. GILMAN. Approximately.

Mr. LARSEN. 10 percent.

Mr. SCOTT. The company in which we own 25 percent has probably no more than 2 or 3 percent of this market under the Mazda brand. We also import a Courier truck which is a truck manufactured for us by Toyo-Kogyo with a Ford engine and some other Ford components in it. I did not include that in my previous remarks.

Mr. LARSEN. You're talking about the penetration of the Japanese market by our Japanese products.

Mr. SCOTT. Oh, I'm sorry. I was speaking of the penetration of the U.S. market by our Japanese affiliates.

PENETRATING U.S. MARKET

Mr. GILMAN. No, I'm talking about the penetration of the U.S. market by your Japanese counterparts. What percentage of the——

Mr. LARSEN. The 10 percent I gave you is penetration of the Japanese market.

Mr. GILMAN. No, what percentage of the U.S. market are your Japanese counterparts making at the present time?

Mr. LARSEN. About 100,000 units out of 10 million cars a year. What is that? 1 percent?

Mr. SCOTT. I have data here which are industry-available data, which indicate that Mazda is getting 1.5 percent of the U.S. market in 1979, and the Mitsubishi car merchandised by Chrysler got 1.3 percent of the U.S. market in 1979.

Mr. GILMAN. Just one step further, then, with regard to those statistics. What portion of the total Japanese exports to our country does that represent?

Mr. LARSEN. Out of 3.4 million this year—100,000 out of 3.4 million would be our share.

Mr. SCOTT. Mazda in 1979 sold about 150,000 cars here out of a total, import total, of 2.2 million cars. So it's 7 percent for the Japanese imports. And the Mitsubishi relationship is just slightly over that, 1½.

Mr. GILMAN. Are we safe to say conservatively speaking that between both of your companies, your Japanese counterparts have captured about 10 percent of the American market?

Mr. SCOTT. No, sir. More like 3 percent in total. The numbers I just gave you, like 7 percent, were 7 percent of the Japanese cars shipped to this country are Mazdas, 6 percent are Mitsubishis. But the sale of those cars in this country represented in those distribution networks, Mazda taking 1.5 percent of the total U.S. market, and Mitsubishi 1.3, a total of about 3 percent for those two car lines.

Mr. GILMAN. Of the total U.S. market?

Mr. SCOTT. Of the total U.S. market.

Mr. GILMAN. Between your two companies, it represents about 13 percent of the total Japanese exports to this country?

Mr. SCOTT. To this country.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. BINGHAM. Gentlemen, it's been a most interesting session. We appreciate your being with us. We are sorry that General Motors couldn't join you today. In any event, we very much appreciate your testimony and thank you very much.

Our next witness is Mr. Robert M. McElwaine, president of the American International Automobile Dealers Association.

STATEMENT OF ROBERT M. McELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. McELWAINE. Mr. Chairman, I am accompanied by the chairman of the board of our association, Mr. Edward Connelly of Cincinnati, Ohio, on my left; and my counsel, Mr. Bart Fisher on my right.

I certainly appreciate the patience you have shown, Mr. Chairman, in giving us this opportunity to state our side of the case to the members of the committee who remained to hear it.

We submitted our written testimony for the record, and I would just like to comment as briefly as I can on the subjects covered in that testimony, as well as on some of the statements that have been made here today.

MISCONCEPTIONS

Mr. Chairman, the problem I have is there are so many misconceptions, half-truths, and untruths, about the automobile business, in particular about the imported automobile business that are prevalent in the country today, among the press, and in what is sort of the popular wisdom, that it's very difficult sometimes, very dispiriting, to someone in my position to try to respond to all of this.

In the time I have here, I will make an effort to give you the truth as I see it, and hope that we can have a discussion on the subject afterward.

There are so many myths about our industry, but I guess none is more prevalent than the sort of general concept that if only the Japanese would remove some kind of unnamed, unspecified barriers to the sale of American automobiles in Japan, we would somehow be selling millions of Detroit-made cars in that country.

There is a story prevalent in our industry today about a domestic car dealer in terrible difficulties; because he's been a good soul and a good citizen, he's granted one wish, and the wish he makes is that he become an imported automobile dealer. His wish is granted, and he finds himself a Chrysler dealer in Tokyo.

I think the irony of this little story really describes a kind of contrary truth about this attitude, because the truth is if the American manufacturers can't compete with the Japanese manufacturers in this country, how in the world are they going to do it in Tokyo? And until they come up with a product that will be competitive, there is no point in crying about some imaginary trade barriers to American cars that exist in Japan.

NOT MAKING CARS FOR JAPANESE MARKET

We haven't sold many American cars in Japan, simply because we have not made cars for that market, nor have we ever attempted to penetrate that market.

Our association sent a mission to Tokyo back in April of this year and we interviewed some of the dealers who sell American cars in Japan, those that are sold there. Some of the things we found out were that the American manufacturers have yet to send an advertisement or a brochure or sales pamphlet on an American

car to Tokyo that wasn't written in English. They have never created an ad in Japanese.

The Japanese drive on what we would call the wrong side of the street. The American manufacturer has never sent a car to Japan with right-hand drive.

The way they sell cars there is, in spite of the fact the Japanese have very specific requirements and safety standards and emission standards more rigid than ours, by a considerable degree, we have never made any cars in this country to the Japanese specifications.

Instead, our manufacturers make our American-made cars, made to U.S. specifications, ship them to Japan, and then hand-modify them, individual workers by hand taking each model and modifying it to meet the Japanese specifications, changing the headlights, putting a shield around the catalytic converter, with all the necessary steps that have to be done to meet the Japanese standards on a one-by-one, hand-tooled basis.

We heard here a complaint about the fact that the Japanese demand to inspect every single car that is sold in Japan, rather than simply OK an entire line of cars. That is the reason. The Japanese have said frequently they would OK an entire line of cars if those cars were made to Japanese specifications.

They have even volunteered to fly their own inspectors at their expense to Detroit to inspect the line of cars and see they meet the specifications. But when each car has been individually retooled to meet their specifications, naturally each car has to be examined. That's the fact of the case. On top of this, because the Japanese consumer is very meticulous about his purchase of an automobile, the purchase of an automobile to a Japanese worker is an extremely serious step, and he requires that this car meet very demanding specifications.

REBUILDING AUTOS

Consequently, American cars shipped to Japan are practically rebuilt. The doors are removed and rehung to insure that they close properly. Individual body seams are retooled to make sure they fit, so that you don't have that kind of box-shaped line along the side of the car, where the doors go, as you see so frequently on American cars.

If Toyota shipped cars to the United States in exactly the same fashion as the American manufacturers send cars to Japan, the Toyotas in this country would cost $25,000.

The truth is that the U.S. manufacturers have never shown any great interest in the Japanese market. In fact, we heard confirmation of that fact here today, listening to the manufacturers' representatives. Instead, General Motors, with its 35-percent interest in Isuzu; Ford, with its 25-percent interest in Toyo-Kogyo; and Chrysler, with its 15-percent share of Mitsubishi, have been content to reap substantial profits being made by their Japanese affiliates.

We hear complaints that the Japanese market is closed to American cars, and yet the American manufacturers sell four times as many cars in Japan as they do in the Common Market. I haven't heard complaints that the Common Market excludes American automobiles, and yet there are fewer cars sold there than in Japan by our companies.

The further truth is that if American companies ever really decide to invade the Japanese market—as well they might one of these days, since there is no duty on cars being shipped into Japan, and no duty on parts being shipped into Japan and no substantial trade barriers—they are certainly not going to do it with cars made in the United States.

We heard statements made here today that it's economically unfeasible to ship cars to Japan for sale, and I think that's probably true. If General Motors, Ford, or Chrysler decides to ship cars to Japan, they are going to make those cars at some of their existing facilities in Taiwan, Korea, or Australia, where the labor costs are roughly half what they are in Japan, where their shipping costs would be negligible, and where the host country would practically pay for the entire cost of the new facility through government grants, tax credits, and quick writeoffs.

IMPORT SALES FLAT

One of the most prevalent myths we face every day is the myth that imported car sales in this country are increasing on a daily basis by leaps and bounds. The truth is—and I am quoting from Ward's Auto World, the official statistics-keeper of the domestic automobile industry, is that imported car sales in the first half of 1980 increased over the same period in 1979 by exactly 13,000 units.

Mr. Chairman, that's 1 day's sales for General Motors. It's a negligible increase. What's actually happening is that imported car sales have been absolutely flat. In the same period when domestic car sales dropped by more than a million units, an import sales increase of 13,000 units certainly makes it hard to give credence to the claim that imported cars are the cause of Detroit's malaise. During the time when imported car sales had this marginal increase, General Motors increased its sale of small cars, the field in which we are directly competitive, by more than a quarter of a million units.

I think the truth, Mr. Chairman, is that while the industry has been pointing its finger at imports, General Motors has quietly and efficiently gobbled up the American small car market.

Restricting automobile imports is frequently described here as a relatively painless way of easing the pains of the domestic automobile industry. But we have all kinds of studies here by the U.S. Government, by the Congress, by committees of the Congress, which point out the fact that restricting imports as a means of putting people back to work is one of the most extravagantly expensive processes that the Government can possibly engage in.

Studies by the Congressional Budget Office, the Council of Economic Advisers, and independent researchers have put the cost to the consumer for reemploying a single autoworker through import restraints anywhere from $100,000 to $360,000 per year. That's for one worker, just to put one man back on the assembly line.

BURDENING CONSUMERS

I think it places an unconscionable burden on a consumer to ask the public to pay $4 billion a year in additional costs for auto-

mobiles in order to provide employment for from 10 to 20 percent at best of the laid-off automobile workers today.

I think you have to further consider the impact this would have on the imported automobile industry. None of these studies I have stated here take into consideration the 150,000 American workers who are employed in imported automobile agencies.

These are the members of our association, the 5,000 independent American businessmen, who have invested $4 billion in their agencies, and the 150,000 workers they employ, at an annual cost to them of $2¼ billion.

A study done for us by Harbridge House, a very noted Boston research firm, shows that reducing imports by 400,000 units might provide as many as 26,000 jobs in domestic manufacturers and dealerships. If you assume that every single imported car sale that's cut out is represented by an increase by one unit in domestic cars.

But the same study shows that such a loss in imported car sales would cost more than 26,000 jobs among our dealership. In other words, we would have an absolute wash in terms of employment in the United States, at a cost to the consumer of over $4 billion, simply to finance this tremendous transfer in employment.

FAILURE OF U.S. MANUFACTURERS

Mr. Chairman, the problems with the domestic automobile industry have not been caused by imported automobiles. They have been caused by a massive failure on the part of U.S. manufacturers to reinvest their profits in their U.S. production facilities over the past several decades. During the years when the U.S. auto companies were enjoying record profits, because of the huge economies of scale that they realized in the production of millions of large, old-fashioned, fuel-inefficient automobiles, they failed entirely to put these profits back into creating modern factories, new designs, and engineering breakthroughs.

Let's not forget it was only 1978 and 1977 when for 2 consecutive years the domestic automobile industry set record-high profits for themselves, but instead of plowing back the profits into their own industry, they paid lavish dividends, they paid the highest wages in American industry, more than one-third higher than national industry, they paid the highest executive salaries in the United States, and they invested, as we heard here today, in new and modern factories in Spain, in Wales, in Germany, in South Africa, in Korea, in Brazil, in Argentina, in France, and elsewhere.

The amount of investment spent in the domestic industry is absolutely dwarfed by what is being spent by the overseas competition of the U.S. manufacturers.

EQUIPMENT PER EMPLOYEE

In 1968, the Toyota plants in Japan housed about $16,600 worth of equipment for each employee in the plant. At that time General Motors was already behind, with about $11,900 in equipment for each employee, but over the following decade, Toyota doubled that ratio to more than $40,000 in equipment per employee, while General Motors amount of equipment per employee actually declined.

And this, in essence, is the cause of the problems which the domestic automobile industry faced. We heard a great deal this morning about the threatened expansion of capacity on the part of the Japanese manufacturers and what a tremendous threat this was creating for the domestic automobile industry because the Japanese manufacturers were going to greatly expand their productive capacity over the next 2 years.

This question was taken to the Japanese earlier this year. It was taken then by a Subcommittee on Trade of the Committee on Ways and Means—the rather well-known Jones report. And at that time the Ministry of International Trade and Industry in Japan reported to the Jones Committee that they had studied the situation, and that they had learned the Japanese automobile industry plans no significant capacity expansion over the next 2 or 3 years.

They were spending something like 644 billion yen in new equipment at this time, but three-quarters of this amount was simply to be used to modernize their factory, to automate and make them even more modern than they are; but that 25 percent of this new capital investment was being used to expand capacity for engines and transaxles, to meet the demands of U.S. domestic automobile manufacturers for such equipment from their Japanese allies.

So we have the spectacle of American automobile companies complaining about the expansion of Japanese productive capacity, when 25 percent of that expansion is because the domestic companies are buying engines and transaxles from these Japanese companies.

I have to say that during this same period of time, the Federal Government hasn't been much help. The domestic automobile companies were forced to expend their engineering and design talents and resources in devising ways to meet expanding, frequently conflicting, and often changing Government regulations.

U.S. TAX POLICIES

U.S. tax policies made it imprudent to return overseas profits to the United States for reinvestment here. Here we have the spectacle of domestic automobile companies, some of which are extremely cash wealthy outside the United States, but are desperately short of capital in the United States, but they dare not bring that capital they have overseas back to this country because of our tax policies, which would make them liable to extreme tax penalties.

The Ford Motor Co. recently brought in $1 billion from its German affiliate, which was registered as a loan, and thereby they avoided taxes on that particular sum.

At the same time, the energy policies of the United States created artificially low prices for fuel, and thus made it possible for U.S. companies to continue making and selling automobiles that averaged less than 12 miles per gallon through 1978.

We have heard testimony here today as to what happened shortly after that, when gasoline prices doubled. They were unable to sell these fuel-inefficient cars, of course, and imports were available, and they have sold. But what is not pointed out is that the domestic cars that are modern and fuel-efficient have sold extremely well.

In fact, the sale of domestic small fuel-efficient cars has increased substantially and they have even taken back a good share of market in the small car field from the imports.

When the U.S. manufacturers do have an adequate supply of modern fuel-efficient automobiles, undoubtedly they are going to sell well. In fact, there are very strong indications, Mr. Chairman, that the U.S. auto recession has already bottomed out. Sales have definitely improved. Over the last 60 days, the annual selling rate has increased by over 1 million units, employment is up, the number of employees on indefinite layoff has declined from a peak of 250,000 down to 219,000. While certainly such levels of employment in a major industry are intolerable in this country, they follow the same patterns of previous auto industry recessions in 1969 and 1970 and in 1973 and 1975, when imports were not considered a contributory factor.

Mr. BINGHAM. I'm sorry to have to interrupt you, but we have lost our audience because of a vote. We'd better suspend now. We'll be back.

[Recess.]

Mr. BINGHAM [presiding]. The subcommittees will resume their session. Mr. McElwaine, you may proceed.

MULTILATERAL TRADE AGREEMENT

Mr. MCELWAINE. Thank you, Mr. Chairman. I appreciate the opportunity to wrap up here. I have only a few more things to say, but I think it is sort of the heart of our testimony. It involves the fact that it was only a few months ago that the Congress placed its final approval on the new multilateral trade agreements under which this Nation and the other nations of the world pledged to reduce tariffs and nontariff barriers to trade.

I had the privilege and the joy of being in the White House when President Carter signed that bill into law, and it seems like it was just a very short time ago. As a part of that agreement, procedures were established by which unfair trade practices, export subsidies, dumping, restrictive practices and so forth, could be prevented. Specifically, machinery was established to prevent injury to domestic industries from sudden escalations of imports.

Now the very first such major escape clause action—indeed, the largest escape clause action in the history of world trade—is now before the International Trade Commission. I personally find it singularly disappointing to find before this Congress, the same Congress that established the machinery designed to deal with this sort of situation, a resolution which is designed specifically to circumvent the actions of the International Trade Commission, and to bypass and make worthless the entire trade machinery so recently established and approved by this very Congress.

The Trade Act codifies the means by which American industry may attempt to persuade the President to restrain or limit imports. The statute directs that such steps are dependent on certain findings. In contrast, Mr. Chairman, resolution 363 has no requirement of investigation, no requirement of procedural due process, or even of fairness, and directs the President to ignore the machinery established by this Congress for dealing with trade problems, and to take steps to limit a certain type of import, whether or not any

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objective analysis shows it to be causing injury to a domestic industry. It doesn't even direct that the remedy bear any particular relationship to the alleged grievance.

RESTRICTIONS ILLEGAL

Mr. Chairman, the members of our association believe a decision of the Japanese manufacturers—and I want to be very careful about this—a decision made in concert with the American importers to restrict the supply of products to their American dealers would be a conspiracy in restraint of trade, that would be illegal under the antitrust laws of the United States. And our association intends to challenge that violation of U.S. law in the courts.

We do not believe that American Government officials should coerce foreign exporters into committing illegal acts, nor do we believe that the U.S. Congress, even with its awesome and far-reaching powers, has the right to declare an illegal act legal.

We ask that this committee reject this resolution, that you reaffirm the Congress previously expressed support for procedures established for dealing with trade matters; that you permit the International Trade Commission to make its findings and recommendations on the automotive case known to the President, so he may act in the manner which has been prescribed for him by this Congress.

I thank you very much, Mr. Chairman. If you have any questions, I would be most happy to try to answer them or refer them to my colleagues here.

[Mr. McElwaine's prepared statement follows:]

PREPARED STATEMENT OF ROBERT M. MCELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. Chairman, We have submitted our written testimony for the record, and I would like to comment briefly on the subjects covered in that testimony and on what has been said before this committee earlier today.

Mr. Chairman, there are so many misconceptions, half-truths and untruths prevalent about the imported automobile industry in America, that someone in my position frequently feels a sense of overwhelming frustration and inadequacy in attempting to respond to these allegations. In the time available to me here, I will try to state the truth as I see it and hope that the members of this committee will retain an open and receptive mind to the information I have.

The most prevalent myth about the automobile industry today is the concept that if only the Japanese would remove some unnamed, unspecified barriers to U.S. automobiles, our manufacturers would soon be selling millions of Detroit-made cars in Japan. Mr. Chairman, this brings to mind a story being told in our business today. It concerns a domestic-make car dealer, one in terrible difficulties, who is granted one wish. His wish is that he become an imported automobile dealer. His wish is granted—and he finds himself a Chrysler dealer—in Tokyo.

The moral of the little story is—is we can't compete with 'em in America, how in the world are we going to compete with 'em in Japan?

The truth, Mr. Chairman, is that we have not sold American cars in Japan because we have not made cars for that market nor have we really attempted to penetrate that market. U.S. manufacturers have sent some few cars to Japan. They were manufactured for the U.S. market. In spite of the fact that the Japanese drive on the left hand side of the street, they all had the steering wheel on the wrong side. In spite of the fact the Japanese have specific requirements for safety standards and emission controls, as we do, these cars were not made to meet Japanese specifications.

Instead, each car, once it is landed in Japan, is modified—by hand—to meet the Japanese requirements. In addition, since the Japanese consumer is meticulous about his purchase of a car, in most cases, doors must be removed and re-hung, shoddy body work must be done over. On top of this, distributors and retailers take mark-ups that are many times those charged in the U.S.

If Toyota sold cars in the United States in the same fashion, a Toyota would cost $25,000 here.

NO INTEREST IN JAPANESE MARKET

The truth is that the U.S. manufacturers have never shown any interest in the Japanese market. Instead, GM with its 35 percent interest in Isuzu; Ford, with its 25 percent interest in Toyo-Kogyo; and Chrysler, with its 15 percent share of Mitsubishi, have been content to reap the profits being made by their Japanese affiliates.

A further truth is that should the U.S. companies decide to invade the Japanese market—they will certainly not do so with cars made in the U.S. Ford and GM are not going to pay Doug Fraser's UAW members $16 an hour—a salary level one-third greater than the average industrial wage in America—to build cars for shipment to Japan.

No, they will simply arrange for an assembly line in one of their existing plants in Korea, Taiwan or Australia to start making cars for the Japanese market. There, they will pay a wage rate half the Japanese rate; shipping costs will be negligible and the host country will probably pay most of the cost of the new facility.

The other most prevalent myth is that imported car sales are increasing by leaps and bounds in this year of crisis for Detroit. Again, the *truth* is that imported car sales in the first half of 1980 increased over the same period in 1979 by one percentage point—13,000 units. Mr. Chairman, General Motors sells that many cars in a single day.

In this 6-months period, when domestic car sales dropped by more than a million units, import sales increased by 13,000. In the face of such statistics, it is hard to give credence to the claims that imported automobiles are the cause of Detroit's malaise.

Indeed, during the period of time that imported sales increased by 13,000 units, General Motors increased its sale of small cars by 250,000 units. The truth, Mr. Chairman, is that while the industry has pointed the finger at imports, GM, with its vastly greater resources and capital than Ford or Chrysler, has quietly and successfully gobbled up the small car market.

RESTRICTIONS NOT THE ANSWER

Restricting imported automobiles is depicted as a painless way to put America's automotive production workers back on the assembly line. But studies by the Administration, the Congressional Budget Office and independent researchists put the cost to the consumer for re-employing a single auto worker through import restraints at from $100,000 to $360,000 per year. Mr. Chairman, it places an unconscionable burden on the consumer to have him pay $4,000,000,000 in additional costs for automobiles, in order to provide employment for from ten to twenty percent of those currently laid off by U.S. auto makers.

A further consideration is the employment effect on the American imported automobile industry of such restraints. None of the studies mentioned take into account the 150,000 Americans employed in imported automobile dealerships. A study done for us by Harbridge House, a noted independent research firm in Boston, shows that reducing imports by 400,000 units might provide as many as 26,000 jobs in domestic manufacture and dealerships—assuming that every import sale thus lost is replaced by the sale of a domestic car.

The same study, however, shows that such a loss in imported car sales would cost more than 26,000 jobs among imported car dealerships. In other words, there would be absolutely no net gain in employment in America, while the consumer would be asked to hand over $4 billion a year to finance this massive job transfer.

DOMESTIC PROBLEMS

The problems of the domestic automobile industry have not been caused by imported automobiles. They have been caused by a massive failure on the part of U.S. manufacturers to reinvest their profits in their U.S. production facilities over the past several decades.

During the time when U.S. auto companies were enjoying record profits because of huge economies of scale realized in the production of millions of large, old-fashioned, inefficient automobiles, they failed entirely to put these profits back into creating modern factories, creating new designs and engineering breakthroughs. Instead, they paid lavish dividends, the highest wages in American industry and the highest executive salaries in the United States. Instead, they invested in new and modern factories in Spain, Wales, Germany, Korea, South Africa, Brazil, Argentina, France and elsewhere.

The United States government was not much help, either. Automobile companies were forced to expend their engineering and design talents and resources in devising ways to meet expanding, conflicting and changing government regulations. U.S. tax policies made it imprudent to return overseas profits to the United States for reinvestment here.

ENERGY POLICIES

Energy policies created artificially low prices for fuel, thus making it possible for U.S. companies to continue making and selling automobiles that averaged less than 12 miles per gallon, through 1978.

When gasoline prices doubled in a year's time, the resulting shift in consumer preference found most of the U.S. auto industry unprepared and unable to supply the new demand for fuel-efficient cars. Imports, however, were available that provided the needed fuel efficiency. They have sold well, as have the domestic cars that are modern and fuel-efficient.

When the U.S. manufacturers have an adequate supply of modern, fuel-efficient automobiles, they will sell well. Indeed, indications are that the U.S. auto recession has already bottomed out. Sales have improved. Employment is up and the number of employees on indefinite layoff has declined from a peak of 250,000 to 239,000. While such levels of unemployment in a major industry are intolerable, they follow the same patterns of previous auto industry recessions in 1969–1970 and in 1973–1975 when imports were not considered a contributory factor.

It also is significant that almost 90 percent of those workers on layoff in the industry have been furloughed from factories making large cars, or large V-8 or V-6 engines. This is a market area in which imports simply do not compete.

Just a few months ago, the Congress placed its final approval on the new multilateral trade agreements under which this nation and the other nations of the world pledged to reduce tariffs and non-tariff barriers to trade. As a part of that agreement, procedures were established by which unfair trade practices, such as export subsidies, dumping or restrictive practices, could be prevented; machinery was established to prevent injury to domestic industries from sudden escalations of imports.

The first such major "escape clause" action—indeed, the largest escape clause action ever filed in the history of world trade—is now before the International Trade Commission. It is singularly disappointing to find before this Congress—the same Congress that established the procedures for dealing with such trade cases—a resolution designed specifically to circumvent the actions of the International Trade Commission and to by-pass and make worthless the entire trade machinery so recently established and approved in this very Congress.

TRADE ACT

The Trade act codifies the means by which American industries may attempt to persuade the President to restrain or limit imports. The statute directs that such steps are dependent on certain findings. In contrast, Mr. Chairman, Resolution 363 has no requirement to investigation, of procedural due process, or even of fairness. It directs the President to ignore the machinery established by this Congress for dealing with trade problems and to take steps to limit a certain type of import whether or not any objective analysis shows it to be causing injury to a domestic industry. It does not direct even that the remedy bear any particular relationship to the alleged grievance.

Mr. Chairman, the members of our association believe that a decision of the Japanese manufacturers, made in concert with their American importers, to restrict the supply of product to their American dealers, would be a conspiracy in restraint of trade that would be illegal under the antitrust laws of the United States. This association would challenge that violation of U.S. law in the courts. We do not believe that American Government officials should coerce foreign exporters into committing illegal acts. Nor do we believe that even the United States Congress, with all its awesome and far-reaching powers, has the right to declare an illegal act legal.

Mr. Chairman, we ask that this committee reject this resolution; that you reaffirm the Congress previously expressed support for the procedures established for dealing with trade matters; that you permit the International Trade Commission to make its findings and its recommendations in the automotive case known to the President, so that he may act in the manner which has been prescribed for him by this Congress. Thank you.

Mr. BINGHAM. Thank you, Mr. McElwaine.

I believe you were here during the preceding testimony, were you not?

Mr. McElwaine. Yes, sir.

Mr. Bingham. I don't think the witnesses for Ford and Chrysler tried to expound what you call a myth, if only the Japanese would reduce—I'm quoting from your statement—"some unnamed, unspecified barriers, U.S. automobiles or manufacturers would soon be selling millions of Detroit-made cars in Japan."

It seems to me Mr. Scott, in particular, was quite careful to make the point that it is not a big potential market and it in no way balances out as a potential for Japanese sales to the United States. Wouldn't you agree?

Mr. McElwaine. I did hear Mr. Scott say that. I was surprised and gratified, because this is about the fifth such hearing on this subject at which I have testified, usually following the domestic manufacturers' testimony, and in general the statements I have listened to have been to kind of expound on the theory that it's only Japanese restrictions that are keeping Americans out of that market, and I was quite pleased to hear him admit that they really weren't interested in that market.

Mr. Bingham. On the question of whether American cars should be manufactured so as to meet Japanese customs and standards, he also testified that this simply wasn't a justifiable capital expenditure in terms of the market. I was impressed by your statement as I read it earlier, about this way of selling cars in Japan, and it does seem absurd; but on the other hand, if it is simply not worth it to set up a line, say, to manufacture cars for use on the left-hand side of the road, I don't know how you answer that.

Mr. McElwaine. Well, I think it's indicative, Mr. Chairman, of the total lack of interest in exporting that our domestic industry has shown down the line. When the Japanese began bringing cars into the United States, we had rather strict requirements here that they had to meet. They set up an assembly line to meet those requirements and their initial sales were very low. Initial sales of both Toyota and Nissan in this country were hundreds of units, not even in the thousands.

UNITED STATES NOT MAKING INVESTMENT

They persisted over a period of years until they created a sizable market. The American manufacturers do not appear willing to make the kind of investment in an export market that is required to develop such a market. They find it much easier simply to go in and buy 35 percent of Isuzu or 25 percent of Toyo-Kogyo, rather than creating a line manufactured in this country for export.

Mr. Bingham. You cite this Harbridge House study. Might I ask if that study was commissioned by the International Automobile Dealers Association?

Mr. McElwaine. Yes, sir, it was.

Mr. Bingham. I find that really it stretches the credulity to suppose that the loss in jobs by a restriction of the type that these previous witnesses were talking about among imported dealers and imported cars would be equivalent of the additional jobs that might result in the manufacturing and dealership sectors. That just strikes me as very hard to understand how that could be so.

Why would a limitation of, say, whatever it is, 15 percent in the importation of Japanese-made cars result in the loss of 26,000 jobs among foreign car dealers?

Mr. McElwaine. The figure, I believe, is 400,000 units they referred to. The study was based on the concept that you would eliminate 400,000 imports by a quota, and you would assume that the entire—that that restriction would result in the sale of 400,000 additional American cars.

Now, no study we have seen would support such a one-for-one swap. It's usually at best one-for-two. But on that assumption, for a general study, you add 400,000 sales to domestic cars, you take away 400,000 sales for imports. The impact on the domestic dealer body is negligible. There are 20,000 domestic dealers.

IMPORTED CAR DEALERSHIPS

Mr. Bingham. But you are not speaking to what I asked about. I don't question your figures, as far as the impact on the manufacturing and dealership is concerned. What I find hard to understand is why such a reduction in imported car sales from Japan would cost more than 26,000 jobs in imported car dealerships.

Mr. McElwaine. Well, 400,000 units represents 20 percent of all sales of our dealerships. A 20-percent drop in sales—we have 4,500 imported car dealerships. If you reduced imports by 400,000 units in 4,500 dealers, you are eliminating more than 100 sales per dealer, I believe is the figure. I'm trying to do mathematics in my head.

A hundred sales is a substantial loss in volume to those dealers. That's 20 percent of his average volume. And the average dealer employs about 40 employees. If he loses 20 percent of his sales, he is going to lose at least 10 percent of his employees, is the rationale employed there.

Mr. Bingham. Well, let me ask it this way: Did the number of people employed in the imported dealerships increase during that period, equivalent to the figures you are citing?

Mr. McElwaine. Yes, sir, it's increased substantially. It's been one of the fastest growing employment industries in the country.

Mr. Bingham. I don't think the manufacturers disagree with you, that when they make modern fuel-efficient cars, they are in a position to compete. That's your point. But I don't think they disagree with it. They are simply saying that because of this earthquake in the industry that occurred when gasoline prices went up so fast, American tastes changed and they haven't been able to modernize that fast to produce enough of those competitive cars.

How do you answer that?

DETROIT'S DILEMMA

Mr. McElwaine. Well, I think some of the questioning really responded to that extremely well. In the questions that were raised— I believe Mr. Mica raised the question. Suppose we do restrict by 1 million units, as the domestic manufacturers proposed here, the importation of Japanese cars. Can the domestic manufacturers fill that demand for an additional million fuel-efficient automobiles? And the answer, quite obviously, is that they cannot.

They can provide cars, perhaps, intermediate-size cars or cars with V-6 or V-8 engines to replace them, but they cannot supply the demand for fuel-efficient cars.

What would happen in that respect with those million units gone is that the scarcity of the desired product is going to drive prices up very sharply, according to the Council of Economic Advisers, by about $4 billion in a year's time, thus enabling the domestic manufacturers to realize the same sort of profits on their new small cars that they made on their large inefficient cars.

Mr. BINGHAM. Can we straighten out the figures here for a moment? I am frankly confused as to what we are talking about. You just referred to the figure of a million units of cars that would no longer be imported if the reduction they seek were made. But elsewhere you referred to a reduction of imports by 400,000 units. That was the figure in the study.

Mr. MCELWAINE. The 400,000 units was just a figure taken by Harbridge House as a basis for showing net employment impact of restrictions. The actual request being made by the domestic industry in their petition to the ITC would establish a reduction of considerably greater amount than that.

We do have a study here which I would be happy to give to the committee, the "Economic Effects of Proposed Remedies." One of the recommendations is a quota based on the 1976 sales, which would be a quota of 1.7 million units, which they assume would result in a price increase of $554 per car, on small cars sold in the United States.

Mr. BINGHAM. That gets us into a whole different line. You haven't included that in your statement.

Mr. MCELWAINE. No, sir. That is part of our ITC testimony.

HOUSE CONCURRENT RESOLUTION 363

Mr. BINGHAM. Finally, I don't recognize that House Concurrent Resolution 363 calls for that kind of drastic restraint by the President. All 363 does is to urge the President to enter into negotiations, not to impose restraints.

Mr. MCELWAINE. I'm reading from it. It says:

> To enter into negotiations with the Government of Japan with respect to temporary restraint on the exportation of automobiles to the United States, an equitable relationship between prices charged in domestic-foreign sales, and an elimination of trade barriers affecting the purchase of American products.

We do not feel there are any real barriers affecting the purchase of American products, but we do feel the call for the President to negotiate voluntary restraints with another government, without a finding of injury by the International Trade Commission is in violation of antitrust laws of the United States, and would be——

Mr. BINGHAM. That was going to be my next point. Are you suggesting that all orderly marketing agreements are illegal under the antitrust laws?

POSSIBLE ANTITRUST LAW CONFLICTS

Mr. MCELWAINE. I might ask Mr. Fisher, who is a trade expert, to comment on that. It is my understanding that without a finding

of injury, that an orderly marketing agreement is illegal, but I'll ask Mr. Fisher to comment.

Mr. FISHER. This question really goes to the heart of the resolution and what you are voting on. The prior witnesses kept talking in terms of a gentleman's agreement, and then they used the term voluntary restraint arrangement. You just used another term, orderly marketing agreement. These are terms of art, and it is important we understand what we are talking about. In section 201 of the Trade Act of 1974, there is a procedure laid out in title 2, whereby the domestic industry, if they feel they are being injured by imports, can petition the International Trade Commission for relief, and in order to get relief, they have to establish that imports are the cause of the injury to the domestic industry. That's the procedure we are currently going through at the International Trade Commission. The hearings will be held on October 8, 3 days of hearings, and the president of the Commission, by November 24, will advise the President of his finding in the case.

There may very well be a negative finding in the case. Indeed, our testimony research indicates that imports are not the cause of Detroit's distress. The sharp increase in gasoline prices, the market shift to small fuel-efficient cars, and the recession are much larger causes than imports.

So if we are correct in our analysis, the ITC would issue a negative determination. But the point here is there is a procedure already laid out which, if the ITC finds affirmatively, it can make a recommendation to the President that he may institute tariffs, quotas, tariff quotas, or in turn try an orderly marketing agreement.

In other words, following an injury, affirmative determination by the ITC, the President is then authorized by the Congress and this law to enter into an orderly marketing agreement.

Now what you are doing here is putting the cart before the horse.

Mr. BINGHAM. That is not permissible before such a finding is made?

Mr. FISHER. In my opinion, the administration does not currently possess the legal authority to lean on the Japanese to enter into an orderly marketing agreement without a prior injury determination by the International Trade Commission, because the field has been preempted or, as we say in law, occupied by the congressional framework. It's very clear, the delegation of authority is very clear here.

Mr. BINGHAM. I think you have raised a very interesting point, and it seems to me a central point. I am sorry that question wasn't discussed with the representatives of the manufacturers.

Mr. FISHER. It is a key point.

ORDERLY MARKETING AGREEMENT

Mr. BINGHAM. I think we should convey that question to them in writing, so we can get their views on that legal question.

Frankly, I had not understood that an orderly marketing agreement could not be entered into legally without such a finding. If you are right, I think that's a very crucial point.

Mr. FISHER. Furthermore, the term "orderly marketing agreement" has to be distinguished from voluntary restraint. The orderly marketing agreement is prescribed as one of the remedies after an ITC affirmative injury determination.

Now what was being talked about earlier is where the ITC goes through this procedure, that we lean on the Japanese Government to have a voluntary restraint. The question then arises, how would you enforce that? Would you have the Government of Japan lean on its domestic manufacturers, like Toyota, Nisson and Mazda, and say, "For this year you can't ship more than *x* units"? Well, how are they going to do that? Toyota-Japan enters into an agreement with Toyota-U.S.A. to not ship more than a certain number of cars. That would be a violation of section 1 of the Sherman Act, a restraint of trade, and the prior court cases are very clear—and I will refer you to the *Consumers Union* vs. *Kissinger* case, the 1974 case, which dealt with the steel voluntary restraint arrangements. The court there made it very clear that voluntary restraint arrangement raises serious questions under the Sherman Act, and following that case, in the Trade Act of 1974 that I referred to earlier, there was a section added, section 607, which immunized and sanitized the steel arrangement. And that is the only known exemption on voluntary restraints from the antitrust laws.

It said that anyone in the steel voluntary restraint was not violating the antitrust law. There would be no such exemption for the automobile voluntary restraint that's been talked about.

And the same applies with the so-called overtime voluntary restraint concept, which is absolute nonsense. This also would violate section 1 of the Sherman Act. So we're raising two central questions:

One is the question of congressional preemption by an existing statute under 201; and second the antitrust questions. They are both very serious. And so what you have ended up here is unfortunately a resolution that is vacuous, it has no legal enforceability, it's simply prefatory in nature, and is an intellectual absurdity. [Laughter.]

Mr. BINGHAM. Thank you, Mr. Fisher.

Chairman Wolff.

LABOR RATES

Mr. WOLFF [presiding]. Let me get out of the vaudeville into the practicality. Mr. McElwaine, we have heard questions about the fact that the reason some of the imported cars can be sold here at lower prices is because of a lower wage rate or difference in the wage rate.

Yet, in the report published by the Subcommittee on Trade, we find this very interesting point: Hourly labor rates in the U.S. auto industry are higher than in Japan. However, looking at Japanese hourly wage rates can be misleading, because the average Japanese autoworker receives more nonwage benefits than the average U.S. autoworker. In Japan, many workers are provided very inexpensive housing, recreational facilities, subsidized meals, and the security of permanent employment with a company. So actually there is not that disparity, obviously, between the overall wages that are received or the compensation that's received by the Japanese as compared to the U.S. worker.

Do you have any comment on that at all?

Mr. McElwaine. This is one of the things we noticed very strongly when we were in Japan earlier in this year. We were getting a tour of the factories, tour of the living quarters. The chief disparity that makes it very difficult to try to really measure U.S. wages against Japanese wages is in the lifetime employment contract. The Japanese worker is guaranteed employment for life. He is guaranteed 52 weeks pay a year.

Mr. Wolff. And very sizable bonuses?

Mr. McElwaine. Oh, yes, substantial bonuses at the end of each year. These are not figured into the hourly wage rate. How much is it worth to a worker to be assured 52 weeks a year of pay, as opposed to the American worker, who is laid off whenever they have to switch over to new models, or whenever their sales are down?

Mr. Wolff. What I was getting at is the fact that that obviously cannot be the reason why they are able to sell cars cheaper here than the American manufacturer, or that the American manufacturer could not compete in Japan.

Mr. McElwaine. I think that's quite true, sir.

Mr. Wolff. Except for material there, there is a disparity.

Mr. McElwaine. There were questions asked earlier about what element does labor play in the cost of an automobile. The vice president of manufacturing of Ford Motor Co. some time ago estimated that there were 76 hours of labor in the average automobile. So you can take that times the hourly wage rates, and you get some idea of what percentage of the total cost of the automobile is represented by wages. You know, if a worker is making $10 an hour, you are talking about $760. If he is making $15 an hour, then you are up over $1,000.

Mr. Wolff. According to the U.S. labor statistics here, the average laborer in the automotive field received $1,372 in 1979. One aspect of this, however, that really troubles me, and that is the question of spare parts. Now I think that this is really the Achilles heel of this entire situation.

I think when you talk about the question of competition between the imported car and the domestic automobile, again I said before, I think that artificial barriers maybe solve the problem temporarily, but will not in the long term solve the overall problem.

REPLACEMENT PARTS

Now I take it that all of the replacement parts for imported cars must come from Japan. You don't use American parts for replacement in your dealerships, do you?

Mr. McElwaine. I would like to ask our chairman, Mr. Connelly, to respond to that. He is a dealer, for both a German made and American made Volkswagen, and for Honda, a Japanese make. Because my understanding is that U.S. manufacturers are making spare parts for Japanese cars and selling them to Japanese dealers on a regular basis.

Mr. Connelly. That's exactly correct, Mr. Chairman. The manufacturers have, as a matter of fact, gone very much out of their way to indicate to the dealers that they can use parts that are not manufactured by the particular manufacturer of the car itself.

Mr. WOLFF. Would that still be under the warranty?

Mr. CONNELLY. Needless to say, the manufacturer, under the warranty, would want their own part used.

Mr. WOLFF. They require it, do they not?

Mr. CONNELLY. That would only be reasonable. The only exception that I know to that is if there is a shortage of that particular part in the country, then exceptions have been made. But under the warranty itself, yes, the manufacturer would require, and I think reasonably so, that their part be used.

Mr. WOLFF. Well, there are certain questions that we have in that area, and I think this is something that really should be examined. According to information which we have, that market amounts to about $8 million. Now that's a very substantial amount.

I think you might solve some of the antagonism that exists on the part of the automotive industry here in this country—perhaps not the manufacturers of the vehicles, but the automotive parts manufacturers—if there could be some arrangement made on that score.

I think that is true in a variety of areas. I think it is true—we have heard in the preliminary testimony from a number of the various trade unions here who are objecting to the fact that we have to import not only the cars, but the spare parts as well. And if the parts could be made up to specification, perhaps there could be something done in this area.

Mr. CONNELLY. Perhaps there could be.

Mr. WOLFF. That would be somewhat of a moderate approach to trying to solve some part of the problem. I would just recommend that that at least be explored.

Mr. CONNELLY. Yes, sir.

SUBSIDIES

Mr. WOLFF. On the question of subsidy on the part of the manufacturers, are there any extraordinary subsidies that you know of, Mr. McElwaine?

Mr. MCELWAINE. This is one of the questions we sought answers for when we were in Japan. We met both with the Japanese Government officials and with the chief executive officers of the Japanese manufacturing companies. To our knowledge, and as we were told by both the Government and the manufacturers, there are no subsidies offered the Japanese automobile companies.

Interestingly enough, just a few years ago, the Mazda Corp., in which Ford has a 25-percent position, was on the verge of bankruptcy. Their car sales were down very sharply. They had made a fuel-inefficient vehicle that was not selling in this country or in the home market, and the company was ready to go under. They appealed to the Japanese Government for assistance, and were denied assistance. The Government felt the best policy at that time would be for the Japanese merely to have two major automobile companies and that would be sufficient.

A consortium of banks came in and helped them out, and the Mazda Corp. is now extremely—the Toyo-Kogyo Corp., as it's called, the parent company—successful company, returning a lot of good profits for Ford Motor Co.

There was no government subsidy involved at all. It was all private enterprise. I think this is true almost entirely of the entire Japanese automobile industry.

Mr. WOLFF. Have you talked to any of the people or leaders in other industries that seek to enter the Japanese market, in order to gain cooperation from them, from the Japanese, in order to make up for this trade difference?

TRADE IMBALANCES

Mr. MCELWAINE. We have not talked to other industries. Our efforts at trying to make up the trade imbalance have been aimed at, one, persuading the Japanese manufacturers to source more of their parts and accessories and equipment and raw materials from the United States; and we feel we have been at least partially successful in that, and it's an effort that we continue to exert.

There is a growing amount of procurement in the United States by the Japanese companies.

Second, we have encouraged joint ventures by Japanese automobile corporations and U.S. automobile corporations. We feel that these current negotiations with Ford Motor Co. and Toyota are very significant, and we feel we may have played a role in bringing those about.

We have not gone outside our own industry simply because we don't have the contacts or the knowledge in other industries to be useful.

Mr. WOLFF. I might say that I spoke to Mr. Okita when he was here a few weeks ago, and he told me of the cooperation the Japanese were giving in opening up the telephone market to American procurement. Here again, I think, is a way, a positive way of approaching the type of problem that exists between two very good friends. Clearly, we are interested in preserving that relationship and yet at the same time we are attempting to protect the American worker and the American people generally from any type of unfair competition, whatever it be.

It would seem to me that with the tremendous volume that you do with the Japanese, there would be an opportunity of not exerting pressure, but influence, upon the Japanese Government to understand the economic pressures that exist—or do not exist—in this country to produce some sort of movement in the procurement areas.

I do know one thing, according to—here again, another study that was made—procurement practices in certain of their industries—in certain of their requirements, I should say, are quite restrictive and highly benefit the Japanese.

One is the Japanese tobacco corporation, which is a monopoly, which restricts the sale of American products in their stores, limiting the number of outlets available to them. I think an area such as this—I only cite that as a particular example, we are trying to cut down on smoking here—but the fact is there should be some other means of cooperation that you, being principal buyers, facilitate, that will help to adjust this trade imbalance, rather than our having to remedy it, in fact, through these artificial means which I feel are against the best interests of both nations.

No one has talked here, and I strongly support the position of American labor in trying to find some way of meeting this challenge, but no one has talked about the fact that what Japan buys from us helps to support a vast number of American workers as well as this country. I think that's got to be balanced off.

But whatever your industry can do in order to facilitate increased access to the Japanese market will be very important.

That goes as well for other areas out of the concern of this special subcommittee. I am talking about access to the German market, for example, in the case of Volkswagen, so that I think I have always found the only thing that happens in a situation such as this—and I believe our hearings will condition my thinking later on—but I am persuaded that you don't achieve very much by confrontation, but you achieve much more in cooperation. And this is the basic reason for these hearings.

Thank you.

Mr. BINGHAM. Thank you very much. Thank you, Mr. McElwaine, and your associates. We appreciate your being with us.

Before we adjourn, I would like to insert in the record, without objection, a statement submitted to us for these hearings by the Consumers for World Trade organization, and statements by the United Auto Workers, and by the General Motors Corp.

[The statements referred to follow:]

STATEMENT OF CONSUMERS FOR WORLD TRADE (CWT) RE: U.S.-JAPAN ECONOMIC RELATIONS

Chairmen Wolff and Bingham and Members of the Committee:

Consumers for World Trade appreciates the opportunity to submit the following statement, which deals with the question of automobile imports from Japan into the United States.

Consumers for World Trade is a national nonprofit membership organization, formed early in 1978 by concerned citizens, economists, trade experts, and others who are alarmed by the growth of protectionist attitudes in many quarters. We are keenly aware of inflationary pressures which are hurting all Americans, and especially the most vulnerable lower- and middle-income families. CWT supports expanded foreign trade to help promote healthy economic growth at stable prices. We believe it essential to support policies that will expand choices for consumers, and will help to counteract inflationary price increases which are now reported in almost every sector of the economy.

We consider that the American consumer would be a principal victim if proposals for limiting auto imports were to be put into effect.

Next to a home, an automobile is the most costly purchase the average American household makes. Further, the per mile cost of operating a car has risen steeply and will continue to rise. The automobile consumer is pressed by these inescapable realities to shop, to compare, to buy with care.

There should be no misunderstanding because of terminology. Import quotas, "orderly marketing" arrangements, and American "content" requirements have the common characteristics of being restrictions on the number of foreign cars to be allowed into the United States.

The direct effect of any of these on the consumer will be to reduce his freedom of choice and to raise the cost of his automobile purchases. He will be harmed indirectly by higher energy prices.

Sacrifices thus imposed on the consumer will not be matched by reductions in automobile industry unemployment. As import restrictions drive up prices and narrow the range of consumer choice, the domestic automobile market will tend to stagnate or shrink. Jobs will not be gained and may well be lost.

Import restrictions will narrow the range within which the consumer can exercise his right to choose. The would-be purchaser will be forced into buying a model that is less suited to his needs, or into not buying a car, at all.

Furthermore, prices will be higher. Prices of the imports will go up in response to the limitation on supplies, and prices of comparable domestic makes will follow. After a rather brief lag, all automobile prices will have been raised.

In addition, imported cars have set the pace in gasoline economy. To deprive American consumers of access to fuel-efficient vehicles can only result in greater pressures on oil supplies and thus on energy costs in general. In short, import restrictions will run exactly contrary to sound anti-inflation and energy policies. Measures that would constrain consumer choice, raise prices, and worsen our energy situation would run against the grain of the nation's fundamental interest.

A global commitment to a freer flow of international commerce will contribute greatly to a healthy national economy and to the welfare of the American consumer.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW,
Washington, D.C., September 22, 1980.

Hon. LESTER WOLFF,
Chairman, Subcommittee on Asian and Pacific Affairs, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: For your information, I am enclosing a copy of a statement the UAW has filed for the hearing record of the Subcommittee on Asian and Pacific Affairs. I hope you will take a few minutes to read the statement.

Sincerely,

DICK WARDEN, *Legislative Director.*

STATEMENT OF UNITED AUTOMOTIVE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA UAW ON UNITED STATES-JAPAN ECONOMIC RELATIONS

The UAW is pleased to present its views on House Concurrent Resolution 363 which, among other actions, urges the President to enter into immediate negotiations with the Japanese government with respect to temporary restraints on automobile exports to the U.S.

In response to the severe problems in the U.S. automotive market, the UAW has repeatedly asked the Administration to take immediate action along two lines: (a) obtain commitments by Japanese auto companies to curb their exports while the North American auto companies make the transition to production of more fuel-efficient cars over the next three or four years; and (b) support legislation requiring substantial local content for products of all foreign motor vehicle manufacturers with a substantial volume of sales in North America.

The UAW believes that the Administration has the authority to negotiate an understanding with the Japanese without any action by the Congress. Nevertheless, this resolution would clarify the intent of the House on this matter.

The situation in the U.S. auto industry remains bleak. Total U.S. layoffs in GM, Ford, Chrysler and American Motors amount to 237,000 for the week of September 15, 1980. Over 95 percent of the layoffs are so-called "indefinite" which means the affected workers have no idea when they are going to be recalled. Indefinite layoffs for the week of September 15 exceed the peak reached in the 1974-75 recession by 80,600. The layoffs from the Big Four represent only the tip of the iceberg. Tens of thousands more workers have been laid off at the various suppliers. Plant closings by both the Big Four and the suppliers have mushroomed during the last several months. It has been estimated that the major U.S. car companies stand to lose a total of $3 billion in 1980. Such huge losses threaten the ability of the U.S. industry to successfully complete the major capital expenditures they have planned for the next five years. These investments are absolutely necessary if the industry is to significantly improve its competitiveness vis-a-vis imports.

Imports continue to snap up an increasing share of the troubled U.S. car and truck market. During the month of August, imports captured 29 percent of the U.S. car market. This represented a substantial increase over the 22 percent import share for the 1979 calendar year which in turn was far higher than the more normal 15 percent share back in 1976.

The August picture in the truck market is much the same—imports held 26 percent of the market. The August import share compares with a 16 percent share in 1979 and a 9 percent share in 1978.

Why Japanese export restraint is needed now

The UAW's analysis of the factors accounting for the alarming penetration of imports into the U.S. car and truck market over the last several years has been laid out in considerable detail in statements by UAW President Douglas Fraser before other Congressional committees. The most comprehensive statement was given before the Joint Economic Committee which held hearings in March 1980 on world

auto trade. We refer the Committee to these previous statements for an elaboration of our views.

The continuing surge of imports into the U.S. threatens to have a lasting detrimental effect. In the auto industry, a company's market share tends to be somewhat self-perpetuating because of the prevalence of repeat buying. Moreover, as a company boosts its current sales, its network of dealerships expands and future car buyers become more familiar with its products. This lays the basis for higher sales in the not too distant future. We know that Japanese car companies are aggressively pursuing a much higher permanent share of the U.S. market. For example, it is reported that they are persuading dealerships to drop North American makes and rely solely on theirs, pricing some models exceptionally low and making unusual fleet sale arrangements. Furthermore, they have been raising advertising expenditures sharply in the last year.

We believe that export restraint on the part of Japanese manufacturers will not increase the unemployment rate there (which was an enviable 1.9 percent in the first quarter of 1980). Indeed, we have seen reasonable estimates that at least 1.5 million Japanese vehicles were produced using overtime work in 1979. Our proposed export restraint, had it been in effect last year, would have cut Japanese exports to the U.S. by roughly a million vehicles.

It has been said that any restraint on Japanese vehicles would lead to higher fuel consumption. Unfortunately, much of the public has the misconception that nearly all imports cars get far better gas mileage than virtually all cars built in the U.S. In fact, this is not the case; we estimate that reduction of import sales from their 1979 to their 1976 level would have increased U.S. auto fuel by less than two-tenths of a percent. Balanced against the huge social costs that will result in the event the industry is permanently damaged, the cost of temporary import restraint is relatively minor.

The rationale for local content legislation

The world automobile industry is now dominated by a handful of giant corporations. Decisions of each of these companies dictate the jobs and incomes of hundreds of thousands of people. The UAW believes firmly that each company has an obligation to generate employment in those countries in which it has a substantial volume of sales.

The President of the Japanese Auto Workers Union, Ichiro Shioji, has fully and courageously supported the concept that Japanese auto manufacturers should build factories here in North America. Furthermore, the Japanese government has been telling its companies that they should invest here.

Sales in the North American market by VW, Toyota, Nissan and Honda have long since reached the level at which full scale assembly can efficiently be accomplished here. Of these, only VW has a significant local content today. The value of parts and materials purchased from U.S. and Canadian suppliers by Toyota, Nissan and Honda has been minuscule to date. Honda, to its credit, has announced that it intends to assemble cars and make some parts in Ohio by 1982. Nissan also announced plans to build a small truck plant here but nothing concrete has developed from this. Toyota has not made any positive statement except to suggest a possible joint venture with Ford.

Toyota and Nissan have argued that they cannot compete with U.S. companies in making the large investments required to start up manufacturing here. The UAW believes this is not the case. Because of the current situation in the U.S. auto market, Japanese companies investing in new capacity in North America will face fixed costs per car little different from the U.S. companies. U.S. companies are now having to design new cars and overhaul their plants here to accommodate new products and production technology. To accomplish this restructuring, U.S. companies must spend an estimated $80 billion between now and 1985. Indeed, given these huge expenditures, the Japanese companies may very well have an edge in fixed costs due to their current product mix and their greater ability to tap the low interest, low dividend Japanese financial markets.

To meet the expanding demand for their cars around the world, and here in particular, Japanese companies will continue to expand their capacity somewhere. The issue for the Japanese car manufacturers as they compete in auto markets around the world is not whether they can finance new capacity, but where they will place it.

In contrast to their unwillingness to invest in North America, Toyota and Nissan worked diligently in the last year to further plans for production in Europe. Nissan has already made an agreement for substantial production of trucks in Spain and cars in Italy. Toyota's truck affiliate, Hino Motors, has announced it will soon produce in Belgium; Toyota is considering producing cars in Spain.

While substantial local content cannot be implemented overnight, the timetable carried out by Volkswagen over the last four years serves as an excellent example for other manufacturers. VW began production here in 1978, less than two years after their initial commitment to do so. In addition to its assembly plant in Pennsylvania, the company makes stampings in West Virginia and air conditioners in Texas. Furthermore, it has recently purchased a plant in Sterling Heights, Michigan to start up a second assembly operation. Currently, North American content represents well over 50 percent of the value of the VW vehicles assembled here.

There are two U.S. precedents for local content laws. The Corporate Average Fuel Efficiency (CAFE) requirements in the 1975 Energy Policy and Conservation Act include local content provision. For CAFE standards, models sold in the U.S. with less than 75 percent North American content must be averaged separately from those with more than 75 percent content. This has significantly reduced the incentive of the U.S. car companies to ship more small cars and parts here from their overseas operations. Furthermore, it has brought faster domestic conversion to production of more fuel-efficient vehicles.

The Automotive Products Trade Act of 1965 provides zero tariffs on vehicles, parts and materials imported from Canada when at least 50 percent of their value is derived from North American production. As a result of this provision, products merely assembled in Canada from parts imported from abroad are charged a tariff when they enter the U.S. Similarly, a company can qualify for an exemption from tariffs on imports into Canada only if it generates a substantial local content in Canada.

Apart from the obvious creation of North American investments in jobs, a local content law is clearly superior to long term measures which only limit imports. The competition among the world's auto companies to provide the North American consumer with a wide variety of innovative products built with the most efficient technologies available would be retained. Our market needs the discipline produced by the design and engineering innovations of foreign-based manufacturers. Locating plants here will not reduce those companies' abilities to make those decisions and continue to provide that discipline.

Conclusion

For years, the UAW hoped that goodwill alone would be sufficient to prevent the exploitation of our relatively open auto market by foreign manufacturers. Unfortunately it is now clear that far stronger action is required immediately. The U.S. must require that, when large quantities of production compatible vehicles are sold here, they contain a substantial percentage of American content. Since it will take some time for foreign manufacturers to set up plants in the U.S., it is necessary that the Japanese manufacturers be required in the interim to exericse export restraint.

U.S. public policies should support these goals. For that reason we applaud the resolution instructing the current Administration to immediately begin negotiations on the auto situation even though in our view, the Administration is empowered to act without it.

Statement of General Motors Corp.

General Motors is pleased to have this opportunity to submit a statement to this subcommittee on the subject of U.S.-Japan economic relations.

In the past decade or two, the shift in this country toward more fuel-efficient automobiles was taking place at a relatively constant rate. Two events in the last decade, however, produced abrupt discontinuities which had a profound impact on the auto industry—the 1973 oil embargo, which followed the 1973 Mideast War, and the gasoline lines in California and on the East Coast, which followed the Iranian revolution in the spring of 1979. Both of these periods saw a sudden, sharp increase in the demand for smaller, more fuel-efficient cars. Both led to a shift in consumer demand toward imports.

In the summer of 1973—before the oil embargo—when there were growing signs that better fuel economy would become a more important factor with American customers, we made the decision to go ahead with the lighter-weight and more fuel-efficient cars that GM is producing today all around the world.

A short time after our decision was made, the oil embargo produced a rapid and significant—though temporary, as it turned out—upsurge in demand for small cars. In response to that demand, GM embarked on an expensive program to convert some assembly plants from the production of regular-size vehicles to smaller-size vehicles. When the embargo ended, consumers returned to their old buying habits

and GM had a difficult time selling all the smaller vehicles we had produced. We offered rebates on them in order to clear our inventories.

Despite these violent market swings in contrary directions, GM continued to believe there would be a gradual growth in small car demand and continued to implement its decision to move to lighter-weight, more fuel-efficient cars. In 1975, we introduced our all-new Seville and Chevette models. Our regular-size cars were down-sized in the 1977 model year, followed by our intermediates in 1978. Then, in April, 1979, we introduced our new front-wheel drive compact cars, commonly called our X-cars.

Since the introduction of these fuel-efficient cars coincided with the long gas lines in California and on the East Coast, their reception by the public was far greater than had been anticipated at the time we had made our production decisions. We did not have the means to produce all of the components required to increase production of our various X-body cars and other smaller models that suddenly came into much heavier demand.

Let me emphasize it was the government-imposed gasoline allocations that caused spot shortages in California and on the East Coast while plentiful supplies existed elsewhere. Until that time, the domestic auto industry's sales had been moving along at a record pace, and inventories of both small and large cars were in good balance. Consumer uncertainty about gas prices and availability slowed the pace of sales and created imbalances in demand to which the domestic industry could not instantly adjust.

It is worth noting that sales in Germany and Japan—countries which are far more dependent on imported oil than America—did not suffer. Canada with about the same initial size mix as the United States was also unaffected. We belive the reason was that free market forces were permitted to determine both the price and the allocation of gasoline in those countries.

Foreign-produced autos—like the smaller domestic—were going through a slower-than-expected selling period before the Iranian revolution. With slower sales, foreign producers had a larger-than-normal inventory of cars just when the demand for smaller cars suddenly turned. Auto production outside of North America, as you know, has historically been positioned mainly at the smaller end of the market because of a variety of factors, including relatively higher gasoline prices and lower disposable personal income.

Since it appears that current demand level will continue and increase, General Motors is moving rapidly to expand further our capacity for small cars. We have the capacity to build more than nine-hundred thousand highly fuel-efficient front-wheel drive vehicles in North America in 1980. In calendar year 1981, our planned capacity to produce such vehicles will climb to 1.3 million units. Our planned capacity will increase dramatically to 2.7 million front drive models in 1982 and to nearly 4.8 million units in 1983.

Despite the abrupt shift in consumer demand over the past year and a half, and the ability of Japanese manufacturers to quickly capitalize on that shift, GM new-car deliveries have represented about 45 percent of the industry total—about in line with our experience over the past decade. In part, this reflects the timing of a second assembly plant dedicated to subcompact Chevette output, which was brought on stream in early 1979, as well as our new front-wheel drive cars—the X-cars—which were introduced early in April, 1979 after a gestation period of nearly four years.

It follows, then, that our financial results in 1980—a $317 million loss through the first half—are largely due to other factors. Certainly one factor is the recession, which reduced our volume. Another is the mix of our product. But an equally significant factor is inflation. Because of it, our costs—labor, material and component supplier—continue to rise at double-digit rates while our prices—which must not only be responsive to competitive market conditions but must also be within the guidelines of the Council on Wage and Price Stability—have increased by less than 7 percent annually.

We strongly believe that we can and should solve our problems through the marketplace. Our downsizing program to achieve increased fuel economy required a GM investment of more than $20 billion in the six years from 1974 through 1979. We now have a $40 billion worldwide program underway which we are confident will result in products that meet customer demands in the 1980s.

Such a huge capital spending program at a time of decreased revenue is unprecedented in American industry. Under such circumstances, we did what any prudent manager does. Faced with decreased volume and revenue—we cut back. In June, we cut the quarterly dividend to stockholders from $1.15 a share to $.60. This reduced the June dividend payment to our stockholders by $160 million. The $.60 rate was continued for our September 10 dividend payment.

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Through changes in the employe Savings-Stock Purchase Plan, the compensation of our salaried employes has been reduced by approximately 5 percent. Merit raises for salaried employes have been suspended. These changes alone represent savings of more than $300 million annually.

We are in the final stages of reducing our salaried work force by 10 percent. There will be no bonus awards to executives for the 1980 calendar year.

While we believe strongly in a market solution, there is, however, a problem-solving role for government to play in both the regulatory and the tax areas.

In the area of government regulation, we do not believe there is a full appreciation of the important and immediate relief which could be obtained by responsible and prudent regulatory changes. Since the enactment of the first federal auto regulatory legislation in 1966, there has been a profusion of regulations, instructions and directions from a growing list of government agencies. In GM, the talents and energies of the equivalent of 26,600 full-time employes were tied up last year in complying with regulation from all levels of government. This does not include those working on fuel economy, as we regard it as a requirement of the marketplace.

We have long supported regulation where there is a demonstrable health or safety need not met in the marketplace. We emphatically do not propose to turn the clock back on the dramatic progress we have made in these areas. We are convinced, however, that the hundreds of complex regulations and directives which have been issued in the last 15 years are not perfect in every respect and that a thorough examination of selected regulations would identify areas where revisions can be made to improve cost effectiveness, often by a substantial amount.

We are fully on the record regarding those regulations we believe could and should be changed. We provided President Carter with a list of such regulations—current ones as well as some that are in the proposal stage. This list has been widely circulated in Washington.

It must be recognized that the U.S. government now has means at hand that could be pursued in an attempt to improve the competitiveness of the domestic auto industry. Significantly, these means have the advantage of improving consumer welfare without adversely affecting international trade policies. For example, government policymakers could nurture a better climate for investment in American business by encouraging greater capital formation for new plants and equipment and funding for increased research and development. This can be accomplished through tax laws that allow faster write-offs of capital equipment and a lowering of corporate as well as individual tax rates to encourage more savings and investment.

We believe there should be a substantial tax cut directed toward capital formation. In accordance with the need for fiscal responsibility, it is important that the tax cut be "earned" by spending cuts. We cannot afford to have new inflationary forces cause a takeoff from the current unacceptably high level of inflation.

We want to emphasize that our government must take action now to improve the entire business climate—not just that of the auto industry.

Your invitation to the hearing asked that we comment on House Concurrent Resolution 363. This resolution, if adopted, would authorize and urge the President to negotiate specified agreements with the Japanese. They would be (1) a temporary restraint on auto exports to the United States; (2) equitable prices charged in domestic and foreign sales; and (3) elimination of barriers affecting the purchase of U.S. products.

I'd like to expand my comments to include House Joint Resolution 598, introduced by Representatives Albosta, Brodhead and Brademas. H.J. Res. 598 is identical to Senate Joint Resolution 193, introduced by Senators Riegle, Levin and 21 others.

H.J. Res. 598 and S.J. Res. 193 would authorize the President to negotiate and implement agreements with foreign countries limiting their exports of automobiles and trucks to the United States. These resolutions would provide negotiating authority to the President until July 1, 1985, and require him to seek advice from the private sector prior to engaging in negotiations. The resolutions are also intended to remove any antitrust prohibitions to such negotiations. The Administration has cited its lack of statutory authority and possible antitrust violations as prohibiting the negotiations of an agreement with Japan restricting automotive imports.

General Motors supports the intent of these resolutions. We believe H.J. Res. 598 is superior to H. Con. Res. 363 because the latter would only be an expression of Congressional sentiment, while a joint resolution—upon adoption—has the force of law. The Administration claims it needs that statutory authority.

We believe our government must take the initiative in persuading the Japanese government to protect its own self-interest by acting now—and by acting voluntarily—to adopt more prudent trade practices with the United States. Such prudence would help head off the wave of protectionist sentiment now building in this

country—sentiment that threatens permanent harm to important trade relations between the U.S. and Japan.

General Motors has traditionally supported a policy of liberal trade because such a policy is in the best interests of the world economies, the U.S. and the auto industry. We continue to believe that. We further believe progress in eliminating trade barriers will marshal resources in the most efficient way to satisfy consumer demands.

Thank you.

Mr. BINGHAM. The subcommittees stand adjourned.

[Whereupon, at 5:20 p.m., the hearing was adjourned, to reconvene at 3 p.m., Wednesday, September 17, 1980, in room 2172, Rayburn House Office Building.]

UNITED STATES-JAPAN ECONOMIC RELATIONS

WEDNESDAY, SEPTEMBER 17, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEES ON ASIAN AND PACIFIC AFFAIRS
AND ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
Washington, D.C.

The Subcommittee on Asian and Pacific Affairs and the Subcommittee on International Economic Policy and Trade met jointly at 3:25 p.m. in room 2172, Rayburn House Office Building, Hon. Dan Mica presiding.

Mr. MICA. The subcommittee will come to order. While the chairman is out, we will read his statement.

Ladies and gentlemen, thank you for attending. Today the Subcommittees on Asian and Pacific Affairs and International Economic Policy and Trade resume consideration of United States-Japan economic relations and industrial policy.

Again this afternoon we are focusing on the automobile issue and in particular on House Concurrent Resolution 363, a resolution introduced by the Honorable Carl Pursell of Michigan, calling on the President to negotiate with the Government of Japan for a temporary restraint with respect to the export of automobiles in the United States.

Yesterday the subcommittee took testimony on the resolution from Mr. Will Scott of Ford; Mr. Wendell Larsen of Chrysler; and Mr. Robert McElwaine of the American International Automobile Dealers Association.

Both Mr. Scott and Mr. Larsen urged favorable consideration of legislative remedies aimed at effecting restraints on the export of Japanese automobiles to the United States.

Mr. McElwaine, however, questioned the propriety of circumventing procedures previously established by the Trade Act of 1974 to deal with contingencies in nature similar to today's auto issue. Mr. McElwaine also raised the question of possible antitrust violations resulting from voluntary restraint on the part of the Japanese auto manufacturers.

During the course of today's hearing, we will be taking further testimony on Resolution 363 from Senator Don Riegle of Michigan; the Honorable William Broomfield of Michigan and ranking minority member of the House Foreign Affairs Committee; the Honorable Carl Pursell, the resolution's cosponsor; and the Honorable Jim Blanchard, and Honorable Robert Davis, cosponsors of the resolution.

We will also hear from the Honorable Don Pease of Ohio, and the Honorable Floyd Fithian of Indiana.

EXAMINING ECONOMIC ISSUES

Finally, let me reiterate this on behalf of the chairmen and state that our objective in this series of hearings is to examine the major economic issues involved in the United States-Japan relationship and to explore both short- and long-term solutions to problems which, if left unresolved, may adversely affect the relations between our countries.

Before we begin, I would like to announce that the Honorable Robert E. Herzstein, Under Secretary of Commerce for International Trade, will join our panel of witnesses for tomorrow's hearing.

Our first witness of the afternoon will be the Honorable William Broomfield, ranking minority member of the House Foreign Affairs Committee.

Mr. Broomfield, if you will lead off with the testimony.

STATEMENT OF HON. WILLIAM S. BROOMFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. BROOMFIELD. Thank you very much, Mr. Chairman and members of the subcommittee. As one whose congressional district includes Pontiac Motors, General Motors Truck and Coach, and Ford Motor Co. plants, I want to commend you for holding these hearings on our very critical automobile trade problems with Japan.

I especially want to congratulate Congressman Carl Pursell for his sponsorship of House Concurrent Resolution 363 on which these hearings are focused.

In fact, the entire Michigan congressional delegation has made a cooperative, bipartisan effort to bring the auto industry's problems to the attention of Congress under the leadership of Senator Don Riegle in the Senate and men like Jim Blanchard here in the House.

DIFFICULTIES IN DETROIT

No one knows better than those of us who come from the Detroit metropolitan area what serious difficulties the U.S. auto industry is facing.

During the second quarter of this year alone, all four domestic auto companies lost nearly $1.5 billion, and much of that loss was attributable to foreign imports, mainly from Japan, taking an increasingly larger share of the U.S. market.

So far this year, Japanese car and truck exports to the United States are up nearly 32 percent, and U.S. production is down more than 35 percent.

As a result, 300,000 autoworkers lost their jobs, and another half million in steel, rubber, and related industries are out of work.

It is a crisis of national proportions, but with proper Government help, I am convinced it can be a temporary crisis.

$80 BILLION INVESTMENT

The American automotive industry has made the commitment to produce small fuel-efficient cars that will be competitive in the world market, and it is backing that commitment up with nearly an $80 billion investment over the next several years.

We have the know-how and we also have the talent. With encouragement and cooperation from Government and labor, the American auto industry will be back on top in world auto sales.

All the industry is asking—and this is very important—is just merely a breather so it can retool and get back right in the ball game.

JAPAN'S COOPERATION NECESSARY

Japan took a tough position on foreign imports when its auto industry was in the early stages, and we should do the same now that our industry is facing these difficulties.

Our Government should impress upon the Japanese Government through all available channels that we are in a serious crisis and we need their help and cooperation.

Failing that, the President should have the authority to press for temporary import restrictions to give domestic automakers protection during this recovery period.

In addition, there are a number of bills, including several which are cosponsored by virtually the entire Michigan delegation that I hope Congress will seriously examine. These bills would tighten up on imports and encourage Americans to buy American cars.

As industrial superpowers, and as to the two nations most responsible for peace and stability in the Far East, United States-Japanese relations are complex and overlapping.

Japan, for example, still relies on our strategic nuclear umbrella and on our military and naval presence, at a considerable savings to its own national defense budget.

Our Government should seek every opportunity to impress upon the Japanese that this relationship is a two-way street, and that the American automakers simply want a fair shake during this temporary period of difficulty.

I thank you, Mr. Chairman.

Mr. MICA. Thank you, Mr. Broomfield. Our committee thanks you for your very well stated testimony, and I would like to take a moment and bring to the attention of the committee the participation this morning of Mr. Broomfield and myself and others in a group known as the Wise Men from the Carter visit to Tokyo. I think that their comments would be helpful as we proceed in this committee, and I hope we will have a record of some of the testimony and comments that were made this morning.

Before we go on to questions, we will hear testimony from the entire panel.

At this time I would like to call on our colleague, the Honorable Carl Pursell.

STATEMENT OF HON. CARL D. PURSELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. PURSELL. Thank you, Mr. Chairman. I want to especially congratulate the Foreign Affairs Committee for taking the leadership in Congress, particularly on the House side, all the members present, Mr. Wolpe, Mr. Pease, Mr. Guyer, and others, who are taking some leadership nationally on an issue significant not only to Michigan, but to our total economy and to the free world in terms of the sensitive relationship with the Japanese Government.

This resolution is sensitive because I think in effect we are sending a message in terms of public responsibility, public accountability toward a major issue, but not mandating and giving us some flexibility here for this resolution to urge the President to sit down with the Japanese Government leadership in working out some more equitable arrangement, so that we can provide jobs for the people, not only of Michigan, but for the country.

GREAT CHALLENGE

Needless to say, the automobile industry is facing its greatest challenge in our lifetime, and the adverse consequences of this situation are being felt throughout the Nation's economy.

One of every 12 manufacturing jobs is directly, and one of six jobs is indirectly, dependent upon the auto industry. I am speaking, of course, of the U.S. economy, where every hourly job involved in the manufacture of motor vehicles, an additional two jobs are created in such areas as steel, rubber, glass, wholesale and retail trade, as well as in other businesses throughout the economy.

Over 300,000 autoworkers currently are on layoff. There is an estimated about 550,000 additional workers in auto-dependent industries. This means not only hardships and suffering by the families of those out of work, but less tax revenues and more Federal expenditures which add to the burdens of those that are lucky enough to have a job.

JOBLESS RATE IN MICHIGAN

The impact on all of this is calculated to cost upward of $20 billion a year. So without any additional comments, I would like to ask permission to ask that my remarks be submitted for the record, and I would like to address the committee for a brief moment on the jobless rate that is now in Michigan.

A Washington Post article today indicated that the Michigan unemployment figure was 14 percent. That has approximately in the last few months doubled the national averge, which is roughly in the 7-percent category.

We have areas, Mr. Chairman, in Michigan of unemployment upward of 23 to 25 percent, in Flint.

Mr. MICA. Without objection, your entire statement will be included in the record.

Mr. PURSELL. Thank you very much.

So I personally want to thank the committee members of the Michigan delegation, the ranking chairman here, Mr. Wolff, whom I see is coming in, and Mr. Guyer, the ranking minority member, and especially Mr. Broomfield, the senior minority ranking member on the committee.

I credit you with the leadership in taking this initiative, as I said earlier, and I hope that we can move ahead on this resolution and send the appropriate sensitive message to the Japanese Government that we are serious about this issue, not only because of our economy, but in terms of human needs, of thousands of people unemployed in this Nation, because of what I would consider an imbalance in our relationship with the Japanese in terms of not

only automobiles, but other products as well, which I might add is encompassed in this particular resolution.

I want to thank the committee for allowing me to testify here today.

[Mr. Pursell's prepared statement follows:]

PREPARED STATEMENT OF HON. CARL D. PURSELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Summary of Statement by the Honorable Carl D. Pursell, Congressman—Michigan, before the House Foreign Affairs Subcommittee on Asian and Pacific Affairs and Subcommittee on International Economic Policy and Trade—September 17, 1980.

The attached statement supports a resolution (H. Con. Res. 363) that I introduced in June, along with my colleagues Bill Brodhead, Bob Davis, and Jim Blanchard.

The automobile industry is facing its greatest challenge in our lifetime, and the adverse consequences of this situation are being felt throughout the Nation's economy. We must enthusiastically deal with the structural problems faced by the auto industry, as well as prepare for the future through meaningful partnerships that include labor, management, education and government at all levels.

However, the immediate task is to effectively address the flood of foreign automobiles and trucks—primarily from Japan—that are taking an increasing share of the American market. Accordingly, H. Con. Res. 363 urges the President to enter into negotiations with the representatives of the Government of Japan with respect to: (1) A temporary restraint in the exportation of automobiles into the United States; (2) an equitable relationship between prices charged in domestic and foreign sales; and (3) the elimination of trade barriers affecting purchase of American products.

Mr. Chairman, you and the other members of the Subcommittees are to be commended for initiating this timely series of hearings on U.S.-Japan economic relations in general and on my proposal (H. Con. Res. 363) in particular. I also want to thank you for the opportunity to appear before you today.

GREATEST CHALLENGE

Needless to say, the automobile industry is facing its greatest challenge in our lifetime, and the adverse consequences of this situation are being felt throughout the Nation's economy. One of every 12 manufacturing jobs are directly, and one of six jobs are indirectly, dependent upon the auto industry. For every hourly job involved in the manufacture of motor vehicles, an additional two jobs are created in such areas as steel, rubber, glass, wholesale and retail trade, as well as in other businesses throughout the economy.

Over 300,000 auto workers currently are on layoff, as are an estimated 550,000 additional workers in auto-dependent industries. This means, not only hardships and suffering by the families of those out of work, but less tax revenue and more federal expenditures, which add to the burdens of those of us lucky enough to have a job. The impact of all this is calculated to cost upwards of $20 billion a year.

As a charter member of the Auto Task Force, Co-Chairman of the Northeast/Midwest Coalition's Budget Task Force, and, of course, a member of the Michigan Congressional delegation, I have been working hard, not just to publicize the seriousness of the situation, but more importantly, to offer some potential solutions for dealing with the short-term, intermediate, and long-run problems associated with these grave conditions.

Although my role here today is to discuss H. Con. Res. 363, which addresses the short term, I do not want to underemphasize the need to go beyond this relatively modest first step. We must also enthusiastically deal with the structural problems faced by auto and other American industries, as well as to prepare for the future through meaningful partnerships that include labor, management, education and government at all levels. I look forward to discussing these vital aspects in greater detail with you and the rest of my House colleagues both in committee and on the floor during the weeks ahead.

FLOOD OF JAPANESE IMPORTS

The immediate task is to effectively address the flood of foreign automobiles and trucks—primarily from Japan—that are taking an increasing share of the American market. While our plants are being idled and shut down, Japanese plants are running overtime and producing an unprecedented volume of vehicles, which now

represent over 22 percent of the U.S. market. It is estimated that as many as 1.5 million units per year are currently being produced on overtime work alone.

Make no mistake about it, this is not happening by chance, but it is part of a conscious, well-planned design. Shortly after World War II, Japan decided to develop its own passenger car industry. This was accomplished through favorable tax laws and subsidies, by excluding imports from the United States and other established producers through preventing foreign investment, as well as by imposing prohibitive tariffs and leaving the costly burdens of defense to others.

Once the Japanese auto industry got firmly on its feet, the barriers to foreign imports began to be reduced, and the industry currently receives no direct financial assistance from its government. It may be of interest to relate at this point that Toyo Kogyo (Mazda) was saved from bankruptcy—a la Chrysler—in 1975 by the combined efforts of a number of banks and both local and central governments.

Meanwhile, potential markets in Europe and elsewhere have maintained quotas or other restraints to trade. Thus, the United States, the only substantial "open" market available, became the prime target for Japan's aggressive new export efforts.

The geographic size of Japan, its uncontrolled fuel costs, urban driving conditions, along with a host of other factors, demanded a small, fuel-efficient vehicle. Accordingly, when American driving and car-buying habits abruptly changed following the Iranian crisis, the Japanese were the lucky beneficiaries. That is, their "grand design" worked better than they ever dreamed.

U.S. CONSIDERATIONS

At the same time, despite Japan's changing policies with respect to import restrictions, including the fact that its tariff on imported vehicles has been eliminated, a number of other factors combine to push up prices on U.S. cars sold in Japan by 50 to 100 percent or more over their retail prices domestically. Consider the following:

(1) A so-called "commodity tax" is levied on all automobiles sold in Japan. It is calculated on the factory price of Japanese cars, but is applied to imported cars after including transportation costs. Because the tax is rebated on exported autos, such vehicles sell for less wholesale in the U.S. than they would domestically.

(2) Because Japanese safety and environmental standards differ from those in the United States, our exports must be modified through a process—called "homologation"—that costs between $110 and $535 per vehicle. This process includes such items as the installation of low current overnight parking lights, overspeed warning devices, and a metric speedometer with a red ban at 100 km per hour.

(3) Approximately another $200 is added to the price of each imported U.S. car when it is inspected and extensive documentation is completed to insure compliance with various standards.

(4) U.S. auto producers face severe problems of distribution in Japan for a variety of reasons, including the fact that they cannot "piggyback" on the dealer networks of major Japanese manufacturers, such as has been done in the United States. Furthermore, market entry in Japan is complicated by the increased costs and planning associated with that country's practice of placing a small volume of goods and limited territory in the hands of a large number of "middlemen."

(5) Finally, Japanese taxes, including the "commodity tax," favor small cars. For example, a "road tax" assessed twice each year is based on the weight of the vehicle and another annual tax ranges from $94 to $125 for cars with engines under 2000 cc and from $337 to $613 for those over that size.

$80 BILLION CONVERSION

The U.S. automobile industry is currently in the midst of an $80 billion conversion to meet the new demands of its driving public and the rest of the world, including Japan. What is needed now is some "breathing room," such as that experienced by the Japanese industry during its time of conversion in the 1950's and 60's.

Accordingly, earlier this year, I introduced H. Con. Res. 363, along with my colleagues Bill Brodhead, Bob Davis, and Jim Blanchard. This measure urges the President to enter into negotiations with the representatives of the Government of Japan with respect to: (1) a temporary restraint in the exportation of automobiles into the United States; (2) an equitable relationship between prices charged in domestic and foreign sales; and (3) the elimination of trade barriers affecting purchase of American products.

As you know, the United Auto Workers Union and Ford Motor Company have each petitioned the U.S. International Tariff Commission for relief under the Trade Act of 1974. The Commission has indicated that by November 24 a final report on

this matter will be presented to the President, along with recommendations for related actions.

It is my strong view that we cannot stand by idly for more than two months awaiting this report. Congress has a responsibility to go on record now—while it is still in session—and to indicate what direction should be taken regarding this serious situation.

I certainly am not wedded to each and every word of my specific proposal; however, I do hope that it can serve as a vehicle for discussion and subsequent action as quickly as possible.

The American people are suffering greatly as a result of the conditions I described earlier in my testimony and they are crying out for leadership by their elected officials. It is our obligation to respond as promptly and effectively as we know how.

Mr. MICA. Thank you. At this time we will hear from our colleague, Mr. Blanchard.

Mr. BLANCHARD. Mr. Chairman, inasmuch as we have our senior Senator from Michigan here, and we have heard from the principal sponsor of our resolution, and our ranking member, Mr. Broomfield, I think it would be wise for me to defer to Senator Don Riegle, and then I would like to have a statement.

Mr. MICA. Thank you.

Senator Riegle, please proceed.

STATEMENT OF HON. DONALD W. RIEGLE, JR., U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator RIEGLE. Thank you very much. Let me first thank Congressman Blanchard, and my colleagues on the other side of the table, for their kind comments. It is significant that we appear here as a bipartisan group. Certainly we represent the interests of our State, but we address today a national problem that affects the interest of many States. The economic influence of the automotive industry reaches out and touches all 50 States.

It is also a pleasure to appear before a committee on which I was privileged to serve, and to see colleagues with whom I was honored to serve.

The surge in auto imports is one of the most important issues facing the country today.

I ask that my entire statement be made a part of the record, and I will summarize some of the major points in it.

Mr. MICA. Without objection, the entire statement will be included in the record.

Senator RIEGLE. Thank you.

AUTO INDUSTRY OF NATIONAL IMPORTANCE

Without question, the auto industry itself is profoundly important to the national economy, and affects many other basic industries, including steel, aluminum, rubber, glass, textiles, and increasingly, electronics.

All of these industries are in trouble today as a result of the problems facing the auto industry. We have over one-quarter million autoworkers now unemployed, and as a result, we have a half million other workers laid off in related industries. And if you take into account the indirect effects, the auto crisis has put over a million people out of work in the United States.

The automobile sales will continue to be a vital part of the American economy. The public accounting firm of Arthur Andersen & Co. has recently estimated U.S. demand for new cars and

light trucks will grow to a level of 12½ to 13 million vehicles by the year 1990.

Suggestions that the auto industry will not be a key industry in the future, are simply not accurate.

As far as we can see into the future, Americans are going to be buying cars. The question is, who will build them? Who will be making the parts and who will be producing the raw materials?

The surge in Japanese car imports suggests some disturbing answers to those questions. Japanese cars now account for nearly 22 percent of all U.S. sales. This is a dramatic and very recent development. In the decade, between 1969 and 1979, the Japanese gained an average of 1.4 percent of the U.S. market per year. In the last year however, the Japanese share has jumped by 6 percentage points. And, so has American unemployment.

In 1978, only 3 years ago, inventories of unsold Toyotas and Datsuns were growing on the docks. With deep discounts, prices on some models were approaching dumping levels. Japanese attempts to break out of the small car market had not been successful. Then suddenly, early in 1979, American consumer preference shifted to small fuel-efficient cars which are now expected to be an increasingly profitable market segment.

JAPANESE MARKET PENETRATION

Japanese firms, have worked fast to penetrate and hold a greatly expanded share of that market. To do this, they have added overtime, increased their line speeds, and are now building new capacity.

In fact, Japanese auto production is at a record annual rate of over 11 million units at the present time, and is expected to exceed 13 million units within 3 years.

These production increases are targeted as exports because Japanese domestic demand remains sluggish, at an annual level between 4 and 5 million units.

The auto import problem is not about to go. When we look at what the Japanese are doing, and see that our market as really the only available market for their expanded production, it is obvious that today's problem is going to get worse, unless specific action is taken to deal with it.

Japanese auto firms are spending heavily for advertising in the United States, strengthening their retail sales and auto parts distribution systems.

We would delude ourselves if we were to think that the market shares of the Japanese firms will in time simply settle back down by themselves, to pre-1979 and 1980 levels.

The U.S. auto firms are in the midst of a historic conversion of their product lines and production facilities. Over $80 billion will be spent on new plant equipment between 1979 and 1984. You can sense the enormity of that effort, when you remember that will be twice as costly as the national effort to put our astronauts on the Moon.

U.S. industry faces an enormously complex task and if you have not already seen it, you would find it helpful to read a recent publication of the Department of Transportation entitled "Facilities Planning and Capital Investment." It does not support any

particular public policy with respect to the auto industry, but does describe graphically the magnitude of the industrial conversion that's now underway in that industry. I would ask that that report be made a part of the record at the conclusion of my remarks. It's really an excellent piece of work.[1]

FUEL-EFFICIENT AUTOS

I am convinced that the U.S. automakers and workers can produce the kind of high quality, fuel-efficient cars that American consumers will be demanding.

In fact, the Big Three will make 2.8 million all new, state-of-the-art, front wheel drive cars this year. Several new models will be available for sale in about 3 weeks' time. That number will rise to 4.4 million units in 1982, and up to 7 million units in 1983.

Thus, the domestic industry here in the United States has made that commitment, and there will be no turning back from it. The problem is they've got to have the capital to execute those plans. Unless we face this problem and do something about reducing the invasion of Japanese imports over the next 24 months, I think it's almost a certainty that more than one domestic company will be unable to accumulate the capital they need for this conversion and to maintain the financial strength they will need to remain competitive.

The signals we see from Japan today, at least from the governmental side, show some recognition of this problem. In fact, as recently as 1 week ago, one of the Ministers in the Japanese Government called on the domestic industry in Japan to cut back on their exports voluntarily by one-half million units.

If that were to be accomplished yet at least 100,000 people would be brought back to work here in the United States. That's something badly needed, but there is no sign that the Japanese industry is responding to that appeal by their own Government. I'm sorry to say that our own Government, in terms of the executive branch, has yet to take the initiative to press for Japanese restraint.

LEGISLATION

Two legislative vehicles are now before us: House Concurrent Resolution 363, sponsored by the gentlemen at the table, urges our President to begin negotiations which I strongly support. I have also introduced a resolution with similar objectives in the Senate, Senate Joint Resolution 193. Over 30 Senators—of both parties—have joined as sponsors. Seven members of the Finance Committee are among them. This resolution would have the force of law and would provide an explicit antitrust exemption. We're not sure that's needed. In fact, I don't think it is needed. But people in the administration say they are not comfortable in proceeding with import restraint negotiations with Japan unless they have additional legal authority such as this.

We have introduced the legislation. We have invited the administration to support it. And we hope to see action on it in both Houses of Congress. The companion resolution in the House is

[1] The publication referred to is retained in committee files.

House Joint Resolution 598, which I know many people here also are supporting.

Mr. Chairman, unless we face this problem and do something about it immediately, we will see permanent damage done to the U.S. economy in amounts we can't afford.

ANALYSIS OF COST

We have done an analysis of the costs American Government has already incurred as a direct result of rising imports. In addition to a loss of $10 billion in capital in the auto and truck trade account with Japan this year, excess auto imports have created cost to U.S. Government of $2.1 billion in lost tax revenues and increased spending for unemployment compensation, trade adjustment assistance, and food stamps. These costs are borne by all the citizens of this country, who in effect are financing this invasion of foreign imports from Japan.

It's irresponsible. It's hurting the United States. It's crippling our ability to work our way back to a more competitive footing in the future, and that's why action is needed now.

Our appeal is to members from across the country, not just from the automotive States, but from all regions of the country, who are being asked to pay this bill. We must join to seek voluntary reductions in Japanese imports for a period of 3 years, so we can complete this industrial conversion, and be in a position to produce here in the United States the kinds of automobiles that American consumers will want.

I hope this committee would see fit to act on this. All the initiative so far in this area has come from the Congress. The Congress consistently has been ahead on this issue. I don't know why the administration is so slow on it, but the country is suffering as a result.

So my hope and my appeal is for the committee to act affirmatively and bring this issue to the House floor so we can set the direction of national policy and show the way for the administration to achieve an agreement between the two countries.

[Senator Riegle's prepared statement follows:]

PREPARED STATEMENT OF HON. DONALD W. RIEGLE, JR., U.S. SENATOR FROM THE STATE OF MICHIGAN

Mr. Chairman, I want to thank you for inviting me to appear today before this distinguised Subcommittee and state why I am so concerned about the surge in Japanese auto imports. I am convinced that thousands of American jobs will be permanently lost if this government does not act decisively and soon.

Events of the past year have shown in stark terms that automotive manufacturing is vital to this Nation's economcy. U.S. car makers create demand that makes the difference between profit and loss for many basic industries including steel, aluminum, rubber, glass, textiles, and increasingly, electronics. American firms in every one of those industries have been badly hurt by the current auto slump. Over one quarter million auto workers are now unemployed, and as a result, half a million more workers have been laid off in related industries. Financial losses have hit record levels for each American auto company.

FUTURE IMPLICATIONS

But current events are most disturbing when we consider their future implications. Even when we assume major growth in public transportation, it still is clear that Americans will continue to rely basically on personal vehicles to transport people and goods. The public accounting firm of Arthur Anderson & Co. has recent-

ly estimated that U.S. demand for new cars and light trucks will grow to a level of 12.5 to 13.0 million vehicles by 1990.

For as long as we can see into the future, Americans will be buying cars. The question is: Who will be building them? Who will be making the parts? Who will be producing the raw materials?

The explosion in Japanese car imports suggests some very disturbing answers to those questions.

Japanese cars now account for 22.1 percent of all U.S. sales. That is a dramatic and very recent development. Between 1969 and 1979, the Japanese had gained an average of 1.4 percent of the U.S. market per year. In the last year, the Japanese share has jumped by a whopping 6.0 percent.

In 1978, inventories of unsold Toyotas and Datsuns were growing on the docks, and with deep discounts, prices on some models were approaching dumping levels. Japanese attempts to break out of the small car market had not been successful. Then suddenly, early in 1979, American consumer preference shifted to small, fuel efficient cars, which are now expected to be an increasingly profitable market segment.

PENETRATING U.S. MARKET

Japanese firms have moved fast to penetrate and hold a greatly expanded share of that market. They have added overtime, increased line speeds, and are building new capacity. Japanese auto production is at a record annual rate of over 11 million units, and is expected to exceed 13 million units within three years—even though Japanese domestic demand remains sluggish at a level between 4 and 5 million units.

Japanese firms are spending heavily for advertising in the U.S. and are strengthening their retail sales and auto distribution systems. We delude ourselves if we think that the market shares of the Japanese firms will in time simply settle back down by themselves to pre 1979–1980 levels.

Meanwhile, U.S. auto makers are in the midst of a historic conversion of their product lines and production facilities. Over $80 billion will be spent on new plant and machinery between 1979 and 1984. You can sense the enormity of that effort when you remember that it is twice as costly as the effort to place a man on the moon. You can grasp the difficulty of the effort only after you understand how incredibly complex the auto industry is. If you have not already seen it, I think you will find it helpful to read a recent publication of the Department of Transportation entitled, "Facilities Planning and Capital Investment". It does not support any particular public policy but it does describe graphically the magnitude of the industrial conversion that is now underway in the U.S. auto industry. I ask that the report be included in the record at the conclusion of my remarks.

U.S. AUTO COMMITMENT

Mr. Chairman, I am convinced that U.S. auto makers and workers can produce the kind of high quality, fuel efficient cars that American consumers will be demanding. The big three will make 2.8 million all new, state of the art, front wheel drive cars this year. That number will rise to 4.4 million units in 1982 and 7.0 million in 1983. They have made the commitment, there is no turning back.

For several years, however, U.S. firms will be very vulnerable to the kind of assault that the Japanese have mounted. Unless something is done fast, the U.S. auto makers may complete their conversion programs only to find that imports have forced domestic firms into a constricted segment of the market. The ability of domestic firms to maintain a technological and competitive lead would then be severely weakened by permanently reduced cash flow and by exposure to continuing heavy debt burdens. This is a real danger. For instance, Ford's debt to equity ratio is expected to rise from 12.2 percent in 1979 to 41.3 percent in 1982, General Motors debt to equity ratio may rise from 4.6 percent to 25.7 percent in the same period.

UNDERSTANDING JAPANESE POSITION

Mr. Chairman, some aspects of the auto import situation are easy to understand.

It is obvious why penetration of the U.S. auto market has long been a major goal of Japanese national industrial policy. The American car market is the world's largest, most lucrative and most open. It will give Japan—this year alone—about $10 billion in badly needed foreign exchange.

It is understandable that Japan's Ministry of International Trade and Industry has warned Japanese car makers to show some restraint. MITI officials know that most Americans will eventually understand and deeply resent how Japanese auto firms are exploiting our economy.

It is easy to understand why Japanese car makers are ignoring those warnings and are going all out to grab the biggest possible share of U.S. car sales. They can increase their profits by $5 billion to $8 billion over the next decade, and so far, no one stands in their way.

It is very hard to understand why the U.S. Government has not acted before now to limit the permanent and long-term damage that these imports are doing to our economy. The Japanese themselves would never let this happen to them. The government of no other major industrial country would stand by as passively as has this government.

With each passing week, we have more compelling evidence that reasonable, temporary import restrictions are needed to give the U.S. auto industry some breathing room to adjust to a new era of suddenly increased gasoline prices. I am convinced that, at the very least, the imports' share of the U.S. market should be returned to 1979 levels for three years. Negotiations with the Japanese should begin now.

There are strong reasons for doing so. First, temporary restraints would not damage our trading relationships. Every major nation knows that the U.S. auto crisis is extraordinary. The Japanese on many occasions have signalled that import restrictions would be in the long-term best interest of both countries.

JAPAN'S APPEALS

As recently as two weeks ago, Minister Tanaka of MITI appealed to the Japanese auto industry "to hold its exports to the United States down to a year-ago level by November * * *. They (Toyota and Nissan) should control their exports, especially by fully taking into account the need to maintain friendly trade relations between Japan and the United States from a long-range viewpoint.", he said.

Only last week, the Japanese embassy called my office with a clarifying statement from MITI that:

"For some time, MITI has asked Japanese auto manufacturers to exercise prudence in their auto exports to the U.S. In the judgment of MITI, the need for exercising such prudence is increasing lately. Therefore, it is the hope of the MITI that the effect of the MITI request for exercising such prudence will be visibly shown in the statistics of auto exports to the U.S. in September and October."

Second, bilateral negotiations on import limits would not undercut other procedures for remedy established in U.S. trade law. The ITC investigation of injury would proceed in response to the UAW and Ford Motor Company Section 201 petitions. A formal finding of injury should precede unilateral action by the U.S. government, but there is no reason to delay bilateral talks between willing trading partners.

Third, turning back the flow of imports by 500,000 units would return 70,000 to 100,000 Americans to work. And since U.S. car makers now have idle capacity for 1 million domestic cars that have a fuel efficiency greater than 20 mpg, many consumers might be attracted to buy these cars if imports were reduced. Therefore, the reduction in imports should be at least 500,000 and perhaps 1 million units.

Fourth, if imports were restricted now, consumers who might delay their decision to buy a new car would still be in the market for a car in the future when the U.S. manufacturers will have available a selection of their new front wheel drive, fuel efficient models.

Fifth, because we have already permitted this surge in imports to occur, American taxpayers have had to incur costs totalling $2.1 billion in lost revenues and increased spending for trade adjustment assistance, unemployment insurance, and other income security programs. Mr. Chairman, I would like to share with you our staff analysis on this point and I ask that it be inserted in the record following my remarks. Our estimates are conservative because they reflect first year costs to American government alone. This is a case where we wake up to learn that doing nothing has cost us a great deal indeed.

Mr. Chairman, the U.S. auto crisis requires a balanced set of public policies that will help the domestic industry regain its competitive lead in world markets. Regulations, tax policy, and direct support for automotive research and development must be made more coherent. National policy must be directed toward long term strength.

It is clear, however, that long term measures cannot succeed unless we limit the damage that is now being done. And moderate, temporary limits on auto imports are the only effective way to limit that damage.

H. CON. RES. 363 AND S.J. RES. 193

H. Con. Res. 363 would urge the President to begin negotiations with the Japanese government to limit imports temporarily. This should be done.

I should call to your attention that discussions in the Senate several weeks ago uncovered the fact that the President's ability to conduct such negotiations may be clouded by uncertainties in the U.S. law. It is still feared by some that, unless there is specific Congressional authorization, participants in such negotiations could be exposed to lawsuits under the Sherman Anti-trust Act. Discussions with the Japanese have been delayed by this legal controversy. I believe it is preposterous for the U.S. government to be mired in such a debate when so much is at stake.

I still have my doubts as to whether U.S. law precludes action now. But to clear the air I introduced S.J. Res. 193, a resolution that would have the force of law and would remove any legal impediments that may prevent the President from negotiating with a willing trading partner to arrive at a voluntary restraint agreement or an orderly marketing arrangement to reduce auto imports to acceptable levels.

S.J. Res. 193 now has strong bipartisan support in the Senate with 31 cosponsors.

A companion measure, H.J. Res. 598 has been introduced in the House by Congressmen Albosta, Brodhead and Brademas. It has been referred to the Ways and Means Committee and has 38 cosponsors.

S.J. Res. 193 builds on the precedent of Section 204 of the Agricultural Act of 1956, which has been used by every President since President Kennedy to conduct textile trade negotiations.

I ask that a copy of S.J. Res. 193/H.J. Res. 598 be included in the record at this point with a section by section analysis.

I respectfully urge members of this committee to support H. Con. Res. 363 and to join in support of H.J. Res. 598 so that further damage to the U.S. economy may be avoided.

Mr. MICA. Thank you, Senator. Let us proceed to Mr. Blanchard.

I might note, I was not aware of your previous service on this committee, and it's good to know there is a future on this committee.

Senator RIEGLE. It was this chair right down here. [Laughter.]

Mr. MICA. Mr. Blanchard.

STATEMENT OF HON. JAMES J. BLANCHARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. BLANCHARD. Thank you, Mr. Chairman, members of the committee. I'd like to ask permission to put my entire statement into the record and therefore summarize.

Mr. MICA. Without objection, your statement will be entered into the record.

Mr. BLANCHARD. First, I want to commend Congressman Pursell for his initiative on this matter. I think my colleagues have already outlined the kinds of billions of dollars and leadtime required for the U.S. auto industry to retool and downsize automobiles.

NATIONAL SECURITY

I want to underscore what Don Riegle said, which is that the auto industry, like it or not, is vital to our national security; not because it produces cars, but because it's really the machinery, the engine that drives a number of basic industries. You can't just crank it up and crank it down without an enormous amount of leadtime.

It is important to our national security and to tens of thousands of people whose livelihoods depend on it.

The auto industry is very simply reaping windfall losses for the same reason the oil industry is reaping windfall profits, and that is a radical shift in the demand and pricing and allocation of oil.

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It is a national problem. In the case of Chrysler, which was going broke, in an effort to borrow to retool, we answered. We answered it was in the national interest to help that company, and it would appear that company is going to survive, and survive amidst great odds.

Now, in the meantime, during this retooling, we are all aware that the share of the imports, particularly Japanese, of our market has skyrocketed. Others may not be aware that for years the Government of Japan helped cultivate a strong and healthy auto industry. They made deals and arrangements all over the world to limit exports and imports, to carefully develop that industry, whether it be in Italy or France.

They have made arrangements with other countries far more stringent than what we are discussing in Congressman Pursell's resolution. The problem is in the next 2 or 3 year crisis period, if our companies don't have a reasonable recovery, we may have a permanently weakened auto industry, if not extinct in some cases.

FORM OF RESTRAINT

My guess is that any form of restraint—and we would hope it would be sensitive, diplomatic and voluntary, I think that's the merit of this resolution—some form of restraint is not necessarily going to force or mean that Americans will immediately buy Chrysler, General Motors, or Ford products. But it would appear with the new cars coming on line, some form of restraint will affect the pace of recovery—there will be recovery, we all know—it will affect the strength and pace of the recovery later this year and early next year, and that may make all the difference in the world for a healthy industry downstream.

Now all this is well and good. We are from Michigan, we are vitally affected, politically, of course, as well as economically. The Great Lakes areas are affected as well, but there is something else that has to be restated, and I know it sounds self-serving, but we recognize that Japan is our most important ally in the North Pacific. They have helped us in buying grain recently and supporting us in the Olympic boycott, and in many, many instances. As I understand it, they have supported us at the United Nations, and there are precious few countries that have stood with us.

GOOD UNITED STATES–JAPANESE RELATIONS

We have an important and genuinely good relationship with Japan. If we have such an important ally— which, by the way, has a greater balance of trade deficit with us than the Saudis—being perceived as well as realistically, I think, viewed as having contributed to major amounts of unemployment, I think it would do great harm to our alliance. I think it would be very difficult to explain to workers all over, whether they be in Michigan, Ohio, Pennsylvania, that we ought to have a foreign policy that encourages alliances and open trade and foreign assistance to our allies, when this kind of activity occurs.

So I think rather than run the risk of any more resentment, which is building, by the way, very rapidly in the industrial heartland of our country, and rather than wait for the Congress next

year or the year later to take some sort of harsh action which would perhaps be foolish in terms of trade policy, in the form of quotas or legislative limitations, the wisest course is to encourage now our President and the administration to pursue some negotiations, to work out some form of voluntary limitation.

There is a precedent for it, it can be done. I am tired, and I think all of us are tired, of hearing what we can't do. There is a precedent for it legally. It can be done, and it will not only be in the short-term interest of many, many people and jobs and our balance of trade, but I also believe in the long-term interest of our foreign policy, we are finding it extremely difficult. Even today we are going to be voting on contributions to the IMF, and we are going to be talking about shares to the World Bank and the foreign and military assistance. It's going to be extremely difficult to support and sustain in our country with our people an enlightened, long-range foreign policy that doesn't include compassion for our own people.

I think this committee understands that, and I would urge action in the Congress.

Thank you for hearing me out.

[Mr. Blanchard's prepared statement follows:]

PREPARED STATEMENT OF HON. JAMES J. BLANCHARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, I appreciate the opportunity to testify on the issue of U.S. Japanese trade relations, specifically, on House Concurrent Resolution 363 of which I am a cosponsor. I believe that the various issues involving U.S.-Japanese economic relations have crucial long term as well as short term significance.

Japanese auto imports and their effect on the American auto industry have become a controversial and much discussed topic. As is frequently the case when a particular segment of American society is directly affected by a problem, issues become cast in simplistic "us versus them" terms. So it is said that the Japanese are responsible for the economic downturn in our domestic auto industry, or conversely, that the U.S. auto industry can only blame itself and its own poor management for the current slump in auto sales. Unfortunately, the issue is not that simple, and I am concerned that both the important questions and the need for action are being buried by a barrage of slogans that have polarized, politicized, and regionalized this issue.

NATIONAL IMPORTANCE

The fact is, trade relations with the Japanese and the health of the American auto industry are matters of national importance. There is no question about the vital role that the American automobile industry plays in our national security. It drives and sustains our basic industries such as copper, rubber, steel, etc. There is no question about the impact that the auto industry has on the number of available jobs in this country. Various estimates calculate that one out of six jobs directly and indirectly are related to the auto industry. And there is no question about the need to maintain a close and cooperative relationship with our Japanese allies. They are our most important allies in the North Pacific.

That is why I think that House Concurrent Resolution 363, or something similar to it, represents the most workable and effective course of action that we can take to solve the Japanese trade problem. It merely calls upon the President to begin negotiating a temporary restraint in the exportation of automobiles to the United States. Needless to say, this is far preferable to legislatively mandated quotas or restrictions.

The problem, as you know, is that American companies are not yet equipped to produce enough fuel efficient cars to compete fully with the Japanese. The major reason is the radical shift in the allocation and pricing of oil from a loose market to a strict cartel and the eventual decision in this country to begin decontrolling the price of oil. The U.S. auto companies are reaping windfall losses for the same reason that the U.S. oil companies are reaping windfall profits. While there is plenty of blame for the current situation to go around, it is now clear that U.S. auto companies are investing many billions of dollars and moving as quickly as possible to

retool plants for the production of new fuel efficient cars. But most industry analysts believe that there will be at least a two to three year period of transition before our industry is geared up to effectively take on the Japanese.

TAKING ADVANTAGE OF U.S. INDUSTRY

Increasingly, the perception, if not the reality, is that the Japanese are trying to take advantage of this transition period in the American industry by producing more cars than ever before for export to the United States. Japan has pursued a conscious government policy to cultivate and develop their own auto industry over a period of years, with substantial government assistance and cooperation. In just two years the Japanese share of the U.S. market has increased from 12 to 20 percent, and indications are that the Japanese are planning to further expand their production over the course of the next few years, with the U.S. market serving as their exclusive target. The Japanese have encountered trade restrictions in virtually every other country in the world where they currently send auto exports, and they have been willing to work out agreements with those countries on trade restrictions. They have now turned to the massive and especially vulnerable American market during this time of rebuilding by our domestic manufacturers to step up their export sales. Japanese workers are now working overtime to produce greater numbers of cars for export to the U.S. while, as you know, one third of U.S. auto workers are on lay off.

In addition to the obvious short term problems facing our domestic auto industry, the impact of the current Japanese auto trade problem could become more far-reaching in terms of both economic and foreign policy in the long run.

Allowing the Japanese free reign during our industry's current transition period could inflict permanent, or at least long lasting damage on the American auto industry, and in turn, on the American economy. Of course, we all know that the purchase of a car is the second largest investment that most people make in their lives. In many cases the purchase of a particular company's product becomes traditionalized by people or by whole familes. I am sure you are familiar with the common phenomenon of the family who over generations has preferred one particular car manufacturer over another. Historically that has always been a major factor that influences the choice of what kind of car a person buys—and what his sons and daughters will buy as well. This is something which is important to remember when considering the long term impact of allowing the Japanese to gain the foothold they are after in our market. Certainly our companies will be able to more effectively compete in three years, if they can stay alive that long in some cases. But even then, Japan's head start will leave our companies at a marked disadvantage, if not in a permanently weakened condition.

This will weaken our national security. This will weaken our job market. And this will substantially increase joblessness and the cost of welfare.

RESENTMENT FOR JAPANESE TRADE POLICIES

It is also important, to realize that growing resentment for Japanese trade policies could become a threat to overall relations with Japan if people continue to perceive that the Japanese have some responsibility for the level of unemployment in the U.S. auto industry. This will not only weaken American attitudes toward alliances with other countries, but also toward assistance to our friends around the world. Some may argue, in the short run, there could be some energy savings with more Japanese cars on our highways, and that intense Japanese competition will help keep prices lower. But I do not believe that people are willing to trade off the long term benefits of a viable healthy domestic auto industry, employing directly or indirectly one out of every six people in this country, for short term energy savings that might result from more Japanese cars in the American market. And while the Japanese have been helpful to us on the international front, their efforts will ring hollow in the minds of thousands of Americans who believe that they have permanently lost their jobs as a result of the Japanese taking unfair advantage of the U.S. market.

We cannot allow short term, short-sighted considerations, however valid, to result in: permanent damage being done to a vital American industry, the possible loss of thousands of American jobs, and the possibility of damaged future relations with an important American ally in the Western Pacific.

MIXED SIGNALS FROM THE ADMINISTRATION

It is my understanding that the President could act now to seek a resolution of this problem through a negotiated agreement with the Japanese. We have received

some mixed signals from the Administration regarding the possibility of seeking a temporary restraint of exports agreement with the Japanese.

First the Administration indicated that any such negotiations with the Japanese would result in infractions of U.S. antitrust laws. Then, when legislation was introduced in Congress to change those laws to make it possible for such action to take place, that legislation was referred to by the Administration to substantiate their argument that there was in fact a problem with antitrust laws.

The purpose of House Concurrent Resolution 363 is to encourage the President to take action now through administrative means rather than seeking to change long established antitrust laws that have questionable relevance to his ability to address this problem. Besides, we need to act now, not in a few months or a few years. Failure to act will not only cause greater economic harm in the short run but could result in far more disastrous long term consequences. The strength of economic recovery in the domestic auto industry may well depend on some limitation of Japanese imports into the United States. Just as importantly, however, the long term alliance between the United States and Japan will weaken if not be undermined by a failure to amiably resolve this important problem.

Mr. MICA. I thank the gentleman from Michigan, Mr. Blanchard, and I might just say, I have noted in the past when you and your colleagues from Michigan put your mind to focusing attention on a subject, you usually are very successful.

We will continue with our colleague, Mr. Davis from Michigan.

STATEMENT OF HON. ROBERT N. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. DAVIS. Thank you, Mr. Chairman. I would like to submit my written statement. Many things I am going to comment on have been covered so much of what I would say would just be an embellishment on what some of the other members have to say.

As you can see, we from Michigan are very interested in solving this problem on a bipartisan basis. We note that when the rest of the country has a recession, the rest of the country catches a cold, and we in Michigan catch pneumonia.

IRON ORE MINES

If you look at our employment rates all over the State of Michigan—I represent 42 percent of the State in the northern part, where we are sparsely populated, but we do depend heavily upon the automobile industry. Ninety percent of all the iron ore that is produced in the United States comes from two States: Michigan and Minnesota. And the iron ore mines, of course, are in my congressional district, as well as the copper mines.

We have two iron ore mines, or half of our total work force of 2,000 people, laid off right now as a direct result of the automobile imports from Japan and other countries. So we are very concerned about a lot of small plants in my congressional district that produce parts for the automobile industry.

This particular resolution is self-explanatory, and the language in it very precisely defines what ought to be done. I would like to comment—and we all recognize that the past resolution and negotiations by our President on behalf of this country alone will not solve the problem.

I'd like to comment on just very quickly of other things, I think, which should be done. The domestic automobile industry has been investing billions of dollars in meeting new consumer demands for smaller, more fuel-efficient cars.

General Motors alone has invested more than $20 billion since 1974, and has a $40 million worldwide program underway to compete effectively in the world automobile market. The other U.S. automakers have extended themselves similarly.

It is essential, therefore, that the United States maintain an environment in which these investments can be maximized and the U.S. automobile industry can compete fairly and effectively with its world counterparts.

FEDERAL GOVERNMENT CONCERNS

In this regard, the Federal Government, in my opinion, must address three areas of policy:

First, the U.S. tax structure must be modified to encourage capital formation, research and development, specifically a refundable investment tax credit, as recently advocated by the administration should receive prompt and serious consideration by Congress.

In addition, acceleration of depreciation allowances for capital assets is necessary to promote economic productivity. In other words, we must place productivity among the highest priorities and modify the tax code accordingly.

Second, we have learned that only limited results could be achieved through regulation. Thus, we must become more aware of the economic, social, and political costs of regulation, and create more alternative means by which to accomplish our social and political goals.

If an objective can be achieved administratively, rather than through generic regulations, such an approach must be taken.

In addition, existing regulations need to be scrutinized and eliminated whenever it is determined that they do provide only negligible results.

For instance, both General Motors and Ford have submitted lists of regulations which could be modified, eliminated, or made administratively. These recommendations deserve immediate consideration.

Third, it is essential to establish an understanding with the Japanese Government, that the health of the U.S. automobile industry is of mutual concern to both the United States and Japan.

I request that the balance of my total remarks be inserted in the record.

Mr. MICA. Without objection, your remarks will be inserted in the record at this point.

[Mr. Davis' prepared statement follows:]

PREPARED STATEMENT OF HON. ROBERT W. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and Members of the subcommittee, I appreciate this opportunity to testify before you today and to express my concerns about the effect of automobile imports on the economy of the United States.

As a Member of the House Auto Task Force, I have been actively involved with efforts to assure the future viability of the United States automobile industry. Earlier this week, for example, the Task Force held a hearing on the Japanese automobile import problem, and I would like to share some of the cogent points raised during that hearing by various concerned parties.

We are all aware of the growing presence of Japanese automobiles in the American marketplace. Imported automobiles now constitute 28 percent of U.S. auto-

mobile retail market shares. Only four years ago, this share was almost half, or 14.4 percent.

In terms of lost jobs, the AFL–CIO's Industrial Union Department asserts that almost one million jobs have been lost in large part due to auto imports. One third of these jobs lost are directly associated with automobile assembly, while the other two-thirds are related to supplier industries. This latter portion represents only part of the "trickle-down" effect of the decline of the U.S. automobile industry. And it is this effect which most directly concerns me and my District. Already, two Ford Motor Company parts suppliers have closed their plants in my District. Two iron ore mines have closed due to the lack of demand for steel, which, of course, is an essential ingredient in automobile manufacturing. Untold hundreds of other jobs have been lost in my District because of the automobile industry situation. In short, one of every six American jobs is somehow related to the health of the automobile industry. No Member's District is saved from this situation.

Meanwhile, the domestic automobile industry has been investing billions of dollars in meeting new consumer damands for smaller, more fuel efficient cars. General Motors alone has invested more than $20 billion since 1974 and has a $40 billion worldwide program underway to compete effectively in the world automobile market. The other U.S. auto makers have extended themselves similarly.

MAXIMIZING INVESTMENTS

It is essential, therefore, that the United States maintain an environment in which these investments can be maximized and the United States automobile industry can compete fairly and effectively with its world counterparts.

In this regard, the Federal Government must address three areas of policy. First, the U.S. tax structure must be modified as to encourage capital formation, investment and research and development. Specifically, a refundable investment tax credit, as recently advocated by the Administration, should receive prompt and serious consideration by Congress. In addition, acceleration of depreciation allowances for capital assets is necessary to promote economic productivity. In other words, we must place productivity among our highest priorities and modify the Tax Code accordingly.

Second, we have learned that only limited results can be achieved through regulation. Thus we must become more aware of the economic, social and political costs of regulation, and create more alternative means by which to accomplish our social/political goals. Flexibility is the key. If an objective can be achieved administratively, rather than through generic regulation, such an approach must be taken. In addition, existing regulations need to be scrutinized and eliminated whenever it is determined that they provide only negligible results. For instance, both General Motors and Ford Motor Company have submitted lists of regulations which could be modified, eliminated or made administratively. These recommendations deserve immediate consideration.

Third, it is essential to establish an understanding with the Japanese government that the health of the United States automobile industry is of mutual concern to both the United States and Japan. Primarily, we must avert an explosion of protectionist policy which could result from unrestrained Japanese imports of automobiles into the United States.

The factors which have contributed to the present crisis in the American automobile industry are multifarious. While the 1974 OPEC oil embargo suddenly changed American automobile demands, Japanese and European auto makers already were manufacturing small cars due to several market conditions which did not previously exist in the United States. Consequently, the volume of imports into the United States surged. And because of our trade policies which encourage the free flow of products across our borders, this surge remained unabated.

RESOLVING DIFFERENCES

However, not all of our trading partners are as receptive to free trade as the United States. As a result of several policies, the prices of Japanese imports into the United States can be understated and the cost of American exports to Japan can be overstated. It is in the interest of all parties to resolve such differences before a round of retaliatory restrictions is launched.

In this regard, we must approve H. Con. Res. 363, granting the President authority to negotiate with the Japanese government a temporary restraint of Japanese automobile imports into the United States. This resolution must leave no doubt as to the authority of the President immediately to embark on such a mission.

It should be noted that such a mission is not unprecedented. Orderly marketing agreements have been signed in the past with the Japanese regarding the exchange of goods and services. Voluntary restraint agreements also are established policy.

As for the Japanese, it is in their best interest to restrain their automobile exports to the United States. Primarily, they will continue to nurture sound political and economic relations with the United States and avoid more costly protectionist forces. By providing temporary breathing space for the American automobile industry, it will assure a healthy U.S. marketplace in the future for continued strong trade ties.

In conclusion, three points must be kept in mind with regard to providing an environment in which the future viability of the American automobile industry and of the U.S. economy can be assured. First, ability of market to solve economic problems must be understood and emphasized in establishing public policy. Second, policies established in relation to securing the continued success of the American automobile industry must be temporary, again relying on market forces to solve long-term situations. And third, we must avoid increasing protectionism and encourage voluntary remedies to our short-term problems.

Again, it has been a privilege to testify before your Subcommittee.

Mr. MICA. The subcommittee's intention is to continue with the witnesses until all have been heard, and then we will take questions.

Having said that, I would like to defer to the chairman for whom I am filling in. I understand there may be a comment.

Mr. WOLFF. Thank you, Mr. Chairman. I just want to apologize to my colleagues for not being here at the opening of the session. We were over at the White House for the signing of another trade agreement. We have gotten an agreement with the Chinese now. Now maybe we can get an agreement with the Japanese on this.

But in addition to that, we are in the midst of trying to bring some order out of the problem that has been created by the sentencing to death of Kim Dae Jung in Korea, and trying to appeal to the Korean Government for compassion, and trying to reverse such sentencing. So that I want to apologize again to you, but I have been tied up.

I want to congratulate Mr. Mica for his excellent handling of the session here today.

Mr. MICA. Thank you, Mr. Chairman.

Mr. Wolpe.

Mr. WOLPE. Thank you. Before we turn to Mr. Pease's testimony, I would like permission to enter into the record a statement submitted by Senator Levin, affirming his support for the legislation before us, and indicating his perception of the absolute urgency with which the situation facing the automobile industry must be regarded.

Mr. MICA. The subcommittee accepts the statement from Senator Levin, and at this time will be placed in the record, without objection.

[Senator Levin's statement follows:]

STATEMENT OF HON. CARL LEVIN, U.S. SENATOR FROM THE STATE OF MICHIGAN

Mr. Chairman, I regret that I cannot be with you today but I appreciate your kindness in accepting this testimony. It seems clear to me that the key to our economic recovery rests with the auto industry. We simply cannot have a healthy economy when our basic industries are sick. And they are sick today—and we need to take action to make them well.

I have always held that no single course of action should be viewed as The Solution to the problems confronting the industry. There is no magic answer. But the fact that any one act, in isolation, does not solve the totality of our problems ought not be viewed as a reason to stand idly by and watch the industry disappear.

In that context, I strongly support the legislation you have before you today. I would, I am frank to admit, rather see such a Resolution modeled after S.J. Res. 193 which Senator Riegle and I have introduced. But I support this legislation because I believe it will help us focus attention on a critical area of action which we can take today.

So many of our solutions address the long-term needs of the industry—its ability to generate capital, its ability to comply with new regulations, its ability to deal with productivity problems. But this resolution specifically addresses the one issue we can do something about now: Japanese imports.

I think that a fair reading of the initial staff report released last week by the International Trade Commission would indicate that imports have, in fact, been a cause of substantial injury to domestic producers. And I also think that a fair reading of reality would indicate that unless we deal with that problem now we face the prospect of losing a good deal of our market forever to those imports, no matter what action domestic producers take to get small, fuel-efficient cars on the market.

Our problem, then, is essentially a problem of timing: how do we protect the industry for the few additional years that they require before they have a full line of fuel-efficient cars on the market? I think the answer to that question is obvious: we need to take action to restrict the number of imports which come into this country.

I know that there are honest differences of opinion about how and when we ought to seek to accomplish this goal. But I do not know of any reason which would prevent us from exploring all available options right now. And that is precisely what this legislation asks us to do—to explore some of the available options.

I do want to make one additional point, Mr. Chairman. I believe one of the problems we have had in getting restraint on the part of the Japanese comes from the fact that we have been unable to speak with one voice on the issue. The Japanese are in an enviable market position. In order to get them to move back from that position, we need to have a coherent and consistent and tough negotiating stance. And we simply have not had that. For reasons which honestly escape me, this Administration has been reluctant to push for reasonable trade policies and responsible import levels. I just do not believe that we can allow the President to continue on his current course without challenge. That, for me, is what this legislation is about—an attempt to persuade the President to recognize his responsibility. I would like to see the Congress go even further than that and I hope that we will. But as a beginning, this is a good piece of legislation, a needed piece of legislation, and a piece of legislation that I support and hope the Congress will have an opportunity to act on shortly.

Mr. MICA. Mr. Pease.

STATEMENT OF HON. DONALD J. PEASE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. PEASE. Thank you very much, Mr. Chairman. It's a pleasure to appear before this distinguished group of the subcommittee and to support House Concurrent Resolution 363 and a similar resolution which I introduced, along with 16 of our colleagues.

These concurrent resolutions make clear the Congress very strong and widely held feelings on the automobile aspects of Japan-United States trade in particular, but these subcommittees are to be applauded for the hearings this week on the entire spectrum of trade between our two countries.

I want to underscore for the subcommittees today what I consider to be the extreme seriousness of the Japan-United States trade situation in both human and economic terms; but first, an initial observation:

EFFECTS IN DISTRICT

My Ohio district is affected in at least two ways by the situation. Some of our industries—I can think of four—rely very heavily on the export market sales and for providing jobs to our constituents.

On the other hand, other major employers, like the Big Three automakers, United States Steel and American Shipbuilding Co.

and others, are directly affected by the importation of automobiles, steel and ships.

This divergence within my own district makes me aware that the problems that the subcommittees are addressing today and any hopeful solutions are not a simple matter. Often what would help one industry simultaneously would affect and work to the disadvantage of another company. Because both the symptoms we see now and the solutions to the problems straining United States-Japan economic ties are complex, we must be sure that our examination of the situation is both thorough and complete. But I hope the subcommittees can, after these hearings and deliberations, make some positive recommendations to both countries.

I would think the passage of House Concurrent Resolution 363 would be a good start in the right direction.

UNEMPLOYMENT RATES

I thought it might be helpful to indicate that the deficit with Japan in trade is causing real suffering in my constituents, as I know it is in other districts. My 13th Congressional District of Ohio borders Lake Erie for 70 miles west of Cleveland. It has the highest unemployment rates in the State of Ohio. While the U.S. unemployment rate is 7.8 percent—and that is too high—Ohio's rate is 9.7 percent.

However, three counties that are included in my district have unemployment rates of 17.8 percent; 17.6 percent; and 14.8 percent. In all three counties, thousands of my constituents who work at assembly and component parts plants of Ford, Chrysler and General Motors have been laid off indefinitely, or had their working hours cut back. Many of my constituents have exhausted all of their unemployment compensation benefits, which many more are on the brink.

The severity of the auto industry slump is also borne out in statistics for the State of Ohio and for region V, the Midwest, regarding trade assistance for laidoff industrial workers.

TRA BENEFITS

In just the first 3 months of this fiscal year, $63 million was paid out in TRA benefits in Ohio alone, with more than $300 million spent on TRA benefits in all of region V.

Requests for TRA assistance soared to 57,800 in Ohio, and to 320,000 for all of region V in those first three quarters of the year.

The Department of Labor has been deluged with a 2,200-percent increase in requests for assistance in the third quarter of this fiscal year, in comparison with the third quarter of fiscal year 1979.

It is little wonder, Mr. Chairman, that bumper stickers reading "Unemployment—Made in Japan" are now commonplace.

Such feelings should impress upon us that the time has come for a last ditch effort to find an effective approach to deal with the damage being done to our auto industry by steadily rising sales of imported Japanese cars.

Nobody wants a trade war with Japan, especially when our political and military ties remain sound, but we cannot continue to

sit by and witness the crippling of a basic industry that directly or indirectly provides jobs for one out of every six Americans.

You have heard the statistics about the growth in imports from Japan over the past couple of years, and you know that penetration is contributing to the plight of more than 250,000 American autoworkers who are currently out of work.

FINANCIAL HARDSHIPS

Similarly, the dramatic increase in imported cars is imposing severe financial hardship upon the three largest U.S. auto manufacturers. Chrysler would be filing bankruptcy, were it not for Federal loan guarantees. Ford has lost millions of dollars, hundreds of millions of dollars, in the first two quarters of 1980, and is cutting capital spending plans which are essential, if we are ever to get out of this mess, by 19 percent in North America through 1984. And even General Motors experienced a 58-percent decline in earnings for the fourth quarter of 1979.

Mr. Chairman, I do not at this time have a particular solution to propose, aside from urging passage of the resolutions before us. I know that some members of this committee will be leery of hard-line positions such as import restraints on a statutory basis, but those who believe in free trade policies as being in our country's best interest—and I generally do—will be forced to abandon our support if conditions continue as they are, or decline to an even worse situation in the future.

Many Members of Congress are already prepared to take bold action to redress the United States-Japan trade imbalance because they have concluded the American free trade attitudes are being used to unfair advantage.

Some positive action must be taken if our auto industry in particular is to be spared permanent harm. Now while a delegation of Japanese automobile manufacturers is here in America, it is the opportune time for Conress to send a direct message to government and business leaders in Japan, and to provide President Carter with some negotiating tools to find a solution soon, or put them on notice that Congress is likely to mandate a legislative solution in the form of import quotas.

I thank you very much.

[Mr. Pease's prepared statement follows:]

PREPARED STATEMENT OF HON. DONALD J. PEASE, A REPRESENTATIVE IN CONGRESSS FROM THE STATE OF OHIO

Mr. Chairman, I am grateful for the opportunity to testify before these subcommittees in support of H. Con. Res. 363 and a very similar resolution I introduced (H. Con. Res. 380) along with 16 of our colleagues. These concurrent resolutions make clear the Congress' very strong and widely held feelings on the automobile aspect of Japan—United States trade in particular. But these subcommittees are to be applauded for the hearings this week on the entire spectrum of trade between our two countries.

I want to underscore the extreme seriousness of the Japan-U.S. trade situation in both human and economic terms; but first an initial observation. My Ohio District is affected in at least two ways by the situation: Some of our industries rely on the export market for sales. On the other hand, other major employers like the big three auto manufacturers, U.S. Steel, and American Ship Building Co. are directly affected by the importation of automobiles, steel and ships.

This divergence in my own district makes me very aware that the problems that the subcommittees are addressing today, and any hopeful solutions, are not a simple

matter. Often what could help one industry could simultaneously injure another: What aids a specific company in one industry may work to the disadvantage of another company.

Because both the symptoms we see now and the solutions to the problems straining U.S.-Japan economic ties are complex, we must be sure that our examination is thorough and complete. But I hope the subcommittees can, after these hearings and deliberations, make some positive recommendations to both countries. Perhaps prompt passage of H. Con. Res. 363 will be a start in the right direction.

TRADE DEFICIT

Our huge trade deficit with Japan is causing real suffering among my constituents. The 13th Congressional District of Ohio—bordering Lake Erie for 70 miles west of Cleveland, has the highest unemployment rates in the State of Ohio. While the U.S. unemployment rate is too high at 7.8 percent (June statistics), Ohio's rate is 9.6 percent. However, three counties that are included in my District have unemployment rates of 17.8 percent, 17.6 percent, and 14.8 percent. In all three counties, thousands of my constituents who work at assembly and component parts plants of Ford, Chrysler, and G.M. have been laid off indefinitely or had their working hours cut back drastically. Many of constituents have exhausted all of their unemployment compensation benefits, while many more are on the brink.

The severity of the auto industry slump is also borne out in statistics for the State of Ohio are for Region V regarding trade assistance for laid-off industial workers. In just the first three quarters of fiscal year 1980 (October 1979 to June 1980), $63 million was paid out in TRA benefits in Ohio alone with more than $300 million spent on TRA benefits for all of Region V. Requests for TRA assistance soared to 57,800 in Ohio and to 320,000 for all of Region V in the first three quarters of fiscal year 1980. The Department of Labor has been deluged with a 2,246 percent increase in requests for assistance in the third quarter of fiscal year 1980 in comparison with third quarter of fiscal year 1979. Little wonder that bumper stickers reading "unemployment—made in Japan" are now commonplace.

LAST DITCH EFFORT

Such feelings should impress upon us that the time has come for a "last ditch" effort to find an effective approach to deal with the damage being done to our auto industry by steadily rising sales of imported Japanese cars. Nobody wants a "trade war" with Japan, especially when our political and military ties remain sound. But we can't continue to sit by and witness the crippling of a basic industry that directly or indirectly provides jobs for one out of every six Americans.

During the first four months of this year, imports from Japan primarily have accounted for 27 percent of new car sales in our country. One out of every five cars sold here during that period was made in Japan. There can be no doubt that this import penetration is contributing to the plight of more than 250,000 American autoworkers currently out of work. Similarly, the dramatic increase in imported cars from Japan is imposing severe financial hardship upon the three largest U.S. auto manufacturers: Chrysler would be filing bankruptcy were it not for Federal loan guarantees; Ford lost $164 million in just the first quarter of 1980 and is cutting capital spending plans by 19 percent ($2.5 billion) in North America from 1980 through 1984: and even general motors experienced a 58 percent decline in earnings for the fourth quarter of 1979.

SOLUTIONS NEEDED

Mr. Chairman, I do not at this time have a particular solution to propose. I know that you are leery of hard line positions such as import restraints as well we should be. But those of us who believe in free trade policies as being in our country's best interest will be forced to abandon our support if conditions continue as they are—or decline to an even worse situation in the near future. Many Members of Congress are already prepared to take bold action to redress the U.S.-Japan trade imbalance because they have concluded American free trade attitudes are being used to unfair advantage.

Some positive action must be taken if our auto industry in particular is to be spared permanent harm. Now while a delegation of Japanese auto manufacturers is here in America, it is opportune for the Congress to send a direct message to Government and Business leaders in Japan and to President Carter that some negotiated solution must be found soon or the Congress is likely to mandate a legislative solution in the form of import quotas.

Mr. MICA. Thank you, Mr. Pease. We will continue with testimony from a fellow committee member colleague, Mr. Fithian.

STATEMENT OF HON. FLOYD J. FITHIAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. FITHIAN. Thank you, Mr. Chairman. I want to compliment both subcommittees for holding these hearings. I think it is time the Congress hears this rather serious problem, and I commend the subcommittees for doing so.

The United States, in my judgment, needs at this point some pretty tough negotiations, I think rather quick action to reduce the impact Japanese exports have had on America's domestic economy.

IMPORTS SOAR IN 1980

The United States faces a critical problem as Japanese automobile imports continue to soar in 1980. From only 2 percent in 1969, Japan's share of the U.S. car market jumped to 16 percent at the end of 1979, and is currently running at the record-setting rate of nearly 22 percent. There is a widespread unemployment, as has been testified to here today, in the auto industry. Some 300,000 workers are laid off, 550,000 workers in related industries, and many of those reach into the Second District of Indiana, which I represent.

In fact, Indiana unemployment is second only to Michigan in the United States. The Hoosier State ranks second. Thousands of autoworkers are unemployed in Indiana, and many more thousands in related and supportive industries, such as steel, are now unemployed; 12 of the 14 counties which I have the privilege to represent now, are running in excess of 10-percent unemployment, though it's generally considered as a fairly rural district, as congressional districts go.

ORDERLY MARKETING AGREEMENTS

It is my own hope, Mr. Chairman, that the United States and Japan will negotiate a reduction of Japanese auto imports as part of an orderly marketing agreement between the two countries. I believe it is incumbent upon the Japanese Government to assume greater responsibility for the current trade deficit in automobile industry and steel, and to take steps in a cooperative manner to restrain the exports at reasonable levels.

The Japanese automobile companies should, in my view, be encouraged to construct plants in the United States, providing jobs for Americans and orders for our manufacturers and, I might say, satisfying those customers who have become accustomed to Japanese automobiles.

If the Japanese refuse to cooperate in the reduction of auto imports into this country, I would suggest that this committee and the Ways and Means Committee work an imposition of a tax equal to that on the imported automobiles into Japan.

We should, I think, recognize right off that trade is a two-way street.

The American automobile industry desperately needs time to convert to fuel-efficient small cars and reestablish the competitive

edge enjoyed in the 1960's. It is my view that only government-to-government action will be sufficient to buy the time we need to retool one of our most basic and most important domestic industries.

AMERICAN STEEL INDUSTRY

We move now to steel, Mr. Chairman. The American steel industry is caught in a double bind as a result of Japanese imports. First, American automobile production has dropped sharply in 1980, resulting in millions of unemployed Americans in these related industries, especially steel and steel products.

There is a direct relationship between Detroit's auto production and the steel production of northwestern Indiana. As I put it, when Detroit sneezes, Gary catches a cold. If we as a nation don't act fast, the cold could well lapse into pneumonia or worse.

Second, the domestic steel industry faces the direct threat of increased Japanese steel imports into the United States, some at prices below cost of production. While the imported steel tonnage may again reach the 18 million ton mark in 1980, Japanese has been leading the way among all the ways. While other major steel producers, including the EEC, Canada, and the Third World, have decreased their steel exports to the United States in 1980, Japan has shipped nearly 500,000 tons more this year than last year, for an increase of 13 percent.

Our domestic steel industry is really one of the most basic industries, and it is critical, both for continued industrial growth and development and for our national security. We cannot afford to allow excessive imports of steel and steel products to undermine the stability of this most important basic industry.

TREATY PRICE MECHANISM

Therefore, I would suggest that Members of this House consider the reinstatement of a new treaty price mechanism which did work to a certain degree; the enforcement of antidumping laws; orderly marketing agreements to reduce market share; and the encouragement of "Buy American" legislation to promote the use of domestic steel and steel products.

Mr. Chairman, I thank you for the opportunity of testifying here today. I'll be available for any questions, of course.

[Mr. Fithian's prepared statement follows:]

PREPARED STATEMENT OF HON. FLOYD J. FITHIAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Chairman Bingham, Chairman Wolff, I welcome the opportunity to testify before your subcommittees concerning the trade and economic partnership between Japan and the United States. Our international economic relationship has deteriorated to the point where the United States needs tough negotiations and quick action to reduce the impact that Japanese exports have had on America's domestic economy.

America faces a critical problem as Japanese automobile imports continue to soar in 1980. From only 2 percent in 1969, Japan's share of the U.S. car market jumped to 16.6 percent by the end of 1979 and is currently running at a record-setting 21.6 percent this year. This exorbitant rate of imports is totally unacceptable, especially at a time when millions of Americans are out of work.

There is widespread unemployment in the automobile industry, where more than 300,000 workers are on layoff, as are an estimated 550,000 additional workers. American unemployment continues to rise while the Japanese continue to ship to

the U.S. at least one million cars made on overtime. Moreover, they are rapidly expanding their automobile production capacity, auguring more trouble out ahead.

In Indiana, unemployment reached 11.9 percent in the latest revised June figures. The Hoosier State ranks second in the nation in unemployment, trailing only Michigan. Thousands of auto workers are unemployed in Indiana, and many more thousands in related and supportive industries, such as steel and auto parts, are also looking for work.

The Second District of Indiana, which I have the privilege to represent, is facing severe economic difficulties due to high unemployment. Twelve of the fourteen counties have more than 10 percent unemployment, and several counties have climbed to almost 14 percent. This level of unemployment must be drastically reduced and Hoosiers put back to work.

Japan is an important ally, a stabilizing force in the Far East, and our most important economic customer. But the time has come for the United States to reduce the amount of Japanese automobile imports and restore an appropriate balance of U.S./Japanese jobs, trade, and production. The first step in restoring trade relations would be reducing last year's $9 billion auto trade deficit with Japan.

UNITED STATES-JAPAN NEGOTIATIONS

I hope that the United States and Japan will negotiate a reduction in Japanese auto imports as part of an orderly marketing agreement between the two counties. I believe it is incumbent upon the Japanese government to assume greater responsibility for the current trade deficit in automobiles and steel and take steps in a cooperative manner to restrain their exports at reasonable levels.

The Carter Administration should seek meaningful levels of restriction that do not accept the Japanese windfall gains after the events in Iran. I believe that total foreign auto imports should be restricted to 15 percent of the U.S. market, an average level of the imports for the six or seven year period preceding Iran. On this basis, the Japanese share would be about 10 percent.

The Japanese automobile companies should be further encouraged to construct plants in the United States, providing jobs for Americans and orders for our manufacturers. Although some progress has been made along these lines, I think it is imperative that we accelerate the location of plants in the United States.

If the Japanese refuse to cooperate in the reduction of auto imports into this country, I suggest that we impose an equalization tax on imported automobiles equal to the tax imposed on our exports to foreign countries. Trade is a two-way street. The Japanese can't continue to say that they can sell in our market but that we cannot sell in theirs. If necessary, the United States can encourage the purchase of American-made automobiles by working out a federal tax rebate for American-produced cars—thus stimulating the economy and providing jobs for Americans.

AUTO INDUSTRY NEEDS TIME

The American automobile industry desperately needs time to convert to fuel-efficient small cars and re-establish the competitive edge it enjoyed in the 1960s. Only government-to-government action will be sufficient to buy the time we need to retool one of our most basic and most important domestic industries.

But automobiles are not the only product to feel the pinch of foreign imports. The American truck industry is also in trouble. The Japanese truck share of the U.S. market has also increased dramatically—growing from 1.6 percent in 1969 to 11.7 percent in 1979 and 19.4 percent in the first half of 1980. I believe it is important not to let domestic truck sales deteriorate to the point where it is impossible to recapture our share of the market. We need to encourage our domestic industry to convert to small pick-up trucks and vans with fuel efficient standards. I want to take this opportunity to applaud the recent decision by the Department of Treasury to enforce the existing 25 percent truck tariff on unfinished trucks, thus closing a loophole that has been used to import Japanese trucks at a lower 4 percent rate.

U.S. STEEL INDUSTRY

The American steel industry is caught in a double bind as a result of Japanese imports. First, American automobile production has dropped sharply in 1980, resulting in millions of unemployed Americans in related industries, especially steel and steel products. There is a direct relationship between Detroit's auto production and the steel production of northwestern Indiana. When Detroit sneezes, Gary catches cold. If we as a nation don't act fast, the cold could lapse into pneumonia or worse.

Second, the domestic steel industry faces the direct threat of increased Japanese steel imports into the U.S. market. While imported steel tonnage may again reach the 18 million ton mark in 1980, Japanese steel has been leading the way among the

imports. While other major steel producers, including the EEC, Canada, and the Third World, have decreased their steel exports to the U.S. in 1980, Japan has shipped nearly 500,000 tons more this year than last year, an increase of 13 percent.

Our domestic steel industry is one of the most important basic industries. It is absolutely critical, both for our continued industrial growth and development and for our national security. We cannot afford to allow excessive imports of steel and steel products to undermine the stability of this most important industry. The time has come to restrict steel imports into the U.S. market by a variety of methods: a new trigger price system; enforcement of anti-dumping laws; orderly marketing agreements to reduce market share; and encouragement of Buy American legislation to promote use of domestic steel and steel products. In addition, there should also be a general relaxation of clean air and water standards for the steel industries if they can demonstrate that they have been sufficiently injured by the economic recession. It is also important that we pass tax legislation, perhaps similar to H.R. 4646, so that domestic industries can accelerate their depreciation schedules and stimulate capital formation.

PROPOSALS

Many of the proposals included in this statement were previously announced as part of my five-point Jobs for Americans Plan, which included: (1) tax cuts for jobs; (2) reduction of steel and auto imports; (3) Buy America package for autos; (4) relaxation of clean air and water standards and reduction of red tape; and (5) encouragement of investments by foreign companies in U.S. plants.

Again, thank you very much for the opportunity to testify before your joint committees.

Mr. MICA. Thank you, Mr. Fithian, for your very specific proposals. Without objection, our colleague from Michigan, a committee member, would like to make a brief statement in concern with his colleagues from Michigan.

Mr. Wolpe.

Mr. WOLPE. Thank you, Mr. Chairman. I think I'll do that from my position here on the committee if I were to move——

Mr. MICA. There need to be more of us up here.

Mr. WOLPE [continuing]. There would be more facing us than on the committee itself.

I want to commend the members of the panel for the testimony they presented here today. I happen to be a cosponsor of the legislation before us, and because of my own personal convictions that we simply have to find some way of securing the breathing space necessary to allow the retooling that must take place for the American automobile industry to be accomplished. I think one can debate at length the reasons why we are having the difficulties we are presently in.

STABILITY AND FUTURE

I think it's pretty clear there has been some shortsightedness on the part of the industry, and on the part of our societal response in the United States. I don't think we necessarily have to look elsewhere to find scapegoats to blame for the difficulties we are facing. That's history. The reality is we are in a very, very difficult situation on the long-term future of the American automobile industry, long-term stability of our economy in the United States today, unless we can in fact find that means of accomplishing the necessary breathing space to allow the retooling to be accomplished.

NEGOTIATED VOLUNTARY AGREEMENT

Moreover, it seems to me far preferable that we secure that breathing space on the basis of a negotiated voluntary agreement,

rather than on the basis of a much harsher and more unilateral kind of initiative by our country.

Our linkages with the Japanese are too important to be jeopardized by a very hostile kind of interaction on this issue. I think there is a common self-interest in moving and negotiating an agreement forward.

I share the frustration expressed by the members of the panel with respect to the absence of the kind of aggressive posture by the administration that would move us toward that kind of negotiated agreement. I believe the resolution of Mr. Pursell, and the comparable resolutions that are under consideration in the Senate, would represent a very helpful step in encouraging more aggressive action on the part of the United States, and also providing a signal to the Japanese.

I think the breadth of the testimony and the commentary that has been made by the panel before the committee today has been most helpful in clarifying the issues we are all facing.

Thank you very much.

CITIZEN RESPONSES—NO ALTERNATIVES

Mr. MICA. Thank you, Mr. Wolpe.

We will proceed at this time with the questioning. Let me just say before I get into some of the technical questions, I believe it was Mr. Pease who indicated that in a prior meeting he had sent out a notice to his constituents about the possibility of getting the Japanese to restrict exports, and response from the nonautomotive industry constituents was not very positive; something to the effect—that, "Why do this to the Japanese, when we can't buy a reasonably priced, quality-made American car?"

I pose that for response because I know this will be a comment that will come up in any part of this discussion.

Mr. Blanchard?

Mr. BLANCHARD. I'll be happy to respond to that, Mr. Chairman. I think the basic problem is there are a lot of cars that are high quality and low price. The Americans make small cars that they are not aware of.

When we were handling the Chrysler issue, unless you owned one, very few people were aware that they made the Omni and the Horizon, which still is one of the leaders in fuel economy, and at a reasonably low price.

The other side of the coin is the Japanese have been making those cars for years and have been doing an excellent job. I think that's why if they are allowed to have over a period of years up in the 20 percent of market share, it would be very difficult for industry to recover, even if we had competitive vehicles. What's really happening is there has been a shortage of high-quality, good small cars made by our companies, and that's what they are cranking up to do now. It takes years, not months, to do it, and billions of dollars—some $80 billion on the part of U.S. industry. And they are going to be having these in increasing amounts, and the resolution, such as the one today, will allow for a reasonable recovery of the industry to be able to sell those cars.

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U.S. AUTO INDUSTRY NEEDS MODERNIZATION

So there is some truth to that complaint, but there is also, I think—there has always been on the part of the counterculture—the notion that what we make here is bad, that somehow our workers are lazy and shabby. I reject that notion. Most people in the industry, both in the United States and in Japan, will tell you it has a lot more to do with the tooling and modernization of the plant and equipment than race or economic status or training of the employee.

But that is part of American arrogance about our workers and other workers, and some sort of inferiority complex which is very disturbing. We had to face that with the Chrysler issue, and I think rather than, as Congressman Wolpe said, try to place blame, because there is enough to go around, it is better to figure out how we can get out of this very serious crisis.

Perhaps Congressman Pursell has a comment on the whole issue.

LABOR AND BUSINESS PARTNERSHIP

Mr. PURSELL. I'd like to reflect briefly that I have been to Japan. I have been to the Nisson plant. I am impressed with some lessons that we are learning through this crisis on the problem.

No. 1 is we need a partnership between labor and business, in terms of producing quality automobiles. I want to congratulate both the management and labor today, particularly in the Detroit area, working very cooperatively in producing quality cars.

FOREIGN CARS—STATUS SYMBOLS

In my congressional district, we produce the X-Car, in Ypsilanti, Mich., and I have been through that. I have driven those little Omegas and General Motors cars, and they are beautiful little cars with good fuel emission and good economy.

So out of this, I think most people—and I support and reflect on what Congressman Blanchard is saying—that basically a lot of people like to drive a foreign car, because it's some kind of a status symbol. All you have to do is go and look in the Federal garage down here in the Rayburn Building or Longworth and over on the Senate side and look at the enormous amount of employees driving foreign cars that are on the public tax rolls of the Federal and State Governments. I find a lot of public employees in that area. I guess that's just a little concern that I have.

As he indicates, a lot of people think this is a status symbol. I think we are going to turn it around, and I think you people are appropriately responsible and know that this resolution is basically a symbol and a message, publicly, in the sector of public responsibility, to send a message not only to Japan, but also to the White House, to say, "Let's work out a partnership in a good, sensitive foreign policy manner."

Mr. MICA. You would feel my constituents in south Florida would have a choice of buying a small car at a reasonable price and not having to pay the higher price if, indeed, something like this were to come to pass and Japan did cut back on its exports and we cut our imports?

TRADEOFFS

Mr. PURSELL. I'm not going to suggest what a trade agreement should reflect.

Take the defense budget, for example. Our per capita cost is something like over $500 per person. In Japan, per capita cost for somebody in Japan is only about $87 per person. But yet they turn around and take their tax money and subsidize steel and other critical products.

So I think in a comprehensive way we are saying in this message, let's be fair, let's be equitable, and there are a lot of tradeoffs, and two important countries, as other Congressmen indicate, we are very close as an ally, and we don't want to jeopardize a single product. But we have thousands of people unemployed, and I think that is what this message really says. Let's sit down around the table, have the President take that leadership and negotiate in a fair and equitable manner, something that would be fair to the people of the United States and people in our congressional districts, and people of the free world.

Mr. MICA. Thank you. Is there any additional comment?

PURCHASING FOREIGN PARTS

Mr. DAVIS. I just wanted to make a quick comment, to answer your question, that two of these small plants in my congressional district that are subsidiaries of a large corporation that make wire harnesses for one of the major auto companies. One closed, the other one very likely won't reopen, and frankly, the reason for their closure is because this particular automobile company is now purchasing wire harnesses from Japan. We just recently found that out.

So I think all of us are going to have to work, including the companies, in this particular area to buy American, buy the parts for the automobiles American, too. Just thought I'd throw that in.

Mr. MICA. Although my time has expired, I'd like to yield a moment to the Chairman.

Mr. WOLFF. I thank you for yielding. I might just mention that yesterday during the hearing, I brought up the fact that there are about $8 billion worth of spare parts, replacement parts, that are sold in this country by the Japanese. And I think one major step forward could be for these parts manufacturers, especially, and for their automobile manufacturers who do business with the parts manufacturers, to see to it that American parts are able to be substituted for the Japanese parts, and still retain the warranty.

I think this would be a major step forward. It would give us an opportunity of certainly making up part of this deficit.

I am just wondering, if the gentleman would agree to an amendment to his bill to include this as part of the basic bill, to discuss this with the Japanese. I know whether we have a bill or not, if Mr. Ito comes here, I'm going to discuss it with him.

Mr. MICA. We'll proceed with the questioning.

Mr. Guyer.

CRISIS AFFECTS ALL

Mr. GUYER. Thank you, Mr. Chairman.

Rather than questioning, I would just like to state a few comments. As Chairman Wolff indicated, we had yesterday two vice presidents of Chrysler and Ford, and we heard from the executive viewpoint what we are now hearing from the congressional viewpoint.

One thing I want to make very clear is this is not a parochial situation, and if every Congressman who had that down-the-road concern—and I'm sure they all do, one way or another—could all be here at one time, this room would be filled, because about 85 percent of Americans go to work by automobile, that just go to work.

Mr. Fithian was talking a while ago, it would be disaster for Indiana if anything happened in the motor home and camper field, which I know you are quite productive in. There is an old saying that post mortem eulogy will never atone for ante mortem neglect.

Now what that really means is—I guess I shouldn't have used it. [Laughter.]

But it simply means no matter how nice you say something, if it's too late, it doesn't matter.

We are suffering from a Rip Van Winkle complex here. We have all been sitting here—I notice even the resolution which was introduced by Mr. Pursell, very commendably, on June 11—that's over 3 months and 1 week ago, just introduced, and we haven't had this as one of our No. 1 priorities in the entire Congress.

We heard Mr. Broomfield testify a moment ago that 350,000 jobs, not 240, and Mr. Pease substantiated that by some other rather fragmentary and interrelated facts, that 1 out of every 6 jobs is directly dependent and 1 out of every 12 is affected by it.

You go on down the line, you will find that your plastics and glass people—in my town, I've got upholstery people, I've got $30 million in my little district that just do business with Chrysler, in producing things that you can't even enumerate.

But the whole thing is, as I see it: Mr. Wolff has made this a vehicle—as a matter of fact, this is one of the subjects of our so-called Ambassadors Round Table lunches, which has never been done before in the history of Washington. Ambassadors of all the countries have lunch with us about every 4 or 5 weeks, in which we find out not only what's on their mind, but markets.

MANUFACTURING BICYCLES

You know, Japan is not hard to get along with at all. When we were there not long ago, I talked to Mr. Ushiba, and I was giving him a pretty rough time about bicycles, because they make bicycles in my district. They make the Huffy over in Salina, Ohio. I have a lot of concerns over there, and constituents, and 1,700 people work at that plant that used to have only 5,000 population for the whole city. He was very understanding. He said, "First of all, I've been in your State, I've been in Dayton, I've been in Lima, and we don't make a bicycle that resembles yours."

And the first thing I knew, I got a letter from the Ambassador to be delivered to the President of the Huffy Co. in Dayton, where the home office is, assuring us they were not competitive in that one field and, sure enough, they were not.

As a result of that understanding and cooperation, the Huffy plant is making an addition, a new complex, extending their facilities, not withdrawing them.

So let's just talk about a couple of things. I will not exceed my time, but I do think we've got a great economic problem here in the Congress. Those of you who went home at Easter, if you're brave enough to go home during the recess instead of taking a trip and faced your realtors, homebuilders, and contractors, found out that the building industry was zilch.

Before I went home, I called every savings and loan, every bank, I checked with Farmers Home, Veterans Administration, and I checked the number of building permits in every one of my county seats. In Findley, where I live, there were only five for the whole month: One house and four improvements.

So we have found out a lot of things. We found out interest rates were not favorable for people to go out and buy anything. That's something that can be changed at the Federal level. We found out depreciation was not right, so we had a bill, 4646—you ought to get on it, it has to do with a lot of things besides—the 1053, the 3 has to do with cars and trucks and depreciation.

I'm talking about Lake Erie. As you well know, they didn't build the plant at Pontiac, because it took 12 to 14 years to get their money back, so they built it in Canada where it takes 3 to 3½ years to get their investment back.

TAX REFORM

Go and count the bills laying in one committee. We can't get them out of the cradle into the incubator. Any one of those things would help people from the standpoint of investing, not only in plants, but in factories and all these things.

You know, none of us want leaf-raking jobs for the future. You don't put your kids through college with a leaf-raking job. But think of the potential man and womanpower going to waste right now, the skills and expertise walking the lines and even running out of benefits because we haven't been smart enough in the private sector to come to be a partner with government.

You said it a while ago. We don't need an adversarial role in this, and I think the way to approach the country of Japan and the Japanese people—if it's unilateral, make it unilateral.

We just came from the White House where 500 people sat there in the sun watching them sign four treaties. They are doing $3 billion a year in the People's Republic of China, as compared to about $200 million a couple of years ago. So it can go. It's a two-way street.

ECONOMIC CLIMATE NEEDED

I'm saying that negotiation is a very productive avenue. I'm saying interest rate stabilization is another. I'm saying that to have production and sales incentives—I went along with a bill in my heart I didn't even like, to give rebates or, rather, tax incentives to people buying American cars. I know that isn't the way to do it. You can't pass a law making anybody buy anything. You've got to make them wanting and willing to do it. You can't make them do it.

So that's where we come into the picture, to make things more attractive, with more incentives. I'm saying we need to build an economic climate—you covered most of those things in your testimony, but I want to congratulate each and all of you, because each of you reported something a little different, and I would hope that we can act speedily on this, because that's only the first step as we climb the ladder, but it is not just Japan alone that's causing our problems.

We were the last people to admit there is an energy problem. We were the last to find out about what people knew 10 years ago. We were the last to find out that people were buying smaller cars, and that fuel economy was something to be desired, and that emission control and now in the way of regulations, the average car today costs $1,200 to $2,000 apiece from Government-imposed regulations. You've got to consider which ones were safety and which were just whims.

Like the catalytic converter. I'd like to see somebody get up and defend that. I'll give you all the time you want. There isn't a person who can stand up and tell us why we had it.

We had emission controls on cars where only 7 percent of the area in the United States merited emission controls on automobiles, and they made a study to find out where they were. They were in Phoenix, the entire State of California—which already has a law—a ribbon around Chicago, and a little bit from Boston to Philadelphia to Washington. The rest of them didn't even need it. We put it on and we have our cars chug along waiting for the traffic light to change, so we wouldn't stop.

COOPERATION NEEDED

But my point is, it does take togetherness and I want to commend all of you on your resolution. Carl, I wish I'd been on it about a year sooner. We should pass it speedily. This is the first step, and I think this committee will help to expedite it. Before we get too thrilled with the next election, let's think of the next generation and get some of those folks back to work.

Thank you very much.

Mr. WOLPE [presiding]. I would just like to ask the panel a couple of questions with respect to testimony earlier in this committee. Before doing so, I want to reaffirm the point that Mr. Davis is making with respect to the parts manufacturers. I, too, have a parts manufacturer in my district who found recently one of the major companies turning to a Canadian firm rather than an American firm making that part. I think we ought to find some way of encouraging, to the extent possible, American automobile companies to rely upon American parts manufacturers, in the same way we are seeking Americans to place general reliance to look toward the American automobile industry.

ANTITRUST LAWS

One of the objections raised by the administration to this resolution before us is the kind of legislation that's contemplated would amount to circumventing the procedures that are established by

the Congress in the Trade Act of 1974 to deal with situations similar to that confronting the American automobile industry.

Can the panel respond to that argument that is involved in here of the ITC and the Trade Act of 1974?

Mr. PURSELL. Congressman Blanchard would like to comment on that.

Mr. BLANCHARD. We realize this is not the Judiciary Committee or the Ways and Means Committee, and you are more interested in foreign policy and good diplomacy. But I think the case to be made—and you're going to hear from people at some point—a good case to be made, that there is ample precedent for what we urge. There is no doubt that the President and his trade people would rather have some commission tell them to negotiate an orderly marketing agreement than do it on their own, or they'd like to have Congress to blame for having to do it. They have simply been reluctant to go ahead on their own initiative, I think, because they feel it will be insulting to a very important ally, an ally who has helped us on a number of occasions.

As I understand, the President has inherent constitutional authority to negotiate an agreement contemplated by the President under his foreign affairs powers, and it has been upheld in the courts, most recently in 1974 in the case of *Consumers Union* v. *Kissinger* involving the foreign producers' pledges to voluntary restraint on their exports of steel.

Now I know the trade ambassador told you, before the Ways and Means Committee earlier this year, there would be some antitrust problems with such a voluntary agreement. I talked to Chairman Vanik about it, and he said, "Oh, that's hogwash. There's no one there who believes that except Askew," and later on, when some Members of Congress introduced a resolution to change the antitrust laws, I noticed Askew's people cited the fact that some Congressmen had introduced the bill, thinking it was illegal, rather than on their earlier authority for having felt that way.

Let me add a couple of things that respond to earlier questions as well.

One of the most popular buys in America is the Volkswagen Rabbit, made in Pennsylvania by American workers, soon to be made in my district. I happen to represent the North American headquarters of Volkswagen, and if you talk to the president of Volkswagen of America, you will find the quality of the Volkswagen Rabbits here is equal to and, he claims, exceeds those imported or previously imported. This goes against the notion that many people harbor, of the quality of American cars, which is a good buy and which is good fuel economy.

TALKS WITH THE JAPANESE

I have and I want to put on the record on this subject—I had a conversation a few short months ago with an important Japanese official, State Department official, and Detroit official, an off-the-record conversation. Our trade and State Department people implied, if not stated, to the Japanese official that Japan was doing us a favor in fighting the battle of energy and fuel economy by shipping all the cars they could into this country, and they were probably bringing about better price competition as well.

I had to laugh, because there was a ring of truth, perhaps, if you look at the technical fuel economy standards back at this point—it was April—and perhaps even prices in some instances. But I had to believe—I just couldn't believe how shortsighted that attitude was. I have to believe those attitudes, privately expressed to the Japanese, have encouraged them to ignore considerations such as what this resolution would urge, and I truly believe such conversations have been to the detriment of good relations with Japan. While there may be some truth in the short run of 2-, 3-, 4- or 5-month period of time in what they were saying, I think it ignores the very important aspects of how important this industry is to us, and how important our alliance is with Japan in the many, many years ahead.

I hope that is what you will be concerned with, because this is a Foreign Affairs Committee.

Mr. GUYER. Would you yield?

Mr. BLANCHARD. Yes.

Mr. GUYER. Do you recall voting for a civil aviation agreement or maritime agreement or textile agreement with the People's Republic of China?

Mr. BLANCHARD. Oh, sure.

Mr. GUYER. Did you ever vote for those things?

Mr. BLANCHARD. I think I probably have. The textile agreement, if you're talking about the one we negotiated to help our own industry——

Mr. GUYER. Those are the four that were signed today, and I seriously doubt if they were voted on.

Mr. BLANCHARD. The textile was forced by a 4 a.m. caucus of the House Banking Committee 2 years.

Mr. GUYER. What I'm trying to do is support it, there is authority to do it, but you don't have to move legislatively.

Mr. WOLPE. Mr. Pursell.

MUST ACT NOW

Mr. PURSELL. Mr. Chairman, I have two problems with the question. One is I think the Tariff Commission is recommending no decisions until, I think, November 24, if I'm not mistaken. To me, we cannot afford to wait, when you've got thousands of people unemployed, with the economy in Michigan and other States, and disastrous rates of unemployment. We cannot afford to wait for the Commission to act.

No. 2 is that I understood our Constitution to outline that elected officials should set public policy. Quite frankly, we are the elected people who represent our constituents across the country, and the executive branch, not only the President, is accountable for those kind of public policy decisions.

So I don't think, in all due respect to those particular agencies, confirmed by the Senate and appointed by the President, that we should wait for that decision; and second, we should make those public policy decisions and be accountable for current crises in this Nation.

That means leadership, and I have to say that both the political parties should take that initiative, should take that leadership, and obviously your committee is doing that here today.

Mr. WOLPE. Mr. Fithian.

REDUCED PRODUCTION

Mr. FITHIAN. Thank you. I just want to make two quick observations. We frequently hear from the Japanese and sometimes from our own trade officials that to work on any orderly marketing agreement reduction would run into the antitrust laws. The fact of the matter is if the Japanese, in their rapid increase and acquisition of American market from 2 to 22 percent in the last decade, if they were right now willing to do in autos what I understand they can do in steel, which is a very informal kind of arrangement, they set goals and quotas, and they call an industry and talk to them—and I asked the Japanese steelmaker if they would be penalized if they overproduced or overshot their quota, and there is no law, no penalty, they are not going to be fined by the Japanese Government. But this informal arrangement of calling them in and saying, "Why is it you went through quotas at 1 percent over your goal," and the Japanese industry very quickly backed away from that.

Right now in the automobile industry, for example, if they were to just reduce their production by the amount of overtime that they are cranking in to try to rush in the buildup of the American market, would give quite a lot of relief to our auto industry and, in fact, it isn't just that they are going overtime. As I understand it, they are now in the process of constructing an additional capacity to produce 500,000 more cars per year.

ORDERLY MARKET AGREEMENT

What I am saying is that unless we get some kind of orderly marketing agreement out of this, if we think we have a problem now in Michigan and Indiana and Ohio and lots and lots of places, we will really have a problem in 5 years.

This could go on. Clearly I think it must go beyond the resolution, which I support. It must go to tax legislation which will allow us to modernize industry, to assist in more rapid depreciation, to build up the kind of modernization and conversion in the auto industry that we must have. For in the final analysis, to go back to Mr. Mica's question, the only way you can justify for the rest of the nonsteel, nonauto people any kind of tariff restriction or import quotas over a period of time, is to assure them that during that period of time, you are in fact converting and during that period of time you are modernizing the steel industry. Otherwise, there is no justification for this.

EXPENSIVE ALTERNATIVES

I think we have to have a pretty hardnosed policy, assuring that whatever time frame we borrow and buy by orderly marketing agreements or tariffs or whatever, that it is utilized to convert the auto industry, and we have to have the assurance they are in fact converting and modernizing, and that the steel industry is modernizing.

I have a conviction that in such an arrangement, in 5 to 6 years, we would not only be able to put on the market a steel and auto

industry that is completely competitive, but that we could eliminate the enormous drag and burdens that we are going to be called upon as Congressmen to vote on; unemployment compensation, TRA, you name it, it will go on and on and on.

Those are very expensive alternatives to doing something about negotiating an orderly marketing agreement at this point.

GROUNDS FOR ANTITRUST

Mr. WOLPE. Mr. Fithian touched upon the second question that has been raised both by the administration and by Mr. McElwaine yesterday in testimony before the committee; namely, that voluntary restraints on the part of the Japanese manufacturers and subsidiaries could be grounds for antitrust action.

Would other members on the panel also care to respond to that?

Mr. PEASE. Mr. Chairman, I'd like to respond to that, and also touch on the previous question. I think when the administration says we ought to go through the traditional standard procedures of the Trade Act of 1974, that some of us in Congress are a little skeptical that they will do that.

NO CONCERN SHOWN BY ADMINISTRATION

In fact, there is a resolution which in a way circumvents that procedure and reflects a conviction on a lot of Members of Congress that the administration is not vigorously enough pursuing the remedies that are open to it.

I feel somewhat the same way about the words from the administration about antitrust law violations. If the administration really is concerned about that, and really is dedicated to doing something to bring about an orderly marketing agreement, it has only to come to Congress and say, "We need this and that change in the law so that we don't have that problem." They bring that up as an impediment to starting down the path of orderly marketing agreements and negotiations, but they do not come to Congress to remove that impediment from the way.

So one has to question the sincerity of the administration in bringing up that line of reasoning.

Mr. WOLPE. Anyone else care to add to that?

Mr. Blanchard.

CONGRESS MUST ACT

Mr. BLANCHARD. Just to reiterate. You know, I think it's clear that the administration understands how important Japan is to us as an ally, and there have been a number of recent expressions to that. They agreed to buy grain they really didn't need to help our farmers out during the present grain embargo with the Soviet Union. They are one of the few remaining democracies in the world, and they voted with us on a number of occasions at the United Nations. There are other expressions of support that it's a very warm alliance.

I personally believe they would like us to raise the issue so that we are the vehicle or excuse for such negotiations. I don't think they want to do it on their own, and I know Congressman Pursell doesn't intend for his resolution to be partisan, either.

So lest we leave off Ronald Reagan, he doesn't seem to be disposed to doing anything on this either, as we find with our own administration. It has to come from the Congress. I have a feeling they believe if the heat gets strong from the people, then we'll act and they'll have their excuse to go to our friends and say, "Please, won't you cool it for a while so we can save an important industry?"

Mr. WOLPE. I think the responses of the panel have been helpful on those two points. I have one last question, and then I will yield——

Mr. FITHIAN. May I make one quick comment on that?

Mr. WOLPE. Sure.

Mr. FITHIAN. I think if the Congress actually takes the initiative here, as we have an opportunity to do so, it clearly signals that there is a rising concern about these issues in this Congress, we will see the Japanese and the American Government finding ways to effectuate an orderly marketing agreement, finding ways to reduce the problem, for I am absolutely convinced that the Japanese would far prefer voluntary agreement on their part, far prefer an orderly marketing agreement than a statutory limitation or a statutory tariff.

DEFENSE SPENDING

Mr. WOLPE. Let me just ask now one last question of the sponsor of the resolution. There has been some question raised with respect to one clause of the fourth paragraph I'm wondering how absolutely critical that thrust is to the overall resolution, in reference to the defense spending clause, and the question is whether or not we are combining apples and oranges by pointing to the collective defense issues that also link America and Japan as well as the common economic relationships by mixing the issue. We appear to be, perhaps, holding out, trading or bargaining kind of relationship, that is, for more defense involvement. We can trade off economic issues, and the question has been raised as to whether it does not make some sense for this to be separate matters.

Mr. PURSELL. Thank you, Mr. Chairman. I respect the concern of the staff and my colleagues on that. We have had some communications with your people, and I don't feel, you know, any pride of ego or authorship, that you can't have some flexibility in altering any change of the language in respect to that particular comment. That happened to be a personal reflection, that we do not have a fair trade agreement with the Japanese Government, and I only cited that for an example, and suggested that. I would not be opposed to having you delete that particular paragraph from the resolution.

Mr. WOLPE. Thank you.

The gentleman from Washington.

PRICE OF AUTOMOBILES

Mr. PRITCHARD. Thank you. What, in your opinion, will happen to the price of cars during this 2-year period, if anything?

Mr. PURSELL. I think there are a lot of market pressures on the automobile today, both American and foreign-made cars. Gasoline prices, a glut on the market. I would use some gasoline prices to

some extent of having an increase in sales and purchasing of automobiles.

I'm not an economist—I think we are only suggesting that this resolution be a symbol of a message to sit down with Japanese leadership and talk about the various aspects of the negotiation and trade agreement. In respect to prices, I would have to give some thought to that.

In discussions with Mr. Guyer, in talking about the various component parts of American-made cars that are sold in Japan, it is to me, very bluntly, a bit outrageous, the way the pricing structure has developed in a foreign country.

So that is all part of this negotiation process, and I wouldn't want to presuppose what those tradeoffs would be around the collective bargaining table, if you will, and say we ought to do this here A, B, C, and you should do this, A, B, C. I think that's a matter of getting the people to the table is what I am interested in, the process, where the responsible people from the Trade Commission and leadership here from the executive branch and appropriate Commissions would reflect, I think, a new trade agreement that would reflect current market prices, but not jeopardize an increase in the price that would drive people away from buying an automobile, in respect to an American-made car or a foreign car.

Mr. PRITCHARD. Well, that's one of the points of the consumer groups who came in and opposed your legislation. I just thought I'd see if you wanted to take a bite at it. Jim?

Mr. BLANCHARD. No, I don't think anyone, as Carl says, can tell us exactly what will happen to the price. I would anticipate if there was an agreement worked out harmoniously, it would not be a severe curtailment of Japanese imports, it would be a modest curtailment that might affect prices upward modestly. But they have skyrocketed, anyway. If you take a look at the price of cars and the required downpayment, it's awfully high, and it's a problem by itself already.

PRICE COMPETITION FAVORABLE

But I can assure you of one thing, Congressman Pritchard, and that is some years downstream, 2, 3, or 4 years, you're going to have a lot better price competition if you have three or four or more healthy domestic automakers producing good, small, fuel-efficient cars. They all produce some now, but they are on the verge of producing a large percentage of those cars, and you are going to see a lot of good price competition that perhaps we won't have if we don't act now to preserve a healthy industry.

As you know, Ford is coming out with the Escort, Chrysler with its K car, it's already had its Omni and Horizon, General Motors has its X car, it's coming out with a J car in the spring. American Motors has some cars. There is the selection, the product competition and the price competition downstream that appears to be a very favorable prospect for American consumers and none of us, if you notice, have advocated a complete or even severe quota on the imports, because we are aware of that.

We are aware this could affect other trade relations, where America stands to gain. We are basically all free traders ourselves,

I believe, but we are not suckers, and we do worry about our people.

Mr. PRITCHARD. Mr. Pease, you wanted to say something?

CASE FOR ORDERLY MARKET AGREEMENT

Mr. PEASE. Mr. Pritchard, I think my colleague from Michigan makes an excellent point about the downstream advantages of allowing American companies to remain competitive. We are frequently faced in this Congress with arguments that we ought to allow milk prices or meat prices or grain prices or something else to rise in the short run, so farmers will have enough income to allow them, in the long run, to even out their prices. You have heard that argument many times on the House floor.

I think there is some validity to that in the field of agriculture, and also in automobiles. I am not an economist, statistician, or mathematician, but it seems to me that under the most extreme case you can think of for an orderly marketing agreement—I mean really extreme—the number of imported cars may be cut down by 600,000, which would mean that people would have to buy somewhat higher priced American cars, instead of those 600,000 imports. That's one-tenth roughly the total sales of cars.

Now if you assume that the price of the American cars that are substituted will be, because they are bigger cars, in the next 2 years would be 20 percent higher, you're talking about 20 percent of 10 percent, which is 2 percent of a factor across the board in terms of automobile prices. And that would be an even smaller fraction in terms of the total impact on our cost of living.

It may be arguable that the absence of that 600,000 units of foreign cars would lead to an overall increase in prices. I don't know, I think you could argue that either way.

Mr. PRITCHARD. Well, I think that some people believe, or the argument is being made that when you have a surplus, you have distressed merchandise on the market, well, one of the ways you move those things is that you give rebates and cut prices and sales and everything else.

So as I say, this is an argument that the opponents to your bill made, and I think you should have a chance to hit it headon on the record, and if there is going to be some—why, what are the tradeoffs in the long run against some raise in price now, against fewer manufactured later, and what-have-you.

I just raise this issue because you may want to think a little bit about it and come back with a more definitive statement on the charge that this is going to raise the price of cars to the consumer.

Mr. PEASE. Well, I'm awfully happy that you gave us the opportunity, and for myself, I would not argue that there would not be any price influence from the restriction on imports.

However, when you talk about the glut on the market requiring manufacturers to sell their cars at rebate and for a loss, it reminds me of the Ford Motor Co. which lost almost a half a billion dollars in one quarter of this year. It's beyond belief that Ford can sustain that kind of loss each quarter for the next 2 years, and survive as a corporation. I find it very difficult, so I think it is an investment.

Mr. PRITCHARD. A lot of that was offset by profits that were made in the overseas operations, thank goodness.

Mr. PEASE. In this case, only about $150 to $200 million. So worldwide, they sustained a substantial loss.

MORE CONGRESSIONAL INCENTIVES

Mr. PURSELL. If the gentleman would yield, I might suggest in the best interest of the consumer that Congress consider tax credits in terms of industrial growth, availability of capital formation money in our system, so we can get plant expansion, get more jobs, and therefore increase the supply, which obviously is going to bring the price of the automobile down in a free market society and in a free enterprise society.

So I think there are many more initiatives Congress could take, as well as this message, to help the consumer in producing automobiles, American made, and encourage people to buy American cars in our society, through tax structures, through capital formation, through other initiatives that have been suggested. But we haven't really moved forward, and I personally suggest that one of the best efforts would be a reasonable, gradual tax rate reduction of 5 years. I generally don't support the 3-year plan or a 1-year quick fix, because it's an election year.

I have also introduced that, with 84 cosponsors, to reduce the tax rate for 5 years, which would allow people to have some hope and stability in knowing that our tax rate structure will be reduced, so that people have dollars available to purchase an automobile, to send their children to college, and do the other things that leave that dollar in their pockets, rather than the Government taking it away from them in higher tax increases.

So I suggest there are other avenues along with this to put the consumer in a position in order to bring these economic balances into place with foreign countries with our economic domestic policy that has graduated over a plan that we can see and have some hope for the future of our society.

MORE COOPERATION BETWEEN LABOR AND MANAGEMENT

Mr. PRITCHARD. As a matter of fact, if you don't do these other things, it really doesn't make it, to pass this bill. This really has to be just one of a series of actions taken, the same as more cooperation between labor and management.

Mr. WOLPE. I think we had better bring the hearings to a conclusion at this point.

Mr. Blanchard.

Mr. BLANCHARD. He's raised an important point on prices. I said I don't think anybody knows it, but let me make the offer, along with Congressman Pursell, to get the estimates not only from the industry, but the administration, economists, and others for your record, rather than have us sit here and speculate.

Mr. PRITCHARD. Somewhere down the road, before this passes, or somewhere, that really is going to be the major thrust that it's going to be put up against. If I can read Consumers for World Trade, their arguments.

Mr. BLANCHARD. I think we ought to get the various estimates from all sources to you and then you can make your own judgment, and so can our colleagues.

Mr. WOLPE. I would like to just announce there will be the last of a series of hearings taking place before the subcommittee tomorrow at 2 p.m. in this room, and we will have distinguished panelists who will be assessing the overall economic relationship between this country and Japan.

Thank you very much.

[Whereupon, at 5 p.m., the hearing was adjourned.]

UNITED STATES-JAPAN ECONOMIC RELATIONS

THURSDAY, SEPTEMBER 18, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEES ON ASIAN AND PACIFIC AFFAIRS AND ON
INTERNATIONAL ECONOMIC POLICY AND TRADE,
Washington, D.C.

The subcommittees met, at 2:35 p.m., in room 2172, Rayburn House Office Building, Hon. Lester L. Wolff (chairman of the Subcommittee on Asian and Pacific Affairs) and Hon. Jonathan B. Bingham (chairman of the Subcommittee on International Economic Policy and Trade) presiding.

Mr. WOLFF. The subcommittees will come to order.

Today the Subcommittee on Asian and Pacific Affairs and the Subcommittee on International Economic Policy and Trade is holding the third in a series of hearings on United States-Japan economic relations and industrial policy.

For the past 2 days we have been focusing on the automobile issue and on House Concurrent Resolution 363, a resolution introduced by the Honorable Carl Pursell of Michigan, urging the President to enter negotiations with respect to effecting a temporary restraint on the export of Japanese automobiles to the United States.

On Tuesday, the subcommittee took testimony from Mr. Will Scott of Ford, Mr. Wendell Larsen of Chrysler, and Mr. Robert McElwaine of the American International Automobile Dealers Association.

Both Mr. Scott and Mr. Larsen expressed support for legislative remedies aimed at effecting restraints on Japanese auto imports. Mr. McElwaine, however, questioned the propriety of circumventing procedures established by the Trade Act of 1974 to deal with contingencies similar to today's auto issue. He also raised the issue of possible antitrust violations as a result of voluntary restraints entered into by the Japanese auto manufacturers and their American subsidiaries.

Yesterday, Senator Don Riegle of Michigan, as well as Representatives William Broomfield, Carl Pursell, Jim Blanchard, Robert Davis, all of Michigan, and Donald Pease of Ohio and Floyd Fithian of Indiana, expressed unanimous support for legislative action of some sort to deal with the current auto problem.

MANUFACTURED COMPONENTS

Also, during the course of the hearing, we explored other actions, such as the use on a warranty basis of American manufactured components and spare parts by Japanese companies, an $8 billion

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business, which could ameliorate the present trade imbalance. Of course, we would welcome the opinions of today's witnesses with regard to these issues as well.

At the same time, it is our objective today to broaden the scope of our inquiry to include such issues as Government procedure, market access, nontariff barriers, and investment opportunities and to explore both short- and long-term approaches to their resolution.

As a former businessman, it is my belief that, rather than attempting to impose artificial barriers to trade, our mutual objective, that of the United States and Japan, should be to expand trade opportunities by increasing market access.

DEFINING POLICY OPTIONS

Clearly, there are no easy solutions to the problems which exist today, but we would hope that this series of hearings will help to clarify the issues, to define policy options, and to weigh their attendant advantages and disadvantages.

With these thoughts in mind, we welcome our distinguished witnesses: The Honorable Jim Jones, Chairman of the Special Task Force on United States-Japan Trade of the Ways and Means Subcommittee on Trade, whose opus we are using very well in this series of hearings; the Honorable Robert Ingersoll, former U.S. Ambassador to Japan, who will serve on the first panel.

On the second panel, we shall have the Honorable Robert Hormats, Deputy U.S. Trade Representative; the Honorable Robert Herzstein, Under Secretary of Commerce for International Trade; and Mr. Harry Kopp, Deputy Assistant Secretary of State for Economic and Business Affairs.

I might just welcome this in the form of a reunion, since the three of us recently traveled to Japan with the President. We had an opportunity to discuss this in some detail, but perhaps we can get all these things on the record today.

We welcome you to our panel. I am going to ask shortly for Mr. Bowen to take over. We will have other members in here very shortly. There are some measures on the floor now, plus the fact that I am a conferee on the Foreign Assistance Act. We are trying to split ourselves into two very difficult propositions. So, while we are anxious to deal with the problem of automobiles, we have to deal with the overall problems of our foreign relations and foreign affairs. I will have to go over there shortly.

Gentlemen, if you care to summarize your statements, or your prepared testimony, without objection, they will be included in the record.

However, if you care to read any statement in toto, we are delighted to have it in that form as well.

Our colleague, Mr. Jones, who has exercised outstanding leadership in this connection, we ask him to speak first, if he will.

STATEMENT OF HON. JAMES R. JONES, CHAIRMAN, TASK FORCE ON UNITED STATES-JAPAN TRADE, COMMITTEE ON WAYS AND MEANS

Mr. JONES. Thank you very much, Mr. Chairman and Mr. Bowen. I just want to congratulate and commend the committee for the hearings you are holding on this very vital issue.

The task force which I chair, and members of which include Bill Frenzel of Minnesota and Sam Gibbons of Florida, issued our initial report early in 1979. Our second task force report was issued just a couple of weeks ago. This particular trade task force was established about 2 years ago to oversee our trade relationship with Japan. I can say that the second report is considerably more positive than the picture that was painted in the first report.

LIBERALIZING TRADE RESTRICTIONS

With the exception of certain agricultural products and high technology products, our task force found that over the past 2½ years, there has been a considerable liberalizing of trade restrictions in Japan, at least as it pertains to U.S. products.

On an overall basis, the balance of trade deficits, which was nearly $12 billion when our task force began, has been reduced to about $8 billion. Our report indicates that if there was some liberalization in Japan, that it would be reduced another $2 billion, particularly if they liberalized current restrictions in certain other trade areas of agriculture and high techonology.

Overall, we found a much more open trade climate in Japan, a much better opportunity for U.S. business to compete in Japan, particularly if U.S. business made the kind of long-term commitment it takes to have access and to penetrate that market.

We do highlight some particular problems in our report that I will mention just briefly, and then will submit to any questions the committee might have.

A major trade irritant between our two countries presently concerns the automobile situation.

TASK FORCE RECOMMENDATIONS

In that connection, our task force strongly recommended two things particularly: One, that for the next couple of years, while the American industry was getting back on its feet and becoming competitive again, that the Japanese voluntarily restrict their imports, and not expand their market penetration in the United States.

We did not spell out how that was to be accomplished, because we thought that might not be the best way to approach it, but we strongly recommended this privately and publicly.

I think there have been some positive developments in that connection. A few days ago, the labor union representing Japanese autoworkers came out publicly in favor of some voluntary restraint of exports to the United States, as well as coming out in favor of capital investment in the United States in automobile parts and assembly. That was a positive step.

Then, just yesterday, one of the automakers along with the Government indicated that there would be a reduction in the exports to the United States.

So, I think the Japanese are taking this seriously and reducing their market penetration, at least in the short term.

The other thing we recommend very strongly is that the Japanese use the excess dollars made on sales of autos in the United States, for capital investments in the United States, particularly in the parts production business.

REPLACEMENT PARTS

In the next 5 years, it is estimated that replacement parts for Japanese automobiles in the United States could be an $8 billion a year business. We strongly suggested that the replacement parts production occur in the United States. That would be labor intensive, which would help our unemployed autoworkers and we think it would also help the Japanese automakers in their inventory situation.

As far as another major irritant, that is the negotiations on telecommunications, to bring Nippon Telephone & Telegraph into the Government Procurement Code. Those negotiations must be concluded by the end of this year, or our Government has threatened to deny Japanese the access to Government procurement in the United States. The negotiations have not gone particularly well in our view up until recently.

We have hopes that some of the things that are being said will result in agreement, but we have been very explicit, and I think this subcommittee may wish to address this question also. We have been very explicit that if negotiations are not successfully concluded by the end of the year, that Congress will not do anything to lengthen the time for the negotiations, and that Congress will in fact back up the administration with regard to denying Federal procurement access to the Japanese.

LONG-TERM SOLUTION

In the long term, I think the kinds of things that need to be done can be accomplished by both specific legislative action, as well as structural changes that will occur outside of the legislative realm.

For example, we are going to have to do something about capital investment and capital formation in the United States. We are going to have to do something about productivity so that we can be more competitive. Our American business is going to have to do something about the quarterly earnings report and the bondage that that puts them in with regard to their shareholders, because to penetrate the Japanese market requires a long-term commitment.

We are going to have to be more conscious about quality. We are going to have to be more conscious about service after the sale, which is very important to the Japanese. Those are the kinds of things we are going to have to do on our side.

POLITICS AFFECTS TRADE

With regard to the Japanese, they are going to have to recognize more the political implications of the trade imbalance that they have had. They are going to have to break up perhaps the old boy network which exists with regard to contracts and how they are issued. They are going to have to open up their markets, such as in high technology. They are going to perhaps have to have more of an emphasis on consumerism than they have had before, which will be to the advantage of the United States.

Overall, this report is optimistic, that we are eventually going to have a more even trade balance between our countries. I think that if we will do our part, and if the Congress and our administration can keep the pressure on both governments, it is a much better outlook in the decade of the eighties than it was in the decade of the sixties and the seventies.

Mr. WOLFF. Thank you very much, Congressman Jones.

Ambassador Ingersoll?

STATEMENT OF HON. ROBERT S. INGERSOLL, FORMER U.S. AMBASSADOR TO JAPAN

Ambassador INGERSOLL. Thank you very much, Mr. Chairman.

On behalf of the United States and Japanese members of the Japan-United States Economic Relations Group, I would like to express our appreciation for the opportunity to testify before your subcommittee today.

Our group feels that the policymakers and public at large in both countries need to be reminded of the fundamental importance of the bilateral relationship and the underlying reasons for the complex problems we face if we are to provide effective long-term solutions. We are encouraged by the increasing interest on the part of the long-term United States-Japan relationship, and the importance of developing a comprehensive, forward-looking approach to the management of the United States-Japan alliance.

Our group is a bilateral group chaired jointly by myself and former Minister for External Economic Affairs Ushiba established in the Carter-Ohira joint communique of May 2, 1979. The U.S. members are A. W. Clausen, president of the Bank of America; E. W. Spencer, chairman of Honeywell, Inc.; and Dr. Hugh Patrick of the economics department at Yale University.

The Japanese members are Shuzo Muramoto, president of Dai-Ichi Kangyo Bank Ltd.; Akio Morita, chairman and chief executive officer of Sony Corp.; and Kiichi Saeki, president of Nomura Research Institute.

UNITED STATES-JAPAN ECONOMIC RELATIONS GROUP

The mandate of this group is to submit to the President and the Prime Minister recommendations that would help to maintain a healthy long-term bilateral economic relationship. The group has undertaken a research agenda of specific studies and held three bilateral meetings in the last year. A fourth and final meeting this year is scheduled for November 20 through 23 to complete our report to the President and the Prime Minister.

As we near the completion of our report, the United States and Japanese members of the group expect to devote more time to developing greater public and private sector understanding of the conclusions and recommendations contained in our report.

I am particularly encouraged by the excellent working atmosphere which the group has developed in approaching the complex issues which define our bilateral economic relationship. The fact that eight private citizens can agree on so much makes me optimistic about creating the kind of "productive partnership" which the late Prime Minister Ohira recognized would emerge as the foundation of our bilateral relationship.

I should point out that we in the group are not alone in working toward this objective. This committee, and other organizations like the Advisory Council on Japan-United States Economic Relations, have played a major role in developing a broader understanding of economic issues within the context of our overall economic, political, and security relationship.

As a result of its consultations the group has reached agreement on certain basic principles that should underlie the future management of the bilateral economic relationship. These principles constitute the foundation on which the group's specific recommendations on particular issues will be made.

COMMON POLITICAL AND ECONOMIC INTERESTS

The United States and Japan share common fundamental democratic political interests and economic free market principles. Both countries also share an interest in the maintenance of a stable international political system and global free trade and capital flows. The similarity and complementarity of the two largest economies in the free world also give both countries an interest in the preservation of a healthy bilateral relationship.

In support of these domestic, global, and bilateral interests, both countries should affirm and strengthen these common fundamental political and economic values and interests at the highest levels. In today's world, commitments to participatory democracy, private ownership, and entrepreneurship, and competition in the free market are all too scarce.

SHARED RESPONSIBILITIES

In addition, both countries should commit themselves to the shared responsibility of maintaining a stable and open international and political and economic order in accordance with the respective strengths of each country. Both countries benefit from global efforts to combat protectionism, undertake positive and effective programs of structural adjustment, and liberalize capital flows. Finally, both countries should reaffirm the fundamental importance of the bilateral political, economic, and security relationship.

There are differences between our two societies, and I would just summarize to say that the Japanese look at security more in economic terms. We look at it more in military terms. However, concern for national economic security has emerged only recently in the United States, with the recognition of our dependence on

imported oil and increasing concern with access to global supplies of other strategic raw materials.

IMPORTANCE OF ENERGY ISSUE

Japan's independence on Middle Eastern sources of oil and U.S. foreign policy objectives in the area may provide a critical test of the bilateral relationship. The importance of the energy issue in United States-Japan relations cannot be overstated. If a shortfall in oil supplies should occur, without an effective cooperative system for sharing limited supplies, the United States and Japan as the largest customers for oil in international markets would compete directly for that residual oil.

In our consultations, we have reviewed a number of areas where greater bilateral and multilateral efforts are necessary: Conservation measures; investment in extraction and transportation; R. & D. for alternative energy sources; stockpiling and sharing programs; and contingency planning for small and large shortages. On the U.S. side, we should explore a swap agreement with Japan for Alaskan oil, and resolve the domestic debate on nuclear energy to keep it a viable option.

Our Group is united in believing that Japan must play a more active international role in maintaining the global system of free trade and capital flows from which it benefits. Japan's rapid postwar rise to the forefront of the expanding international economy has increased competitive challenges and adjustment problems for Japan's trading partners who feel that Japan's public and private sector drive for international expansion has not been matched by similar efforts to encourage the expansion of foreign participation in the Japanese economy.

Our group is convinced that Japanese economic policy should increase its support for the international trade and financial system, and assume a greater responsibility for the adjustment burden.

QUALITATIVE AND QUANTITATIVE IMPROVEMENTS

Japanese trade policy should stress qualitative and quantitative improvement in Japanese imports from the developed and underdeveloped world. Japan's capital liberalization program should actively encourage foreign investment in Japan, Japanese investment overseas, and a greater reserve currency role for the yen. Japanese aid policies require a substantial improvement in the size and scope of current foreign assistance programs and a change in focus away from narrowly defined export promotion and resource extraction interests toward untied aid through multilateral institutions.

On the other hand, the United States must recognize the global diffusion of power in which America no longer holds its former predominant position. Too often the United States has been seen as failing to adequately consult its allies when acting in economic and strategic matters affecting their interests. If the United States expects its allies to share in the burdens of global leadership, the allies have a right to share in the definition of the goals of the alliance and the means of implementing these goals.

Unilaterally, U.S. actions weaken rather than strengthen the alliance, and create public perceptions of a "bullying" United States and "selfish" allies. U.S. policies should readjust to the change in relative power and clearly demonstrate the seriousness with which it views the bilateral relationship in the formation of domestic and international economic policy. U.S. economic policy should stress improved domestic economic performance and trade expansion rather than trade restraint.

ADJUSTMENT ASSISTANCE

Adjustment assistance programs should be limited in duration, and encourage adjustments to changing competitive positions rather than subsidize inefficiency. U.S. energy policy should recognize Japan's vulnerability and increase bilateral cooperation on issues of price stability and supply guarantees.

We are encouraged by the growing interest in this country in rebuilding the industrial base of the American economy. As the national debate on a comprehensive strategy to address the fundamental problems of the U.S. economy develops, we will be supporting the efforts of the Congress to define specific policies and programs. Our own recommendations will identify our areas of concern in the management and performance of the U.S. economy.

GROUP'S RECOMMENDATIONS

First, the continued high rate of inflation has seriously distorted savings and investment patterns, and must be addressed as the first priority.

Two, the level of savings is the lowest in the developed world, and must be raised through a combination of incentives such as the phased removal of regulation Q, and the removal of disincentives in the Tax Code.

Three, increased capital formation is critical to rebuilding the economy and must be stimulated through a comprehensive package of faster depreciation schedules, refundable tax credits, lower corporate and capital gains rates, and other measures.

Four, increased R. & D. is necessary to develop new industries and increase productivity in existing industries, and must be encouraged through incentives for government, industry, and academic work on basic science through industrial renovation.

Five, increasing U.S. productivity is essential in maintaining U.S. competitiveness at home and in foreign markets and must be made a national priority.

Six, the regulatory burden on U.S. industry must be reduced to encourage greater competitive efforts on the part of U.S. firms.

The discussion of the bilateral trade balance in the recent House Ways and Means Trade Subcommittee report begins by noting that:

> From an economic point of view, a bilateral merchandise trade deficit should not be an object of great concern, as long as a nation's worldwide current account—goods and services—is in rough balance. This economic truth, however, is a political falsity.

POLITICAL CONSEQUENCES

The group is aware of the potential political consequences of the continued bilateral merchandise trade imbalance, yet we hope that the executive and legislative branches will play a more active role in educating their colleagues and the public on the global dynamics of trade and payments flows, and the benefits that come from international trade.

In conclusion, the change in the nature of the bilateral relationship to a more long-term coordinated alliance management system requires fundamental changes in attitudes more than alterations of statutes, programs, and institutions. Policymakers, their constituencies, and the public at large in both countries must learn to put traditional domestic issues in a broader, more long-term international context.

This shift in focus presents an enormous political challenge as the domestic costs and benefits of a policy issue are often direct, immediate, and concentrated, while the bilateral costs and benefits are largely indirect, long term, and diffuse.

A stronger bilateral relationship is fundamentally in both countries' national interest and not simply international rhetoric. The burden of changing the perspective of the importance of the bilateral relationship must be spread among policymakers, constituent groups which participate in the policy process, and the public at large.

Even with this change in attitudes, there remain areas of major differences between the United States and Japan which must be resolved in ways which encourage cooperation rather than conflict.

We are gratified that this committee is taking the lead in the important education process. We look forward to working closely with you. I hope we may be invited to testify again after our report is submitted to the President and the Prime Minister late this year.

[Ambassador Ingersoll's prepared statement follows:]

Prepared Statement of Hon. Robert S. Ingersoll, Former U.S. Ambassador to Japan

INTRODUCTION

On behalf of the US and Japanese members of the Japan-US Economic Relations Group I would like to express our appreciation for the opportunity to testify before this Subcommittee today. The Group feels that the policy makers and public at large in both countries need to be reminded of the fundamental importance of the bilateral relationship and the underlying reasons for the complex problems we face if we are to provide effective long-term solutions. We are encouraged by the increasing interest on the part of these Subcommittees in the broader considerations of the long-term US-Japan relationship, and the importance of developing a comprehensive forward-looking approach to the management of the US-Japan alliance.

HISTORY AND MANDATE OF THE GROUP

The Japan-US Economic Relations Group is a bilateral group chaired jointly by myself and former Minister for External Economic Affairs Ushiba established in the Carter-Ohira Joint Communique of May 2, 1979. The US members are A. W. Clausen, President of the Bank of America; E. W. Spencer, Chairman of

Honeywell, Inc.; and Dr. Hugh Patrick of the Economics Department at Yale University. The Japanese members are Shuzo Muramoto, President of Dai-Ichi Kangyo Bank Ltd.; Akio Morita, Chairman and Chief Executive Officer of Sony Corporation; and Kiichi Saeki, President of Nomura Research Institute.

The mandate of this Group is to submit to the President and the Prime Minister recommendations that would help to maintain a healthy long-term bilateral economic relationship. The Group has undertaken a research agenda of specific studies and held three bilateral meetings in the last year. A fourth and final meeting is scheduled for November 20-23 to complete our report to the President and Prime Minister. As we near the completion of our Report, the US and Japanese members of the Group expect to devote more time to developing greater public and private sector understanding of the conclusions and recommendations contained in our Report.

I am encouraged by the excellent working atmosphere which the Group has developed in approaching the complex issues which define our bilateral economic relationship. The fact that eight private citizens can agree on so much makes me optimistic about creating the kind of "productive partnership" which the late Prime Minister Ohira recognized would emerge as the foundation of our bilateral relationship. I should point out that we in the Group are not alone in working toward this objective. This Committee, and other organizations like the Advisory Council on Japan-US Economic Relations have played a major role in developing

a broader understanding of economic issues within the context of our overall economic, political, and security relationship.

BASIC PRINCIPLES

As a result of its consultations the Group has reached agreement on certain basic principles that should underlie the future management of the bilateral economic relationship. These principles constitute the foundation on which the Group's specific recommendations on particular issues will be made.

1. Shared Global Interests and Responsibilities

The US and Japan share common fundamental democratic political interests and economic free market principles. Both countries also share an interest in the maintenance of a stable international political system and global free trade and capital flows. The similarity and complementarity of the two largest economies in the free world also gives both countries an interest in the preservation of a healthy bilateral relationship.

In support of these domestic, global and bilateral interests, both countries should affirm and strengthen these common fundamental political and economic values and interests at the highest levels. In today's world, commitments to participatory democracy, private ownership and entrepreneurship, and competition in the free market are all too scarce. In addition, both countries should commit themselves to the shared responsibility of maintaining a stable and open international and political and economic order in accordance with the respective strengths of each country. Both countries benefit from global efforts to combat protectionism,

undertake positive and effective programs of structural adjustment, and liberalize capital flows. Finally, both countries should reaffirm the fundamental importance of the bilateral political, economic and security relationship.

2. Difference in Perspectives

This commonality of interests and values must be viewed in light of several important differences in perspective. It is often these differences which in recent years have highlighted areas of conflict rather than cooperation and pulled and, at times torn, the fabric of the relationship. The two most significant differences are concepts of national security interests and differences in the system in each country. These are the areas of continued strain which will provide the critical test of efforts to improve the management of the bilateral relationship.

The concept of national security is defined in different terms in every country. Japanese national security has traditionally been defined in terms of economic security: access to export markets and supplies of energy and raw materials. Concern with military security, until recently relegated to the bilateral Security Treaty, remains confined to the defense of the home islands. At the other extreme, US concepts of national security have focused almost exclusively on military security: the bilateral and allied response to Soviet military threats. Concern with national economic security has emerged only recently with the recognition of our dependence on imported oil and increasing

concern with access to global supplies of other strategic raw materials.

Japan's dependence on Middle Eastern sources of oil and US foreign policy objectives in the area may provide a critical test of the bilateral relationship. The importance of the energy issue in US-Japan relations can not be overstated. If a shortfall in oil supplies should occur, without an effective cooperative system for sharing limited supplies, the US and Japan as the largest customers for oil in international markets would compete directly for oil.

In our consultations we have reviewed a number of areas where greater bilateral and multilateral efforts are necessary: conservation measures, investment in extraction and transportation, R & D for alternative energy sources, stockpiling and sharing programs, and contingency planning for small and large shortages. On the US side, we should explore a swap agreement with Japan for Alaskan oil, and resolve the domestic debate on nuclear energy to keep it a viable option.

The domestic political structure which defines economic policy is different in each country. While the US and Japan share fundamental economic principles, there are considerable differences in the economic structures, political constellations of interests which represent them, and the decision making proces. The problems of energy, inflation, recession, and structural adjustment in industries threatened by imports have a different economic and political impact in each country, and generate a different policy response through a different process. The attempt to resolve these

differences on a bilateral basis has been the source of major conflicts in US-Japanese relations.

The day-to-day test of the operational level of alliance management between the US and Japan continues to be in the ability to resolve national differences in macroeconomic policy and industry sector structural adjustment. In three categories of issues: US imports from Japan (steel and autos), Japanese imports from the US (NTT and agriculture), and macroeconomic policy (coordinated growth targets and foreign exchange rate management) the research done for the Group highlights significant problems in current mechanisms for bilateral dispute resolution.

The successful transition to a more long-term comprehensive "alliance management" style in the bilateral relationship will require a commitment in both countries to review their perceptions of and policy responses to domestic, bilateral, and global economic issues.

3. The Internationalization of Japan

Our Group is united in believing that Japan must play a more active international role in maintaining the global system of free trade and capital flows from which it benefits. Japan's rapid post-war rise to the forefront of the expanding international economy has increased competitive challenges and adjustment problems for Japan's trading partners who feel that Japan's public and private sector drive for international expansion has not been matched by similar efforts to encourage the expansion of foreign participation in the Japanese economy.

Our Group is convinced that Japanese economic policy should increase its support for the international trade and financial system, and assume a greater responsibility for the adjustment burden. Japanese trade policy should stress qualitative and quantitative improvement in Japanese imports from the developed and underdeveloped world. Japan's capital liberalization program should actively encourage foreign investment in Japan, Japanese investment overseas, and a greater reserve currency role for the yen. Japanese aid policies require a substantial improvement in the size and scope of current foreign assistance programs and a change in focus away from narrowly-defined export promotion and resource extraction interests toward united aid through multilateral institutions.

4. The United States in an Interdependent World

The US must recognize the global diffusion of power in which America no longer holds its former predominant position. Too often the US has been seen as failing to adequately consult its allies when acting in economic and strategic matters affecting their interests. If the US expects its allies to share in the burdens of global leadership, the allies have a right to share in the definition of the goals of the alliance and the means of implementing those goals. Unilateral US actions weaken rather than strengthen the alliance, and create public perceptions of a "bullying" US and "selfish" allies.

US policies should readjust to the change in relative power and clearly demonstrate the seriousness with which it views the bilateral relationship in the formation of domestic and international economic policy. US economic policy should stress improved domestic economic performance and trade expansion rather than trade restraint. Adjustment assistance programs should be limited in duration, and encourage adjustment to changing competitive positions rather than subsidize inefficiency. US energy policy should recognize Japan's vulnerability and increase bilateral cooperation on issues of price stability and supply guarantees.

The Group feels that the improved management and performance of the US economy is one of the most important factors in the bilateral economic relationship. As long as the US economy suffers from inflation, recession, weak savings and capital formation, inattention to R & D, and low productivity growth, our interdependent economic relationship with Japan will deteriorate. The mandate of this Group is to recommend actions which would improve our US-Japan economic relations, yet we feel strongly that no set of recommendations will affect our relationship more than the improvement in the fundamental strength of the US economy.

We are encouraged by the growing interest in this country in rebuilding the industrial base of the American economy. As the national debate on a comprehensive strategy to address the fundamental problems of the US economy develops, we will be supporting the efforts of the Congress to define specific policies and programs. Our own recommendations will identify our areas

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of concern in the management and performance of the US economy:

1. The continued high rate of inflation has seriously distorted savings and investment patterns, and must be addressed as the first priority.

2. The level of savings is the lowest in the developed world and must be raised through a combination of incentives such as the phased removal of Regulation Q, and the removal of disincentives in the tax code.

3. Increased capital formation is critical to rebuilding the economy and must be stimulated through a comprehensive package of faster depreciation schedules, refundable tax credits, lower corporate and capital gains rates, and other measures.

4. Increased R & D is necessary to develop new industries and increase productivity in existing industries, and must be encouraged through incentives for government, industry, and academic work on basic science through industrial innovation.

5. Increasing US productivity is essential in maintaining US competitiveness at home and in foreign markets and must be made a national priority.

6. The regulatory burden on US industry must be reduced to encourage greater competitive efforts on the part of US firms.

The discussion of the bilateral trade balance in the recent House Ways & Means Trade Subcommittee report begins by noting that, "from an economic point of view, a bilateral merchandise trade deficit should not be an object of great concern, as long as a nation's worldwide current account (goods and services) is in rough balance. This economic truth, however, is a political falsity."

The Group is aware of the potential political consequences of the continued bilateral merchandise trade imbalance, yet we hope that the Executive and Legislative branches will play a more active role in educating their colleagues and the public on the global dynamics of trade and payments flows. If we overemphasize the bilateral aspects of our trade relationship we not only obscure the structural reasons for the short-run bilateral imbalance with Japan, but also run the risk of having the argument turned against us by our trading partners elsewhere in the world.

We are also aware of increasing political concern with the commodity composition of the bilateral trade relationship. In suggesting that some $6 billion in US agricultural and raw material exports makes the US, "Japan's plantation-hewers of wood and growers of crops," the recent US-Japan trade report ignores three points. First, the US enjoys an enormously profitable comparative advantage in these commodities. Second, the remaining US exports to Japan are manufactured goods with greater value added. And third, the US maintains an overwhelming global position in the international service sector trade.

The fluctuations in the yen/dollar exchange rate are the critical adjustment mechanism for balancing differences in US and Japanese monetary policies, trade and current account positions, and economic performance. The time lag involved in the so-called "J curve" adjustment process, however, often increases rather than decreases the trade imbalance in the short term. Here too there is an important educational role for the Congress and the Administration in explaining the domestic and international impact of currency fluctuations.

In the future, yen/dollar exchange rate fluctuations are expected to moderate with the increasing internationalization of Japanese capital markets and the greater reserve currency role of the yen. To encourage this development, our Group has discussed recommendations for Japan to assume a greater burden in maintaining the global financial system by becoming more of a key currency country.

CONCLUSION

The change in the nature of the bilateral relationship to a more long-term coordinated alliance management system requires fundamental changes in attitudes more than alterations of statutes, programs, and institutions. Policy makers, their constituencies, and the public at large in both countries must learn to put traditional domestic issues in a broader more long-term international context. This shift in focus presents an enormous political challenge as the domestic costs and benefits of a policy issue are often direct, immediate, and concentrated while the bilateral costs and benefits are largely indirect, long-term, and diffuse. A stronger bilateral relationship is fundamentally in both countries' national interest and not simply internationalist rhetoric. The burden of changing the perspective of the importance of the bilateral relationship must be spread among policy makers, constituent groups which participate in the policy process, and the public at large. Even with this change in attitudes, there remain areas of major differences between the US and Japan which must be resolved in ways which encourage cooperation rather than conflict.

We are gratified that this Committee is taking the lead in the important education process. We look forward to working closely with you. I hope we may be invited to testify again after our report is submitted to the President and the Prime Minister in December.

Mr. BOWEN. Thank you, Ambassador Ingersoll. Although it is our hope to complete the testimony of all those present today as witnesses before having questions, we certainly hope you gentlemen will be able to stay with us for that if you can.

REPLACEMENT PARTS

I would like to make one very brief comment on the subject of replacement parts, which Mr. Jones brought up, and direct a question to you.

During a recent trip to Japan, I perceived in conversation with several officials there that they were taking steps directly toward removing the tariff barriers to American spare parts in the Japanese market. I raise this because I happen to have a firm in my home town, Douglas & Lomison, which manufactures parts and accessories. It is down to about one-half of its work force.

So, that would be encouraging indeed to some American parts manufacturers, to think that we might be able to manufacture spare parts for Japanese automobiles and in turn export them over there, or accessories and other equipment for cars.

Do you know of anything in that direction, Jim?

Mr. JONES. The Japanese have shown a great deal of cooperation in reducing the barriers to automobiles, American automobiles into Japan. I do not know specifically if they are taking the same action with regard to spare parts, but clearly that ought to be done.

We are trying to encourage the Japanese to both invest in new plants in this country, to provide jobs here, and to use existing parts manufacturers in the United States to manufacture parts for Japanese cars sold here.

Mr. BOWEN. Thank you.

I would like at this time to call on Hon. Robert Hormats, who is our Deputy U.S. Trade Representative, Hon. Robert Herzstein, Under Secretary for International Trade, and Mr. Harry Kopp, Deputy Assistant Secretary, Bureau of Economic and Business Affairs.

If you gentlemen can be with us, we would like to have you answer a few questions. If, on the other hand, you have to get to the floor, Jim, we will understand.

Mr. Jones, before you slip away, I think the gentleman from Washington, Mr. Pritchard, had a question he wanted to ask you, if you don't mind just staying with us for a few moments longer.

CUTTING BACK CAR PRODUCTION

Mr. PRITCHARD. Were you the individual who said something about Japanese cutting back on some of their production, car production?

Mr. JONES. Yes.

Mr. PRITCHARD. Do you have any details on that?

Mr. JONES. I only have the sketchy details that were in the newspaper. Ambassador Hormats may want to comment on that in more detail.

It was in the Wall Street Journal today, and it was only a three-paragraph story. It indicates that there will be—we are expecting a cutback of about 200,000.

Ambassador INGERSOLL. Below the fourth quarter of last year.

Mr. PRITCHARD. Is that from a Government policy, voluntary policy, or is it market action?

Ambassador INGERSOLL. The Government statement will be with industry leaders.

Mr. JONES. To this point, the loop has been closed neatly, and the Japanese Government has been making statements along this line for some time. We have been hearing that the private industry would not go along with that, but now we have had statements from Government. The indication is that the manufacturers agreed to the voluntary restraint as well as the labor unions.

Mr. PRITCHARD. This was a group of all Government factories?

Ambassador INGERSOLL. Three, Toyota, Datsun, and Honda.

Mr. PRITCHARD. That is very encouraging. How does that relate back to 2 percent under 1979?

Ambassador INGERSOLL. I think it is the same, but I have forgotten. It is a reduction, but I am not sure what the percentage is.

Mr. JONES. It doesn't say. It says:

> The first 7 months of the year exports in the U.S. rose 29 percent, to nearly 1.1 million units. In August and September, though, exports ran about 287,000 units monthly, up 12 percent. The final quarter, the level will fall below a year earlier.

So, it does not put a percent on it.

Mr. PRITCHARD. My informed staff person says it's 2 percent. Well, what do you think? I want to ask you what you think about this. A number of our colleagues talked to us yesterday about the proposal or the resolution of Congress putting the heat on Japan to make that voluntary cut.

Mr. JONES. We have passed a resolution out of the Ways and Means Committee which is a sense of Congress resolution, which deals somewhat with that subject on a broader scale. I personally don't think we ought to be legislating for protectionism. I don't think that does our consumers and I don't think it does our country any good. It just postpones the issue.

I think what we ought to be doing is what we have been doing, encouraging the Japanese to recognize the political realities in this country, urging them to do something on their own to restrict their exports, but in the process, I think we ought to be rebuilding and making our own industry more competitive, and looking at the situation more realistically than we had before.

Mr. PRITCHARD. Thank you.

Mr. BOWEN. Thank you very much, gentlemen.

I don't know which of you gentlemen would like to go first. Secretary Herzstein, would you like to go first? I enjoyed being with you at the OECD ministerial meeting earlier this year in Paris. I am very impressed with the work you are doing. We are happy to have your testimony at this time.

STATEMENT OF HON. ROBERT E. HERZSTEIN, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. HERZSTEIN. Thank you very much, Mr. Bowen. The pleasure was certainly mutual. I am glad that meeting gave us a chance to get to know each other on a personal basis.

I have a prepared statement which I would like to submit for the record, and I will try to summarize the main points of it for you. I should note that the statement has two appendixes. One of them is a résumé of official nontariff barriers that we have catalogued in the past, that the Japanese maintain and are still of concern to us.

The second attachment is a statement I gave to the opening session of the Japanese auto components buying mission, which started a week ago Monday in Detroit. That statement has a discussion of some of the dynamics of the auto parts situation, and I thought it might be of interest to you.

That mission is completing its work this week, and we will be having a closing press conference, probably tomorrow, here in Washington.

I will focus my remarks on market access problems that we encounter in Japan and the kinds of actions the administration can take to improve our administration and overcome with you those access problems.

When an American businessman looks at the opportunities for trade between the two countries, he finds tremendous disparities between the chances to sell in the U.S. market and the opportunities to enter the Japanese market. If you ask a Japanese businessman or an American businessman which market he would rather sell in, usually both of them would say they would rather sell in the U.S. market.

This preference is due to a great variety of factors and is not the sort of thing that can be changed overnight. Some of it is due to official barriers that still remain in Japan. Some of it is due to institutional, structural, and cultural factors which we are only now beginning to understand, after years of trying to lower official barriers, to get tariffs down, and to eliminate nontariff barriers.

We realize that these measures are not enough to start the flow of trade taking place, and many American businessmen, the Commerce Department, and other areas of the Government are beginning to take a closer look at what can be done with these other factors.

CONSEQUENCE OF DISPARITIES

Before I get into those a little more, let me summarize the consequences of the disparities, which are increasingly dramatic. While the United States is the world's leader in telecommunications equipment, for example, very little such equipment is sold in Japan. In automobile products, Japan sells $55 worth in the United States for every dollar of auto products it purchases from us. There are about $11 billion of Japanese sales in this market, and under $200 million in sales by the United States of autos and parts to Japan.

The United States is principally an exporter of agricultural products and raw materials to Japan, even though U.S. exports to the rest of the world are 70 percent manufactured goods. The United States has an unbroken string of trade deficits with Japan since 1965, which now accumulates to about $60 billion. This year, the U.S. deficit with Japan is likely to be close to $10 billion, which will be one-third or more of our global 1980 trade deficit.

After World War II, Japan used tariffs, quotas, exchange controls, governmental guidance, and other direct and indirect official

barriers to imports to protect Japan's growing industries, until they reached a scale and efficiency that would enable them to compete with anyone in the world.

We have seen a pattern in one industry after another in which the Japanese market is effectively closed to outside competition while that industry goes through that critical musclebuilding stage and, of course, by the time the market opens, it is very difficult for foreign products to get a toehold.

OFFICIAL BARRIERS GONE

Today, most of these official barriers are gone, and Japan's market has become open in the sense of official barriers, official laws and regulations. This has been particularly true in the places where Japan has been able to build highly competitive industries. Some official barriers, however, still remain, and our continuing trade deficits with Japan underscore the unacceptability of these barriers to U.S. exports.

They are particularly aggravating in products such as telecommunications equipment, manufactured tobacco, data communications services, processed foods, citrus products, and so on, in which the United States has a comparative advantage and should be doing better in the Japanese market, as it does elsewhere.

The official nontariff barriers are summarized, as I mentioned, in the appendix to my statement, and I won't go into them further here except to note that they are roughly classifiable into four categories: Quantitative restrictions; burdensome customs clearance procedures; unreasonable product approval procedures; and Government procurement practices which give preference or exclusive access to Japan-made goods.

Of greater importance than these residual official barriers to trade, in terms of our overall trade, we feel that of greater importance these days are these private sector, nontariff barriers which result from the structure of Japanese industry and a variety of institutional factors in Japan. Japanese buyers have, for example, a deeply ingrained preference for Japanese goods over foreign goods.

This preference is, to indulge in a little amateur sociology, probably a result of the strong Japanese efforts since World War II to build their industry up, and certainly is reinforced by the remarkably cohesive nature of Japanese society, the ability to work together as a people, and their sense of an overall national purpose toward which every individual is directed.

INTEGRATED JAPANESE INDUSTRY

Another factor which we feel quite important is the highly integrated nature of much of Japanese industry, so that a computer company, which might be a good customer for American semiconductors, ends up having its own internal supply of these products, either within its own company or the family of companies with which it is affiliated, directly or indirectly, through some kind of ownership arrangement.

Even apart from ownership arrangements and structural integration, there are family relationships, very close buyer-seller rela-

tions, even among companies that are not otherwise legally affiliated. The loyalty that grows between a Japanese company, let's say an automotive manufacturer and his family of parts suppliers, is really quite remarkable, and very difficult for a foreigner to penetrate, even if he has products available on a basis that is competitive in terms of quality and price.

This is a factor which I think we are finding especially significant with the auto companies. Another factor is access to technology and the ability to acquire companies that have important technology or productive facilities.

The Japanese companies can acquire technology rather freely in this country, and they can acquire small companies such as some of the small semiconductor companies on the west coast. Through that method they can keep themselves up to date on the best of what we have available in this country.

It is very difficult in practice for American firms to gain equivalent access to what is going on in Japan. We have heard some evidence recently, on which we don't yet have full details, that the Japanese in some industries are in a position to negotiate individually with American companies to buy their technology, and when the Japanese get it, they share it among themselves, whereas an individual American company that might be getting a cross license from the Japanese is not in a position to share it in this country.

As a result, any Japanese company would have the benefit of all the licenses obtained from American companies, whereas an American company would only get what he has been able to bargain for individually.

GOVERNMENT WORKING WITH INDUSTRY

Then, of course, finally, we heard a little bit about the complex Japanese distribution system, which does indeed operate as a very significant barrier to American suppliers. Most American companies have been unable to overcome these obstacles on their own, and therefore the Government is working with industry in a variety of ways which we hope will have a significant impact.

I will summarize those very briefly, and we can go into them further if you wish later on.

Basically, we feel it is necessary to coordinate the use of several existing tools that the Government has. The first is effective and vigorous implementation of the MTN codes, in order to gain as much access as possible to the Japanese market for American industry under the legal provisions of those codes.

Second is our use of various trade promotion devices which we have had available in this country, administered by the Commerce Department, or some which are being built up substantially with the renewed foreign service.

Third is use of the joint United States-Japan Trade Facilitation Committee, which is operated jointly by the U.S. Commerce Department and the Japanese Ministry of International Trade and Industry. The Trade Facilitation Committee provides a forum in which American exporters can seek resolution of problems they have with Japanese trade practices. To date it has been successful in a dozen or so individual cases.

One of the advantages of this committee is that it enables an individual trade problem or access problem to be explored very effectually. One doesn't necessarily know ahead of time what is causing the problem. The American businessman feels that he has a problem with a product which should sell. If it is priced competitively and is not selling, the TFC allows us to investigate the reasons and see what issues underly them.

In some cases, such as telecommunications and tobacco, cases that started as trade facilitation cases uncovered a genuine and very significant trade policy issue, which was then picked up by the U.S. Trade Representative and taken up with the Japanese on a negotiation basis.

TRADE FACILITATION COMMITTEE

We feel that we need to use the Trade Facilitation Committee increasingly to address these cultural and structural institutional barriers, rather than just the official barriers that have normally been the subject of TFC attention in the past.

TFC gives us the opportunity to enlist the cooperation of MITI and other Japanese Government agencies in efforts to overcome such obstacles as we are able to uncover. The Japanese Government has been cooperative in these efforts, and we look forward to more cooperation with it.

Our work on the Japanese auto parts mission is one example of our efforts to coordinate these tools I mentioned. Early last summer, Ambassador Askew was successful in negotiating elimination of certain residual restraints in Japan to imports of automobiles and parts, so that was one use of the first tool.

TRADE PROMOTION WORK

We then followed that up with trade promotion work, working with U.S. parts suppliers to make them aware of possible opportunities for sale to the Japanese, and to let them know of our willingness to work with them, attempting to crack the Japanese market.

As part of these promotion efforts, we have arranged for the buying mission that is in this country now. The third tool, trade facilitation, we intend to use to follow up on the efforts of this parts buying mission for 2 years, remaining in contact with each of the companies in the United States and Japan that have participated in the mission, find out what kind of results they were able to get from it, and in cases where it was not productive, explore the reasons.

We feel that will teach us a good deal about the problems underlying U.S. access to the Japanese market.

EXPORT TRADING COMPANY

Finally, I might just mention, we hope there will be a fourth vehicle available in the near future, and that is the export trading company. We feel it offers a good opportunity for assisting U.S. business to gain better access to the Japanese market over some of these structural and institutional barriers that we encounter there. We feel that the export trading company will allow many American businesses who aren't in a position to put in the tremendous

amount of time and money that is necessary to learn the Japanese system to get access through a jointly held vehicle that will become the expert and will do the work for them.

One large auto parts manufacturer told me last week that his company has been in Japan for 6 years at a cost of about $1 million a year with a warehouse, so that it would be ready to supply Japanese automakers on a daily basis if necessary and avoid any distribution problems.

Its sales are still almost nil, he said. He hopes they will be better. He is willing to keep trying. That is an example of the enormous resources that are necessary.

That pretty much concludes my summary of the statement, Mr. Chairman. I will be glad to answer any further questions if you would like.

Mr. BOWEN. Thank you, Secretary Herzstein. I understand that you will have to leave, and may not be able to stay with us for all of this, but as long as you can be with us, we will be happy to have you. Without objection your entire statement will be included in the record.

Mr. HERZSTEIN. Thank you.

[Mr. Herzstein's prepared statement follows:]

Prepared Statement of Hon. Robert E. Herzstein, Under Secretary for International Trade, Department of Commerce

I appreciate this opportunity to discuss with you U.S.-Japanese trade, the problems it poses for us, and what we are doing about it. You have already heard from Deputy U.S. Trade Representative Robert Hormats, who has discussed issues such as government procurement and automobiles. I will focus my remarks on market access problems, non-tariff barriers, and the actions the Administration is taking to improve our trade position with Japan.

There are dramatic disparities in market access between the United States and Japan. While the U.S. market is open to Japanese producers, many areas of the Japanese market are effectively closed to U.S. producers. These disparities are of extreme concern to American business, the Executive Branch, and the Congress.

Some of the consequences of these disparities are notable:

- While the United States is the world leader in telecommunications equipment, little such U.S. equipment is sold in Japan.

- Japan's purchases of U.S. semiconductors represent a very small portion of Japan's market, even though the United States is the world's leading producer and innovator of semiconductors.

- Japan sells $55 of automotive products to the United States for every dollar of auto products it purchases from us.

- The United States is principally an exporter of agricultural products and raw materials to Japan, though 70 percent of U.S. exports to the rest of the world are manufactured goods.

- Japan's imports tend to be at low stages of processing, preserving for the Japanese economy the value-added in finishing the goods.

- Japan's imports of manufactures tend to be either products Japan no longer attempts to manufacture on a large scale (such as textiles and clothing now imported from other Asian nations) or specialized capital equipment not made in Japan.

- The United States has had an unbroken string of trade deficits with Japan since 1965, cumulating to $60 billion.

- The U.S. deficit with Japan peaked at $11.6 billion in 1978, receded to $8.7 billion in 1979, and is likely to be $10 billion for 1980. This will be one-third or more of our global 1980 trade deficit.

These disparities are the result of: (1) official government actions to reduce imports or to create strong export industries; and (2) structural and institutional factors in the private sector which serve to restrict imports.

Japan's industrial development has been dependent on the generation of highly-competitive export industries to earn the foreign exchange to pay for Japan's enormous raw material import bill. To achieve this objective, Japan since the early 1950's has pursued a strategy of fostering and protecting the growth of key industries until they reached a scale and efficiency permitting them to compete with any country in the world. Tariffs, quotas, exchange controls, governmental guidance and other direct and indirect

barriers to imports were erected to protect Japan's growing industries from effective competition from foreign producers in the home market. At the same time, domestic credit policies funneled the needed investment financing for plant and equipment. Policies were aimed at importing at the lowest stage of value-added and at moving Japanese industry up the technology ladder.

These policies were reinforced by institutional factors such as a close government-business relationship, linkages among private companies, a traditional preference for Japanese goods over foreign goods, and a complex marketing system. An additional factor has been Japan's trading companies, which still account for over half of Japan's foreign trade and one-fifth of domestic wholesale trade. The result is what came to be known popularly as "Japan, Inc.".

Today most of the official barriers are gone, and Japan's market has become increasingly open over the last decade or so — particularly where Japan has built highly-competitive industries. Japan has sharply reduced its tariffs in the course of multilateral trade negotiations. It has dismantled most of its once-extensive network of non-tariff trade barriers (NTBs) and it has eliminated most of its export incentives. While some official barriers are left, most of the disparities now result from the private sector structural and institutional factors.

Official Barriers

Turning first to Japan's remaining official barriers, I do not say that our deficit with Japan would be erased or even halved if these remaining barriers were eliminated. I think it is fair to say, though, that these remaining Japanese obstacles to imports have a significant effect on our trade. It is impossible to assign a dollar value to the U.S. exports that are being lost as a result of Japan's official NTBs, but our continuing trade deficits with Japan underscore the unacceptability of artificial barriers to U.S. exports to Japan.

There are basically four categories of official NTBs affecting U.S. exports to Japan: 1) quantitative restrictions, or import quotas; 2) burdensome customs clearance procedures; 3) unreasonable product approval procedures; and 4) buy-Japan government procurement practices. These are briefly discussed below. A more detailed inventory is attached to my statement.

1. Import quotas. While the Japanese government has largely dismantled its once massive array of controls over the volume of imports, it continues to limit the volume of imports of a number of products of U.S. export interest. These include oranges, citrus juices, beef, fish and leather. We have been pressing Japan for years to substantially enlarge, if not entirely remove, the import quotas for these products, and we have had some success.

2. Customs clearance procedures. The problem is not so much one of restrictive laws and regulations as it is of fastidious or overly-stringent interpretation of the laws and regulations. U.S. exporters on occasion have found shipments held up at Japanese customs for such trifles as typographical errors in the documentation. U.S. goods are occasionally subject to arbitrary duty uplift or reclassification by Japanese Customs officials. While duty uplift will be handled by the MTN's Customs Valuation Agreement (effective January 1, 1981) stringent interpretations may still be a problem.

3. Product approval procedures. These involve the applicable product standards themselves, the way such standards are promulgated, and the procedures used to test and certify imported products for compliance with these standards. Japanese standards tend to be oriented toward design rather than performance characteristics, and U.S. products are sometimes disapproved even though their design does not affect the product's compliance with the performance objective of the standard. Another fundamental difficulty with Japan's product approval procedures is the typical requirement that testing of the product be performed in Japan. While the MTN Standards Code will apply in this area, some long-standing problems will still remain.

4. Government procurement. Though the Japanese government has made some progress toward offering foreign suppliers the opportunity to compete for government contracts, the vast bulk of such contracts are still concluded

with Japanese suppliers on a negotiated rather than on a world-wide competitive bid basis. While these problems would be reduced dramatically this coming January by the Government Procurement Code negotiated in the MTN, important questions remain in some areas.

Let me illustrate with some examples affecting specific industries:

Telecommunications - Japan's government-owned Nippon Telegraph and Telephone Public Corporation (NTT) operates the Japanese domestic telecommunications system as a monopoly, and is the biggest Japanese buyer of telecommunications equipment. NTT follows a "buy Japan" policy for most of its purchases and has product certification procedures that effectively limit imports. Imports are less than one percent of an estimated $3.3 billion market, and Japan has agreed until now to subject only a minor portion of NTT's purchases to the provisions of the MTN Government Procurement Code.

Manufactured Tobacco - The Japan Tobacco and Salt Public Corporation (JTS), an agency of the Ministry of Finance, is the sole importer of manufactured tobacco. JTS places restrictions on the marketing, advertising, and distribution of imported tobacco products. Pricing of imported and domestic tobacco products is set by the Japanese Government, with the mark-up on imported products considerably higher than that of comparable domestic products. Imported cigarettes are limited to about 1 percent of an

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estimated $10 billion market in terms of retail sales. Estimates indicate that under an open market our exports could be as much as $500 million larger.

Timesharing - Japan imposes wide restrictions on the use of international private leased telecommunications circuits, including extensive reporting and inspection requirements and a restriction permitting a data link to only one processing center in the U.S., with the firm limited to offering in Japan only those services performed at this facility.

Processed Foods - Japan maintains a "positive list" for food additives. Imported food products containing additives not on the positive list must receive approval for import, often a time-consuming and cumbersome process. The Ministry of Health and Welfare appears extremely reluctant to expand the list to include new additives, thus closing off the Japanese market to foods not on the positive list.

Cosmetics - Japan maintains a positive list for cosmetics ingredients. Those ingredients not on the positive list must be tested in approved laboratories in Japan according to Japanese test methods, even if such tests were previously performed outside Japan. The time and cost for obtaining approval for a product containing such an ingredient is often prohibitive, discouraging U.S. exporters from making the extreme effort required to get their products into Japan.

I do not mean to imply the Japanese government has been uncooperative in addressing the remaining formal restrictions to imports. Such is not the case, and we and the Japanese continue to work together to find ways to eliminate these barriers. The most notable effort at present is that aimed at including NTT under the Government Procurement Code, as Ambassador Hormats has discussed in his testimony.

Private Sector "NTBs"

Of greater importance than these residual barriers maintained by the Japanese government, however, are what we might call "private sector NTBs". These are the private sector structural and institutional factors which result from earlier Japanese government policies and from traditional attitudes:

- Japanese buyers have a deeply-ingrained preference for Japanese goods over foreign goods.

- Close buyer-seller relationships that may involve financial linkages make it difficult for imports to penetrate Japanese markets. Many Japanese producers have a "family" of suppliers with which they maintain a close relationship.

- The Japanese distribution system itself operates as a barrier. It is a traditional system which Americans find very difficult to work with, as well as not being very efficient.

These private sector practices and attitudes are sometimes reinforced by government programs to build new industries, such as in computers and telecommunications equipment.

Trade Facilitation

American companies, other than a few who have been willing to make enormous time and financial investments, have been unable to overcome these obstacles on their own. It is for this reason that "trade facilitation" — governmental assistance in overcoming these barriers — is so very important to the growth of U.S. exports to Japan. Trade facilitation is not something the U.S. Government can undertake on its own. Overcoming these long-standing private practices in Japan can only be done with the assistance of the Japanese government.

We look to the Japanese government to help bring about a change, not only by altering its own procurement practices, but also by taking steps to ensure that more purchasing options are available to private buyers. We do not expect Japanese companies to buy goods that are dearer and not up to

accustomed quality standards, but we do expect the Japanese government to make clear to Japanese companies and consumers that they should not look at Japanese goods only.

We have had important cooperation from the Japanese government in this endeavor, and we look forward to more in the future. Such efforts on the part of the Japanese government are in the long-term interest of Japan as well as that of the United States.

A particularly important mechanism for improving U.S. access to Japanese markets is the joint U.S.-Japan Trade Facilitation Committee (TFC), which was established in 1977. Operated by the U.S. Department of Commerce and the Japanese Ministry of International Trade and Industry (MITI), the TFC is designed to provide a special forum in which American exporters can seek resolution of problems they encounter with Japanese trade practices and procedures. The TFC also sponsors activities such as the Japan Import Promotion Mission of 1978, designed to bring Japanese buyers into contact with U.S. sellers.

To date, the TFC has been viewed principally as a means of addressing official barriers. It has operated on a case-by-case basis and has had some significant successes. The TFC is unique in that it has followed a pragmatic problem-solving approach, delving into the specifics of individual cases to find the problems.

The TFC has favorably resolved 15 formally-presented cases and is near resolution of several others, opening access to the Japanese market for such diverse products as shock absorbers, fertilizer, modified food starches, and other products in demand in Japan. A number of other cases have been informally resolved without requiring formal submission to the Japanese side of the TFC. The TFC has also been the catalyst for identifying situations that eventually led to major negotiations, including the policies of NTT and JTS.

What we need to do now is to shift the TFC's orientation away from individual cases relating to official barriers and to use it increasingly as a joint U.S.-Japanese vehicle to address structural aspects of the Japanese economy and marketing system. Such issues might include buyer/supplier relationships, customs clearance difficulties, and Japan's distribution system. At the same time, the TFC would continue its individual case work on market access impediments, but would deal more in cases where trade is not occurring despite the competitive strength of particular U.S. product groups and the absence of official barriers.

We will seek a reaffirmation of Japanese commitments to the TFC, and will seek agreement that the TFC be used to assist in investigating and documenting potential MTN Code violations prior to resorting, if necessary, to the formal dispute settlement procedures of the Codes. Most importantly,

through the TFC we intend to enlist the cooperation of MITI and other Japanese government agencies in positive import facilitation efforts to overcome obstacles to importing into Japan.

An example of what I mean by positive import facilitation are the efforts which have been jointly undertaken to expand Japanese imports of autos and auto components. The Japanese government has undertaken a wide range of actions to minimize barriers to U.S. automotive products. These steps have included elimination of the duty on imported automobiles, elimination of many automotive standards which were effectively serving as import obstacles, the proposed elimination of duties on most automobile parts and components, and sending automobile parts buying and investment missions to the United States.

The auto components buying mission is in our country at the present time. The full benefit of this mission will not, of course, be realized overnight. With U.S. parts-making capacity readily available, however, it should be possible soon to see tangible results in the form of contracts in some cases, and in other cases concrete steps toward contracts. A more complete discussion of these missions is attached, in the form of a statement I made in Detroit at the beginning of the auto parts buying mission.

The auto components industry is the ideal candidate for positive import facilitation, for the U.S. and Japanese governments have now done most of what they can to eliminate official barriers. We will use the TFC in a unique way to follow up on the missions for a two-year period. We will stay in touch with American and Japanese companies to find cases in which there was a sales potential but actual sales did not occur — and will enlist the aid of the Japanese government in those cases where "private NTBs" appear to be the reason.

U.S. Marketing Efforts

We must not overlook the fact that an important part of the task is the marketing effort U.S. companies must make to enter the Japanese market. The Commerce Department will use its export promotion programs and the Foreign Commercial Service to assist U.S. firms in establishing themselves in the Japanese market, particularly in those areas opened up by trade facilitation efforts. Many U.S. companies have simply not put forward the marketing effort needed to establish themselves in the Japanese market. Many companies, for example, have not bothered to translate their sales literature into Japanese. As official and private barriers to imports in Japan continue to come down, U.S. companies must accelerate their sales effort. Trade facilitation, for example, will not make the Japanese speak English. Nor can it be expected to stimulate an interest in buying products that are too expensive or of insufficiently high quality.

I am hopeful that a major innovation in U.S. export marketing, the Export Trading Company proposal which passed the Senate unanimously and is now before the House, will be able to make a major contribution toward increasing U.S. exports to Japan. Such U.S. trading companies, specializing in knowledge of Japanese marketing practices, could relieve individual U.S. companies of the expensive effort to build markets in Japan and could result in a sharp increase in the number of U.S. companies whose products are sold in Japan.

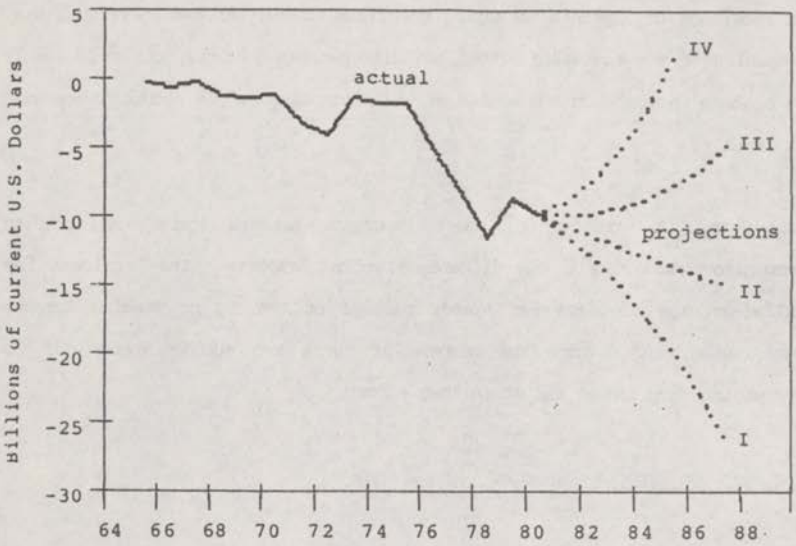
Japan could be one of the most important markets where U.S. trading companies could make a big difference to our exports. The President has called on the Congress for speedy passage of the Export Trading Company legislation, and I hope the members of these two subcommittees will do everything they can to assist in that effort.

The Need for Exports

In concluding, let me underscore the importance of our efforts. I expect the U.S. trade deficit with Japan to be about $10 billion in 1980, and I fear it may well be larger than that in 1981. The fact is that the value of U.S. imports from Japan are now about 50 percent larger than our exports to Japan. Because of this extreme imbalance, we must run hard just to stay still. As the hypothetical extrapolations in Figure 1 show, if U.S. exports and imports were to grow at the same rate from here on, the deficit with Japan would continue to mount at a rapid rate. The percentage growth in our exports to Japan must significantly exceed the percentage growth in our imports from Japan just to keep the deficit from growing larger.

FIGURE 1

UNITED STATES TRADE BALANCE WITH JAPAN
ACTUAL BALANCES 1965-80 AND HYPOTHETICAL PROJECTIONS



ASSUMED ANNUAL GROWTH RATES AFTER 1980

	U.S. Exports	U.S. Imports
Case I	15%	15%
Case II	15	12.5
Case III	15	10
Case IV	20	10

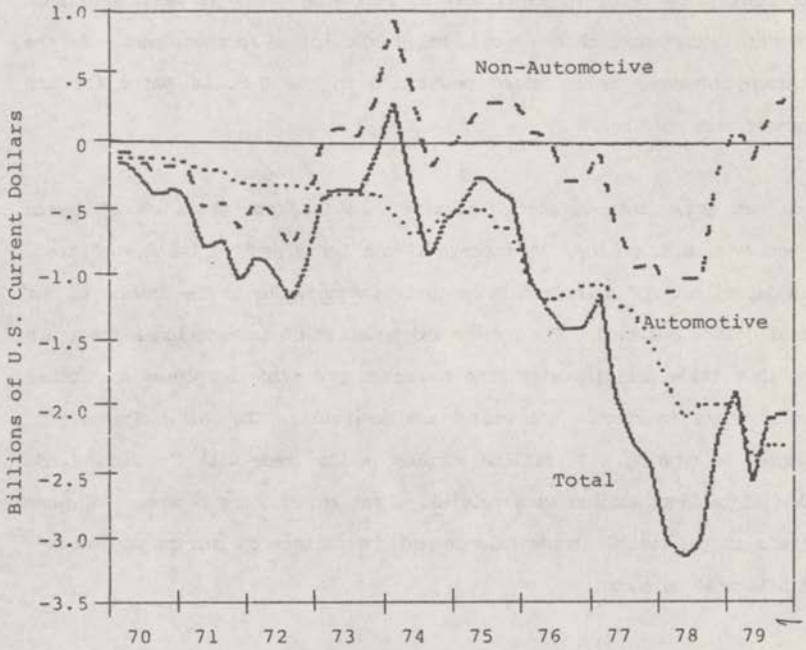
Note: Actual annual growth rates, 1970-79 were:

U.S. exports to Japan — 16%
U.S. imports fm Japan — 18%

Office of Planning & Research
September, 1980

Figure 2

U.S.-Japanese Trade Balances:
Total Trade, Automotive and Non-Automotive
Balances, 1970-1979
(Quarterly Data)



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Also, as is shown in Figure 2, it is unlikely that our trade position with Japan can be stabilized if our auto imports continue to grow at past rates. The best solution to this problem is for the new U.S. cars coming into production this fall, in 1981, and in following years to meet with such consumer acceptance that import sales decline. Another part of the solution, however, is increased production in the U.S. of parts for the Japanese cars sold here.

I do not argue that bilateral balance in U.S.-Japan trade should be an objective of U.S. policy. My concern is not for a neutral balance of trade with Japan, but for a trade balance that is manageable in the context of our overall trade position. The nature and benefits of international trade are such that trade deficits with some countries and trade surpluses with other countries are inevitable and indeed are desirable. The United States, for example, is running a $7 billion surplus in its trade with The Netherlands and a $5 billion surplus with Belgium. From an economic perspective, what matters is the overall trade balance and the balance on current account — not bilateral balances.

I should note, though, that while the U.S. current account position was in approximate balance last year, this year it has once again gone into sizeable deficit. Moreover, as the Subcommittee on Trade of the House Committee on Ways and Means stated in its recent United States-Japan Trade Report,

> "From an economic point of view, a bilateral merchandise trade deficit should not be an object of great concern as long as a nation's worldwide current account is in rough balance. This economic truth, however, is a political falsity.....For millions of Americans this highly visible deficit erodes their support of open trade; it creates tensions which threaten to spill over into unrelated sectors of our bilateral relationship."

Attachment I. Japan's Nontariff Barriers

The following Japanese practices, listed in accordance with a system of classification used by the General Agreement on Tariffs and Trade (GATT), have been called to our attention as barriers to trade. They have been compiled from the following sources: (1) notifications by the United States to the GATT; (2) Industry Sector Advisory Committees (ISACs) of the Department of Commerce and the United States Trade Representative; (3) submissions to the Department of Commerce from business firms and individuals for presentation to the Joint U.S.-Japan Trade Facilitation Committee (TFC); and (4) other submissions from the private sector.

The policy of the Department of Commerce is to examine all complaints received. We have been able to resolve many of the problems presented and we are making progress toward the solution of others. Some complaints have not been pursued because, in our judgment, they were either unwarranted or the complainant was unable or unwilling to supply sufficient documentation for us to make a case. Some barriers remain in effect and we are continuing our efforts to remove them.

I. GOVERNMENT PARTICIPATION IN TRADE AND RESTRICTIVE PRACTICES TOLERATED BY THE JAPANESE GOVERNMENT

A. Government Aids

The complaints listed under the heading Government Aids deal with financial assistance which is considered by the complainants to be a subsidy by the Japanese Government.

1. The Research Development Corporation makes concessionary loans to Japanese firms for research and development (R&D) which the Government wishes to promote. If development proves commercially successful, the loan must be repaid within five years; in addition, the firm must pay royalties to the corporation. If, however, the project is unsuccessful, the loan is written off. The computer industry, in particular, has benefitted from this type of assistance.

   Comment: The Research Development Corporation is under the jurisdiction of the Science and Technology Agency, which is headed by the Minister of State for Science and Technology. It assists in the development of scientific projects with potential for commercial application. Computer development is no longer subsidized but Government assisted research on Very Large Scale Integrated Circuits (VLSI) research continues. The draft budget for fiscal year 1979, ending March 31, 1980, called for an expenditure of about $8 million for the year.

2. The Government-owned Japan Development Bank (JDB) makes medium and long-term loans to Japanese industry at rates lower than effective market rates of interest.

   Comment: The JDB was established in 1951 to supplement private financing for rehabilitation of key industries such as electric power and shipbuilding. A loan of funds at an interest rate higher than that which was paid in the first instance by the bank to obtain the funds is not considered a subsidy under the Multilateral Trade Negotiations (MTN) code on Subsidies and Countervailing Duties. JDB loans appear to fall in this category.

3. For firms capitalized at less than one billion yen (about $4.5 million at Y225=US$1), a tax deferral of between 0.82% to 2.3% of the preceding year's gross export proceeds is allowed, provided these amounts are set aside for overseas market development and are restored to taxable income over the next 5 years at a rate of 20% per year. Also, deductions from taxable income are allowed up to varying percentages (10% to 35%) of income earned from transfers abroad of technology, copyrights, and certain technical services.

   Comment: Tax deferrals on funds held in the Overseas Market Development Reserve were determined by the Treasury Department to be subsidies in the form of interest free loans. Countervailing duties (CVD) to offset the subsidy were imposed on imports of Japanese industrial fasteners (June 4, 1979) and chain of iron and steel (August 24, 1978). The CVDs amount to 4 percent and 2 percent, respectively.

4. Since October 1977 the Japanese have operated several types of assistance under the "Temporary Measures Act for Small and Midsize Businesses With Regard to the High Yen Exchange Market." In order to assist exporters whose competitiveness has been adversely affected by the rapid appreciation of the yen the Government provides low cost loans with deferred payments, Government credit guarantees and the right to carry back current losses related to yen appreciation up to three years to offset taxes.

   Comment: The "High Yen" law was countervailed against in the industrial fasteners case.

5. The Japanese External Trade Organization (JETRO) provides general promotional assistance to exporters.

Comment: To the extent that JETRO activities defray costs that would otherwise be borne by exporters they were determined to be subsidies by Treasury in both the chain and fasteners investigations.

6. Tax deferral in the form of reserves for losses is permitted for certain overseas projects. Under Japanese law a qualifying firm may credit as a reserve for 5 years 7% of expenditures for materials, labor, etc. used in a qualified large-scale construction project in a developing country. At the end of the 5 year period (or earlier if the project is completed) the reserve is added to taxable income.

7. The Japanese Government has provided assistance to the computer industry through grants for R&D, loans at less than market rates, accelerated depreciation of plant and equipment for tax purposes, and Government procurement of domestic computers despite availability of less expensive foreign models. U.S.-owned computer firms in Japan are not eligible for this assistance.

   Comment: Japan lifted quantitative limits on computer imports in December 1975 and no longer provides R&D loans for computer development. Government of Japan (GOJ) purchases will be covered by the MTN Government Procurement Code after January 1, 1981 if a satisfactory agreement is reached in the current negotiations with Japan on government procurement.

8. The Japanese Government aids the domestic film industry through grants for overseas film fairs, production aids and merit awards to educational and cultural films for youth, and advances to film producers on favorable terms.

   Comment: The impact on the commercial competitiveness of U.S. films in Japan and in other countries is believed to be insignificant. Japan's aim appears to be the pursuit of certain cultural and social goals.

B. Countervailing Duties (No complaints)

C. Government Procurement

1. Japan's Nippon Telegraph and Telephone Public Corporation (NTT) follows a "Buy-Japan" policy for most of its purchases. NTT has no manufacturing capability and has a practice of negotiating virtually all major contracts with its four main suppliers. Japan has offered to include NTT's general purpose equipment under the Government Procurement Agreement negotiated in the Tokyo Round of Multilateral Trade Negotiations (MTN).

Comment: The major unfinished business of the MTN is the question of including all of NTT's purchases under the Government Procurement Agreement. The U.S. maintains that Japan's offer of limited coverage of NTT's purchases is insufficient. Negotiations on this issue have been continuing for the past 18 months; further consultations will be held in September. If we do not reach a satisfactory agreement with Japan by December 31, 1980, the U.S. will refuse to apply the Agreement to Japan and will bar Japan from all sales covered by the Agreement in our procurement market.

2. Government procurement by some entities other than NTT may also be discriminatory against foreign suppliers. There are three methods of GOJ procurement: (a) public notice; (b) selective tender; and (c) private or "free" contract. Approximately 90% of the goods and services used by GOJ agencies are procured under private contract. Foreign suppliers have little opportunity to obtain private contracts in view of the virtually unlimited discretion given to GOJ contract officers.

   Comment: As a signatory to the Government Procurement Agreement which becomes effective January 1, 1981, Japan has undertaken not to discriminate against or among the products of other signatories in purchases of goods by specified government entities on contracts valued at 150,000 Special Drawing Rights (approximately $200,000). With important exceptions, Japan has included almost all of its central government entities in its offer. As appropriate, Japanese procurement practices will be modified to comply with the procurement procedures set forth by the Agreement.

D. Restrictive Practices Tolerated By Governments

1. The many-layered Japanese distribution system is often cited as an NTB. Products often go through several intermediaries before reaching the ultimate consumer, adding to the cost of the product for the final user.

   Comment: A retailer has the option of setting up his own distribution network or may try to "short-cut" existing systems. The decision is a marketing decision. Japan's distribution system is complex, but not necessarily discriminatory.

2. Japan maintains restrictions on foreign investment in retailing operations in Japan by restricting the number of newly-established foreign majority-owned retailing operations.

Comment: The GOJ liberalized foreign investment in the Japanese retailing industry on June 1, 1975. Foreign investors may now hold up to 100 percent of the capital of a newly-established retail outlet or up to 25 percent of the stock of an existing Japanese retail enterprise, although the share of single foreign investor may not exceed 10 percent. Restrictions on number of outlets or type of merchandise to be sold were removed. After liberalization of the retailing industry, no new complaints have been received by the Department of Commerce.

3. Ocean freight rates charged by the liner conferences serving the U.S.-Japan trade are said to be higher for many commodities moving from the U.S. to Japan than for the same or similar commodities moving from Japan to the U.S.

   Comment: The Federal Maritime Commission has the statutory authority to investigate and disapprove disparate rates affecting U.S. trade. Although such disparities may exist, past investigations indicate that they are more superficial than real when all the facts are considered. Freight rate disparities usually constitute a small fraction of total transportation costs.

4. Complexity, slowness, and high cost are involved in procedures required for registration of pharmaceutical products in Japan.

   Comment: This issue is being dealt with by the Health Care Task Force of the Trade Study Group in Tokyo. The Trade Study Group, established in 1977 is an informal mechanism whose purpose is to study market access problems in selected product sectors and make recommendations for their resolution. Its members include representatives of the U.S. Embassy, Tokyo, the Japanese Government and the Japanese business community.

E. State Trading

1. The Japan Tobacco and Salt Public Corporation (JTS), an agency of the Ministry of Finance, is the sole importer of manufactured tobacco. Pricing of imported (and domestic) tobacco products is set by government. The JTS also places restrictions on the marketing, advertising, and distribution of imported tobacco products.

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Comment: The USG has filed a complaint with GATT on JTS restrictions on imports of cigars and pipe tobacco. A GATT panel has held a hearing and will issue a report on the GATT-legality of the practices. In addition, both the USG and the U.S. tobacco products industry are continuing to consult with the GOJ and the JTS in an effort to reach a negotiated solution to the problems.

II. CUSTOMS AND ADMINISTRATIVE ENTRY PROCEDURES

A. Antidumping Duties (No complaints)

B. Valuation

1. Customs uplift - Customs officials have been known to raise the value of an invoice for customs purposes to a level which we consider arbitrary. Shipments to and from subsidiaries, branches and joint venture partners (non-arms length transactions) are susceptible to uplift.

Comment: Methods for determining valuation, and thus preventing arbitrary and unreasonable uplift, are set forth in the MTN customs valuation code which should be used to settle complaints. Japan's customs procedures are scheduled to be simplified January 1, 1981, and the code becomes effective on that date.

C. Customs Classification

1. Restrictions affecting repaired products. In the past, before a product could be exported from Japan for the purpose of having repairs effected, followed by reimportation, Japan required that it be demonstrated that the repair would be difficult to effect within Japan. Further, when the repaired item was subsequently reimported, customs duties were often assessed on the full value of the product, rather than only on the value of the repair.

Comment: Japan has since agreed to remove the procedural block posed by the condition that the repair be shown as difficult to effect in Japan and has indicated that in the future customs duties on reimported merchandise will be limited to the c.i.f. value of the repairs.

D. Consular Formalities and Documentation

1. Customs clearance charges (those imposed over and above import duties, commodity taxes, and documentation fees) are sometimes imposed arbitrarily and not in accordance with a specific rule or schedule.

   Comment: Japan has recently announced that it will take steps to cut down on delays in customs clearance, which will lessen the costs to exporters from cumbersome administrative procedures.

   The issue of higher costs to U.S. exporters as a result of administrative procedures of customs officials or units is now being studied by the Commerce Department and the U.S. Embassy in Tokyo.

2. Customs Documentation - All documentation must be letter perfect with virtually no flexibility permitted.

   Comment: The problem is now being researched by the U.S. Embassy, Tokyo and the U.S. Department of Commerce.

E. Samples

1. Japan may require detailed photographs of samples imported duty-free and to be re-exported within one year. This can entail considerable expense.

   Comment: The Commerce Department in conjunction with the U.S. Embassy in Tokyo is studying how best to pursue customs clearance problems. Japan is a party to the ATA Carnet System, which can apply to such situations.

III. STANDARDS

A. Industrial Standards

1. Japanese safety standards for small boats (up to 12 meters in length) have been considered extremely rigorous.

   Comment: After discussions carried on over several years, outstanding issues regarding safety standards for small boats were resolved in March 1980 to the satisfaction of the USG and U.S. industry through negotiations with the Japanese.

2. Electrical Products - Japan refused to accept the results of tests done outside Japan on electrical appliances, and required testing to be repeated in Japan. Japanese standards for electrical appliances are often written in terms of design rather than performance criteria.

   Comment: The MTN Standards Code and the Joint Statement on Standards, Testing, and Certification Activities of December 7, 1979 provide a framework for acceptable and unacceptable rules and regulations. Negotiations with the GOJ in November 1979 led to an agreement on a framework for acceptance of U.S. test data by Japan for electrical appliances.

3. Japan has complex and time-consuming inspection and registration procedures for imported passenger cars and trucks.

   Comment: Negotiations with the Japanese in April and May of 1980 resulted in a resolution of many of these complex problems, although in several areas no progress was made. Follow-up negotiations are being held in order to pursue unresolved issues. The most recent follow-up session was in July 1980.

B. Health and Safety Standards

1. Japanese quarantine regulations on imported plants, vegetables, fruits, agricultural and animal products are strict and rigorously administered.

   Comment: Problems in this area are unique. We have found it helpful to deal with individual cases as they arise, e.g. fumigants for citrus fruits, coddling moth certification for cherries, etc. We do not object to Japan's strict enforcement of its quarantine and sanitary regulations provided they do not go beyond what is necessary to achieve their basic purpose and are applied in a non-discriminatory manner. We have no cases pending.

2. Only specified approved additives may be used in foods for flavoring, preserving, and improving food appearance. Procedures for getting an additive on the approved list are long and costly. Imports of products containing certain additives are prohibited even though the same additives are used in other Japanese food products.

Comment: Negotiations with the Japanese on standards-related issues in the processed food sector were begun in late July 1980. Japan agreed to the formation of a "Technical Expert" group to meet in the fall of 1980 with a view to resolving these issues by the end of the year.

3. Japan does not accept the results of foreign test data for certain tests in the areas of pharmaceuticals, medical equipment, cosmetics, and agricultural chemicals.

Comment: Negotiations on standards-related issues in areas of cosmetics and agricultural chemicals were held in Tokyo in late July 1980. Japan agreed to accept U.S. test data for agricultural chemicals as soon as Japan's Good Laboratory Practices (GLP) system is in place. The U.S. is also asking Japan to accept U.S. test data for cosmetics and will meet again with the GOJ in the fall of 1980 to discuss this and other issues. The GOJ has expanded acceptance of foreign test data for pharmaceuticals, but still does not accept data from foreign testing for certain categories of pharmaceutical tests. The Trade Study Group (TSG) in Tokyo is dealing with this issue.

C. Other Standards (Covered in III A and B)

D. Labelling

1. Japanese law requires that the name of the importer and the date of importation or manufacture be shown on the label. A label giving this information must be affixed to each individual product after importation, a costly and time-consuming procedure.

Comment: This issue is being raised with the Japanese in the context of the ongoing negotiations on standards-related issues in the processed food area.

IV. SPECIFIC LIMITATIONS

A. Quantitative Restrictions and Import Licensing

1. Japan maintains residual quotas on the import of 27 items, mainly agricultural, which contravene GATT Article XI. Quantitative restrictions on other items, such as state-traded items and items for which Japan claims health and national security exceptions, may also be inconsistent with GATT provisions.

Comment: The U.S. has recently negotiated for larger quotas on some of the affected items of greatest interest to U.S., such as beef, oranges, citrus juice, leather and fish. In U.S.-Japan discussions on fishery problems in July 1980, agreement was reached on the implementation of the quota system which will provide greater opportunity for the U.S. to market seafood products. Since 1969 Japan has reduced the number of four-digit Customs Cooperation Council Nomenclature (CCCN) items, all or part of which are subject to GATT-illegal restrictions, from 120 to 27.

B. Embargoes (No complaints)

C. Screen-time Quotas

1. Japan reserves a certain portion of screen time for films of national origin under a voluntary industry arrangement which operates under the "guidance" of MITI. A target of 40 days per theater has been set for the showing of domestic films, affecting 40 designated theaters.

Comment: These voluntary screen quotas are insignificant since they affect only 40 of Japan's 2,500 theaters. Furthermore, some owners of those 40 theaters do not hesitate to ignore this administrative guidance from MITI. The use of screen quotas is authorized under GATT Article IV.

D. Exchange Controls (See V D)

E. Discrimination Due to Bilateral Agreements (No current complaints)

F. Discriminatory Sourcing (See IV A)

G. Export Restraints (No current complaints)

H. Measures to Regulate Domestic Prices (See I E)

I. Tariff Quotas (No complaints)

X. Others

1. The Japanese Trademark Law gives all legal rights to the first applicant for a trademark regardless of whether that applicant has used or ever plans to use the trademark being registered. The only legal ground for protest requires a claimant to prove that his trademark is "widely recognized among consumers" of Japan as referring to his goods. Japanese parties sometimes apply for trademarks of U.S. firms with no intention of using them. They sometimes demand royalty payments or have offered to sell American firms the right to use their own trademarks.

   Comment: Japanese law, like that of many other countries, gives rights to the first applicant. However, it prohibits registration of a trademark widely "recognized among consumers as indicating goods relating to the business of another person or a trademark similar thereto, and which is used on such goods or goods similar thereto;". The Department of Commerce, through the U.S. Embassy in Tokyo, has brought to the attention of the Japanese authorities attempts to register in Japan well-known American trademarks, as well as descriptive or generic trademarks. Such complaints are handled on a case-by-case basis.

2. The GOJ sometimes uses administrative guidance to restrict imports by "suggesting" that importers buy a similar product from a domestic supplier.

   Comment: Administrative guidance, by its very nature, is very difficult to prove. In addition, the GOJ sometimes uses positive administrative guidance to encourage imports. Cases involving the allegation of the use of administrative guidance by the GOJ to restrict imports must be dealt with on a case-by-case basis as they come to our attention.

V. CHARGES ON IMPORTS

A. Prior Import Deposits (Not required by Japan)

B. Surcharges, Port and Statistical Taxes (No current complaints)

C. Discriminatory Taxes

1. Japan's internal taxes such as road taxes on automobiles, both prefectural and national, are higher on larger cars than on small cars, and thus tend to discriminate against the generally larger U.S.-built cars, although the taxes are applicable to both domestic and foreign cars.

   Comment: The effect of Japanese internal taxes on autos as a deterrent to U.S. sales in Japan appears slight in relation to the effects of high dealer costs and markups in Japan. See V F2 for further discussion of the Commodity Tax system.

D. Discriminatory Credit Restrictions

1. In the past, the Japanese Government significantly limited the extent to which importers could make use of credit in their payments for imports through the imposition of restrictive time limits under the "Standard Method of Settlement." Non-standard methods of payment require advance approval of the Ministry of International Trade and Industry.

   Comment: Japan has agreed to extend the duration of standard settlement. As a result, both advance payment within one year before receipt of imported goods and deferred payment within six months after customs clearance will now be freely allowed. Deferred payment for capital goods, durable consumer goods, and goods under a consignment contract may be made freely as long as the payment is made within one year of customs clearance. Japan has also stated that it will aim at further liberalization of the "Standard Method of Settlement," including its eventual elimination.

E. Variable Levies (No current complaints)

F. Border Tax Adjustments

1. Japan's internal specific excise tax as applied to high-priced whiskies, brandies and other alcoholic beverages (both domestic and foreign) has an ad valorem equivalent which is significantly higher than that applied to low-priced liquors. This discriminates de facto against imports, which tend to fall into the higher price category, while Japanese whiskies tend to fall into the lower price categories.

ATTACHMENT II. REMARKS BY HON. ROBERT E. HERZSTEIN, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE, BEFORE THE OPENING SESSION OF THE JAPANESE AUTO COMPONENTS BUYING MISSION. DETROIT. MICH.. SEPTEMBER 8, 1980

I am pleased to welcome this Japanese Auto Components Buying Mission to the United States. Our governments and private sectors have worked closely to ensure that your visit is productive, and we are very glad that you have come.

The United States has traditionally maintained the most open market in the world for automobiles. This policy has resulted in beneficial competition in America. It has offered U.S. consumers a wider range of choices and stimulated innovation and technological changes that led to the best product at the lowest price.

Our open market policy, combined with our enormous and prosperous market, have had another important effect: they have provided an opportunity for foreign manufacturers to construct world-class automobile industries that have strengthened their home economies.

This benefit has been especially important for the Japanese manufacturers who now play a leading role in the auto industry worldwide. The Japanese auto industry has grown, in large measure, through its access to our market. Today, Japan exports over half of its total auto production, and 45 percent of those exports are destined for the United States. Japanese cars now account for more than 22 percent of all new car sales in the U.S. No other single country offers such a lucrative market to Japanese automobile producers. Japanese auto production is at record levels, and our imports of your products are at an all-time high.

By contrast, the U.S. automobile industry is in one of the most severe crises in its history. This industry, which traditionally has been the world leader, has been hard hit by the recession and the rapid shift in consumer preferences toward smaller cars. Compared to 1979 levels, sales and production are down around 25 percent, and unemployment throughout the industry and its suppliers is around 1 million workers. These are good workers and we want them to have the opportunity to return to work.

Our industry currently is planning to spend $80 billion by 1985 to equip itself to produce new cars to meet the changing demands of the U.S. market. This will put our industry through the most rapid restructuring of its plants and equipment in U.S. industrial history. Much of this spending is taking place during the current recession, when all of our auto manufacturers are writing their profit and loss statements in red ink.

The dramatic difference in the condition of our two industries has accentuated the long-standing imbalance in our automobile trade. For the first half of this year, we imported auto products from Japan worth $11 billion at an annual rate, while we exported auto products worth only $200 million at an annual rate. Thus, Japan exports $55 of auto products to the United States for every dollar of auto products it buys from us. We do not expect trade to be in balance in each and every industry. However, this extreme and growing imbalance, in a sector in which the United States has always been the world leader, feeds the conviction of many in the United States that the Japanese are unfairly taking advantage of the openness of the U.S. market while enjoying a home market that is essentially closed to foreign competition.

If the imbalance were clearly temporary, perhaps our concerns would not be so great. The unprecedented opportunity for Japanese producers in our market stems from a transitional situation that has put American manufacturers at a temporary disadvantage in competing effectively for sales of the smaller cars which suddenly constitute the bulk of the market. What concerns so many Americans is that the unprecedented Japanese shipments during this temporary situation will permanently alter the structure of our automobile market to the disadvantage of American companies and workers. The increased sales of Japanese cars in the U.S. this year will yield vast revenues that can support more advertising, thereby generally more sales next year. Increased sales also of course spawn larger dealer networks and greater consumer loyalty. The result could be an American industry with a permanently reduced market share and reduced competitive power.

This situation has led to calls in our country for import restrictions. The United Auto Workers and Ford Motor Company have petitioned the U.S. International Trade Commission for temporary import relief under the provisions of Section 201 of the Trade Act of 1974. In addition, bills have been introduced in the Congress to accomplish the same purpose. At the President's request the ITC has accelerated the schedule for its decision.

The U.S. Government has also sought to facilitate the retooling of our industry to permit production of small, fuel efficient, competitive autos. It has also sought to reduce the burdens born by workers during this transitional period. In July, President

Carter announced, here in Detroit, a number of specific actions including relaxation of some regulatory requirements, new adjustment assistance benefits to aid communities severely affected by the changes in the auto industry, tax relief proposals, and a package of loan programs to aid automobile dealers. The President also called for a joint industry, labor and government Automobile Industry Committee to undertake a continuing dialogue on industry concerns.

In May, the Japanese Government expressed its willingness to act to alleviate the problems in the U.S. automobile industry by offering to eliminate import duties on most automobile parts, ameliorate the impact of certain Japanese standards, and send two automobile parts missions to the United States. These were positive steps. Our auto industry is looking forward to meeting with you, and with the investment mission that arrives in two weeks. I would like to discuss the steps that your two missions can take to help ease the pressures resulting from the severe imbalance in our automobile trade.

A first cricital action that your industry can take is to purchase significant quantities of American-made auto parts for use in Japanese cars. Certainly, the potential for such an increase exists. Consider the following facts:

-- Last year, the Japanese sold $1.2 billion worth of parts in the United States, yet purchased less than $100 million in parts from American firms.

-- Japanese parts are widely used as original equipment in American cars, but American-produced parts are virtually unknown in the production of new Japanese cars.

-- Most surprising is the fact that, although there are about 8 million Japanese cars on the road in America, Japanese auto dealers in this country buy only a minute fraction of their replacement parts from nearby American producers. It is difficult to comprehend how highly competitive American companies should find themselves frozen out of participation in significant sales right in their home market. I have heard, for example, that dealers in Japanese cars are reluctant to use U.S. replacement parts from U.S. manufacturers because use of these "non approved" parts would void the warranty in the autos in which they are installed. If this is true, I would suggest that you carefully consider, during this visit and promptly upon your return, authorizing American producers to make "approved" parts in accordance with appropriate quality standards established by the auto companies.

I can assure you that American firms are willing suppliers, and very able suppliers. Right now, up to half of our plant capacity available to produce automobile parts stands idle. More than one-half million workers in the auto parts industry are unemployed. These are modern plants, and highly skilled employees, capable of quickly gearing up to produce products that meet the toughest quality standards and delivery schedules.

Our automobile assembly operations are in the throes of a major redesign of their products and plants. Our auto parts makers do not have the same problems. Rather, they have been idled primarily due to the problems facing the companies that they supply. Many U.S. parts manufacturers have been developing smaller, lighter components of a sort that can be used in Japanese automobiles. Computer-controlled ignition and combustion systems to meet U.S. emissions and fuel economy standards are being developed by U.S. parts makers. Our parts industry is capable of supplying Japanese automobiles today with the best in components. What is required is a genuine effort by the Japanese industry to secure American suppliers and build mutually beneficial, long-term relationships with them.

Our two governments have agreed that the purpose of your mission is to accelerate purchases of U.S.-made auto parts for Japanese cars here and in Japan. We recognize fully that Japan's auto manufacturers expect the highest possible quality and reliability from their suppliers. Secretary Klutznick and I have met with a number of U.S. parts manufacturers, and we are convinced that they are ready to meet your needs. However, many of them have expressed to us their skepticism that Japanese firms are genuinely interested in purchasing U.S. parts. We have told them of your government's assurances that you are serious, and we have developed a program for this mission that will assure the maximum opportunity for you to talk serious business with American firms.

We understand that the full benefit of this mission will not be realized over night. In many cases, parts designs are fairly standard, U.S. quality is high, and sales can result very soon. In others, special design or delivery arrangements may be necessary. With U.S. parts-making capacity readily available, it should be possible soon to see tangible results from this mission in the form of contracts and immediate sales in some cases, and in other cases concrete steps toward future contracts.

Our two governments have agreed upon the need for significant and lasting results from this mission. For the next two years, therefore, the joint U.S.-Japan Trade Facilitation Committee will monitor closely the results of your visit. Success at inaugurating more balanced trade in parts can help ease this pressure point

between our two countries. Failure would be a major disappointment. I urge you, therefore, to work during your visit to achieve positive results. How will we measure success? I should stress that it will not be measured in terms of a percentage increase in the present level of U.S. parts sales to Japan. That level is so low (less than $100 million) that even a doubling of it would not do much to resolve our current problem. Instead, success will be measured in terms of a meaningful change in the participation by U.S. manufacturers in the very large multibillion dollar market for original equipment and replacement parts for Japanese cars.

In two weeks, a second mission from Japan will visit the United States to explore opportunities to license U.S. production of official Japanese auto parts and to explore joint ventures or other forms of investment opportunities in the United States. This mission offers another opportunity for positive steps to restore better balance to our automobile trade in components through economically viable production arrangements and investments in the United States.

Our policy toward investment is one of neutrality. We are open to investment by foreign companies in the U.S., and U.S. firms are free to invest abroad. We believe that investment decisions should be based on the economic viability of each investment, and not on artificial incentives or barriers that distort market realities.

The second mission to the U.S. can contribute to improving the condition of our auto industry first and foremost by exploring arrangements to license production of Japanese auto parts in the United States. Decisions by members of the mission to license production in the U.S. of official parts for Japanese cars would be a significant sign of progress.

We anticipate that any investment to result from this mission should prove complementary to existing U.S. capabilities in the automobile sector. Many U.S. companies are financially strong, with efficient, idle productive capacity and skilled workers ready to go back to their jobs. It would not appear to be a contribution to our industry to duplicate that investment or to create a danger of overcapacity in the future. That is why we are concerned that investments in the auto industry by the Japanese be economically viable in terms of market conditions now and in the future. The progress of this mission in developing licensing arrangements and economically viable investments in the automobile industry also will be monitored closely by our joint Trade Facilitation Committee.

Your mission to the United States is of major significance to the important economic ties between our two nations. We in the U.S. Government welcome your visit to the United States and have high expectations for it. We will work with you to help make it worthwhile.

Attachment 3

U.S. TRADE WITH JAPAN
(millions of dollars, f.a.s.)

Period	Exports	Imports	Deficit
1970	$ 4,652	$ 5,875	$- 1,223
1971	4,055	7,261	- 3,206
1972	4.963	9.064	- 4,101
1973	8,313	9,676	- 1,363
1974	10,679	12,338	- 1,657
1975	9,563	11,268	- 1,705
1976	10,145	15,504	- 5,459
1977	10,529	18,550	- 8,021
1978	12,885	24,458	-11,573
1979	17,579	26,243	- 8,664
1979 by months 1/			
January	$ 1,225	$ 2,319	$- 1,094
February	1,365	2,014	- 649
March	1,610	1,960	- 350
April	1,317	2,175	- 858
May	1,258	2,150	- 892
June	1,505	2,138	- 633
July	1,585	2,142	- 557
August	1,449	2,274	- 825
September	1,540	2,204	- 664
October	1,521	2,328	- 807
November	1,598	2,328	- 731
December	1,606	2,215	- 609
1980 by months 1/			
January	$ 1,526	$ 2,582	$- 1,056
February	1,651	2,432	- 781
March	1,810	2,359	- 549
April	1,843	2,413	- 570
May	1,599	2,730	- 1,131
June	1,788	2,461	- 673
July	1,718	2,565	
January-July,1979	9,865	14,898	- 5,033
January-July,1980	11,935	17,542	- 5,607

1/ Imports seasonally adjusted
Source: Highlights of U.S. Export and Import Trade, FT 990
U.S. Department of Commerce

U.S. Exports to Japan, 1978-1980
(millions of dollars, f.a.s.)

Commodity	1978	1979	Jan-Jul 1980 Annual Rates
Grand Total	12,885	17,579	20,458
Agricultural commodities	4,435	5,255	5,495
Wheat and flour	432	537	521
Feed Grains -- corn, etc.	1,159	1,456	1,859
Meat	318	392	374
Fruits and vegetables	307	336	373
Soybeans	981	1,032	937
Raw Cotton	348	450	642
Tobacco, unmanufactured	227	229	64
Hides and skins	247	321	259
Nonagricultural commodities	8,254	12,113	14,761
Fish	510	564	300
Coal, coke. briquettes	577	916	1,159
Logs and lumber	1,087	1,744	1,855
Pulp wood, wood pulp, etc.	318	421	711
Metal ores, concentrates, scrap	468	748	1,166
Chemicals, related products	1,104	1,652	2,045
Manufactures, classified by raw mat.	606	935	1,471
Paper, paperboard, etc.	98	153	257
Textile yarns, fabrics, madeup art.	72	117	120
Nonmetallic mineral mfgs.	99	123	115
Nonferrous base metals, alloys	93	178	522
Metal manufactures, nspf	91	117	151
Machinery	1,541	2,114	2,437
Power generating, incl. engines	171	191	287
Special purpose	199	326	371
Metal Working	61	83	89
General industrial & parts	274	351	399
Office machines and computers	369	483	607
Electrical machinery & parts	371	551	548
Transport Equipment	686	1,104	1,561
Autos, other motor vehicles & parts	187	232	203
Aircraft, spacecraft & parts	404	856	1,350
Miscellaneous manufactures, nspf	834	1,197	1,266

Source: Highlights of U.S. Export and Import Trade, FT 990
December 1978, 1979, July 1980, U.S. Department of Commerce
Elements may not add to totals due to rounding.

U.S. Imports from Japan, 1978-1980
(millions of dollars, f.a.s.)

Commodity	1978	1979	Jan-Jul 1980 Annual Rates
Grand Total	24,458	26,243	30,246
Agricultural commodities	102	89	94
Vegetables and fruits	36	30	34
Nonagricultural commodities	24,356	26,154	30,152
Fish and preparations	199	163	162
Chemicals, related products	563	616	739
Manufactures, classified by raw mat.	4,793	5,102	5,878
Tires	201	221	263
Textile yarn, fabrics	448	370	344
Glass, pottery, china	311	294	297
Iron and steel mill products	2,347	2,660	2,975
Metal manufactures, nspf	982	979	1,052
Machinery	7,635	7,785	8,350
Power generating	451	538	512
Special purpose	648	689	699
Metal working & machine tools	247	398	564
General industrial & parts, nspf	808	901	928
Office machinery & ADP machines	949	970	1,170
Telecommunications, sound recording & reproduction apparatus	3,327	2,915	2,840
Electrical machinery & parts, nspf	1,207	1,373	1,637
Transport Equipment	8,404	9,712	12,054
Passenger cars, new	5,735	6,664	8,157
Buses and trucks, new	120	402	466
Auto, truck, bus parts (excl. engines, tires, electrical)	1,539	1,504	1,950
Motorcycles and parts	816	900	1,167
Miscellaneous manufactures, nspf	2,533	2,441	2,538
Clothing, leather & fur articles	292	187	189
Professional, scientific instruments	271	283	310
Watches, clocks and parts	241	242	268
Toys, games, sporting goods	194	187	233

Source: Highlights of U.S. Export and Import Trade, FT 990
December 1978, 1979, July, 1980, U.S. Department of Commerce
Elements may not add to totals due to rounding.

Mr. BOWEN. I think at this point we will call on Ambassador Hormats. Let me say that I appreciate the good work you have done in the past, particularly in looking after some of our agricultural exports. Thank you.

STATEMENT OF HON. ROBERT D. HORMATS, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. HORMATS. Let me just say what a pleasure it is to be here to discuss an issue that encompasses perhaps the most important set of trade problems the United States has in the world today. That is the trade relationship with Japan.

I think it is fair to say that Japan and the United States, which are the world's two largest market economies, face a number of common problems in the coming decade. By and large, we expect to, as we have in the past, address these on the basis of common interest. We have worked very closely and constructively together in the MTN, the multilateral trade negotiations, in dealing with many bilateral problems in the economic summits, and in the OECD, GATT, IMF, and elsewhere.

To be very frank, there are problems from time to time in achieving the kind of close cooperation that both the United States and Japan recognize we need to achieve.

I thought it would be useful to discuss this with the committee just for a moment, to give you some sort of feel for the setting in which we negotiate with Japan.

DIFFERENCE IN PERCEPTIONS

There is a difference in perceptions between the United States and Japan. Japan is viewed by the United States as an economy which was fragile but now is very robust, highly competitive, and somewhat insensitive both to the impact of its exports in the United States and in other countries and to the perception of unfairness created by certain barriers that Americans face when they try to sell in the Japanese market.

In Japan, however, the image of Japan is somewhat different. Japan perceives itself as highly vulnerable to supply disruptions of such vital imports as food and energy. They feel they are often unjustifiably singled out for discrimination and penalized for becoming a vigorous international competitor.

They, for instance, tend to focus on a very large trade deficit, over $3 billion, through August 1980. We tend to focus largely on the $8.7 billion trade surplus which Japan had with us in 1979, to which a high volume of Japanese car exports contributes.

It is also true to say that Japan has made an effort to liberalize. It has lowered tariffs and allowed trade negotiations. It has removed almost all of its quantitative restrictions, and while important barriers remain, progress has been made by Japan. Nonetheless, the way Japan has undertaken its liberalization, has led to the impression that Japan is more protectionist than it is—not that there aren't examples of protectionism.

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FRUSTRATING NEGOTIATIONS

One problem is that Japan's negotiating style is somewhat inconsistent with its stake in the international economy. Japan negotiates in a way which almost tends to force other countries to apply pressure to it. It seems not to move unless overwhelming pressure is applied, and then only at the last minute, and then only the minimum amount necessary.

Needless to say, this is frustrating to the negotiators involved. It is particularly frustrating in that Japan, which probably has more at stake than any other nation in terms of an open world economy, appears to be the laggard in the effort toward trade liberalization and appears not to move out of an interest in the world economy, but only out of the result of pressure being applied.

As I know that many Japanese negotiators and officials understand the stake that Japan has in the world economy, I can only assume that the country's negotiating position is the legacy of an era in which Japan was too weak to play a major role in the world economy, and indeed, was not expected to. Neither of these are true today. Japan should be playing a more active role, and it should be at the forefront in the liberalization effort. It has not been.

I also think the problem goes beyond those of differences in perception and negotiating approach. As Under Secretary Herzstein indicated, there still are some major difficulties in penetrating the Japanese market. Some of these are socioeconomic or cultural in nature, such as the distribution system based on close family or personal relationships, at the expense of efficiency. Sometimes supplier relationships are based on personal ties or personal obligations.

AGRICULTURAL PROTECTIONS

There is protection of agricultural interests. Beef, citrus, tobacco, and rice are all protected—in part for political and social reasons. Then, there is the attempt to protect industries to enable them to develop economies of scale. The automobile industry benefited from this, as did telecommunications.

These barriers are a source of major frustration to the United States. We have been pressing Japan and we will continue to press Japan to reduce those barriers.

Now, I think there are two things that need to be done in the near future to help us overcome the problems of the past. First, American firms need to make a substantially greater effort than before to explore and genuinely pursue opportunities for sales in Japan. A number of firms have done this. A number haven't, and some of the firms that haven't might well in the new environment be able to do better.

Second, Japan needs to overcome its rather porcupinish attitude toward imports by showing demonstrable evidence that it is generally committed to buying foreign products, especially in areas such as high technology goods, autos and auto parts, and agriculture, in which it might be more politically comfortable not to do so.

Nowhere would such evidence be more graphic than a decision by Japan to adhere to the Government procurement code negotiat-

ed in Geneva, including a decision to make all procurement of the Nippon Telephone & Telegraph Co. subject to the obligations of the code. This is particularly important, and I will return to it in a moment.

ALTERNATIVES FOR JAPAN

There are other areas in which we would like Japan to move—the agricultural area and in buying autos and auto parts purchases. I think one of the interesting things, one of the unique things, in Japan is that the consumer movement has really not taken off. As a matter of fact, it has always surprised me that the consumer movement hasn't pressed Japan to liberalize in areas such as agriculture long before foreign pressures were brought to bear.

When one looks at citrus, beef, rice, and tobacco, and a number of other product areas in Japan, one concludes that the consumers there really have not asserted themselves as much as they have in most other industrialized countries.

It is a surprising thing that Japanese firms have not placed greater pressure on their own government to liberalize. A number of Japanese firms are doing very well in the national economy and have a stake in keeping their economy open. Yet they don't seem to be able to put pressure on the Japanese Government to remove those barriers which give rise to criticism of unfairness by Japan.

A number of Japanese firms which should be reaching out to import, particularly auto firms, which could be importing more American and European parts, do not seem to be willing to do this. They don't seem to recognize how helpful that would be in reducing some of these protectionist pressures.

SPECIFIC SECTOR PROBLEMS

Let me now turn briefly to some of the specific sectoral problems that I was asked to comment on.

Very briefly, on autos: I won't rehearse the background or the dimensions of the auto problem. I think we are all familiar with that. As Under Secretary Herzstein has indicated, there is an auto components buying mission in the United States today. The administration regards concrete results from this mission to be extremely important to improve the present climate, create jobs, and improve the prospects of the depressed U.S. parts industry.

Congressman Bowen has already stressed the importance of this to his district, and I believe that many districts throughout this country and many small parts firms would benefit substantially by such concrete results.

UNITED STATES-JAPAN DIALOG

I have met with a number of the labor unions that are interested in selling or having their companies sell to Japanese companies, and today or tomorrow this auto parts buying mission will be meeting with a number of auto unions. It has met with something on the order of 160 American firms, 80 of which are going to be following up with good prospects.

So, we think some good progress can be made, and we have emphasized the great importance we attach to this. There will also

be a visit of a Japanese mission next week to explore the possibility of licensing production of parts in the United States for incorporation in Japanese cars, either new cars or cars already on the road.

We regard both of these missions as extremely important. We are going to be monitoring developments very carefully. The Department of Commerce will be supervising this effort, and I can only commend the efforts of the Department of Commerce in setting up these missions and contributing to what I believe will be important successes.

IMPORT RELIEF

Let me comment very briefly on the question of import relief. The UAW and the Ford Motor Co. have petitioned the USITC for temporary relief under section 201 of the 1974 Trade Act. The process mandated by that act is now being followed.

We believe that they have taken advantage of the correct process. It provides a framework in which claims by domestic industries and labor for import relief can be fairly processed—with all parties, including the unions, firms, exporters, other governments, and consumers, all having their day in court.

The ITC has scheduled public hearings for October 8, and it will vote on the questions of injury and remedy by mid-November. They have expedited the process at the request of the President.

As I say, we believe this is the right process.

With respect to House Concurrent Resolution 363 and similar resolutions, our position is that the process mandated by the Congress involving the independent ITC, the executive branch, and indeed a formal review by Congress itself through the override process, has been engaged and should be permitted to work.

We would prefer that that process be allowed to work rather than that other processes be established that would deviate from the mandate of Congress.

GOVERNMENT PROCUREMENT

With respect to government procurement, I testified this morning before the Ways and Means Committee on the problems we are having in our negotiations with Japan over the inclusion of Nippon Telephone & Telegraph under the obligations of the Government procurement code.

Let me just say, without boring this committee with all the details of this long, drawn-out negotiation, that it continues to be the firm position of the administration that we insist that all NTT procurement be placed under the observation of the Government procurement code. We attach importance to the resolution of this issue. We hope it can be resolved for the yearend deadline set by the Strauss-Ushiba agreement.

There is, however, a considerable distance between us, and we must recognize the possibility that agreement may not be reached. We are going to work hard to see that it is reached. We very much welcome the support of Congressman Jones and of the Congress in general on behalf of our position. There will be a number of meetings between now and the end of October. Hopefully we can make some progress.

With respect to agricultural issues, I have checked off the main problems before us. Let me concentrate for a moment on the question of tobacco products. We have had several discussions with Japan. It is our judgment that the Japanese duties on tobacco products are unacceptably high and prohibitively high.

MARKETING, ADVERTISING, DISTRIBUTION

We also are extremely concerned about what has become known as the MAD issue—marketing, advertising, and distribution with regard to tobacco. We are attempting to get those liberalized. We have had a team in Tokyo. The team in Tokyo has focused almost exclusively this time around on the question of the duties. There was a meeting yesterday between Japanese officials and private sector people on the MAD issues, and I don't have the results of that meeting.

However, I can report to you on the results of the discussion on tariffs. From our point of view the discussion was totally unsatisfactory. In our judgment, we have been given the runaround by the Japanese on the question of tariffs. We expected that the Japanese would make a genuine offer to lower the tariffs, which were extremely prohibitive, and we have not seen any progress toward that end.

I can only say in this public forum that the results have been unsatisfactory. We are going to be pressing very hard on the Japanese to come up with satisfactory results. Their tariffs are prohibitive. They are highly protective. They are administered by a monopoly. We cannot consider that anything close to fair trade exists in the area of tobacco products.

I won't go into the details of the other elements. I know you are probably interested in logs, and some progress has been made on logs and lumber. We have seen a little bit of shift, from logs into lumber, which is what the State of Washington is particularly interested in. It is not enough of a shift, however.

The idea, I guess, certainly is to increase the value added in the State of Washington, and we are trying to get the Japanese to upgrade their imports. We are not asking them to stop buying the logs. We are just asking them to buy more lumber as well.

REMOVING BARRIERS

In conclusion, let me make a couple of very general points. We do not look at the trade relations with Japan solely from a bilateral point of view. We have tried to avoid focusing entirely on the bilateral balance with Japan, as much of a problem as that is.

It is our policy to press for the removal of trade barriers with both surplus and deficit countries. We are critical of certain Japanese barriers, not only because Japan is in surplus with us, but because we consider them unjustified and harmful to U.S. sectors which deserve greater competitive opportunities in Japan.

We are similarly critical of unjustified barriers by deficit countries, and we are pressing just as hard on those barriers.

However if we persist in trying to achieve bilateral balance or complete balance with all countries, then we leave ourselves open

to criticism and similar efforts from other countries with which we are in surplus.

We certainly don't want to have pressure from surplus countries saying we have to reduce our surpluses with them. For this reason, we have to watch the way we deal with countries with whom we are in large deficit.

UNITED STATES-JAPAN RELATIONS

I will just close by saying that both the United States and Japan have a strong feeling of openness and fairness in the international trade system. It is in that spirit that we conduct our trade relations with Japan and other nations.

We expect Japan to do likewise, and indeed, it is my judgment that in a period of greater protectionism, or protectionist pressures in the world, the ability of the United States and other countries to maintain a fair and open international trading system will in part turn on Japan's approach. If Japan does not continue to move in the direction of greater openness, it is going to be much more difficult for other countries to do so, and, indeed, protection will strengthen considerably.

With that, I close my testimony, and am prepared to answer questions from the committee.

[Mr. Hormats' prepared statement follows:]

PREPARED STATEMENT OF HON. ROBERT D. HORMATS, DEPUTY U.S. TRADE REPRESENTATIVE

I am pleased to appear before your Subcommittees this afternoon with my colleagues from the Departments of State and Commerce to discuss the status of trade relations between the United States and Japan as well as to comment on House Concurrent Resolution 363.

Japan and the United States, as the world's two largest market economies, face a number of common problems in the coming decade. We face enormous economic uncertainty, which has contributed to a sense of popular frustration and vulnerability to changes perceived to be beyond our control. We have each suffered major difficulties resulting from the need to adjust to higher energy prices. Each of our countries faces growing competition from the developing nations. These problems will not go away, and our ability to address them, and future difficulties, will be strengthened by acting with a sense of common purpose.

In most cases we have done so. In the Multilateral Trade Negotiations, in addressing bilateral trade problems, and in numerous international fora such as the OECD, the IMF, the GATT, and the Economic Summits, our two countries have worked to achieve progress in our mutual interest and in the global interest.

Yet, frankly stated, from time to time the close cooperation which both of our countries recognize to be in our common interest becomes elusive. One important reason is that Japan perceives itself in a light quite different from that in which others perceive it. In the United States there is a widespread feeling that Japan, while once a fragile economy, is now robust, highly competitive, and yet insensitive to the disruptive impact of its exports in the American market and to the unfairness of its restrictions on American exports to Japan. In Japan there remains a deep-seated popular sense of vulnerability to supply disruptions of vital imports; many Japanese feel that Japan is often unjustifiably singled out for discrimination and is often criticized for having succeeded in becoming a vigorous international competitor.

Japan, for instance, today focuses great attention on its global trade deficit of over $3 billion through August 1980 and its need to import over 99 percent of its oil (one-half of

total Japanese imports), and 50 percent of its food. In the United States greater attention is paid to the $8.7 billion trade deficit which the United States had with Japan in 1979 and to the large volume of cars exported to the United States in 1980.

The existence of a large trade imbalance between our two countries, dramatic Japanese increases in international competitiveness and rapid market penetration in sensitive industries, and certain Japanese import restrictions have made trade a recurring subject of friction between the United States and Japan. Japan has responded to frequently intense United States and Third Country pressures, and to the need to contribute to the success of the Multilateral Trade Negotiations, by significantly liberalizing access to its market. It has, since 1970, removed virtually all of its quantitative restrictions, agreed to reduce its average tariff level on industrial products from about 5 percent to 2.5 percent, agreed to the establishment of the Trade Facilitation Committee, and improved standards and testing procedures to permit greater access to its market. It has done these both because of its growing sense of awareness that it must assume greater responsibility for the international

trading system and because of its desire to reduce pressures for protection in the United States and other important Japanese markets.

One reason why Japan, despite major import liberalization, is perceived to be so protective of its market, apart from the remaining barriers which I shall soon discuss, is its style of negotiating--its seeming inability to act unless faced with major pressures to do so and then, seemingly, only with the greatest reluctance. In this manner, it strengthens the perception that Japan, which more than any other country is dependent on an open world economy and thus might be expected to take the lead in global trade liberalization, is in fact a laggard in the liberalization process and reduces barriers not out of concern for or responsibility to the system but because of likely retaliation if it does not. Whether fair or not, this view of Japan's attitude is widely held in this country and in Europe. As I know the many Japanese political leaders and officials with whom I have closely dealt to be extremely talented and skillful, and to recognize the need for Japan to play a positive leadership role in the world economy, I can only conclude that the

Japanese approach to negotiation is a legacy from an era when Japan was too weak to play a major role in the world economy and was not expected to. Neither are true today.

However, the problems which on occasion arise in our trade relationships are not only the product of perception and negotiating approach. There are still real difficulties in penetrating the Japanese market. Some of these difficulties result from barriers which are socio-economic, or cultural, in nature--such as a distribution system which stresses close personal relationships at the expense of efficiency, or supplier relationships based on traditional ties or personal obligations. Some result from a conscious governmental desire to protect particular interest groups--such as producers of beef, citrus, tobacco or rice. Others result from an attempt to protect industries seeking the economies of increased scale--such as telecommunications and, until recently, autos.

Clearly these barriers are a source of frustration for potential United States exporters. We expect Japan to provide our farmers and manufacturers the same extensive opportunities which Japan enjoys in our market.

To cite these barriers does not mean that Japan is, as it was 10 years ago, an essentially closed economy. One must ask, as did the House Ways and Means Committee's Subcommittee on Trade in its recent publication on U.S.-Japan trade, "whether current complaints about Japan's closed markets are correct, or are based on examples and perceptions from the recent past, when Japan was indeed largely closed to imports." Part of the answer to this question will be found if American firms are willing to make a substantially greater effort than before to explore, and genuinely pursue, opportunities for sales in Japan. This effort can, of course, be supported by a considerably greater emphasis within this country on government policies and private sector efforts which strengthen United States export competitiveness through increased research and development, modernization of plants and equipment, and greater management and labor attention to quality control and productivity.

Another part of the answer will be found by Japan's making a special effort to overcome its "porcupinish" attitude toward imports by showing demonstrable evidence that it is genuinely committed to buying foreign products--especially in areas, such as high technology goods, autos and parts, and agriculture, in which it would be politically more comfortable not to do so.

Nowhere would such evidence be more graphic than a decision by Japan to adhere to the Government Procurement Code negotiated in Geneva--including a decision to make all procurement of the Nippon Telephone and Telegraph Company subject to the obligations of the Code.

It is, in fact, surprising that Japanese consumers, who frequently pay higher prices for the sake of relatively small groups of agricultural producers, or manufacturers, have not asserted their interests to the point that import liberalization is pursued by the Government of Japan for sound domestic reasons, rather than as a result of foreign pressure. It is equally, if not more, surprising that Japanese firms which have demonstrated international competitiveness are neither in the vanguard of the effort to ensure the eradication of these Japanese barriers which give rise to foreign criticism of unfairness nor aggressively seeking to import foreign goods into Japan. The Japanese auto companies, in particular, have been curiously reluctant to actively pursue opportunities for marketing American cars in Japan and purchasing American-made new and replacement parts--efforts which could help to reduce protectionist pressures against Japanese autos.

Automobile Trade with Japan

Let me now turn to autos and summarize briefly the dimensions and nature of the problem before us and our approach to it.

Through September 10 of this year, U.S. auto manufacturers have sold 4.6 million cars, a 23 percent decrease from the 5.4 million cars sold in the comparable period in 1979. Roughly 300,000 workers in the auto manufacturing industry are laid off, with an estimated 700,000 additional workers laid off in secondary supplying industries. Almost 1,000 new car dealers have gone out of business over the last year, and a significant number of those dealers have been minority-owned enterprises.

Meanwhile, sales of imported Japanese autos have increased in both absolute terms and in share of the U.S. new car market. Sales of Japanese cars through August of this year were 1,348,400 units, up 10 percent from the 1,223,200 units of the first 8 months of 1979. Likewise, the Japanese share of the U.S. market has increased from 16.6 percent last year to 22.4 percent this August. Japanese imports now account for about four out of every five imported new car sales in the United States.

American Industry's Efforts to Adjust

The United States automobile industry's own efforts to adjust to improve their situation are paramount. The key to reducing imports lies in producing a greater quantity of fuel-efficient cars in the United States. A move to produce increased numbers of such cars, fortunately, was already planned by the U.S. industry prior to the recent shift in consumer demand. The effort was significantly spurred on by Congressionally mandated fuel efficiency standards. The domestic car industry is presently in a state of transition unprecedented in industrial history. Within a total span of less than a decade, the American car will have been almost totally redesigned to meet fuel efficiency goals. The size and rapidity of the industry's investments, estimated at $80 billion over a five year period, will transform the industry. Much of this spending is taking place during the current recession, when almost all of our auto manufacturers are writing their profit and loss statements in red ink.

The results of these efforts will begin to be evident in the new model year. Ford Motor Company will shortly unveil their high technology and fuel-efficient front-wheel drive Escort model subcompacts. General Motors will introduce new innovations in engine design such as electronic carburation control and variable cylinder usage that will enhance both

fuel economy and pollution control, and in the spring of next year, GM will introduce a new line of subcompacts, the J-car. Chrysler Corporation will, next week, present its new K-cars, which are rated at 25 miles per gallon in the city and 41 on the highway--with a 6 passenger capacity. American Motors and Volkswagen of America will continue their emphasis on small cars which has led to sales increases by these two companies in 1980 compared to last year.

The Administration's Response

The Administration has sought to facilitate the retooling of our industry to permit production of small, fuel-efficient, competitive autos. It has also sought to reduce the burdens borne by workers during this transitional period. In cooperation with the Congress, it has provided special financial assistance to the beleaguered Chrysler Corporation and is developing through tax policy, capital formation incentives.

In July, President Carter announced a number of specific actions including relaxation of some regulatory requirements, new adjustment assistance benefits to aid communities severely affected by the changes in the auto industry, tax

relief proposals, and a package of loan programs to aid automobile dealers. The President also called for a joint industry, labor, and government Automobile Industry Committee to undertake a continuing dialogue on industry concerns. Members of this Committee met last week in Detroit to organize and set their agenda.

Another major element of the Administration's policy during this transition period has been to encourage economically viable investment in the United States in automotive manufacturing facilities. To date, Honda and Nissan have announced plans to produce cars and trucks, respectively, in the United States. Nissan has yet to definitively pick a plant site. Toyota, the largest Japanese exporter to this market, continues to study investment possibilities here.

To promote an increase in our exports to Japan, we have reached an agreement with the Japanese Government on a number of measures designed to increase access to the Japanese market for U.S. made automobiles, parts and components. In May, the Japanese Government agreed to eliminate import duties next spring on most automobile parts, ameliorate the impact of certain Japanese standards, and send automobile parts buying and investment missions to the United States.

The Auto Components Buying Mission is in the United States at the present time. The full benefit of this mission will not, of course, be realized overnight. With U.S. parts making capacity readily available, however, it should be possible soon to see tangible results in the form of contracts in some cases, and in other cases, concrete steps toward contracts. The Administration regards concrete results from this mission to be an extremely important contribution by Japanese firms to improving the present climate, creating jobs, and improving the prospects of the depressed U.S. auto parts industry.

Next week, a second mission from Japan will visit the United States to explore opportunities to license U.S. production of official Japanese auto parts and to explore joint ventures or other forms of investment opportunities in the United States. This mission offers another opportunity for positive steps to restore better balance to automobile trade through economically viable production arrangements and investments in the United States.

The Japanese Government has agreed on the need for significant and lasting results from the auto parts buying and investment missions. Our two governments will monitor closely the missions' results.

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Request for Import Relief

In spite of the adjustment actions taken by the Administration, the Congress, and most importantly, the industry itself, many Americans continue to be concerned that the unprecedented Japanese shipments during this transitional period will permanently alter the structure of our automobile market to the disadvantage of American companies and workers.

This situation has led to calls in our country for import restrictions. The United Auto Workers and Ford Motor Company have petitioned the U.S. International Trade Commission for temporary import relief under the provisions of Section 201 of the Trade Act of 1974. At the President's request, the USITC has accelerated the schedule for its decision. If the U.S. International Trade Commission finds that imports of automobiles are a substantial cause of injury, or threat thereof, and recommends import relief, then President Carter will be authorized under our domestic law to restrict auto imports by means of tariffs, quotas, tariff-rate quotas, or orderly marketing agreements. In addition, bills have been introduced in the Congress to accomplish the same purpose by directing the President to enter into voluntary restraint arrangements with the Government of Japan.

In 1974 and 1979, the Congress passed trade legislation that, among other things, provided a framework within which claims by domestic industries and labor for import relief against injurious imports are fairly processed with all parties

having a right to be heard. The U.S. International Trade Commission has scheduled public hearings for October 8 and the Commission will vote on the questions of injury and remedy by mid-November.

With specific reference to House Concurrent Resolution 363 and similar resolutions, the Administraton's position is that the process mandated by Congress involving the independent U.S. International Trade Commission, the Executive Branch and a formal review by Congress, itself, through the override mechanism, has been fully engaged. This process should now be allowed to operate.

Government Procurement

The opening of Japan's telecommunications market through the Government Procurement Code remains a key trade objective vis-a-vis Japan. I would like to review where we stand on this most difficult and sensitive issue.

Its roots lie in the nature of the Government Procurement Code. Unlike the other MTN Codes, the balance of rights and obligations under the Government Procurement Code cannot be considered in abstract terms. This Code deals with contracts--the dollars and cents of trade. Hence, any consideration of reciprocity requires that advantages be measured in terms of the commercial opportunities which each signatory to the Code is offering. To put it plainly, in order to arrive at an equitable arrangement under the Code, there have to be reciprocal commercial opportunities.

We have succeeded in achieving the appropriate reciprocal balance under the Government Procurement Code with all our major trading partners except Japan. The final package of agreements with these countries does not offer all that we had hoped, but we were able to offset what we saw as deficiencies by withdrawing our offer of coverage of entities such as the Departments of Transportation and Energy. On balance we see major new export opportunities being created by the agreements we have reached to date.

In the case of Japan, our task was more difficult. Japan has offered its central government ministries, as other countries had done. However, in Japan's case this was not enough. Japan does not have a central purchasing agency, a large Defense purchasing program, or units within agencies which make large purchases. It procurement system is highly disaggregated. Rather than having one entity do all its purchasing, Japan has a multitude of procurement units that make a large number of small purchases. As a result, the average dollar value of Japanese procurements is relatively small. This is important because the Government Procurement Code only applies to purchases above a threshold of 150,000 Special Drawing Rights -- approximately $190,000. The disaggregated nature of Japan's procurement system meant that a large portion of its purchases would be below the threshold and therefore not be subject to the Code.

Another factor we had to consider was that Japan has already shown how competitive it is in our markets. To date, our performance in selling to Japan has been less encouraging. This meant that to achieve balance with Japan we would have to gain access to purchases in areas where we know we are competitive.

When we analyzed Japan's government procurement market, we found that the one entity the inclusion of which could provide a balanced package was Japan's Nippon Telegraph and Telephone Company - NTT. NTT buys centrally in large quantities, meaning a high proportion of purchases above the threshold. It purchases high-technology products where the United States is highly competitive. NTT has taken on a special significance over the years because U.S. exporters had repeatedly found that NTT was unwilling to buy non-Japanese goods. This was hard to accept given that our firms were offering products equal to or better than the products being offered by their Japanese competitors. It was even harder to accept given our bilateral trade balance with Japan, and the extensive opportunities which Japanese high-technology firms have to sell in our market.

In Geneva we pressed Japan to add NTT to its entity offer. This began the process of negotiation which is still going on today. Japan at first resisted our request, arguing that our offers were already balanced since we had

each offered to place procurement by our central government agencies (e.g. the principle ministries and departments) under the code. We, in turn, made it clear to the Japanese that we were judging reciprocity in purely commercial terms and that we did not believe that this balance existed without the addition of NTT. Eventually Japan came forward with an entity offer which included NTT. However, the offer was limited to the purchase of non-telecommunications related equipment such as paper, pencils, utility vehicles and telephone poles. This was obviously unsatisfactory. It excluded the high-technology products which we were most interested in selling to Japan. Our response was that this was a useful first step, but that it was far short of being acceptable. In brief, we told them we could not settle for anything less than full access to NTT's telecommunications purchases.

The NTT issue became the major outstanding issue between Japan and the United States in the closing days of the Tokyo Round of Multilateral Trade Negotiations. Negotiations continued well into the eleventh hour with, then Special Trade Representative, Robert Strauss, leading our team. Despite countless hours spent in negotiations we recognized it would not be possible to complete work on this issue before the close of the MTN. However, both the United States and Japan wished to continue discussions in the hope of reaching agreement before the Code entered into force on

January 1, 1981. As a result, long hours of negotiations yielded the Strauss-Ushiba Joint Statement of June 2, 1979. Under the terms of this document we agreed to reach agreement on entity coverage by December 31, 1980. It was also agreed that we would establish a work schedule beginning in July 1979.

Since July 1979 we have had numerous technical and substantive discussions with the Japanese. I believe that these discussions have been useful. Through them we have gained a deeper mutual understanding of our respective telecommunications markets. In particular we have taken this opportunity to stress the importance we attach to improved market access opportunities in Japan for our high technology products. In addition, we have had useful discussions on the flexibility of the Government Procurement Code. Differences in interpretation of the Code have been narrowed.

We have made some progress with the Japanese. Up until recently NTT has been adamantly opposed to any changes in its purchasing procedures. It appears that NTT is willing now to work towards developing procedures which will permit international access to its purchases.

In order to come to agreement with Japan, all of NTT's purchases must be subject to the obligations of the Government Procurement Code. This continues to be the firm position of

this Administration. I cannot overemphasize the importance which we attach to the resolution of this issue. It is our strongest hope that it will be resolved well before our year-end deadline. However, there is still a considerable distance between us, and we must recognize the possibility that agreement may not be reached. Japan and the United States have a great deal to gain in resolving this issue and we are continuing to work toward this end.

Agricultural Issues

Let me now turn to agricultural issues. As noted above there are still serious problems of access into the Japanese market. We are particularly concerned about continued Japanese restrictions which do not allow us market access for those agricultural products in which the U.S. has a natural competitive advantage. We have gained limited improvements for citrus and beef. We would hope in future bilateral reviews such as those scheduled for citrus in 1983 to see removal of most barriers in these areas. We hope that Japan is now beginning to reconsider its system of protection so it can provide the largely unfettered access for our competitive agricultural products that we provide for their industrial products.

In rice, we have been able to work out a mutually acceptable solution for the disposal of Japanese surpluses in order to prevent the disruption of traditional American

export markets. In areas of standards, especially those concerning processed agricultural products and pesticides, the U.S. has forced many artificial barriers. Presently, the U.S. and Japan have an environmental agreement which has set up programs of cooperation in that area. In addition, we would hope that in the context of the joint statement of standards worked out between Foreign Minister Director General Teshima and myself at the end of last year, we would be able to make progress to ensure an increasing movement of American products into Japan.

A major trade problem concerns tobacco products; we are hopeful, despite setbacks during recent discussions, that by the end of the year we will be able to see improved access into Japan. This would involve a significant reduction in the unacceptably high duty of 90 percent on cigarettes, 110 percent on pipe tobacco, and 60 percent on American cigars.

In the forest products sector, we have noticed a small improvement in the product mix between logs and lumber into Japan. Through the Forest Products Commission chaired by USTR and the Japanese Foreign Office, we are hoping to attain more significant increases in our lumber exports.

Finally, regarding leather we are hoping, through joint efforts by the American and Japanese Governments, and private enterprises, to overcome some of the serious problems which

have prevented American exporters of leather from filling the recently negotiated quotas. These quotas provide access to less than 2 percent of the Japanese market and we believe that joint efforts should result in our filling these quotas.

Conclusion

I have discussed some of the ways in which we are managing our bilateral problems with Japan. Many of the specific measures I have mentioned should reduce our deficit with that nation. It is very important, however, not to look at our trade relations solely from a bilateral point of view. As you well know, the international trading system is a multilateral one. The critical measure for any country is its overall trade balance rather than its trade balance with any particular country. While we have trade deficits with some countries, like Japan, we have surpluses with others. In some cases, these surpluses may be as large and persistent as the deficits.

It is our policy to press for removal of trade barriers with both surplus and deficit countries. We are critical of certain Japanese barriers not because Japan is in surplus with the U.S. but because we consider them unjustified and harmful to U.S. sectors which deserve greater competitive opportunities in Japan. We are similarly critical of unjustified barriers of deficit countries.

Also, if we become preoccupied with, and press for bilateral balances with, countries with which we have large deficits, we leave ourselves open for criticism from and similar efforts by those with which we are in surplus. Such an approach would not be in our interest and would be inconsistent with the advantages of a multilateral trading system.

The United States and Japan both have a strong interest in the health, openness and fairness of the trading system It is in that spirit that we conduct our trade relations with Japan and other nations. We expect Japan will do likewise. Indeed the ability of the U.S. and other countries to maintain a positive approach to the international trading system will in part turn on Japan's doing so.

We seek mutually beneficial trade relations with Japan because Americans and Japanese alike, as well as the international economy, stand to benefit. Reduction of this almost constant source of friction should enable us to raise our sites to the other areas of common interest.

As two countries with enormous technological, human, and financial resources, there are great opportunities for cooperation between Japanese and American scientists, technicians, economists, environmentalists, energy experts and sociologists, to achieve major breakthroughs which can improve the human condition.

We look toward a fruitful partnership with Japan in the 1980s. Together we can respond to the crying needs of the developing nations -- whose human needs present a compelling moral demand on our societies and whose economic well-being will be increasingly important to our own.

Mr. BOWEN. Thank you, Ambassador Hormats.

We, I think, have reached a point at which we will probably have to pause for a word from our sponsor, the House of Representatives, across there, in this third segment of Shogun here today. I think we shall return after we have made that vote over there. If you gentlemen can stay to be with us, we would certainly appreciate it very much. We will finish up with Mr. Kopp's testimony, and then we will have some questions.

We will recess for about 10 minutes.

[Whereupon, a brief recess was taken.]

Mr. BOWEN. The subcommittees will be in order.

I think at this time we will have the testimony of Mr. Kopp.

STATEMENT OF HARRY KOPP, DEPUTY ASSISTANT SECRETARY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE

Mr. KOPP. Thank you, Mr. Chairman.

I have submitted a statement for the record, and I will summarize it quite briefly, in view of the fact that most of the points that are contained in my statement have been covered quite eloquently by Bob Herzstein and Bob Hormats.

Japan is our most important trading partner after Canada. We have bilateral trade with Japan that last year exceeded $40 billion. We compete with Japan in this country and around the world, but we also share with Japan a common commitment to a multilateral trading system that is open to free and fair competition. We have a great stake with Japan in cooperation in economic relations around the world, because both of our economies can be very profoundly affected by economic developments around the world.

Japan certainly has been affected by changes in the world economy in recent years, and the picture of Japan as a nation with an enormous trade surplus is no longer accurate. Japan's trade surplus was $25 billion 2 years ago, but this year a trade deficit of $3.5 billion is projected, and Japan is expected to have a current account deficit in 1980 of $16.5 billion.

JAPAN'S EXTERNAL BALANCE

This great shift in Japan's external balance is due primarily to the tremendous increase in the price of oil—Japan is wholly dependent upon foreign sources of oil—to sluggish demand around the world for Japanese goods, to the appreciation of the yen, and to a reorientation of Japan's growth policies increasingly toward stimulation of domestic consumption rather than stimulation of the export sector.

Nevertheless, despite this shift in Japan's external balance, this shift to deficit worldwide, Japan maintains a very large trade surplus with the United States. We estimate the surplus this year at close to $10 billion. This is an improvement of $3 billion in our bilateral balance since 1978, but it is roughly the same level we had in 1979.

I don't want to overemphasize the bilateral trade balance with Japan. It is a mistake to look at trade bilaterally. We have a surplus with the European Community which is virtually the mirror image of our deficit with Japan, and to try to balance trade

bilaterally would create problems with those countries where we do have surpluses. Bilateral balancing would cost us the benefit and advantages of the efficient allocation of resources that come from an open and multilateral trading system.

We have made real progress in our negotiations with Japan in past years on official trade barriers, as Congressman Jones has noted. There are some very formidable barriers that still exist, both official barriers and unofficial barriers, and I will not go through the catalog again that Bob Hormats and Bob Herzstein described for you.

I do want to stress for the record the great importance that we attach to making progress in October in our talks with Japan on the procurement policies of Nippon Telephone & Telegraph. We consider the barriers to imports of telecommunications equipment maintained by Japan to be really quite unreasonable. We are not at all surprised that our negotiations with Japan in this area are very difficult. We know the political stakes for the Japanese. We know that much potential trade is involved.

But I hope that Japan will come to understand the benefits to Japanese society of opening this sector to international competition. I am certain that Japan understands the consequences of failure to do so.

As I said, I will not go through the description of specific problems that we have. I don't want to add to Ambassador Hormats' remarks on autos.

FUTURE COOPERATION

So, just to conclude, I do want to say that we should not, in our fascination with the frictions of our relations with Japan, lose sight of the cooperative elements of that relationship and the potential for cooperation in the future.

We cooperate as allies in maintaining economic sanctions against the Soviet Union, and with respect to Iran.

We cooperate in aiding developing countries. This is an area in which we have pressed Japan over the last few years to expand its activities, and now, for the first time, Japanese development assistance exceeds that of the United States on a per capita basis. Increasingly, Japanese aid is untied, Japan has increased its aid to countries where we have mutual security interests—to Turkey, Pakistan, and Thailand. In China, the Japanese aid program is largely untied. We understand that a majority of the contracts let under the Japanese concessional aid program to China have gone to non-Japanese firms. This is something really quite new in the way Japanese aid programs are conducted.

JAPANESE AID PROGRAMS

Japan has also assumed very heavy financial burdens for the care of refugees from Indochina.

The United States and Japan cooperate in the energy field as well. We have joint research and development agreements looking at coal liquefaction and at other unconventional energy sources: solar, geothermal, fusion, magnetohydrodynamics.

Japan is contributing $350 million to the construction of a coal liquefaction plant in West Virginia. It is a project that will develop, if successful, a new technology that could expand not only world energy resources but also U.S. coal exports to Japan.

I think these cooperative elements in our relationship sometimes are forgotten because of the great frictions that exist between us. I simply want to call them again to the committee's attention before we turn back to questions, and look once again at the areas of friction.

Thank you very much.

Mr. BOWEN. Thank you, Mr. Kopp. We appreciate your statement.

The distinguished gentleman from New York, Mr. Bingham, who is cochairing these hearings, is with us, and he may well want to ask a question at this time.

HOUSE CONCURRENT RESOLUTION 363

Mr. BINGHAM. Thank you.

Two days ago, we had representatives of Ford and Chrysler here, arguing strenuously for support. One of the various resolutions before us, the principal resolution we were looking at, of course, would be a sense of Congress resolution, without the force of law, calling upon the President to seek to negotiate voluntary restraints in the export of automobiles to the United States. In the testimony, it was clear that their target is variously stated, but what it amounts to is a target of trying to get the Japanese to reduce their exports to the United States by approximately 1 million units.

The representative of Chrysler said it would be about equivalent to the number of cars the company made on overtime in Japan. It was reasonable to ask the Japanese to suspend exports to the United States of cars that were manufactured on overtime.

Either way you look at it, that would cover about 1 million cars.

What they are talking about here is new negotiations. What is your quarrel with that kind of a resolution? Is it a reasonable approach? Does it contemplate that the cutbacks are far too large?

In general, I would like your comments on that specific proposition.

Mr. HORMATS. I have enormous sympathy with those people who feel strong concern about imports of Japanese cars. One can't help but be moved when one looks at the problems of this industry, and it is all too tempting to come up with that solution of import restrictions.

LEGISLATION ALREADY IN PLACE

However, I think that we have, as a result of the legislation passed by this Congress over the last decade, a process which is designed to identify, according to statutory criteria, whether injury has occurred. Then, the same statutes give the President the authority to provide relief, taking into account the relief recommendation made by the ITC, if in fact the ITC determines injury.

In my judgment, that is a fair process. That process is the one which has the advantage of widespread support in this Congress and, I believe, among the various constituencies which supported the legislation in which this statute is contained. Congress is at-

tempting to come up with other remedies which circumvent this process; however, it seems to me that Congress in its wisdom has provided a process, and UAW and Ford have taken advantage of it, and appropriately so, from their vantage points.

The process has been expedited at the request of the President, and the recommendations from the ITC will come in in mid-November.

I believe that in terms of the national interest, in terms of the interests of all the parties involved—and there are many who have an interest in this—that that is the process which should be allowed to work itself out.

As I say, attempting other remedies, would not be in keeping with the spirit of those statutes, and in my judgment the statute that is on the books should be the one that is given a chance to work.

VIOLATING ANTITRUST LAWS

Mr. BINGHAM. The Independent International Car Dealers Association argued further that without following the procedure contemplated in the statute, that it would not be possible to work out an orderly marketing agreement, that any such agreement would be in violation of antitrust laws. Is that correct?

Mr. HORMATS. I have the advantage of having one of the best lawyers in the country seated next to me.

Mr. HERZSTEIN. I am flattered, but I should stress I am not here in a lawyer capacity and cannot speak for those who enforce our antitrust laws. There would be a problem, depending on how the voluntary restraints are imposed at the Japanese end. If they are induced by Japanese Government action, I think that basic antitrust doctrine in the United States is that these would not be antitrust violations.

On the other hand, if they are the result of collaboration among the Japanese companies, then there is probably a danger of conflict with the antitrust laws.

A third possibility exists, and that is that each of the Japanese companies unilaterally, without conspiracy or collaboration among themselves, will decide to cut back. That would not be in essence an antitrust violation, either.

But of course, these are all pure situations that I am describing, and there would always be some uncertainty as to just what would happen, and one can understand the sensitivities on the part of the auto producers and their lawyers.

Mr. BINGHAM. I would interpret what you are saying to the effect that if the U.S. Government in response to a resolution of this kind undertook negotiations with the Japanese Government to achieve some reduction in automobile imports in the United States, that that would constitute a kind—I have forgotten your word.

Mr. HERZSTEIN. Government inducement in a mandatory fashion.

Mr. BINGHAM. Government inducement, so that that would not violate the antitrust code.

Mr. HERZSTEIN. That is probably correct. The essential thing is that the Japanese companies are not acting through their own conspiracy, but in response to a Government-mandated program.

PROCUREMENTS

Mr. BINGHAM. Thank you. That is helpful.

Mr. Hormats, I recall when Mr. Strauss was testifying on the MTN in the final stages, that he said you pointed a major way to the open procurement requirements as being a key to this whole picture, and in fact, he was saying, if this doesn't work, the whole structure is going to fall down. He was making that as a part of the point that you have a long way to go to make the MTN work. It was not going to work just in and of itself.

It does seem to me, from what you are telling us that this matter of Government procurement, as far as communications equipment with Japan is concerned, is an example of noncompliance with that part of the MTN.

Mr. HORMATS. At this stage, we still have several months to go. In their wisdom, the negotiators decided that the Government procurement code would only come into effect January 1, 1981. This gives us more time to sort out some of the complexities of this particular negotiation.

But I would certainly agree with you that the Procurement Code is a critical element of the MTN, and its success may well be the single most important boost to American exports of any of the elements of the MTN, because governments are playing a greater role in economies today than over the past 10 or 15 years, particularly in areas of complex technology such as telecommunications.

In our judgment, the code provides opportunities to open up something on the order of $20 billion worth of potential Government procurement. Obviously, our firms won't get all of those bids, but the code does open up enormous new opportunities.

JAPANESE COMPETITION

Bob Herzstein and I were just talking about this informally with respect to Japan in particular. Japan has in the past tried to isolate certain industries until they developed enough strength to be very competitive. They developed economies of scale, and as a result, they could go into other countries more competitively.

What we want to do now is, give our exporters in the telecommunications area a shot at that NTT market; that is, give the Japanese some competition in their home market.

When you get an industry in the United States which can compete, then it certainly is in our interest to insure that they have broad competitive opportunities. In a growing market such as Japan, NTT is the most important of those competitive opportunities. Very definitely NTT is important. It is important in terms of overall trade; it is important in terms of the code, and it is particularly important in terms of the telecommunications industry.

We aim to make sure that there is total competitive opportunity in the telecommunications area for American firms.

CITRUS IMPORTS

Mr. BINGHAM. Thank you.

One further question. Last April, some of us were in Japan, and among the group was Congressman Ireland. I am sure he could tell

us more about the restrictions on the importation of citrus in Japan.

I notice brief references in your testimony and Mr. Kopp's testimony to this subject. I am sorry that Mr. Ireland isn't here; but it seems to me it might be appropriate since you are the administration witnesses in this series of hearings, if you would tell us what you can now in somewhat more specific detail about what is being done to overcome this frustrating series of impediments that apparently have been raised against importation of American citrus into Japan.

Mr. HORMATS. We have had rather extensive discussions with the Japanese on this issue. In the MTN, the Japanese agreed to progressively increase both their annual and their off-season quotas of oranges for the 1980–84 period. The agreement specified that the increased portions of the import quota over the Japanese fiscal 1978 levels be excluded from the present import quota system and be administered under a new system that will provide import opportunities on a fair and equitable basis.

Traders, would, of course, have to get licenses for these imports.

We have been working with the Japanese to open up their market. The agreement provides for consultations in the last half of Japan's fiscal year, 1982–83, on ways to achieve an open market situation. We will be working between now and that period, 1982–83, to get greater openness, and we hope that if we have not achieved it that those consultations will lead to the openness we want.

There is another issue which I can describe briefly, which is the monthly quota system. I am not sure you want to get that deeply into the way this works. It has to do with the differences between Florida and California.

Mr. BINGHAM. Perhaps not. One of the other witnesses was commenting on the fact that oranges in Japan sell at perfectly outrageous prices. This is an example, it seems, of what you were suggesting earlier, that the Japanese consumer movement seems to be either nonexistent or totally paralyzed. Would you comment on that, Mr. Kopp?

Mr. KOPP. Yes. Oranges are grown very inefficiently in Japan, in very small groves, by many, many farmers. Many of these farmers are the same who raise one or two cows. Beef prices are as outrageous as orange prices. It is an extremely heavily protected sector of the Japanese economy.

The Japanese Government, when approached on this, will explain the very severe political difficulties they would have in liberalizing. Their farmers simply would not be able to compete with the production of the United States. It is simply an inefficient sector that is very highly protected, and when you protect an inefficient sector, you get very high prices, and very often poor quality as well, as I think may be the case with Japanese oranges.

RELUCTANCE IN LICENSING

Mr. HORMATS. May I just add one particular point without getting into the difference between the two States? One particular element we have been stressing is the need to give quotas or

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licenses to new suppliers. There has been a reluctance on the part of Japan to do this in the past.

There has been some progress in that direction. Japan has opened up somewhat in what is known as the April-May quota to new suppliers. In our judgment, it is important that we continue to expand the overall access to the Japanese market, so that there won't be any impediments to export. In addition, it is important that the Japanese give ample new competitive opportunities to new suppliers, which, as I say, they are doing, but we would like them to do considerably more.

Mr. BINGHAM. I would like to pose one more question, getting back to automobiles. One of the points that is made is the notion that we could apply tax credit to the purchase of American automobiles.

What would be the implications of this in terms of MTN and GATT and so on? What are your comments on the proposal that there might be a $1,500 tax credit for a U.S. automobile purchase?

Mr. HORMATS. Apart from the questionable economics of the whole thing, I think that it would be illegal under the GATT. I don't know whether the fiscal costs have been analyzed, but I assume you would be subsidizing an awful lot of buyers who are going to buy their cars in any case, and that would be a rather substantial drain on the Treasury.

As far as the GATT, provisions to subsidize the purchase of domestic products are clearly illegal.

Mr. BINGHAM. Thank you.

Mr. BOWEN. Thank you, Mr. Bingham.

I would like to call on Mr. Pritchard at this time.

SHORT-RANGE SOLUTIONS

Mr. PRITCHARD. We have a problem here. We look for guidance from you because you might do everything that is right and proper, but if we don't come to some resolution of this problem, politics will overcome us and we won't get anything done, and the whole thing will be most counterproductive.

We look for a two-pronged attack on this. One is some type of short-term relief, if not heavy relief, symbolic relief as well as psychological for the auto industry and some others. In the long run, of course, there are a variety of things that have to be done. Some of the things you have to do; some of the things the private sector has to do; and some things Government has to do and Congress has to do as far as tax policies.

It is far more complicated than it was 5 years ago. I have business friends who have lost money and effort going into some of these markets, because they have to take a much longer range look at it than they first expected, and second, the costs of going into Japan were far greater, if you are going to do it successfully, far greater than they had expected.

I guess it gets around to saying that you people would better have some things that work. It isn't a matter of are we going to do it or not. It seems to be a matter of, we are going to come around the corner, people are going to get elected, things are going to happen politically which may have disastrous consequences, and

we will start a whole trail of things that are most harmful to this country and certainly harmful to Japan.

What do you think can be done in the short range that will give us some sort of lift, whether it is the auto industry or whatever?

Mr. HERZSTEIN. Taking them individually, which I think you have to do, in autos one thing that could be done very quickly is for the Japanese auto companies to take some steps which would offer the promise of fairly immediately increased sales of U.S.-made parts for Japanese autos.

REPLACEMENT PARTS

The fastest thing they could do would be something that they could launch immediately, and the effects would be coming fairly soon, would be to make clear to their distributors in this country that they can use American-made replacement parts on eight million Japanese autos that are on the road in this country now.

Our information is that almost no U.S.-made parts are sold through the U.S. dealers as replacement parts for Japanese autos, even though these are American companies, American dealers selling Japanese cars. There are parts made for Japanese cars, and in the so-called gypsy market, if you go to an auto repairman who is not an authorized dealer, you can get parts made by American manufacturers that will fit a Japanese car.

For some reason which we don't really understand, but we have our suspicions, the Japanese auto dealers are not handling these parts, and we believe virtually with a stroke of a pen, with an announcement that the Japanese auto companies could open up some substantial opportunities there.

They could also start buying parts for original equipment use in Japan. That is a little bit more long range, but they could take a few steps right away.

AUTO IMPORT RESTRICTION

I should say that as far as restrictions on auto imports go, apart from the process question, which Bob Hormats described, I think that one also has to give attention to the timing of import relief. I think that if you look at what has been going on in the last 14 or 15 months, you see that the Japanese surge in imports was certainly faciliated by the fact that American companies were having to adjust to a sudden shift in the market demand here.

I think when you look at it from that point of view, you realize the real problem of injury or potential injury to the American industry is not simply the loss of sales for one season or 1 year. The danger is that this temporary situation will be converted to a permanent change in market structure, that the increased sales that the Japanese company enjoys can give rise to profits which they recycle into research and promotion, which will give them better sales next year, strengthen their dealer networks so they will convert a temporary advantage into a permanent one.

I think that would be the real measure of injury. I think so long as the American companies are just beginning to come on with their cars, we can't be sure that this injury has occurred or is

occurring, but if the new cars as they come out are not selling well, that would be an obvious time for concern.

I think my own feeling is a move toward import restrictions right now would not be the best move for short-run effect. That is more of a middle-term remedy that should be looked at.

TELECOMMUNICATIONS

As far as other industries go, I think telecommunications is the next most important candidate for attention, because that is an industry where, as Bob indicated, the Japanese are tending to follow the previously observed pattern of shielding themselves until they build an industry that is capable of world dominance.

They are doing it not just through the NTT buy-Japan policies, but we are also seeing it in their severe restrictions on access to privately leased telecommunications lines into Japan. We are also seeing it in the semiconductor industry, where a culmination of highly integrated Japanese companies and a Japanese program making long-term, low-cost capital available to their semiconductor and computer industry is giving their companies certain competitive advantages American companies don't have.

I think that all three of these elements affecting the electronics industry in Japan are candidates for immediate moves. I think the Japanese could take steps on each of these three areas quite quickly, and that that would be another good place to look for some quick remedies.

JAPANESE SENSITIVITY

Mr. PRITCHARD. How sensitive are the Japanese to this problem, and how anxious are they to do something? Is it something where the Japanese officials see where they want to move? Or do they have problems? Or is this a proper discussion here?

Mr. HORMATS. There are numerous impediments to their doing the sorts of things that Bob has mentioned. I would first say that I agree with all of them. There is a lot more the Japanese could be doing. In part, they may not fully appreciate the sorts of pressures that are building in this country. As a result, they may not be making the effort to generate the type of consensus that they need to do these things. I don't get any feeling that there is a dramatic effort on the part of Japan in either the auto parts sector or the telecommunications on electronics area to take the sort of actions which would be needed as a demonstration, a visible demonstration, of an attempt to open up further in a very near time frame.

Mr. PRITCHARD. Of course, any one area would say, why me? Why not this industry or that industry? That is why our solutions are broader, rather than aiming at a specific solution. It would be more helpful for industry itself. We come in with broad issues a lot easier than we come in with more narrow ones.

If you are helping someone, that is no problem, but if everybody comes running in with their own narrow advantage, tax break, tariff help, overseas help, whatever it is, it seems to me that we have to resist that, and come up with solutions on a broad range, and this would have a more helpful effect.

Mr. HERZSTEIN. In terms of legislation, I think that is right. In terms of the negotiating and administrative action that we have to take, though, I think it really has to be aimed at these industry situations.

Mr. PRITCHARD. That makes it quite different from the politicians' aspect.

Mr. HERZSTEIN. Yes. I think I would agree with what Bob said, that one doesn't denote any really strong Government leadership in Japan toward prompt action on these things. I think recently a few of the top leaders have shown more sensitivity toward the auto question. Just how far their actions will go is still quite uncertain.

PRODUCING FOR A WORLD MARKET

Mr. PRITCHARD. One of the things that puzzles me is that Japan does not just produce for the U.S. market. They produce for a world market in import production. That gives them a great advantage. So often we are producing for the U.S. market. We have to produce for a world market that gives our economies a variety of advantages.

You are talking about offsetting these efforts by getting back at the Japanese market. Aren't there lots of other markets where you are not competing, where you have a home industry, where it would be most helpful for our industry to look at it more on a political scale?

Mr. HERZSTEIN. I think that is right. We are certainly taking account of this in our efforts. We are attempting to target specific industries, industry opportunities in individual countries, and doing a great deal of market analysis in that direction.

We are finding markets in Latin America and Europe, and in Southeast Asia, which can be quite promising for individual American industries. I think there is a good deal of exporter awareness that needs to be increased, and there are measures such as the trading company concept and other things that are necessary to make it easier for American companies to go into those markets.

One of the problems, one of the great disadvantages, as it were, is, that it is so much easier to sell here. The United States is such a large and prosperous market, it is hard to get the courage to export up.

U.S. PROJECTIONS

Mr. PRITCHARD. It is awfully hard to get one of our manufacturers to all the investments and go into the Japanese markets or one of these others, where there are barriers, little special things that have to be done for the culture in that area. If they take the same amount of advertising dollar and go to the San Diego market, they can get a faster return.

On top of that, we pay executives in these companies, we start talking about a 10-year payoff. It is very hard to tell someone in management that he is not going to get a return on a 10-year payoff, that 10 years from now it is going to be good.

As a matter of fact, everything now is based on next year or the next 2 years. In almost every way, we have structured the American economy to have an impediment to going into markets that take longer on the payoff. I don't know how you change that.

This is one advantage to having a family-owned company. Toyota—is it Mr. Toyota? We had lunch with him. He can look at that American market or South American market and say, it will take 10 years for it to pay off. Someone who is an executive in one of these companies is making that decision. He has a short profit next year and the next year. There are some advantages to family-owned companies.

Mr. HERZSTEIN. We are seeing this quite dramatically in the semiconductor industry now, where the Japanese companies entering the U.S. market are clearly following a long-term strategy designed to build market share, and the American companies, which are highly innovative, but many of them fairly small, are dependent on their current earnings or their next year's earnings. It is not really just a matter of the chief executive bonus, but they need next year's earnings to raise capital for their next product cycle.

ACQUIRING CAPITAL

Mr. PRITCHARD. My understanding is that the Japanese industries can get capital and be successful with a much smaller return than American companies. Why is that so? Do they raise money easier?

Mr. HERZSTEIN. We are not entirely sure. Our evidence is that in a targeted industry such as computers and electronics, the banks do appear to make long-term capital available at lower interest rates. This is something we are trying to find out more about.

Mr. HORMATS. One other area of problems is that a lot of American firms have to raise capital on the equity market. In order to do that, they have to generate higher profits than their counterparts in Japan which can normally raise capital from the banking system and, therefore, don't have to generate profits which demonstrate return to stockholders.

There are a couple of other points, too. Beyond the issue of Japanese Government sponsorship of R. & D. in the area of semiconductors, the companies in Japan are allowed to pool their R. & D. efforts. In most cases our companies can't do so because of the law. There are certain antitrust problems with our companies getting together and conducting joint R. & D.; however in Japan they save a considerable amount of money, because they don't have duplicative capital costs.

As you know, R. & D. is a fairly capital-intensive process, particularly in these areas of high sophistication. An element of Japanese policy is what is known as forward pricing. That again goes to Bob's point about the long term. Japanese firms tend to price their products somewhat lower than might otherwise be warranted, with the expectation that if they do, they will sell in sufficient volume to make a profit.

Now, there is a risk involved. If you don't sell as many as you expect to sell, you don't make that profit; however, if you can forward price, get a larger share of the market at the outset, keep that larger share of the market over the longer run, the returns to scale are such that it is a profitable thing.

You can only do that if your firm, such as many of these Japanese firms, is relatively well integrated. Some of the smaller American firms produce one type of product. While that product

isn't making money in the early stages of the forward pricing process, they simply would be out of luck, because they wouldn't have another product to balance it off. In this area, some of the larger companies, integrated circuit companies of Japan have an advantage over ours.

TAXING PROFITS

Mr. PRITCHARD. What about tax on profits? Let's use a figure. Say a Japanese firm is getting 10 percent, making a return of 10 percent on its investment. What kind of a tax bite is taken out of that?

Mr. HORMATS. I am not aware of the differences in the corporate——

Mr. PRITCHARD. It makes a tremendous difference as to what a company has to do to stay up.

Mr. HORMATS. Forty-six percent corporate tax.

Mr. PRITCHARD. Oh, 46 percent corporate tax. What do they do on R. & D.? What do they do on replacement and all those other things?

Mr. HERZSTEIN. Depreciation might be a key factor.

Mr. HORMATS. I am always pleased to know someone who knows something more than I do.

Mr. OSTERMAN. On R. & D. there are a significant number of government programs. Most significant are programs where the marginal increase in firms are in R. & D. If you spent $10 on R. & D. next year, the next year you spent $12, you can take 20 percent of that additional $2 off your taxes. There are a variety of programs like that that go by the R. & D. corporate tax rate and encourage R. & D. and these types of corporate strategies.

Mr. PRITCHARD. You find out who runs this place. I think the manufacturers who talk about being competitive are getting more and more difficult. In some of these areas, we are getting further and further out of a competitive spot.

ADMINISTRATIVE GUIDANCE

Mr. BOWEN. Thank you, Mr. Pritchard.

I would like to address this to all three of you collectively. The frustrating thing dealing with the Japanese market sometimes is this practice of administrative guidance, in which somehow, some way, the message is sent out to the market, and things happen, and there are restrictions which are never in place in terms of actual tariffs.

I happen to know of a particular product made in this country from a very important agricultural commodity whose sale is restricted to the Tokyo market exclusively. Now, I am not at liberty to announce what that product is, because the manufacturer advises me that if we raise Cain about this, they will take the Tokyo market away from them. They would like to be able to sell it all over Japan, but they are told, you may have the Tokyo market. You may market it there. If you try to go elsewhere, you are in trouble.

This is the sort of frustrating thing that we do run into, this practice of administrative guidance. I wonder if you might com-

ment on what we are trying to do to cope with activities of that kind.

Mr. HERZSTEIN. We agree, that is the most significant and one of the most insidious in the sense that it is so hard to discover, much less cope with. Our efforts at the present time are focused on the trade facilitation approach that we mentioned earlier.

If we rely on the businessman to come in and express his frustration to us, he doesn't have to know what is happening to him, but he has to realize that something is happening. Then our approach is to dig with the cooperation of the Japanese Government to uncover these things, and try to root them out.

We have been able to make some progress against administrative guidance, among other measures, but I am not sure that that is the only remedy, or that it is necessarily going to be successful, but it is the one we have at the present time.

Mr. BOWEN. The manufacturer is probably afraid to bring this to your attention for fear he will lose what he has of the Japanese market. He is not so confident that you can bail him out, but he is quite confident they can shut him off from the Tokyo market.

HEAT OFF AFTER ELECTIONS

Let me mention something to you that came out in a recent article in the Nihon Keizai Shimbun, which I think we need to have some comment on. As you know, that is sort of the Wall Street Journal of Japan. In that article—in fact, there was an editorial, I think, which emphasized the importance of voluntary restraints in terms of voluntary exports to the United States during the period before our national elections.

In fact, there were a couple of references to that, implying somehow that after the election was over, the heat is off, boys, and we can go back to business as usual.

Do you believe that that kind of restraint will actually continue after the election, or do you think the Japanese are aware of the kind of political implications or the kind of comment that you find in that editorial in their leading economic journal?

Mr. HERZSTEIN. I can give you my view. I suspect Bob has one, too.

As far as the auto industry goes, I think it would be a great mistake for the U.S. Congress or the U.S. ITC or anyone else to give to much weight to adjustments in Japanese exports to this country made under present circumstances, which are clearly reversible later on.

A section 201 proceeding is a rather large episodic event that cannot be turned on and off on a short-term basis. I think if that or other Government action or congressional action can be altered just by short-term fine tuning adjustments on the Japanese side, we would be allowing our decisionmaking process to be manipulated improperly.

So, my own reaction would be to not place a great deal of emphasis on changes unless it is fairly clear that they are going to be of a long-range nature.

Mr. HORMATS. I completely agree. I think that for the Japanese or for that newspaper to take that line implies that a gimmick is going to be satisfactory in this situation. Clearly the worst thing

that we can do is expect that something which is as temporary as that is going to have any real effect. I think it is somewhat a foolish notion on their part to believe that that would placate anyone in this country on either side of the issue.

Let me just add a point on this, going back to my description of the 201 process, as it relates to House Concurrent Resolution 363. The implication behind this resolution and a number of statements that have been made in this Congress is that there should be some sort of restraint, negotiated or voluntary.

That is clearly one option that is going to be considered if there is an injury finding, but the point that I think Bob has made and I would like to underline is that when we do this, we want to do it through a process which is based on the statutes given us by the Congress. The process permits everyone to have their day in court. Then a decision as to what is in the national interest can be made, in the right environment.

To have Japan make it on a quick fix basis, which, as this article implies, is going to be ended 2 months from now, is no help to anyone. To make it with something other than the full supportable law behind us is also not a very good idea. The two approaches could convey confusing signals. Our objective is to help rather than to give some sort of herky-jerky signal that might be changed by a lawsuit, by the Japanese changing their mind, or by something else.

We want a solid foundation for what is done.

Thank you.

EXPORT RULE

Mr. BOWEN. One of the hats which I wear around here involves service on the agriculture committee, and we have, in particular, an interest in our rice exports. I have worked with you, of course, before, Mr. Hormats, on the subject of the problem of Japanese subsidization of export rice to markets that we are exporting to.

Of course, you were actively involved in the recent Japanese agreement placing limitations on that amount of subsidized rice.

I wonder if you might give us a report at this time about how well you feel the Japanese are observing the terms of this agreement, and whether or not they are requesting exceptions to it.

Mr. HERZSTEIN. Mr. Chairman, I am going to excuse myself.

Mr. BOWEN. Thank you very much, Secretary Herzstein. We appreciate your being with us.

Mr. HORMATS. So far, I have no reason to believe the Japanese have not lived up to their part of the bargain. There have been some exceptions, as you know. Those exceptions have caused the rice industry some problems. There is no question about that.

We have tried, however, to work out with the Japanese a way of minimizing these exceptions to the extent possible. I am not aware of anything that is on the horizon in the area of exceptions at this point.

Mr. BOWEN. They have announced, I think, that they are going to 10 percent of the market.

Mr. HORMATS. That is right. That was done after a lot of low-key discussions with them, and I don't see anything on the horizon at the moment. I don't want to mislead you. There is always a possibility from time to time that we will get another Korea or another

Indonesia. One can't rule it out. But we can attempt to convey to the Japanese our feeling that we have made a deal. We consider it is a deal that both sides ought to live by. A proliferation of exceptions would undermine both the letter and the spirit of that deal. That is very much the tone we have taken with them.

Mr. BOWEN. We certainly hope you will be monitoring this deal very closely. As you know, most of the rice growers in this country were not very happy about the agreement to start with.

Mr. HORMATS. I understand that.

INTERPRETING TRADE AGREEMENTS

Mr. BOWEN. Part of this is based on a skepticism which I think you seem to reflect from a number of sources here about the difference between the letter and the spirit of the Japanese interpretation of agreements to trade barriers. That is what we are trying to penetrate here, not the formal structure of these barriers, but the informal interpretation, and the way that they go at them, as I mentioned, through the methods such as administrative guidance.

Mr. HORMATS. Absolutely. This is an area of incentives run amuck, if you will, in Japan. The Japanese have a surplus in rice. Now, the Japanese are efficient producers of rice per acre. I am sure they get a phenomenal yield, but they do it on the basis of highly artificial price incentives in the domestic market.

We have been extremely critical of this because it is a distortion of financial resources and distorts enormously the world market in rice. We have made this point. The agreement is one way of getting at it, but I think it is incumbent upon us to continue to urge the Japanese internally to stop providing the types of incentives which lead to this enormous incentive to produce rice, which they are then forced to dispose of at the expense of competitive suppliers such as the United States.

Mr. BOWEN. They apparently do have a program for reduction of acreage and replacement by other crops and sources of income. I certainly hope that you and the executive branch will continue to encourage them to move as rapidly as possible in that direction.

Mr. HORMATS. We will continue to do that, and I have no doubt you will continue to watch us closely to insure that we do that.

Mr. BOWEN. I have no more questions.

Mr. Chairman, would you care to make a statement in closing?

Mr. BINGHAM. No, thank you.

All right. We will then reconvene Wednesday at 2 o'clock. This meeting is now adjourned.

[Whereupon, at 4:55 p.m., the subcommittees were adjourned, to reconvene at the call of the Chair.]

UNITED STATES-JAPAN ECONOMIC RELATIONS

MONDAY, SEPTEMBER 29, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEES ON ASIAN AND PACIFIC AFFAIRS
AND ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
Washington, D.C.

The subcommittees met in open markup session at 1 p.m. in room 2255, Rayburn House Office Building, Hon. Jonathan B. Bingham (chairman of the Subcommittee on International Economic Policy and Trade) presiding.

Mr. BINGHAM. This is a joint meeting of the Subcommittee on Asian and Pacific Affairs and the Subcommittee on International Economic Policy and Trade.

We have a bill, H.R. 6440, and a resolution, House Concurrent Resolution 363, before the subcommittees. The resolution urges the President to enter into negotiations with Japan with respect to a temporary restraint in the exportation of automobiles into the United States, and for other purposes. We hope to mark up that resolution in the course of the next hour and a half.

We will turn now to consideration of H.R. 6440, a bill to establish priorities in the payment of claims against the People's Republic of China.

[Whereupon, the subcommittees proceeded in consideration of H.R. 6440.]

Mr. BINGHAM. I suggest now that we proceed to the markup of House Concurrent Resolution 363.

The two subcommittees have held 3 days of hearings on House Concurrent Resolution 363 and United States-Japanese trade issues generally.

If there are no other preliminary comments, I would ask the clerk to read the resolution.

Mr. JOHNSON [reading]:

House Concurrent Resolution 363: Urging the President of the United States to enter into negotiations with representatives of the Government of Japan with respect to a temporary restraint in the exportation of automobiles into the United States, an equitable relationship between prices charged in domestic and foreign sales, and elimination of trade barriers affecting purchase of American products.

Mr. LAGOMARSINO. I ask unanimous consent that the resolution be considered as read and printed in the record and open for amendment at any point.

[The text of the resolution follows:]

Whereas automobiles manufactured in Japan account for more than 75 per centum of the total number of imported cars sold in the United States, and over 27 per centum of the autos purchased in this country are imported;

Whereas the Japanese share of the United States car market has gone from approximately 2 per centum in 1969 to over 21 per centum today;

Whereas Japanese automobile manufacturers sold more than one hundred times as many passengers cars in the United States in 1979 as American automakers sold in Japan;

Whereas Japanese Government support of its steel industry has in effect subsidized the automobile sector of that country's economy;

Whereas during the past year, the American people have contributed $520 per capita to the defense of the free world, while Japan has spent less than 1 per centum of its gross domestic product or $87 per person on defense;

Whereas increased export of Japanese cars into the United States is a significant cause of the current unemployment of over one-quarter million (22 per centum) American autoworkers and the financial deterioration of the auto industry;

Whereas one out of every twelve manufacturing jobs in the United States is directly, and one of the six jobs is indirectly, dependent upon the auto industry;

Whereas Japan has opened its market in recent years, but many nontariff barriers remain; and

Whereas Japanese manufacturers enjoy open access to the American market, while United States automakers seeking to sell vehicles in Japan encounter special taxes, costs, and distribution restrictions: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That the Congress urges the President to enter into negotiations with the representatives of the Government of Japan with respect to a temporary restraint in the exportation of automobiles into the United States, an equitable relationship between prices charged in domestic and foreign sales, and elimination of trade barriers affecting purchase of American products.

Mr. BINGHAM. I do have two amendments which I offer on my own behalf and on behalf of my cochairman, Mr. Wolff. These amendments are before the members. They were distributed to the staff of the members and cosponsors of the resolution on Friday.

I think it would be best to offer amendment No. 2 first, the amendment to the resolved clause. If that amendment carries, I will offer No. 1, a series of minor and conforming amendments.

The clerk will read amendment No. 2.

Mr. JOHNSON. Amendment offered by Mr. Bingham and Mr. Wolff:

Page 2, line 2, strike out "to enter" and insert in lieu thereof "in his review of recommendations of the United States International Trade Commission, made pursuant to section 201 of the Trade Act of 1974, to consider entering."

Mr. BINGHAM. The reason for this amendment is that it attempts to meet the problem that was very much emphasized in our hearings, that procedures for import relief are already underway under the Trade Act of 1974.

Section 201 of that act provides procedures which allow domestic industries and labor to file claims for relief against injurious imports. Injured parties have a right to be heard before the U.S. International Trade Commission.

Ford Motor Co. and the United Auto Workers recently availed themselves of these procedures. They petitioned the International Trade Commission, asking for a temporary remedy to restrain injurious auto imports from Japan. The Commission has scheduled public hearings for October 8, and the Commission will vote on the questions of injury and remedy by mid-November.

Under section 202, the administration will then have 60 days to decide whether to accept, reject, or modify the ITC recommendation. And if the Commission finds and the President accepts that injury has occurred, one of the specific actions he is directed to consider under section 203 is the negotiation of an orderly marketing agreement with the exporting country.

So the procedure set up by Congress is underway. It would be premature to urge the President to enter into negotiations with the Japanese now, before this legislatively mandated procedure has run its course.

What would be appropriate at this time, however, is to urge the President to consider negotiating a temporary restraint on Japanese auto imports and related measures when he examines the ITC findings in November. This is the objective of the amendment.

Without the amendment, the cart is put before the horse. The President is asked to negotiate before the ITC has heard from the injured parties and made its recommendation to the President.

Is there discussion of the amendment?

Mr. PEASE. Mr. Chairman.

Mr. BINGHAM. Mr. Pease.

AMENDMENT WEAKENS RESOLUTION

Mr. PEASE. Yes, Mr. Chairman. I am sorry to have arrived a little late. This seems to me to be a somewhat weakened version.

The resolution was not very strong or very demanding in the first place and it occurs to me that the effect of this amendment is to water it down.

I understand that there is a proceeding underway before the International Trade Commission and that the recommendation will be made this fall after the election and the President will then have a couple of months to decide what he is going to do.

But to me it is clear enough that whatever the ITC finds, negotiations would be worthwhile on temporary restraint. In other words, the ITC may find that technically there are other causes or at least imports from Japan are not the sole cause of the problems in our domestic auto industry.

I think that is quite possible. At the same time, it is crystal clear that we have very serious problems in that some sort of restraint on the part of the Japanese would be helpful to meet those problems.

So personally I would rather go with the stronger version encouraging the President to enter into negotiations now so as not to waste any time and irrespective of what the ITC may find on narrow grounds.

Mr. BINGHAM. Is there further discussion?

Mr. Lagomarsino.

AMENDMENT ENHANCES RESOLUTION'S EFFECTIVENESS

Mr. LAGOMARSINO. Mr. Chairman, it seems to me with the success or lack thereof that we have had in urging the President to do various things, you might have better success in getting him to actually take some action if you follow the chairman's thought here and adopt the amendment because I can't imagine him not taking into consideration the recommendations of the ITC in any event.

That is obviously what he is going to say. If we amend it to provide that he should take into consideration these negotiations, I think he is much more likely to do something about it than if you just pass it as now written.

I think this will be ignored. Unless he was going to do it anyway—then it makes it a useless act.

Mr. HALL. Mr. Chairman, in looking at the amendment I tend to agree with Congressman Pease that in fact it appears that all we are doing is urging the President to negotiate. To "enter into" is a little bit stronger than "consider," and we don't refer to the ITC in this resolution.

It doesn't say that the President can't wait until the ITC comes out with whatever findings they might come out with.

I think we are just watering a weak resolution down further and I agree wilth Congressman Pease and I think this amendment is not needed.

Mr. BINGHAM. Is there further discussion?

I might just repeat what I said before in case all the members didn't hear it. While he is not here to speak for it, my cochairman, Mr. Wolff, is cosponsor of the amendment.

The vote is on the amendment proposed by the Chair. All in favor of the amendment signify by saying "aye"; opposed, "no."

["Ayes" and "nays" were heard]

Mr. BINGHAM. The Chair is in doubt.

Can we have a show of hands?

All in favor.

Opposed.

The amendment is agreed to.

The clerk will read amendment No. 1.

Mr. JOHNSON [reading]:

Page 1, in the first paragraph of the preamble, strike out "enter into" and insert in lieu thereof "consider".

Page 2, strike the third and fourth paragraphs; paragraph five, second line, insert "widely regarded as" after "is"; paragraph seven, first line, strike "opened" and insert in lieu thereof "taken steps to open."

Mr. BINGHAM. If there is no objection I will offer these amendments en bloc.

The amendment would accomplish the following: As indicated in the reading it would strike out "enter into" in the first line of the preamble and insert in lieu thereof "consider". This would be in conformity with the amendment previously adopted.

Second, it would strike out the third and fourth paragraphs on page 2. The charge of a Japanese steel subsidy is a complicated allegation not fully substantiated here or in the hearings. It only detracts from the main purpose of the resolution. And this resolution is hardly the place to address the question of the appropriate Japanese defense contribution.

Third, it would make minor changes in the fifth and seven paragraphs on page 2 to make the findings accurate.

Is there discussion of the amendment?

Mr. Guyer.

Mr. GUYER. I support your thinking in the regard that there are a multitudinous number of differences in our trade relations that can't possibly be spelled out in a resolution. For example, the cost of a Ford LTD in Tokyo is $34,000. It serves no good purpose to put that in here.

The reason is that in addition to the 15-percent tariff there is a tax on every part of the car not made in that country. I think this is interesting, and certainly it is vital to present as a separate

article in support possibly of the argument, but it would only weaken our chances of getting ratification.

I agree with the chairman's thoughts.

Mr. BINGHAM. Mr. Lagomarsino.

Mr. LAGOMARSINO. Mr. Chairman, I think the second amendment here is very good. It does take out the steel factor which I agree is a very complicated factor. I don't think we should be making implicit findings about that.

Second, with regard to defense spending, my understanding is that the new Government of Japan is interested in upping its share of our common defense budget so I don't think we should be taking gratuitous slaps at them for something they may be willing to change.

Going the other way, your change in paragraph 7, I think, is much more accurate to say they have taken steps to open because there are a lot of barriers that remain, as I reminded the Foreign Minister when he was here the other day.

Mr. GUYER. Will the gentleman please yield?

Mr. LAGOMARSINO. Yes.

Mr. GUYER. Isn't it true much of this is by our treaty which accounts for much of the percentage they allocate for defense?

Mr. LAGOMARSINO. Yes. And we wrote their constitution, so I think it would be a little unfair for us to criticize them for doing what we told them to do.

Mr. BINGHAM. I just noticed the amendment to page 1 refers to a change in the first paragraph of the preamble. It is actually in the title of the resolution and it should be referred to as a change in the title.

Is there further discussion?

Mr. GUYER. Both places?

Mr. BINGHAM. It is the title in both places. The title appears at the top of the page and also it is the first paragraph under the heading.

Mr. Wolff is here now.

SPARE PARTS ISSUE

Mr. WOLFF. Mr. Chairman, during our hearings the point was brought up that it would be important that the question of spare parts be discussed with the Japanese automakers and that the possibility be considered for inclusion of American-made spare parts under the warranty of sale by the Japanese manufacturer.

There are many billions of dollars in spare parts that are involved in the servicing of these automobiles. It would be of help to the American manufacturers to be able to participate in the resupply of these spare parts.

Therefore, I request that the report indicate that this is a consideration. I don't want to change the bill but to ask that the report indicate this is a consideration and that I hoped this matter would be addressed in the negotiations between the two nations.

Mr. BINGHAM. Mr. Mica.

Mr. MICA. If I may make a comment, I think you have confused the way I voted. I want to clarify one point: I support the intent of the question that we enter into negotiations rather than utilizing the word "consider". But I had the wise advice of counsel indicat-

ing that there are a number of other factors involved in this, so I decided to vote with the chairman on this, and I didn't want anyone to be confused.

Mr. BINGHAM. I thank the gentleman.

Incidentally, you will notice this resolution was referred jointly to the Committee on Foreign Affairs and the Committee on Ways and Means. I am advised that the Committee on Ways and Means has its own resolution which is on the suspension calendar tomorrow, and the committee has no intention of considering this one.

However, I think the subcommittees should do their duty and act in accordance with their view.

If there is no further discussion I will entertain a motion that the subcommittees report House Concurrent Resolution 363, as amended, favorably to the full committee.

Mr. WOLFF. Does that mean a clean bill will go in as amended?

Mr. BINGHAM. Not at this stage. I would suggest if we get to that point we move it through the full committee and then take up the clean bill if that seems desirable.

Mr. WOLFF. The reason I ask that is the fact there are a goodly number of Members who would like to join in cosponsoring this bill as amended and adequate provision should be made for that.

Mr. BINGHAM. In the case of joint referral we do not normally report a clean bill. Any Member, of course, is free to announce his cosponsorship of Mr. Pursell's resolution.

Mr. WOLFF. Do I understand the Ways and Means Committee is not taking up this bill?

Mr. BINGHAM. That is right.

Mr. WOLFF. Under suspension these amendments cannot be included.

Mr. BINGHAM. Their resolution is different from this. It is not limited to automobiles. It is a broader resolution.

Mr. LAGOMARSINO. Is it basically the same?

Mr. BINGHAM. I haven't seen the text of it.

Mr. WOLFF. Since there was a joint referral, does that not mean that we share the time with the Ways and Means Committee during debate on this bill?

Mr. BINGHAM. No, because their resolution is a different resolution. Their resolution is sponsored by Mr. Vanik and others and was referred only to the Committee on Ways and Means.

Their resolution is not joint. House Concurrent Resolution 363 is.

Mr. WOLFF. Thank you.

Mr. LAGOMARSINO. You can't take it to the floor.

Mr. BINGHAM. We can't.

There should be a vote on amendment No. 1. All in favor of the amendment signify by saying "aye"; opposed, "no."

The "ayes" have it. The amendment is agreed to.

May I have a motion to report the resolution, as amended, to the full committee?

Mr. LAGOMARSINO. So move.

Mr. BINGHAM. It has been moved that House Concurrent Resolution 363 be reported favorably to the full committee. All in favor signify by saying "aye"; opposed, "no."

The "ayes" have it, and it is so ordered.

Mr. WOLFF. Mr. Chairman, since the full committee will be meeting within the hour, is there any reason why we cannot request this bill be taken up during the full committee meeting?

Mr. BINGHAM. I think that is the chairman's intention.

Mr. WOLFF. Good.

Mr. BINGHAM. May we turn now to the markup of Mr. Guyer's bill.

[Whereupon, the subcommittees returned to consideration of H.R. 6440.]

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UNITED STATES-JAPAN ECONOMIC RELATIONS

MONDAY, SEPTEMBER 29, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C.

The committee met in open markup session at 3:20 p.m. in room 2172, Rayburn House Office Building, Hon. Clement J. Zablocki (chairman) presiding.

Chairman ZABLOCKI. The committee will please be in order.

We meet this afternoon to consider four concurrent resolutions, House Concurrent Resolution 435, relating to the situation in Poland; House Concurrent Resolution 308, relating to the Voice of America and Radio Free Europe; and House Concurrent Resolution 363, urging the President of the United States to consider negotiations with representatives of the Government of Japan with respect to a temporary restraint in the exportation of automobiles into the United States, an equitable relationship between prices charged in domestic and foreign sales, and elimination of trade barriers affecting purchase of American products.

Time permitting, we will consider House Concurrent Resolution 306, expressing the sentiments of Congress with respect to a national strategy of peace through strength. The Chair understands that the principal sponsor of the resolution, Congressman Stratton, and perhaps other Members as well, would like to be heard on House Concurrent Resolution 306.

Therefore, we may not get to it. We probably will have to reschedule for tomorrow.

Furthermore, the Chair and the ranking member will have to leave in about 45 minutes to an hour from now.

A copy of each of the resolutions is at each Member's desk. The first order of business is House Concurrent Resolution 435, relating to the situation in Poland.

[Whereupon, the committee proceeded in consideration of H. Con. Res. 435.]

Chairman ZABLOCKI. The next resolution is House Concurrent Resolution 363.

The chief of staff will read the resolution.

Mr. BRADY [reading]:

Concurrent Resolution, Urging the President of the United States to consider negotiations with representatives of the Government of Japan with respect to a temporary restraint in the exportation of automobiles into the United States, an equitable relationship between prices charged in domestic and foreign sales, and elimination of trade barriers affecting purchase of American products.

Chairman ZABLOCKI. The gentleman from Michigan asks unanimous consent that the resolution be considered as read and open for amendment.

The Chair will recognize the gentleman from New York.

Mr. WOLFF. I yield to the gentleman from New York.

Chairman ZABLOCKI. Mr. Bingham.

Mr. BINGHAM. I thank the chairman and my colleague from New York.

The Subcommittees on Asian and Pacific Affairs and on International Economic Policy and Trade have considered this resolution. Mr. Wolff and myself recommend favorable consideration with amendments as indicated on the copy that should be before you. The objective was not to change the essence of the resolution, but to eliminate certain parts of the preamble, which seem not really necessary nor appropriate for this type of resolution, particularly the reference to the steel industry's problems.

You must recognize that there were various other matters that might have been referred to in the preamble, but it is not intended to be comprehensive.

We have had three of hearings on this resolution and on general problems of U.S. trade with Japan. This is, of course, a sense of Congress resolution which would not have the force of law; but it would, nevertheless, put this committee on record as favoring action looking toward temporary restraint in the exportation of automobiles into the United States by Japan.

The principal change in the original form of the resolution was to insert that consideration of negotiation for such restraint would occur as the President considers the recommendations of the United States International Trade Commission.

Under the existing law, the Trade Act of 1974, the International Trade Commission is presently considering complaints by Ford and the UAW and it was pointed out at the hearings that we should not attempt to prejudge the results of that hearing, nor to urge action in looking toward temporary restraint until the ITC procedure has been completed in the near future. Accordingly, the resolution is recommended with that insertion.

Mr. WOLFF. Mr. Chairman?

Chairman ZABLOCKI. The gentleman from New York, Mr. Wolff.

Mr. WOLFF. Thank you, Mr. Chairman.

I would like to echo the sentiments of my colleague from New York, Mr. Bingham, saying that the Subcommittee on Asian and Pacific Affairs held a number of hearings on this question, and joined today in the passage of this resolution in the subcommittee.

The objective here is to find some means of voluntary activity upon the part of both governments to solve a very serious problem between our two people, that of the serious imbalance created by the sale of automobiles in the United States.

We are anxious to maintain our present relationship with the Government of Japan, which is in the best interests of our Nation, but we do have these problems between us that we should be able to resolve in a very peaceful manner that does not interrupt the important relations between our two countries.

One very important factor that was noted during last week's hearings, the use by the Japanese auto manufacturers of Ameri-

can-made spare parts during the warranty is a facet of this overall issue that should be included in the negotiations.

This is an $8 billion business which, if resolved, and American spare parts could be substituted for Japanese spare parts, would do well to ameliorate the trade imbalance that exists between our two countries.

As I have indicated, the business amounts to some $8 billion, and it seems that if the parts are to pass inspection, they should be able to substitute and those parts could be manufactured here in the United States without seriously jeopardizing the Japanese manufacturers. At the same time, we need to make jobs available to Americans, and this takes a truly joint venture in the sale of automobiles to the American market.

Mr. BROOMFIELD. Would the gentleman yield?

You have amended this original resolution by providing that the President should review this in light of the U.S. International Trade Commission's recommendation.

When is this going to be before the President?

Mr. WOLFF. I yield to the gentleman, but as soon as we pass the bill out.

Mr. BROOMFIELD. I realize that.

Mr. BINGHAM. It is anticipated that these recommendations will go before the President within a matter of 2 or 3 weeks.

Mr. BROOMFIELD. There may be a reason for this. The only thing I am trying to get across is that the problem in the Michigan area is urgent. We have a lot of people unemployed, and I am not sure the Japanese have gotten the message yet that we want some cooperation. I hope that the language that has been put in here does not cause undue delay in getting that message to Japan.

Mr. BINGHAM. The gentleman from California, Mr. Lagomarsino, had very pertinent remarks to make on this point.

Mr. LAGOMARSINO. The remarks I made in the subcommittee as a practical matter are relevant here. This approach will do more to get the President's attention than perhaps the original language would have. We have all seen instances where we urged the President to do something and he ignored us, and that would be the case here especially when he is going to be awaiting this report anyway, so all we are doing is saying, "Hey, Mr. President, look at this report", and reopening the negotiations.

Mr. BROOMFIELD. I hope you are right. Not too long ago he stopped in Detroit and made quite a fuss about unemployment there and went on to Japan and nothing was said about unemployment.

Mr. LAGOMARSINO. I think this is better than to just actually direct him to do it.

Mr. WOLFF. Would the gentleman yield?

Mr. PEASE. If the gentleman will yield?

Chairman ZABLOCKI. The gentleman from New York has the time.

Mr. WOLFF. I might mention to the ranking minority Member, since I did accompany the President on that trip to Japan, that this was one of the topics of discussion the President had with the Acting Prime Minister at the time, that is the whole question of automobile sales.

Chairman ZABLOCKI. The time of the gentleman from New York has expired.

Mr. PEASE. I am pleased for the intervention of my colleague and friend from Michigan.

I reacted somewhat similarly when the resolution was before our subcommittee.

I would like, first of all, to commend the two gentlemen from New York, the chairmen of their respective subcommittees, for having some excellent hearings on this overall problem and for moving this resolution so expeditiously.

At the same time, I do sympathize with the feelings of the gentleman from Michigan because in the subcommittees meeting just an hour ago I raised the identical concerns.

In his State of Michigan and my State of Ohio, the impact of the slump in the auto industry is extremely great, and what our constituents are looking for is some firm resolve on the part of the Congress to try to stem the tide of Japanese imports.

What we are saying with this amendment that was adopted in subcommittee is that we want to further weaken or water down, the resolution which was not very strong in the first place.

As I understand it, the International Trade Commission is due to report to the President some time in mid or late November, so we are talking about 6 or 7 weeks before the President gets the report.

As I understand it, there will be a couple of months after that that the President has to act. I also understand that the International Trade Commission may rule on fairly narrow grounds that the problems in the auto industry are not solely related to import penetration.

I think it is a fairly commonplace understanding that that is the case, but there is no doubt in my mind but what our auto situation in the United States would be improved considerably if we are able, on a temporary basis, as the resolution says, to have some restraints shown by the Japanese.

For that reason, I wish that we were prepared as a committee to send a stronger message to the President and that he would consider negotiations with the Japanese.

However, my position did not prevail in subcommittee, and I am quite willing to support what we have before us.

Chairman ZABLOCKI. Is there any further discussion?

The Chair understands that the subcommittees have amended House Concurrent Resolution 363 in the opening paragraph by striking in the first line the words "enter into" and inserting in lieu thereof "consider".

Mr. BINGHAM. Correct.

Chairman ZABLOCKI. On page 2, the third "whereas" clause and the fourth "whereas" clause were struck.

Mr. BINGHAM. Right.

Chairman ZABLOCKI. On page 2, the subcommittee added on the second line of the fifth "whereas" clause the words "widely regarded as" after the word "States".

Mr. BINGHAM. Yes.

Chairman ZABLOCKI. Which "the United States widely regarded as a significant cause"?

Mr. BINGHAM. Right.

Chairman ZABLOCKI. In the seventh "whereas", the subcommittee amended the resolution to read "whereas Japan has 'taken steps to' open its market," is that correct?

Mr. BINGHAM. Right.

Chairman ZABLOCKI. We'll take the amendments in the "whereas" clauses first.

Is there objection to the amendments that were adopted in the subcommittee in the "whereas" clauses?

The gentleman from New York asks unanimous consent that the amendment be agreed to.

Is there objection?

The Chair hears none.

It is the Chair's understanding that the subcommittee amended the first operative clause. The chief of staff will read the subcommittee's amended version.

Mr. BRADY [reading]:

Resolved by the House of Representatives (the Senate concurring), That the Congress urges the President, in his review of the United States International Trade Commission recommendations, pursuant to Public Law 93-618 Sec. 201, the Trade Act of 1974, to consider entering into negotiations with the representatives of the Government of Japan with respect to a temporary restraint in the exportation of automobiles into the United States, an equitable relationship between prices charged in domestic and foreign sales, and elimination of trade barriers affecting purchase of American products.

Chairman ZABLOCKI. Is there any objection to the amendment adopted in the subcommittee?

The Chair hears none.

It is so ordered.

The question occurs on the approval of House Concurrent Resolution 363 as amended.

All those in favor signify by saying "aye."

Opposed, "no."

The "ayes" have it.

House Concurrent Resolution 363 is adopted as amended.

Mr. WOLFF. Mr. Chairman, I thank the Chairman for yielding.

May I ask, is there language in the report that explains the subcommittee recommendation on spare parts?

Chairman ZABLOCKI. It is a noncontroversial resolution which we'll ask to have put on the suspension calendar. Normally a report is not filed on measures considered under suspension of the rules.

Mr. WOLFF. Yes, but——

Chairman. ZABLOCKI. The gentleman from Michigan is very anxious that a resolution be considered expeditously. It has to go to Ways and Means after our committee has completed action on the resolution.

Mr. WOLFF. Just so long as there is something in the legislative history that indicates our concern.

Chairman ZABLOCKI. We can do that on the floor.

The Chair would also point out that to conform with the amendments that were just adopted, the title would have to be amended.

Mr. WOLFF. That is correct.

Chairman ZABLOCKI. We need to change "enter into" to "consider".

Mr. WOLFF. Mr. Chairman, as I understand it, there will be a Ways and Means resolution offered that relates to this.

What effect will that have upon our resolution that we are passing on today?

Chairman ZABLOCKI. We are going to ask to be placed on the calendar and hope that this resolution will be considered tomorrow.

Mr. WOLFF. I thank you.

Chairman ZABLOCKI. The next order of business is consideration of House Concurrent Resolution 308.

[Whereupon, the committee proceeded in consideration of H. Con. Res. 308.]

UNITED STATES-JAPAN ECONOMIC RELATIONS

WEDNESDAY, OCTOBER 1, 1980

House of Representatives,
Committee on Foreign Affairs,
Subcommittee on International
Economic Policy and Trade,
Washington, D.C.

The subcommittee convened at 2:10 p.m., in room 2200, Rayburn House Office Building, Hon. Jonathan B. Bingham (chairman of the subcommittee) presiding.

Mr. Bingham. The subcommittee will be in order.

This meeting today represents the fourth and final hearing on the subject of "United States-Japan Economic Relations," held jointly by the Subcommittees on International Economic Policy and Trade and on Asian and Pacific Affairs.

I have to apologize to our witnesses that due to a number of conflicts, we seem to have poor attendance today. This hearing has been plagued with bad luck. We had to postpone it once.

I hope that wasn't too much of an inconvenience.

We do anticipate other members being here, but I think in fairness to you, we better start.

I will introduce all of our four distinguished witnesses at this time.

Dr. Amitai Etzioni is university professor at George Washington University and director of the Center for Policy Research. He is the author of 12 books, including most recently one entitled "Social Problems." During the past year, Professor Etzioni has served as senior adviser in the White House.

Dr. Stephen D. Cohen is associate professor in the School of International Service at American University. He is the author of "The Making of United States International Economic Policy," among other works, served on the Murphy Commission, and was at one time the Chief Economist at the United States-Japan Trade Council.

Thomas M. Hout is a vice president of the Boston Consulting Group, has coauthored "Japanese Industrial Policy" as well as other books, and serves as a consultant on the Japanese business system for corporations and governments.

Dr. Gary Saxonhouse is a professor of economics at the University of Michigan, where he is chairman of the Committee for Comparative and Historical Research on Market Economies (CCHROME). He is presently on leave at Columbia University where he is senior research fellow and at Brown University where he is Henry R. Luce Professor of Comparative Development. He is

the author of many studies on the Japanese economy and consults widely with government and industry.

Thank you for being with us, gentlemen.

Would you start off, Dr. Etzioni?

STATEMENT OF AMITAI ETZIONI, DIRECTOR, CENTER FOR POLICY RESEARCH, INC.

Mr. ETZIONI. Thank you.

With your permission, I will briefly summarize my statement.

Mr. BINGHAM. Without objection, your full statement will be incorporated in the record.

Mr. ETZIONI. Thank you very much.

NATIONAL SECURITY CONSIDERATIONS

The first point I would like to highlight is that in many of the current discussions on what proper economic policy the country should follow, frequently the consideration of national security is not even mentioned, let alone discussed.

So, for instance, in one of the most encompassing 50-page treatments of the subject in the issue of Business Week, on the reindustrialization of America, the subject is not covered.

I could go on. This is not due to evil intentions. It is due to the fact that we increasingly organize the world along academic departmental lines, that economists are stuck in one box and political scientists in another. The two never meet.

Similarly on the executive side, we have a National Security Council, a Council of Economic Advisers, separate setups, each one pursuing its own priorities.

We seem to have no institutionalized occasion where economic consideration and international considerations are systematically well integrated at the highest level.

Someday somebody will have to ask the question, what is more important to us in the longer run, international economic points or gestures in the U.N. General Assembly?

I file with those who think that the wealth drain has reached a level that it should systematically concern us.

Felix Rohatyn of New York keeps pointing out that this year, before the last raises, the national oil bill amounted to $100 billion. The total value of the major American corporations listed on the New York Stock Exchange is $900 billion. So in less than 5 years, theoretically, of course, our oil bill will amount to half the worth of our major corporations.

I use this as one easy way to focus attention on the size of the problem.

I would favor and recommend that if the executive cannot take care of this, Congress lend a helping hand by returning to the question we asked in the past. What can we do to reduce the oil tax?

The reason it needs your attention is because the notion that we could, by conserving oil and developing new resources, attend to this question, turns out to be erroneous.

In 1979 we had an unusually good year from that viewpoint. Our production increased from 8.5 million barrels a day to 8.7, but now

one of the oil exporting countries is talking about reducing export by a million barrels a day.

One day they will cut out a million barrels and the shortfalls from Iran amounted to 3 million barrels a day. In short, it will take us 10 years or more if we get one of these days an effective energy program before we cease to be so extremely dependent on other countries.

We just can't afford 10 more years of such a hemorrhage.

ECONOMIC TYPOLOGY

To turn to my second point, I find it somewhat useful to organize the present debate among various economic policies, along a continuum which really is based analytically on two dimensions.

One is the question, what is the proper relationship between the polity, the Government, and the economic sector? We have on the one hand the completely nontargeted school, sometimes called supply-side economics number one, according to which if you just cut Government revenue and taxes and release the resources to the economy, they will float on their own goodwill where they would do the most good.

At the other extreme, we have the kind of revival of planning, though it doesn't quite take that name. Under the guise of industrial policy, the Commerce Department would turn into a Trade Development Department with 300 desks, one for each industry from ballbearings to industrial diamonds, and they would analyze the winners and the losers, celebrate the winners and sink the losers.

While I personally favor helping in this way a few industries, if this approach were applied across the board, in the kind of attempt to Japanize or West Germanize our economy—we would be in trouble .

As a sociologist, I must raise a warning flag. You cannot Xerox institutions. Things which may or may not work well in Japan cannot simply be implanted here.

For instance, if it is true that MITI—the Ministry of Trade and International—is a government-controlled set of committees which tells industry basically where to go, it is quite inconceivable for me that we would have such a program in this country. Maybe there is more room somewhere in the middle, not simply relying merely on losing revenue to the private sector and not going to the opposite extreme of trying to analyze 300 industries and precisely determine the place in the sun for each one of them, but follow that middle road of revitalization.

While I like the term "reindustrialization," I don't care much what we call it, but I care about the notion that we should encourage certain sectors of the economy, without new specific interventions.

Take, for instance, the Capital Recovery Act, it provides incentives to a large variety of industries without choosing among them, to replace worn-out equipment and plants.

Larger support for R. & D. does not go into the question of which of such projects deserves to be encouraged and which discouraged.

If we could find a way of making workers share in increased productivity without having to choose between one group or another, there would be another example.

So, on that continuum, from completely nontargeted to highly targeted economic policies, it seems to me the semitargeted approach—which, by the way representatives on both sides of the aisle and in all the major Presidential candidates' camps—is where our attention should focus.

To close here, I did not deal with the competitive problem of the United States in part because I know my colleagues are going to take such good care of that issue, in part because I believe that first and foremost it is a question of strengths in our own economy.

It is not simply a question of a changing of our international position. We have, over the last 30 years, overconsumed in the public and private sector, and we have underinvested.

As a result, a large part of our infrastructure and capital goods sectors have weakened and have not adapted to the new energy environment.

I think that is where our first priority should lie. Once these things are attended to, our competitive position, at least in large part, will correct itself.

Thank you for your time.

[Mr. Etzioni's prepared statement follows:]

PREPARED STATEMENT OF AMITAI ETZIONI, DIRECTOR, CENTER FOR POLICY RESEARCH, INC.

NATIONAL SECURITY—PARAMOUNT

There is a growing consensus that something basic is amiss in the American economy. More than a down turn of cycle; a problem deeper than too much inflation, unemployment and high interest rates. What we need is to shore up our productive capacity. There is less agreement as to what is to be done. In the arguments about which criteria should be non-economic—namely the country's national security needs. They should take precedent over considerations of "comparative advantage" and all others on the simple grounds that security and independence are more important than any economic considerations.

Even a brief examination of the economic-industrial foundation of national security will show signs of trouble. We find it ever more difficult to allot the needed resources to defense, as our GNP grows less than in previous decades. Our deferred maintenance makes ships, steel, railroads—all vital to national security—weak. Our military hardware and conventional capability are not as vigorous as they need be for a credible overseas presence. Our energy vulnerability is still dangerously high. We need to derive from these considerations a lst of the sectors of the economy in urgent need of support.

True, in the past, much was supported in the name of national security which was not truly needed. To avoid dilluting the national security criteria, I suggest creation of an independent, American Re-industrialization Board.

The Board would be composed of nine persons of expert background, appointed by the President for a seven year term, somewhat like the members of the Federal Reserve Board. The nine persons would have to qualify an industry, corporation, or group of workers before they would be entitled to special public support, if it takes the forms of loans, loan guarantees, tax incentives, or outright subsidies under the new re-industrialization of America drive. Congress would allot the funds and set the criteria; the Administration would develop the specific re-industrialization program, in consultation with business labor, but recipients would have to be qualified by the non-partisan expert board, to avoid politization of access. To the extent that re-industrialization support would be regional or state-based, parallel boards might be needed on these levels.

HOW TO STOP THE OPEC WEALTH DRAIN

A major hindrance in undertaking a drive for re-industrialization without neglecting our defense needs nor wantonly disregarding our social needs, is the high price

of oil. In 1980 Americans will pay $100 billion for imported oil. As Felix Rohatyn has pointed out, the total value of the American corporations listed on the New York Stock Exchange is about $900 billion; thus, in five years the nation's oil bill will amount to more than half the value of the major American corporations.

Obviously a way must be found to reduce this wealth drain. Increased conservation and development of other energy sources are not the whole answer; oil exporters can more than offset gains made in this way by price increases and production cutbacks. There is an urgent need to create an analytic facility to review, from a combined perspective of American economic needs and international relations, the answer to this drain on our wealth.

NONTARGETED, SEMITARGETED, AND FULLY TARGETED APPROACHES

How to tilt our collective efforts to rebuilding our industrial base depends on one's conception to the proper relations between the economy and the polity.

(i) Nontargeted

In the view of radical conservatives, the less the polity is introduced into the economic realm, and the smaller its take, scope, and mission, the more productive America will be. In economic policy, this suggests large tax cuts as the cornerstone, returning to the private sector resources previously used by the public sector and unleashing incentives for entrepreneurship, saving, and risk taking, all held in check under high tax levels. This view is also known as Supply Side I, or "turning on the spigots"; its most outspoken advocates are Jack Kemp, William Roth and Arthur Laffer. Its attribute most relevant to the issue discussed here is that the transfer of resources from the polity to the private sector is nontargeted; where the resources go and how they are used is left altogether to the operation of the market.

(ii) Semitargeted

Many conservative economists, including Herbert Stein, Alan Greenspan, and George Schultz, argue instead that while Americans do need less government control, intervention, expenditure, and taxation, there is a need, at least during the restoration era, to guide or semitarget the reresources, in order to counter inclinations toward over-consumption and under-investment, to make up for the lag in adaptation, and to serve national security needs.

(iii) *Targeted*

Still another view, the thesis of industrial policy, calls for a government masterplan which would target resources fully and specifically. Key to industrial policy is a one-by-one review of industries, either by government agencies or a government-industry-labor committee, to decide which will be promoted, which phased out. While there is room for some such effort, as an overall approach, it is technically impossible and politically incompatible with American institutions and traditions.

Re-industrialization stands between non-targeted assistance and fully-targeted industrial policy as semi-targeted. Its concern is with setting priorities, providing incentives, and building consensus. Re-industrialization focuses on elements which serve the needs of all industries, not just certain ones. Re-industrialization would increase the amount of capital available, for example, to all parts of the American economy, not just to steel or rubber. It would improve the transportation system for all parts of the economy, not just for coal or grain. Under a policy of re-industrialization, the policy sets the context, which is productive capacity; within that context, the market targets. Given an improved context, the market will allocate capital where it will be most efficiently used.

THE ELEMENTS OF REINDUSTRIALIZATION

We must go beyond fiddling with the dials, to try to reduce unemployment by x points, decrease inflation by y points; we must engage in a broad-based effort to shore up American's productive capacity. It is this capacity which provides the resources for all that we do—for defense and social services, for a high standard of living and those government expenditures which are necessary. And it is this capacity which has been weakened by decades of over-consumption in the public and private sectors and underinvestment in maintaining and updating our productive capacity.

The new approach to shoring up America's productive capacity will have to encompass seven elements which shaped the nation's economic strength in the first place. The seven elements of re-industrialization include transportation of resources and goods; communication of information and signals; abundant energy; vigorous innovative capacity; effective mobilization and preparation of labor, or human capital; supportive legal/financial institutions; and a high level of capital formation.

(1) *Transportation of goods*

A developed economy requires large-scale, expeditious movement of raw materials to processors and of products to markets. Material and products in transit add only to costs, not to production.

A look at the state of the American transportation system shows that airlines, the sector in relatively the best shape, carry less than one percent of the load. The means of transportation on which we rely most are less sound. Railroad tracks, roadbeds, and, to a lesser extent, equipment are seriously deteriorated; even in 1975 dollars, the railroads will need to spend an estimated $62 billion between 1976 and 1985 to maintain and renew rights-of-way and equipment. What is less widely known, is that the nation's highways as well, built with federal funds with insufficient provisions for maintenance, are deteriorating. As of 1975, 42 percent of all paved highways and 27 percent of interstate highways were rated either "fair" or "poor". The Department of Transportation estimates that it would take an average of $21.8 billion a year, again in 1975 dollars, each year until 1990, simply to maintain highways in their 1975 condition. Actual expenditures are far below these levels.

(2) *Communication systems*

As transportation moves goods, communication moves symbols—symbols which carry information, control actions, and express sentiments and values. Accessible information is important to productive decisionmaking; instructions and other control signals are vital for large-scale administration; expressions of values broaden parochial loyalties to an encompassing sense of national identity. Thus, rapid and reliable communication is essential to a national economy and national policymaking.

Historically, the introduction of the telegraph and telephone served the first industrialization of America. After World War II, computers, communication satellites, and national TV networks were added. Communication is by far the strongest of the seven elements of industrialization and the least in need of revitalization.

(3) *Power*

Obviously, a high production society requires enormous amounts of energy from power sources which are routinely available and easily stockpiled. American industry was built on cheap energy, but now cheap energy has vanished.

Much has been written and said as to what is to be done. Let me simply highlight here the main relevant points.

(1) Secure flow of oil takes precedence over costs.

(2) Less rapidly rising costs are vital to re-industrialization.

(3) Conservation simply through lower economic activity is not as helpful as conservation through increased energy-efficiency, combined with development of new oil and of alternative energy sources.

(4) A major drive for energy development can be best financed by an import tax on oil.

(5) Such a drive should be tied to job development and trade-adjustment assistance.

R. & D.

Efficient, expanding production of both capital goods and consumer goods and services requires continual innovation and adaptation of tools, techniques, and technologies. Research and development, including inventions, engineering advances, and technological education, undergirds the directly productive segments of an industrial economy and also renews other elements of the infrastructure.

Research and development shows fewer signs of deterioration than some elements. For three years in a row, real growth in research and development expenditures by industry have been increasing, in constant dollars. But as a percentage of Gross National Product, total research and development expenditures fell from 3 percent in 1964 to 2.3 percent in 1979. Second, while many of the nation's industrial, energy, and security needs are highly applied, American R. & D. is more "basic", less applied than that of several of the nation's main competitors. A return to a higher federal R. & D. budget and a higher applied yield is urgently needed.

HUMAN CAPITAL

Industrialization requires a labor force motivated, educated and trained to staff the evolving factories, offices, laboratories, and financial institutions. Vocational education must be examined to see if it can be made more job-relevant and tied to the industrial agenda of the '80s. The higher education drain of resources and the

anti-industrial tilt should be reviewed, while we also evolve steps to promote productivity.

LEGAL FINANCIAL INSTITUTIONS

A modern industrial economy demands a legal and financial structure commensurate with its size and complexity. A nationwide, easily mobilized flow of sufficient capital for large projects, which industrial growth requires, depends in its initial phases on such supportive legal and financial institutions as standardization of the currency, a national banking system, and the concept of limited liability. As the economy develops, these institutions must be elaborated and adopted to meet its needs.

The American economy operates within a legal and financial framework which has not been modified as rapidly as conditions have changed, and which reflects a tendency to impose American values elsewhere. Thus, aside from changes in antitrust laws and venture capital laws, discussed below, it seems to make sense to change the laws concerning the conduct of American business representatives overseas, to state that they would be expected to abide by the law of the land they work in, not the USA. This would return them to equal footing with their overseas competitors, without evading ethical responsibility. Most countries prohibit corruption, and if some are less diligent in enforceing their laws than others, that should not be the business of the United States.

CAPITAL GOODS

While early industrial development was in part piggybacked on the produce of field and forest, the machine and its products were preeminent in industrializaiton proper. The Creation of an infrastructure suitable for modern economic development culminates in the accumulation of capital goods.

While U.S. spending on new plants and equipment has continued to rise in recent years, in real terms it has been falling. We must increase plow-back investment, which recently has been less than 10 percent, to 12 percent of the GNP, in order to provide the capital to replace obsolete equipment (especially in steel, rubber, and textiles), and to come closer to the nation's main competitors (West Germany now reinvests about 15 percent, Japan, about 21 percent).

In addition, America's lower rate of personal savings, less than half that in most Western European countries and only about, one third that of Japan, has been said to hinder its economic performance. West Germany's success story is often cited—as the Wall Street Journal reported, since the 1960's the funds made available by savings have helped push productivity ahead faster in Germany than in any other Western nation, and have allowed banks to make ample loans to German companies.

Biography of Amitai Etzioni

Dr. Amitai Etzioni is University Professor at George Washington University and Director of the Center for Policy Research.

He is the author of twelve books, including "A Comparative Analysis of Complex Organizations," "Modern Organizations, Political Unification," "The Active Society," "Genetic Fix" and, most recently, "Social Problems" (Prentice-Hall, 1976).

Dr. Etzioni's achievements in the social sciences have been acknowledged by several fellowships, including The Social Science Research Council (1960–61), The Center for Advanced Study in the Behavioral Sciences (1965–66), and Guggenheim (1968–69). He was a guest scholar at The Brookings Institution in 1978–69. He served as Senior Adviser in the White House, 1979–1980.

His achievements in natural science have also been recognized. His book, "Genetic Fix" (a Harper & Row paperback) was nominated for the 1973 National Book Award in the area of science. He served for two years as a member of the editorial board of Science.

Outside of academia, Dr. Etzioni's voice is frequently heard in the popular press, from the New York Times to the Washington Post, from Psychology Today to network television.

He has consulted widely for government agencies, including the Department of Health, Education, and Welfare; the Departments of Labor, Commerce, and the Treasury; The National Science Foundation; The President's Commission on the Causes and Prevention of Violence; and the White House, during several administrations.

He founded the Center for Policy Research, a not-for-profit corporation dedicated to public policy, in 1968, and has been its director since its inception.

In 1976, the American Revolution Bicentennial Administration accorded Dr. Etzioni a certificate of appreciation for his outstanding contribution to our nation's bicentennial commemoration.

Dr. Etzioni is married and has five sons.

Mr. BINGHAM. Thank you very much, Dr. Etzioni.

Let's hear now from Mr. Cohen.

STATEMENT OF STEPHEN D. COHEN, ASSOCIATE PROFESSOR, SCHOOL OF INTERNATIONAL SERVICE, THE AMERICAN UNIVERSITY

Mr. COHEN. Thank you, Mr. Chairman.

I also will summarize my statement in the interests of time.

Mr. BINGHAM. Without objection, the full statement will appear in the record.

LEARNING FROM THE JAPANESE

Mr. COHEN. In the early post-World War II period Japan carefully studied and frequently adopted its version of American economic and business practices and policies.

Japan has gone on to become, in my opinion, the world's most successful competitor in the manufactured goods sector, and in view of our own large trade deficit, it seems to me the time is overdue for us to learn from and adapt to, where appropriate, Japanese and other foreign countries' economic and business practices.

In my experience with Japan and my experience in Washington, this is the first time I remember anyone in official Washington asking what we might learn from the Japanese.

It is as if we had absolutely nothing to learn from people overseas. I think our ego is long overdue to respect the need for adapting other people's strengths.

As I suggested in my testimony, it is not a sign of weakness nor an embarrassment that we should try to import and, as appropriate, adapt the economic policies and practices of our more successful trading partners.

In the first part of my statement I try to examine what the basic goals might be of looking at Japan's success.

The first problem we have in looking at Japan's practices and looking at the possibility of increasing our exports is the accusation that we are resorting to mercantilism, trying to increase exports for the sake of increasing exports.

A second problem in looking at this whole subejct is trying to come to grips with the exact dimensions of the U.S. trade problem, and more particularly the U.S. international competitive problem.

In my testimony here I alluded to the fact that U.S. exports this year, like last year, have been growing rather healthily, 26-percent increase in the dollar value of our exports in the first 7 months of 1980 over the comparable 1979 period.

In addition, if one wants to play with statistics, one could measure the U.S. competitiveness in the nonoil sector. Clearly the largest single import in the U.S. trade balance is oil. One way of looking at U.S. competitiveness outside of oil would be to take the oil imports outside of our trade balance. This is admittedly an arbitrary act to do, but if you do that in 1980, the U.S. will have a nonoil trade balance which should be a $50 billion surplus.

There are people that are pulling their hair out of their heads worrying about our loss of competitiveness. However, it is an exaggeration that we have lost our competitiveness and that our trade deficit is causing a catastrophe for the U.S. economy.

Another problem in looking at export promotion and emulating the Japanese is attitudes in terms of the probusiness mentality.

All too often here in Washington I have heard people accuse the business sector of narrow policy recommedations that are purely in their own self-interest.

Occasionally business recommendations are self-serving, but in general it seems to me we should no longer out of hand dismiss proposals that would help our industrial sector in terms of their international competitiveness.

UNITED STATES-JAPANESE COMPARISONS

The second part of my testimony is a look at the cultural and economic similarities and dissimilarities between Japan and the United States.

I have suggested here that Japan is a unique country; so too is its economy. Japan is a complex blend, in my opinion, of oriental culture, geographic isolation, and Western technology.

It is tempting, but incorrect, to assume a complete Westernization of Japan.

Its consumer goods output, love of hamburgers and baseball, and its manner of dress belie the strong cultural base which remains the key to understanding individual relations and attitudes towards governmental and business authority in that country.

In short, I believe the unique Japanese cultural experience supports a unique economy. The culture has not been subverted by a modern, Westernized economic veneer.

Modern Japan's economic practices have been a function in part of Japan's perceptions of its own weaknesses. It is a small, crowded island almost wholly devoid of natural resources.

Japan, furthermore, had the enormous task of economic reconstruction after the backbone of its economy literally had been blown away in World War II.

Economic recovery necessitated a heavy reliance on imported raw materials, a reliance which, of course, continues to this day. Japan also needed a world market to provide economies of scale for the new industries that were destined to outgrow the home market in Japan.

The result in economic terms was a clearcut set of Japanese priorities to reconstruct an economy that would be built around several key industries, such as steel, chemicals and electronics.

Once consensus developed to accept those priorities, the societal cohesiveness, innate intelligence, and capacity for hard work of the Japanese people transformed these goals into reality.

These successes in industrial growth, however, were not without costs. In terms of housing, parks, social security, the Japanese did pay a price for their heavy reemphasis on industrial growth.

The Japanese also enjoy a number of unique advantages which have enhanced their international competitiveness.

First is worker loyalty and the existence of company rather than industrywide unions. The benefits provided by most of the larger

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companies such as lifetime employment, together with the Japanese concept of group identification, have minimized labor strikes and labor concern with plant modernization. Most Japanese workers don't have to worry about new capital equipment replacing them in terms of their own employment.

This situation maximized Japan's employee morale and loyalty.

A second difference between Japanese and American business finance has been the reliance by the Japanese corporations on debt financing rather than equity or stock financing.

This has allowed the Japanese to take a longer term view of profits. American companies looking over their shoulders at the attitudes of Wall Street analysts and shareholders, are more concerned with immediate returns. When developing export markets, immediate returns are not very easy to come by.

LIMITS ON ADOPTING JAPANESE APPROACHES

I still continue to be basically an advocate of the market mechanism, and I believe that the invisible hand of the marketplace, in most cases is preferable to government guidance. Our culture is going to emphasize the so-called invisible hand. We are a nation of immigrants and refugees from many lands. The concept of Yankee individualism, I think, is still very strong.

As a result, the experience of the Japanese society has limited relevance for the U.S. experience.

In my opinion, increased governmental policies designed to enhance U.S. domestic efficiency and export competitiveness should not be automatically or prematurely designated as an unjustifiable handout to business.

I believe in the market mechanism, but I am not an ideological fanatic who would argue that nothing the Government does is permissible or desirable in terms of increasing private sector competitiveness or export aggressiveness.

Considerations of cost effectiveness and equity should not be shunted aside by a chorus of antibusiness sentiment any more than should Government subsidies be used to neutralize business errors, ineptitude or indifference in this country.

New product innovation, greater domestic productivity and a strong export sector hold potential promises that outweigh the short-term costs of beneficial Government incentives.

Japan has some of the most competitive corporations in the world, but to this date the Japanese Government still does not totally leave Japan's economic futures to the vagaries of the invisible hand.

A final caveat on the possibilities of simulating Japan's economic policies is the severe limitations on what the U.S. Government can do in pushing corporations to pursue increased export activities.

Disincentives can be reduced and new incentives can be adapted, but the bond between industry and Government is not sufficient in this country to allow Washington to automatically convince corporations that increased exports are necessary for this country's long-term interest or, indeed, that increased exports are in the corporations' own best interests.

Exporting is a difficult task, and many U.S. corporations enjoy-

ing a $2½ trillion domestic market don't want to engage in the aggravation and costs of developing export markets.

In conclusion, I would say you can lead a company to the ocean, but you can't make it export.

Well, let me go to the final section, learning from Japan.

The ultimate genius and driving force of Japanese exports as well as the so-called "new Japans" in Southeast Asia, South Korea, Hong Kong, Taiwan, et cetera, has been the private sector.

In each case, again in my opinion, the government enunciates a clear set of specific goals, initiatives and incentives and minimizes disincentives. Export success follows.

It is therefore important for the United States to understand the economic policies as well as the business practices of Japan.

Before turning to specific recommendations, I would like to suggest, as have others, that the single biggest difference between the United States and Japanese trade policies is that we protect yesterday's industries while Japan protects and promotes tomorrow's industries.

The package of official incentives and subsidies provided to the integrated circuit and computer industries in Japan is a simple manifestation of the industrial policy dictum that Japan is to develop these two industries as world class competitors.

The refusal of the government-owned Nippon Telephone & Telegraph Co. to procure sophisticated telecommunications equipment for non-Japanese sources is, in my view, just another manifestation of a longstanding Japanese policy of fostering targeted infant industries to become world class competitors.

Except for those high technology industries that have not yet fully blossomed, overt Japanese import restrictions are currently quite modest. I didn't put the word "overt" in this testimony, but I would like to emphasize it. I think that in Japan there are a number of hidden and direct import barriers that discourage imports.

Japanese business practices and economic policies offer only limited possibilities for absorption into the American system. In virtually every case, modifications are required, not simple replication.

POLICY RECOMMENDATIONS

Very briefly, I have divided my recommendations first into those that would fit into pure export policies and second those that involve broader and, in some cases, internal economic policies.

Under export policies, first, I think we should more clearly define the tax benefits to American corporations to cover the initial costs of research for and the promotion of overseas markets.

In a related issue, the more stringent U.S. income tax treatment of earnings, allowances, and bonuses paid to U.S. businessmen overseas apparently has progressively reduced the presence of American corporate personnel. The correlation between overseas representation and foreign sales suggests to me section 911 of the U.S. Tax Code should be changed to reduce the U.S. tax liabilities of American corporate personnel stationed overseas.

The second item there, "Changes in Tax Code" speaks for itself.

Let me skip to the third item; namely, a restructuring of U.S. trade policymaking organization.

I still believe a centralized, cohesive and consistent export policy would be made more likely if we had a single trade ministry as has been proposed by myself in 1977 and subsequently by several pieces of legislation.

The recent mini U.S. reorganization that centralized trade policy formulation in the Trade Representative's Office and program administration in the Commerce Department should be viewed as only a "halfway house" move.

Separating policy formation from program administration does not make any sense to me. Again I would suggest that we move towards the marriage of the Trade Representative and the Commerce Department into a single trade ministry.

Fourth, we should also incorporate the Japanese ability to differentiate between the genuine elevation of an economic policy to a high priority position and merely playing lip service to an objective.

While the whole fabric of Japan's government sentiment is concentrated on export results, this country resorts to rhetoric, task forces, and shallow export promotion programs.

An example of the latter is the Carter administration's export promotion program of 1978.

Finally, the Congress should complete action on current legislation to encourage the creation of export trading companies. These trading companies should be a special help to small- and medium-sized U.S. companies that could, in effect, use them to conduct their export marketing operations.

ADOPTING SOME JAPANESE ECONOMIC ATTITUDES

On the broader internal economic policy, first, I would recommend that we adopt a small piece of the Japanese casualness toward antitrust prosecution. Given the virtual inevitability of concentrated industries and the economics of high technology industries, it seems to me it makes less and less sense for the United States to be trying to break up IBM as punishment for its own corporate excellence.

I would like to know the true Japanese reaction to this effort. As I suggest in my testimony, it must be a mixture of awe and amusement as we spend millions of dollars trying to break up one of our most competitive corporations.

The Webb-Pomerane Act also needs to be clarified as to when American companies can participate in joint ventures so as to enter joint bidding for overseas orders.

Second, U.S. companies have become vaguely aware of the benefits of Japan's management practices. U.S. companies should learn more about Japan's quality control procedures and enhanced production line morale, both of which are related to improved communications between assembly line workers and their supervisors.

The U.S. Government cannot force domestic companies to adopt American versions of these Japanese procedures, but it can stimulate the education process.

A specific example of what can be done is the recent assignment handed to the GAO by the House Ways and Means Committee to study Japan's industrial management styles in general and their

specific utilization in Japanese-owned manufacturing firms operating in the United States.

By way of digression, I would like to express the hope that the executive branch would pursue such useful and relevant export-related studies, instead of leaving the burden of research about Japan on the Congress.

The U.S. Government should adopt a purely American version of indicative economic planning in the mold of Japan and France. Although "planning" tends to be a dirty word, I personally see no problem in having a joint Government-business-labor panel to prepare long-range analyses that would provide broad, unofficial direction to American economic growth, while elucidating problems and suggesting solutions.

ENCOURAGING SAVINGS

I think the U.S. Government should do more to encourage savings. One way the Japanese encourage savings is by not having a social security comparable to ours, and the second way is the process of paying large annual or semiannual bonuses. Generally, these large bonuses are put in the bank by workers.

U.S. tax laws should provide more incentives for saving. Specifically, tax treatment of interest and dividends received by individuals should be more in the mold of the deductions currently allowed for borrowing, that is, interest payments. In other words, our tax code should encourage savings, the building block of investment, as much as it encourages borrowing.

I will skip over the statistics in my testimony on Japanese savings and capital formation, but I think they are indicative of why the Japaneses are doing better than we are on the industrial sector side.

If enacted into law, the emphasis on supply-side economics in the current congressional considerations of a tax reduction package should encourage new investment and plant modernization.

The potentially positive impact on exports of accelerated depreciation allowances and larger investment credits should neither be ignored nor exaggerated.

The U.S. Government should learn from Japan, and not allow its export financing bank to effectively run out of funds toward the end of each fiscal year.

INCREASING R. & D. EXPENDITURES

The United States should follow Japan's lead in promoting an increased, not a decreased, share of research and development expenditures as a percent of GNP. The Japanese Government supports a smaller percentage of total domestic R. & D., but it is concentrated in the commercial sector.

U.S. support for R. & D. should move more beyond the military and aerospace fields and more into goods involving commercial applications.

Studies should be made of the probable cost-effectiveness of providing fiscal incentives to U.S. corporate R. & D. efforts. I personally am not an expert in this field, and so I refrain from an outright

advocacy of such tax incentives. Rather, I suggest that they be looked at carefully.

NO EVIDENCE OF U.S. INTERNATIONAL COMPETITIVE DECLINE

In conclusion, there is a lack of immediate proof that the U.S. international competitive position is in a long-term decline. Nevertheless, there is no reason for complacency. The time to act is right now. We will have to run fast to maintain the status quo. Foreign economic competition is increasing steadily as is the pattern of overseas business-government cooperation.

The important thing to note is that the beginning of the process of economic revitalization in the United States seems clearly in evidence. The probable change in U.S. tax laws and the probable enactment of export-related legislation in 1981 exemplify this trend.

Many of the recommendations that I have made here today are already in various stages of consideration on Capitol Hill. If you will excuse the cliches, there are no quick fixes and no panaceas here. Still, we do appear ready to take steps in what I regard as the right direction.

This hearing today is a good example of this trend.

Finally, I would like to emphasize the major conclusion of the Ways and Means Committee's United States-Japan Trade Task Force's report of September 5, 1980:

"We don't need protectionism; we need to make our own economy better."

A more competitive U.S. export sector not only makes more sense than restricting imports, it will reflect a more efficient, faster growing domestic economy. The characteristics of fierce competition and innovation among Japanese companies in an industry afforded protection from imports is one of the greatest mysteries of the Japanese system.

I would not recommend the Japanese policy of infant industry protection in this country.

Thank you.

[Mr. Cohen's prepared statement follows:]

PREPARED STATEMENT OF STEPHEN D. COHEN, ASSOCIATE PROFESSOR, SCHOOL OF INTERNATIONAL SERVICE, THE AMERICAN UNIVERSITY

THE APPLICABILITY OF JAPANESE ECONOMIC POLICIES TO THE UNITED STATES

I am Stephen D. Cohen, Associate Professor in the School of International Service, The American University, Washington, D.C. My area of expertise is in U.S. foreign economic policy. My interest in Japan blossomed during my four and one-half years as Chief Economist of the U.S.-Japan Trade Council (1969-1973), and it has continued through the present. I appreciate the opportunity to present my views in what is another phase of the extraordinarily useful public dialogue on U.S. international trade policy that has been initiated by the Congress. My testimony on the applicability of Japanese economic practices to U.S. needs is divided into three parts: a general statement of goals in studying the Japanese economic experience; the reasons why only a limited number of Japanese policies and practices are relevant to and desirable in the American system; and thirdly, a list of specific recommendations for U.S. policy actions.

In the early post World War II period, Japan carefully studied and frequently adopted their version of American economic and business practices, programs and policies. Given the fact that Japan has become the world's most successful competitor in the manufactured goods sector and the fact of persistently large U.S. trade

deficits, the time is overdue for the U.S. to learn from and adopt where appropriate, Japanese economic and business practices.

GOALS

It is neither embarrassing nor a sign of weakness that the U.S. government should assiduously study the domestic economic and foreign policies of its more successful trading partners. Although this country still possesses the largest and, in many sectors, the strongest national economy in the world, our recent economic performance suggests that we cannot and should not rest on past laurels. Our recurring trade deficits, exceeding $30 billion, have become so commonplace that a sense of urgency in reducing or eliminating them seems to have disappeared.

The rising sophistication of our foreign competition suggests to me the need to assign a higher priority to making the U.S. export sector more active and competitive. Alternate policy options, such as import restrictions or acquiescence to extensive dollar depreciation, should be regarded as vastly inferior to export stimulation. It should also be emphasized that there is a close correlation between an optimal trade perfomance and an optimal domestic economic performance, e.g., price stability, product innovation, etc.

My personal belief is that the laissez-faire approach towards the export sector exhibited by the vast majority of U.S. government officials, corporations, and academicians is out of sync with the international economic realities of the 1980s. Having said this, let me hasten to add two key qualifications. Mercantilism, the singular pursuit of a trade surplus to enhance national wealth, has long been discredited—and properly so—by economic theory. Secondly, there is considerable difficulty in precisely quantifying the gravity of our trade problem. For example, if oil imports are excluded, a sizeable trade surplus results. In 1980, this figure will approach the $50 billion level. Such a figure suggests that U.S. international competitiveness is better than the aggregate trade balance suggests. U.S. exports in the first seven months of 1980 were up a healthy 26 percent (in dollar terms) above the comparable 1979 period. Furthermore, the rising surplus in our international services sector has become sufficiently large that it virtually offsets our large trade deficits. With approximate equilibrium in the current account of the U.S. balance of payments, it is far from clear that an improvement in our trade balance is necessary today on international monetary grounds.

To advocate a rethinking and upgrading of contemporary U.S. export policies and practices is not the same as advocating efforts to "export" domestic unemployment and surplus production or to enrich select corporations. A catalogue of relevant U.S. policies would indicate a net tilt towards intimidating export growth, a situation probably not duplicated in any other country. The unique political values and economic philosophy of the United States justify many of the disincentives. But the relative absence of more positive measures is unjustifiable.

An indictment of American export indifference and a call for a reordering of priorities pose scholarly and semantic problems. There is an immediate risk of an implied endorsement of mercantilism, government subsidies, fixed exchange rates, etc. Part of the problem is that in this country, economic research on international trade has calculated the costs of import protection at the virtual exclusion of the costs of export weakness. Perhaps some assume that the pursuit of free trade creates its own equilibrium.

The few exhortations for a more conducive atmosphere in this country towards exporting have come almost exclusively from business people. Generally, their efforts have been discounted as being too self-serving. Some of their proposals are self-serving, but their concerns should be shared more broadly.

It is easy to overstate the case. Foreigners still tend to view large American corporations as potent competitors. U.S. trade policy should not be based on the contention that "the battle for world trade is a grubby fight for goods and jobs, not a spiritual struggle to maintain free trade purity." [1]

It is also easy to underestimate preliminary indicators of structural export weakness. One of the scholarly papers prepared for the unprecedented in-depth examination of U.S. export policies conducted in 1978 by the Senate Banking Committee, concluded: * * * that structural factors are, in part, responsible for recent changes in the pattern of United States exports. Price and cyclical factors cannot completely explain the recent changes in the structure of U.S. exports. These results are consistent with the hypothesis of a secular decline in U.S. comparative advantage.[2]

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[1] Robert M. Kaus, "Getting Tough on Trade," Washington Monthly, November 1978, p. 26.

[2] C. Michael Aho and Richard D. Carney, "U.S. Export Performance in the Post-Devaluation Period: Continuation of a Secular Decline?" Export Policy, Part 2 of hearings before the Senate Committee on Banking, Housing and Urban Affairs, Feb. 23, 1978, p. 163.

II. The cultural and economic dissimilarities between Japan and the United States

Japan is a unique country. So, too, is its economy. Both are a unique and complex blend of Oriental culture, geographic isolation, and Western technology. It is tempting, but incorrect, to assume a Westernization of Japan. Its consumer goods output, love of hamburgers and baseball, and its manner of dress belie the strong cultural base which remains a key to understanding individual relations and attitudes towards governmental and business authority. In short, the unique Japanese cultural experience supports a unique economy; the former has not been subverted by the latter.

Modern Japanese economic practices have been a function of the Japanese perceptions of weakness which emanate from the country's economic geography, i.e., a small, crowded island almost wholly devoid of natural resources. Japan has also faced the enormous task of reconstruction after the backbone of its economic infrastructure had literally been blown away in World War II. Economic recovery necessitated a heavy reliance on imported raw materials and a world market to provide economies of scale for the new industries who were destined to outgrow the home market in Japan. The result in economic terms was a clear-cut set of Japanese priorities to reconstruct an economy that would be built around several key industries, such as steel, chemicals, and electronics. Once consensus developed to accept those priorities, the societal cohesiveness, innate intelligence, and capacity for hard work of the Japanese people transformed these industrialization goals into realty. In terms of such factors as housing and the environment, this process was not without social costs, however.

The Japanese enjoyed a number of advantages which enhanced their international competitiveness. One important example is worker loyalty and the existence of company, rather than industry-wide, unions. The economic benefits provided by companies, e.g. lifetime employment, together with group identification, minimized strikes and labor concern with plant modernization, and they maximized employee morale and loyalty. Secondly, corporate reliance primarily on debt financing rather than equity (stocks) financing has enhanced the Japanese view towards long-term profits and returns. In contrast, U.S. corporate managers are more concerned with immediate profits to please stockholders and less with long-term sales growth and increased market shares than are their Japanese counterparts. Yet another benefit has been the extensive sales networks of Japanese trading companies which have provided a unique marketing force.

The historical emphasis of the United States has been to subordinate government ownership and interference to the "visible hand" of the marketplace. We are a nation of immigrants and refugees from many lands who still adhere to the notion of Yankee individualism. The Japanese social fabric appears to be largely irrelevant and inappropriate to the U.S. experience.

I find absolutely no justification for suggesting the need to abrogate our primary reliance of the market mechanism to maximize efficiency and output, and to guide distribution and consumption patterns. Nor do I advocate massive government subsidies to the private sector. On the other hand, the nature of capitalism and the competitive patterns of today are far different than 100, or even 60 years ago. It follows, therefore, that some policy modifications would be appropriate.

International economic interdependence suggests that we cannot be wholly unmindful of our foreign competition. The basic free market principles mentioned above are valid, but they are not, in my opinion, so sacrosanct that they cannot be modified to enhance U.S. international competitiveness. A dialogue should be initiated on the merits of providing new and limited rewards by the government for business risk and initiatives. Increased governmental policies designed to enhance U.S. domestic efficiency and export competitiveness should not be automatically or prematurely designated as a "hand-out to business." Considerations of cost-effectiveness and equity should not get shunted aside by a chorus of anti-business sentiment any more than should government subsidies be used to neutralize business errors, ineptitude, or indifference. The long-term benefits of new product innovation, greater domestic productivity, and a strong export sector hold long-term promises that potentially outweigh the short-term costs of beneficial governmental incentives. Japan has some of the most competitive corporations in the world; but the Japanese government still does not totally leave Japan's economic future to the vagaries of the "invisible hand." The real question here is how to keep official guidance of the industrial sector limited, not totally absent.

A final caveat on the possibilities of simulating Japanese economic policies is the severe limitations on what the U.S. government can do in pushing corporations to pursue increased export activities. Disincentives can be reduced and new incentives can be adapted. But the bond between industry and government is not sufficient in this country to allow Washington to convince many corporations that increased

exports are necessary for this country's long-term interests, or are even in their corporate interests. Exporting is a difficult task that is not critically necessary for most U.S. companies. They have the unique benefit of selling to a two trillion dollar domestic market. Nothing short of self-defeating controls on foreign direct investment or restrictions on the export of technology will force U.S. companies to rely solely on exports to service foreign markets. And nothing short of massive—and wholly unjustifiable fiscal bribes—will assure a broadly based incremental effort by the U.S. industrial sector to expand exports. Lessened antagonism between the industrial sector and the federal government can help to promote exports, but only in the long-run and only on a limited basis.

III. Learning from Japan

The ultimate genius and driving force of Japanese exports (as well as the "new Japans," South Korea, Hong Kong, Taiwan, etc.) has been the private sector. The government enunciates a clear set of specific goals, initiates incentives, and minimizes disincentives. It is therefore important for the United States to understand the economic policies as well as the business practices of Japan.

Before turning to my specific recommendations, I would like to suggest, as have others, that the single biggest difference between U.S. and Japanese trade policies is that we protect yesterday's industries, while Japan protects (and promotes) tomorrow's industries. The package of official incentives and subsidies provided to the integrated circuit and computer industries is a simple manifestation of an industrial policy dictum: that Japan is to develop these two industries as world-class competitors. The refusal of the government-owned Nippon Telephone and Telegraph Company to procure sophisticated telecommunications equipment (some $3 billion annually) from non-Japanese sources is another manifestation of the longstanding Japanese policy of fostering targeted infant industries. Except for the high-technology industries that have not yet fully blossomed, Japanesse import restrictions are currently quite modest. Improved U.S. export efforts and improved price competitiveness are at least as important for redressing the chronic U.S. trade deficit with Japan as is further Japanese import liberalization.

Japanese business practices and economic policies offer only limited possibilities, in my judgment, for absorption into the American system. In virtually every case, modifications are required, not simple replication. The following list represents my best assessment as to what practices we should import from Japan and utilize for our own economic advancement.

A. Export policies.—1. U.S. exporting companies like Japanese companies, should be allowed tax benefits for a stipulated percentage of allowed costs of overseas market research and development. This provision is especially important in light of the American corporate imperative of producing immediate results. Japanese expenditures of capital and patience in cultivating foreign markets would be encouraged by providing a fiscal offset to the start-up and promotion costs inherent in developing a successful overseas marketing operation. In effect, a limited portion of export, not domestic, sales would be given a tax shelter by allowing a special deduction for overseas business expenses.

In a related issue, the more stringent tax treatment of earnings, allowances,and bonuses paid to U.S. businessmen overseas has progressively reduced the foreign presence of American corporate personnel. The apparent correlation between overseas representatives and foreign sales, together with their physical absence of these persons from U.S. territory, suggests that section 911 of the U.S. tax code should be changed to reduce the U.S. tax liabilities of American corporate personnel stationed abroad.

2. The U.S. tax code should also adopt the Japanese practice of allowing a deductible reserve for foreign exchange losses on net long-term receivables. (To the extent U.S. exporters are paid in dollars, however, this provision would not apply.)

3. A further restructuring of the U.S. trade policymaking organization is necessary to provide centralized cohesiveness and consistency to U.S. export policy. The recent "mini" U.S. reorganization that centralized trade policy formulation in the Office of the U.S. Trade Representative and Trade Program Administration in the Commerce Department should be viewed only as a "halfway house" move. Since 1977 I have been advocating the creation of a single cabinet-level organization to supervise our foreign trade and international investment programs and policy. This proposal does not remotely suggest a carbon-copy of MITI. Rather, it seeks to redress a number of administrative anomalies, such as the apparent continued absence in the Executive Branch of a coherent, long-term export strategy and a set of export promotion activities whose cost-effectiveness and impact are still uncertain. In Japan, as in the other industrial countries, there is a single, clear directorate for trade policy. The United States needs such an entity for devising an import as well as an export policy strategy.

4. We should also incorporate the Japanese ability to differentiate between the genuine elevation of an economic policy to a high priority position and merely paying lip-service to an objective. While the whole fabric of Japanese business and government sentiment is concentrated on export results, this country resorts to rhetoric, task forces, and shallow export promotion programs.

5. The Congress should complete action on current legislation to encourage the creation of export trading companies, entities which should be of special assistance to small and medium-sized U.S. companies.

B. Internal economic policies.—1. A small piece of the Japanese casualness towards anti-trust prosecution would be beneficial for U.S. economic policy. The Japanese (and others) must look on with awe and amusement at the multimillion U.S. government effort to break up the IBM Corporation as apparent punishment for its prolific new product innovation, price competitiveness, and its overall servicing and management excellence. I believe that the economics of high technology industries, where U.S. comparative advantage lies, will inevitably create concentrated industries that are dominated by a few giant companies, most of whom will be multinational.

Similarly, efforts to clarify and liberalize the Webb-Pomerane Act should be pursued. The need for joint ventures and joint bidding between U.S. companies in securing large foreign export contracts is becoming an increasingly important fact of international commercial life. I do not believe that cooperation among competitors to secure large foreign orders will necessarily stultify competition at home.

2. U.S. companies have become vaguely aware of the benefits of Japanese management practices. U.S. companies should learn more about Japan's quality control procedures and enhanced production line morale, both of which are related to improved communications between the assembly line workers and their supervisors. The U.S. government cannot force domestic companies to adopt Americanized versions of these procedures, but it can stimulate the education process. A specific example of what can be done here is the recent assignment handed to the General Accounting Office by the House Ways and Means Committee to study Japanese industrial management styles in general, and their specific utilization in Japanese-owned manufacturing firms operating in the United States.

The process of informing U.S. industry about foreign business practices should be encouraged, both by official and private research.

By way of digression, I would like to express the hope that the Executive Branch would pursue such useful and relevant export-related studies, instead of leaving the burden of research about Japan on the Congress.

3. The United States Government should adopt a purely American version of indicative economic planning in the mold of Japan and France. Although "planning" tends to be a dirty word, I see no problem in having a joint government-business-labor panel to prepare long-range analyses that would provide broad, unofficial direction to American economic growth, while elucidating problems and suggesting solutions. An effort to match future raw material and labor availabilities and environmental concerns with industrial progress has been a useful venture for many years in Japan. The question of whether we use planning specifically to single out candidates for the "industries of the future" is an extremely sensitive one that nonetheless should at least be carefully and fully contemplated.

4. The U.S. Government should do more to encourage savings, but in a completely different manner from the Japanese. While they have no comparable social security system and pay large annual or semiannual bonuses (which are largely put in the bank) to workers, the U.S. tax laws should do more to provide incentives for savings. Specifically, tax treatment of interest and dividends received by individuals should be more the mold of the deductions currently allowed for borrowing, i.e., interest payments. In other words, our tax code should encourage savings, the building bloc of investment, as much as it encourages borrowing.

Japan's industrial resurgence can be partially explained by two statistics: first, its ratio of savings to disposable personal income runs about four times as large as ours. Secondly, the ratio of fixed capital formation to GNP is almost 70 percent greater than ours.[3]

If enacted into law, the emphasis on supply-side economics in the current Congressional considerations of a tax reduction package should encourage new investment and plant modernization. The potentially positive impact on exports of accelerated depreciation allowances and larger investment credits should neither be ignored nor exaggerated.

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[3] Based on data in International Economic Indicators, published by the U.S. Department of Commerce.

5. The U.S. Government should adopt the Japanese practice of not allowing its export financing bank to effectively run out of funds. The "cash-less" experience of the U.S. Export-Import Bank at the end of the current fiscal year is hardly helpful to the U.S. export promotion effort, despite the controversy about Export-Import subsidies to foreign purchasers of U.S. goods.

6. The United States should follow Japan's lead in promoting an increased—not a decreased—share of research and development (R. & D.) expenditures as a percent of GNP. The Japanese government supports a smaller percentage of total domestic R. & D., but it is concentrated in the commercial sector. U.S. support for R. & D. should move more beyond the military and aerospace fields and more into goods involving commercial applications. Studies should be made of the probable cost-effectiveness of providing fiscal incentives to U.S. corporate R. & D. efforts. I am personally not sufficiently well-informed to advocate outright such tax incentives.

CONCLUSIONS

The lack of immediate proof that the U.S. international competitive position is in a long-term decline is no reason for complacency. We will have to run fast to maintain the status quo. Foreign economic competition is increasing steadily, as is the pattern of overseas business-government cooperation. The important thing to note is that the beginning of the process of economic revitalization in the United States is clearly in evidence. The probable change in U.S. tax laws and the probable enactment of export-related legislation (such as the export trading company bill) in 1981 exemplify this trend.

Many of the recommendations that I have made here today are already in various stages of consideration on Capitol Hill. If you will excuse the cliches, there are no "quick fixes" and no panaceas, either for the domestic economy or the export sector. We do appear ready to take steps in what I regard as the right direction. This hearing is representive of growing Congressional pressures and legislative proposals to get moving in terms of inducing greater U.S. export dynamism. I hope that both optimism and government handouts to industry will be restrained. I also hope that the Executive Branch will become more of a positive driving force in pursuit of better domestic economic and export policies.

Finally, I would like to emphasize a major conclusion of the Ways and Means Committee's U.S.-Japan Trade Task Force's Report of 5 September, 1980: "We don't need protectionism—we need to make our own economy better." A more competitive U.S. export sector not only makes more sense than restricting imports, it will reflect a more efficient, faster growing domestic economy. The characteristics of fierce competition and innovation among Japanese companies in an industry afforded protection from imports is one of the greatest mysteries of the Japan system. I would not recommend the Japanese policy of infant industry protection for the United States.

Mr. BINGHAM. We will hear from Thomas M. Hout.

STATEMENT OF THOMAS M. HOUT, VICE PRESIDENT, THE BOSTON CONSULTING GROUP, INC.

PERSPECTIVES ON DECLINING U.S. COMPETITIVENESS

Mr. HOUT. I have a rather brief statement, so I am going to read it.

The decline in U.S. competitiveness in manufacturing trade is widely recognized, and its causes have been explored from a variety of perspectives. From my own professional vantage point, which is based on attention to the competitive process at the industry and firm level, I would like to make three additional points.

First, the conceptual framework on which we have traditionally relied to explain and predict U.S. share of trade with our major partners is inadequate. By majors, I refer to Western Europe, Japan, and Canada.

The orthodox view has been that converging wage rates, access to common technology, and flexible exchange rates would largely balance manufacturing trade flows among the majors. They have not done so. The U.S. share of manufacturing trade among the

majors has declined sharply. Large portions of sophisticated U.S. industries like steel, television, and watches have lost the ability to compete.

All this happened despite a long-term depreciation of the dollar and, on balance, declining trade barriers abroad. This is merely to say we have to look beyond the macro data and begin to look at what happens in individual industry firms which brings me to the second point.

Second, not all U.S. manufacturing is losing competitiveness. Many American producers continue to turn back Japanese and European challenges and remain the largest, most profitable, most feared international competitors.

These successful firms include Caterpillar, in construction equipment; Dow, in organic chemicals; Hewlett-Packard and Tektronix, in test and measurement equipment; Boeing, in long-haul aircraft; Du Pont, in high-value chemicals; OMC, in outboard marine engines; Briggs and Stratton, in small gasoline engines, and many others.

What distinguishes these companies? They have essentially built and defended their competitive advantage internationally by: (1) Rooting themselves in a relatively large and competitive U.S. domestic market; (2) investing in product design, process technology, production capacity and marketing networks at least as fast as their major foreign competitors; (3) adopting a long-term perspective on their main businesses, eschewing financial gamesmanship; and (4) undertaking whatever debt is necessary to finance competitive worldwide growth.

These companies are no different from less successful U.S. corporations in those broad circumstances that hurt American ability to compete internationally, high inflation, low saving rates, restrictive legislation and others widely discusssed.

Nor are the successful firms drawn only from a particular type of industry. Rather, they are found in highly diverse fields, ranging from high growth to low, from heavy industry to "high technology," from considerable Government R. & D. involvement to none, from high debt to no debt. These variables alone do not predict success or failure in international competition.

In short, some firms do well despite broad economic conditions working against them. Their success does not seem to be tied to the characteristics of the industries in which they compete. These observations may seem to argue that success hinges on the strengths and strategies of individual companies.

But my third point is that public policy can indirectly improve U.S. corporations' ability to compete internationally. The Japanese industrial policy experience is directly relevant here.

POLICY PRIORITIES

One priority must be to control inflation. Inflation in the United States raises the real tax rate on corporations; dries up long-term capital markets; biases management toward conservative short-term investments and away from aggressive, cost-reducing, long-term commitments whose payoff is deferred; and particularly punishes the typical low-debt American firm relative to a more leveraged foreign competitor.

A second and related priority is to stimulate saving and investment. This widely discussed issue needs no elaboration from me.

A third priority is to accelerate the market mechanism or, put differently, to avoid distorting natural inevitable competitive evolution. For example, we should not control prices of energy when our international competitors are letting theirs rise.

If we do, we essentially guarantee that their industries will design more efficient autos, electric motors, et cetera, before ours will. When our own energy prices inevitably do rise, our producers will be disadvantaged in scale and experience.

Similarly, we should reexamine our antitrust practices. Often two currently uncompetitive international competitors, who will surely perish on their own, might be able to survive if combined; yet rigid enforcement of the antitrust law would preclude a joint venture. Our guiding objectives should be to recognize where competition is going and to make it easier for the U.S. corporation to get there.

These themes, controlling inflation, stimulating saving and investment, and accelerating the competitive market mechanism, are the real lessons of the Japanese experience. They cannot make the United States more internationally competitive. Only the firm can directly accomplish that. But they can improve our collective performance.

Thank you.

Mr. BINGHAM. Thank you.

Mr. Saxonhouse?

STATEMENT OF GARY SAXONHOUSE, PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN

Mr. SAXONHOUSE. I will also try to summarize my somewhat lengthy statement, and I trust it will be incorporated in the record.

Mr. BINGHAM. Without objection, your full statement will appear in the record.

MISLEADING TRADE INDEXES

Mr. SAXONHOUSE. Mr. Chairman, I am pleased that you have invited me to testify before you today on the extremely important matters presently being considered by your committee. There is today a sense of crisis regarding the character of both American and Japanese participation in the world economy and in each other's economy.

The oil shocks emanating from the Middle East have imposed a heavy and continuing burden of structural adjustment on the oil-importing advanced industrialized economies. There is a common perception that the burden of this adjustment is being poorly managed by the American economy and well managed by the Japanese economy and that successful Japanese adjustment has come at American expense.

I would like to explore this perception with you today in the hope that such exploration might aid your committee's search for remedies that will ensure that in the future as in the past American participation in the global economy improves and stabilizes the American standard of living.

The first question that we have to ask is how do we properly make such an assessment. This committee and other committees of

the House have been told by economists that the bilateral merchandise trade imbalance is not of serious economic concern.

This committee and other committees of the House have also been told that regardless of this economic truth, political reality dictates that a $9 billion trade imbalance between two partners must be deemed intolerable.

I must point out in this connection that economic truths change very rapidly, and I guess it is fair to say that political realities change still more rapidly, so much so that cynicism is perhaps an occupational hazard of both scholars and politicians.

I cannot truly assess the importance of the political impact of the American merchandise trade deficit with Japan, but I can tell you that looking at that imbalance and looking at more comprehensive accounts of Japanese and American transactions with each other and with the rest of the world economy will divert this committee from a proper assessment of U.S.-Japanese relations, and the U.S. competitve situation in the world economy.

It is not simply that the bilateral imbalance is the wrong figures to look at, but it is also true that the current account balance, the global current account balance, not simply the current account with Japan, can also be a misleading index.

I think this is a quite important point. Continuing interest in our achieving some kind of balance is in large measure an anachronism left over from the old Bretton Woods system which ended in the early 1970's.

Participation in an adjustable pegged exchange rate system required participants to seek long-run balance in the sum of their global current and capital transactions. Somehow this old systemic imperative came to be applied to current transactions for any national participant in the present managed floating exchange rate system.

In fact, for any given economy, depending on its investment and savings behavior, almost any level of current account surplus or deficit might be optimal for itself and for the world economy.

In the short run it may be that movements in the level of current account imbalance or even movement in the level of bilateral imbalance indicate disturbances which need to be stabilized, but there is nothing necessary about this and movement in such balance may be poor indices of underlying problems which need policy attention.

For example, if Congress were to permit the sale of Alaskan oil to Japan the bilateral trade balance would be substantially reduced. I support such a step because it is cheaper for the Midwestern regions of the United States to receive oil from the Middle East than from Alaska, but not so for Japan; but I do not for a moment think that such an oil swap would address the more serious issues in U.S.-Japanese economic relations, nor do I believe it would relieve the political pressure that such issues be addressed.

It will be recalled that the Kennedy administration pressured Japan to accept quantitative restrictions on cotton textile exports to the United States at a time when the United States had a healthy bilateral trade surplus with Japan.

Rather than worrying about the present, large bilateral U.S.-Japan imbalance, or even the prospect of an early return to a large

Japanese current account surplus, it is important to address the more fundamental questions, such as:

1. Are the Japanese engaging in unfair and possibly illegal export promotion practices? Is declining American competitiveness vis-a-vis Japan in a broad range of industries the result of unscrupulous Japanese marketing tactics and strategies?

2. Is the degree of access to the Japanese market of foreign goods, services, and assets consistent with the international responsibilities which an economy of Japan's size and scope ought to be assuming?

Is the decline in American competitiveness exaggerated by the failure of the Japanese to allow access to American industries which could effectively compete here?

3. Have financial authorities in Japan manipulated the yen-dollar exchange rate to unfairly promote Japanese exports and retard foreign imports?

4. Are the consequences of Japanese competition in the American market socially intolerable for some industries or regions in either the short run or the long run?

5. Does the more rapidly-growing Japanese economy impose a burden of structural adjustment on the American economy which is faster and larger than that with which American institutions have previously coped?

Can American institutions legitimately follow Japanese examples and better cope with such changes than has previously been the case?

It seems to me, Mr. Chairman, that these are the important questions we ought to be addressing, not questions of why is the current account surplus of Japan very large or why the bilateral deficit of the United States with Japan is very small.

These complex questions have a common theme. Are Japanese actions serving to maintain the international economic and financial system from which they so greatly benefit? Is Japanese competition fair and even if it is fair is it unduly disruptive?

These questions should be asked not only of Japanese actions but also of American behavior. An alleged American failure to compete can also be systemically destructive.

These questions are very difficult to answer, and I would suggest they cannot be addressed except on an industry by industry basis.

MOTOR CAR COMPETITION

In the remainder of my prepared statement, I discuss Japanese and American automobile competition, because it is this problem which is now most pertinent to the congressional agenda. Were another industry being discussed, perhaps my answers would be quite different.

In reviewing, for example, the first question with reference to the situation of Japanese and American automobile competition, I find it difficult to see evidence of what the Senator from my home State of Michigan called "dumping in spirit."

At a time when American consumers are paying premiums for Japanese automobiles, that is premiums above list price, it is difficult to imagine that anything like "dumping" is presently taking

place. Or indeed that unfair or sharp marketing tactics, predatory pricing in this industry and the like are presently the case.

If you turn around and look at the access of the American automobile industry to the Japanese market, as you already know, you will find that there are some barriers to American competition.

Nonetheless, when you analyze the quantitative significance of these barriers, you will clearly find that their significance is relatively minor, and their removal would not result in many more automobiles being imported to Japan.

I would go so far as to suggest, that provided that increased Mitsubishi Motors exports come not entirely at the expense of other Japanese imports, more Japanese vehicles are being kept out of the Untied States through American Government-imposed fuel economy fleet average standards which discriminate against captive imports than there are American vehicles that have been kept out of Japan by Japanese Government-imposed barriers.

In my submitted statement, I conclude that whether Japanese competition in automobiles is tolerably fair. I know we should go on to the questions that have been discussed to in some of the other testimonies. Is there something in Japanese Government policy from which we can learn? Is there something in Japanese corporate behavior which we ought to emulate? Is there something that needs to be incorporated, either in our statutues or in our managerial practices that is presently better understood in Japan.

In contrast to my colleagues on this panel, I am quite skeptical of whether there is a great deal that we can learn from the Japanese situation. I am skeptical that there are lessons that can be readily applied to the American context, and I say that as someone who has lived in Japan for many years and has studied the Japanese for many years.

For example, I would observe that the chief Government aid to the Japanese automobile industry today comes not from the unduly generous depreciation allowances or special tax-free reserves granted the industry by the Japanese Government, but more likely from American Government protection of the American steel industry. To the extent that this American Government action prevents the American automobile industry from securing steel, a major industry input, at the lowest possible cost, the American industry is hurt, and its great rival, the Japanese automobile industry, which does not labor under this handicap, is aided.

Turning from the matter of government aid to that of whether Japanese competition, regardless of whether it is fair or not, has in some sense created a socially intolerable situation within the American economy which requires some kind of American Government action, whether of a short-term or long-term character.

Your committee has already been told that the situation in the American automobile industry is not unprecedented. It is perhaps not so very different from the situation in 1974–75, in its impact on the production in the industry and in its impact on employment.

The difference, this time and why we are all here today asking about U.S.-Japanese competition, of course, is that in 1979 and 1980, as American demand for automobiles fell under the impact of

the recession, American imports of Japanese automobiles increased rather than decreased, as was the case in 1974–75.

It is fair to say, however, that if you look at the situation, as indeed the Ford Motor Co. does in its submission for its section 201 petition to the International Trade Commission, you find that between 1976 and 1980 American production of automobiles and light trucks fell by nearly 3 million units.

During this same period, imports rose by 1.2 million units. Regardless of what you may have heard about multipliers, imports cannot account for the majority of the industry's current decline.

It is well understood what the present problems of the American automobile industry are. The American public is demanding small cars and the American industry is not presently in a position to provide those small cars, and until this conversion takes place, we find that American industry will be facing some very hard times.

AUTO RELIABILITY

I want to look at the question of why Japan was able to meet this change in consumer demand and why the American industry was not. With the usual hyperbole that is characteristic of such discussion, it is often said, well, the Japanese automobile industry was farsighted, visionary, and the American automobile industry buried its head in the ground like an ostrich.

I think this is quite unfair. As many of you know, the Japanese automobile industry has always produced small cars. The American automobile industry has always produced large cars.

American consumers' tastes for small cars changed quite suddenly and quite dramatically and the Japanese industry got an enormous windfall gain.

I think we should understand that if you look at Japanese automobile decisionmaking over the perspective of the last 10 years, I think we can find that the industry has made bad decisions also, decisions that were equally as shortsighted as recent American decisions.

I give you the one example in my submitted statement. Remember the Wankel? This was the highly energy-inefficient engine which the Japanese automobile industry introduced only after the 1971 Teheran Conference.

You may recall it was that conference where OPEC first flexed its muscle. A visionary Japanese management might have been concerned about the future of the price of gasoline, or at least more than it was, and not introduced this new engine.

The makers of Mazda, the people who were in top management at that time, paid for that decision with their jobs and that company paid for its decision to go with the Wankel with the loss of its independence.

As you probably know, Ford Motor Co. owns 25 percent of Toyo Kogyo, Mazda's manufacturer.

While the Japanese managers have not been especially visionary on the future of energy, I think they have done a better job in assaying the future of labor and the future of labor costs.

Japanese industry correctly perceived that the rapidly increasing costs of labor in the American market would create a situation

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where the repair of complex products would be extremely costly and inconvenient.

Japanese managers invested considerable resources in insuring product reliability. Contrary to popular impression, however, there is no special linkage between product quality and labor quality. Japanese products are not of high reliability, because Japanese workers express filial feelings about with the companies for which they work.

Japanese products are reliable because this was an explicit element in Japan's product strategy. Japan achieved reliability by spending more resources on this objective at the expense, for example, of designing cars which were as safe as typical American models.

Regardless of what one may think about the motivation of the American automobile workers, only the decision to spend the necessary money prevents the production of more reliable American-made automobiles, and perhaps the decision to spend this money has now been taken in recent months in this country.

I should say also in all fairness to the American automobile industry, improving product reliability is a labor-intensive step. When these strategic decisions on product characteristics were made, Japan had much, much more labor relative to its competitors. Product quality could be improved at less cost in Japan than in the United States.

It must also be remembered that Japan has not always been associated with high-quality products. In an earlier era, Japan innovated in the creation of low-cost, shoddy products which could be successfully exported to low-maintenance-cost foreign markets. Similarly, it must be remembered that in the past Japan has built world-class industries with a labor force that exhibited both extremely high turnover and extremely high absentee rates.

SHORT-TERM PROBLEM

In the same way that the quality of Japanese management and labor posed no truly special long-term barrier to successful American competition, this committee should also be wary of suggestions that the very pattern of organization of and practices in the Japanese economy pose special long-term problems for American competitive strength which require either emulation or other unique responses.

For example, despite the great success of Japanese industry, the role of Japanese industrial policy in this success remains highly controversial.

Much of the help given the Japanese automobile industry may simply have compensated for aid industrial policy was giving its potential competitors. In common with the private sector, Japan's Ministry of International Trade and Industry has no special contraceptive against serious error. In the mid-1950's, MITI, noting the success of Volkswagen, encouraged the Japanese to develop following a similar strategy. The industry demurred, rejected this device and found success following Alfred Sloan's and not Adolph Hitler's marketing strategies.

In the late 1960's, again noting the great strength of Nissan's and Toyota's domestic marketing systems, MITI discouraged Honda from getting into the automobile business.

While MITI's assessment that a late-comer would have great difficulty breaking into a domestic market was correct, and this is a point which should not be lost on those expecting large future automobile imports for Japan, it did not foresee that Honda could successfully develop with a primary emphasis on overseas markets.

These are only two, Mr. Chairman, of many examples that might be chosen. A Japanese-style government-business industrial policy will not insure the automobile industry, or any other industry, against the kind of strategic error which has presently laid the automobile industry low.

There are reasons for government-business cooperation in sectoral planning which I alluded to in my testimony.

These reasons have to do with other distinctive characteristics in the Japanese economy. In some measure, it is some compensation for other distinctive characteristics of the Japanese economy, but not necessarily something that provides Japan with a competitive edge that we cannot match.

I think, similarly, we should be wary of assuming that practices of heavy borrowing from banks gives Japanese firms unique advantages. It is true the debt equity ratios in Japan are extremely high. It is also true that the rate of bankruptcy in Japan is extremely high. Debt equities in Japan are six to eight times what they are in the United States. Bankruptcy rates are also five to six times what they are in this country, and it is not only small companies that go bankrupt.

The Japanese firms are heavy risk takers, but they also bear the consequences of those risks. Japan has had at least two very close to $1 billion bankruptcies. There is no safety net provided in general for Japanese corporations.

JAPANESE BANKING AND TRADING COMPANY

You may have heard in the course of testimony a discussion about Japan's unique banking and trading company-dominated industrial groups.

Before assuming that this gives Japan any special advantage, I would advise you to look quite closely at Japanese accounting practices.

The Japanese Government, until very recently, did not require that Japanese firms prepare a consolidated balance sheet for their shareholders. It also did not require the Japanese parent companies and subsidiaries adopt a common settlement date. Both these factors created a tremendous incentive for Japanese corporations to work with lots of joint ventures, retain large minority holdings in subsidiaries, operate really with a very, very different kind of corporate structure in order to retain financial flexibility. There is no reason to believe that the corporate and industrial structure which has emerged from these accounting practices, in and of itself, gives Japan some special advantage. Many agencies within the Japanese Government are committed to ending these abuses which may hurt business at least as much as it helps it.

When your committee and other committees in the House come to fashion remedies for current problems that the United States faces, I hope you will carefully attend to the fact that what we are facing now is in large measure a recurrent, but short-term problem in United States-Japanese economic relations.

There are long-term consequences, to be sure, but most of the problems we face now and which are giving us political concern are problems which are largely short term.

Therefore we should be careful not to make adjustments in our economy which will be long term in character.

For example, I view with some concern the possible tieup of Ford and Toyota in a joint venture to produce a small car. You may recall that this possible tieup was announced when President Carter arrived in Tokyo for Prime Minister Ohira's funeral.

It seems to me such a tieup will not benefit the American worker in the short run, but maybe runs the risk of being of considerable longer term disadvantage to the American consumer. This possible tieup is a matter of considerable concern which should be carefully studied.

Similarly, if we accept problems that the automobile industry and other industries face as primarily short term, we should also be concerned about fashioniong short-term remedies which are cost effective.

The automobile industry in this country is perhaps half General Motors. In dealing with short-term remedies for the automobile industry, we should be careful that we not direct at least half of the potential aid that we are giving to a company which spends three times as much as the Toyota Motor Co. spends on research and development, and which produces something on the order of three times what the largest Japanese firm produces.

If segments of the industry need help, the aid provided should be specially targeted.

Thank you.

[Mr. Saxonhouse's prepared statement follows:]

PREPARED STATEMENT OF GARY R. SAXONHOUSE, PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN

I. INTRODUCTION

Messrs. Chairmen, I am pleased that you have invited me to testify before you today on the extremely important matters presently being considered by your Committee. There is today a sense of crisis regarding the character of both American and Japanese participation in the world economy and in each other's economy. The oil shocks emanating from the Middle East have imposed a heavy and continuing burden of structrual adjustment on the oil-importing advanced industrialized economies. There is a common perception that the burden of this adjustment is being poorly managed by the American economy and well managed by the Japanese economy and that successful Japanese adjustment has come at American expense. I would like to explore this perception with you today in the hope that such exploration might aid your Committee's search for remedies which will insure that in the future as in the past, American participation in the global economy improves and stabilizes the American standard of living.

II. WHAT IS THE APPROPRIATE BALANCE?

First, how is the character of American and Japanese participation in the world economy and in each other's economy properly assessed? This Committee and other committees of the House have been told by economists that the bilateral merchandise trade imbalance is not of serious economic concern. This Committee and other committees of the House have also been told that regardless of this economic

truth, political reality dictates that a $9 billion trade imbalance between two partners must be deemed intolerable.

What is economic truth changes rapidly, and what is political reality changes still more rapidly, so much so that cynicism is an occupational hazard of both scholars and politicians. I cannot assess the political impact of American merchandise trade deficit with Japan, but I can tell you that looking at this account or still more comprehensive accounts of Japanese and American transactions with each other and with the rest of the world economy will divert this Committee from a proper assessment of U.S.-Japan economic relations and the U.S. competitive situation in the world economy.

U.S.-Japan bilateral merchandise balance, U.S.-Japan bilateral current account or even U.S. global current account balance and Japanese global account balance are not goals which have the fundamental status of low unemployment and rapid improvement in the national standard of living. None of these balances, not even the current account balance, are necessarily goals at all. Continuing interest in achieving any balance is in some measure an anachronism left over from the old Bretton Woods system which ended in the early 1970's. Participation in an adjustable pegged exchange rate system, required participants to seek long-run balance in the sum of their global current and capital transactions. Somehow this old systemic imperative came to be applied to current transactions for any national participant in the present managed floating exchange rate system. In fact, for any given economy, depending on its investment and

savings behavior, almost any level of current account surplus or deficit might be optimal for itself and for the world economy.

In the short run it may be that movements in the level of current account imbalance or even movement in the level of bilateral imbalance indicate disturbances which need to be stabilized but there is nothing necessary about this and movements in such balance may be poor indices of underlying problems which need policy attention. For example, if Congress were to permit the sale of Alaskan Oil to Japan the bilateral trade imbalance would be substantially reduced. I support such a step because it is cheaper for the Midwestern regions of the United States to receive oil from the Middle East than from Alaska, but not so for Japan; but I do not for a moment think that such an oil swap would address the more serious issues in U.S.-Japanese economic relations, nor do I believe it would relieve the political pressure that such issues be addressed. It will be recalled that the Kennedy Administration pressured Japan to accept quantitative restrictions on cotton textile exports to the United States at a time when the United States had a healthy bilateral trade surplus with Japan.

Rather than worrying about the present, large bilateral U.S.-Japan imbalance or even the prospect of an early return to a large Japanese current account surplus it is important to address more fundamental questions such as:

1. Have there been wide swings in Japanese macro-economic targets and in the manner of instruments used to pursue these targets such that Japanese macro-economic management has been a source of instability for the world economy?

2. Are the Japanese engaging in unfair and possibly illegal export promotion practices? Is declining American competitiveness vis-a-vis Japan in a broad range of industries the result of unscrupulous Japanese marketing tactics and strategies?

3. Is the degree of access to the Japanese market for foreign goods, services, and assets consistent with the international responsibilities which an economy of Japan's size and scope ought to be assuming? Is the decline in American competitiveness exaggerated by the failure of the Japanese to allow access to American industries which could effectively compete there? Has the failure of the Japanese government to achieve full capital liberalization and to create the range of financial instruments which will facilitate still greater international status and use for the yen contributed to instability in the yen-dollar relationship?

4. Have financial authorities in Japan manipulated the yen-dollar exchange rate to unfairly promote Japanese exports and retard foreign imports?

5. Are the consequences of Japanese competition in the American market socially intolerable for some industries or regions in either the short run or the long run? Does the more rapidly-growing Japanese economy impose a burden of structural adjustment on the American economy which is faster and larger than that with which American institutions have previously coped? Can American institutions legitimately follow Japanese examples and better cope with such changes than has previously been the case?

These complex questions have a common theme. Are Japanese actions serving to maintain the international economic and financial system from which they so greatly benefit? Is Japanese competition fair and even if it is fair, is it unduly disruptive? These questions should be asked not only of Japanese actions but also of American behaviour. An alleged American failure to compete and alleged wide swings in American monetary and fiscal policy can also be systemically destructive.

The questions just raised, of necessity, are difficult ones to answer, and among them the important behaviour and social impact questions cannot be answered uniformly but most be addressed on an industry-by-industry basis. In the remainder of my testimony I will be discussing these issues in the context of Japanese and American automobile competition because it is this problem which is now most pertinent to the Congressional agenda. Were I addressing the character of competition and social impact in another industry my answers might be quite different.

III. COMPETITION IN AUTOMOBILES

At a time when American consumers continue to pay permiums over and above list price for Japanese automobile imports and while waiting lists for such automobiles remain common, it is difficult to argue that Japanese automobile makers are engaging in unfair marketing tactics or that this is another case of Japanese predatory pricing. There is little merit to the allegation of a Senator from my home state of Michigan that

the Japanese automobile manufacturers are "dumping in spirit". At the present time, if anything, the Japanese automobile industry is unfairly failing to ship all the automobiles that it otherwise might.

If the Japanese are not unfairly competing in the American market, are they however not allowing reciprocal rights of access to American manufacturers in the Japanese automobile market? This Committee is aware, no doubt, that Japan maintains a commodity tax on automobiles which varies directly with engine size and therefore discriminates against those automobiles for which American manufacturers have the greatest experience and know-how. This Committee is also aware that time-consuming automobile import procedures and perhaps idiosyncratic vehicle standards have added significantly to the costs of imported vehicles in Japan. While the maintenance of these barriers by the Japanese is certainly not capricious, and their removal would result in more automobiles being imported into Japan, the numbers of vehicles being kept out by these barriers is small.

Indeed, if it is assumed that increased Mitsubishi Motors exports would come not entirely at the expense of other Japanese imports, then it is fair to say that more Japanese vehicles have been kept out of the United States through American government-imposed fuel economy fleet average standards which discriminate against captive imports than have been kept out of Japan by Japanese government-imposed barriers.

It has been argued by some that while access to the Japanese automobile market is largely free from formal barriers now that Japan is internationally competitive, this was not true when

Japan was not internationally competitive. It follows, some would say, that since the American automobile industry is not now internationally competitive, similar protection is in order. There is no question that when the Japanese industry was in its infancy, protection from foreign competition and government aid were of considerable benefit. In not entirely the same way, a more mature American automobile industry benefitted greatly after the Second World War from the construction of the Interstate Highway System and the regulatory hamstringing of potentially competitive modes of transport. In Japan, the government energetically promoted modes of transport which competed against the automobile. Japanese government aid to the automobile industry may well have simply countervailed the aid given to this industry's competitors.

In today's world it should be noted that the chief government aid to the Japanese automobile industry might come not from unduly generous depreciation allowances or special tax-free reserves granted by the Japanese but rather from American government protection of the American steel industry. To the extent that this protection prevents the American automobile industry from securing steel, a major industry import, at the lowest possible cost, the American industry is hurt, and its great rival, the Japanese automobile industry, is aided.

IV. THE COSTS OF AUTOMOBILE COMPETITION

What kinds of costs has Japanese automotive competition, whether fair or unfair, imposed on the American economy?

Conditions in the AMerican automobile industry are difficult but not unprecedentedly so. The recession in 1974-75 was at least as severe as the present situation. In 1974-75, the American government did not fashion special remedies to help the distressed automobile industry but rather relied on general macro-economic instruments to improve conditions in this cycle-prone industry. In the current dreadful sitation we must exhibit a similar capacity to distinguish between what is permanent and what is transitory. Import competition is an important part of the problem facing the American automobile industry but it is probably not the industry's most important problem. As Ford Motor Company's Section 201 Petition to the International Trade Commission notes, between 1976 and 1980 imports of cars and light trucks increased by a projected 1.2 million and production fell by a projected nearly 3 million units. Regardless of what you may have heard about multipliers, imports cannot account for the majority of the industry's current decline.

Even if import competition is not regarded as the primary cause of the present decline of American automobile industry production, the cyclical recovery of the American economy will by itself not fully restore this industry to past levels of production. As this Committee knows very well, the 1980 automobile industry decline is different from the 1974-75 collapse. In 1974-75 imports declined in proportion with domestic American production. By contrast, in 1979 and 1980 their shares increased dramatically. The Iranian Revolution oil price shock resulted in a profound shift in American preferences toward small cars. American industry presently does not have the production

capacity and the technology to meet this demand and thus Japanese imports increase.

This observation might suggest that import competition will remain severe only so long as it takes the American automobile industry to convert to small car production, and that remedies taken now should explicitly recognize the transitory character of the present problem. Many analysts believe, however, that consumer loyalties once lost are not easily recaptured. There is much merit in this observation but its quantitative impact is easily overestimated. If in 1980 twenty-five percent of new automobile registrations are imports, this does not mean that twenty-five percent of the replacement demand in 1981 will be from import-owning consumers. Imports share in the total stock of existing automobile registrations is much lower and in that segment of the stock most pertinent, the share is lower still.

This suggests that if conversion is substantially completed by 1982 or 1983, a twenty-five percent share of the American market will not have been conceded to imports simply through continuing brand loyalty. The real question before us becomes: can this conversion be successfully accomplished and thereafter can the American industry compete with the Japanese in what historically has been their segment of the market?

V. JAPANESE AND AMERICAN ABILITY TO COMPETE

A. Japanese Management

That this question is being asked at all is in some measure extraordinary. Automobile manufacturers are among the very largest American firms. They have long been considered models

of good management with traditions of careful executive recruitment and training. Do the Japanese really have some talent which is lacking in our own systme?

If the availability of small car technology and capacity in 1979 and 1980 is the prime cause of current Japanese success, it is difficult to attribute this success to visionary leadership skillfully exploiting Japan-distinctive consensual decision-making. Japan has historically concentrated on small cars and the United States has concentrated on large cars. Japan has been a windfall beneficiary of the sharp change in consumer preference. Indeed, in 1978, following four years of declining real gasoline prices, Japanese manufacturers were contemplating the introduction, for export markets, of larger rather than smaller vehicles. Examples of the lack of special Japanese vision in the area of energy scarcity and price go back still further. It was only after the Teheran Conference in 1971 at which a newly militant OPEC flexed its muscles that Toyo Kogyo, the maker of Mazda, introduced the supremely energy-inefficient Wankel engine. Remember the Wankel? Toyo Kogyo's experience with the Wankel cost its top management their jobs and the company its independence. Yet another bad managerial decision was the Mitsubishi Motors tie-up with Chrysler, which has already been mentioned. Like their American counterparts, Japanese automobile executives are well-motivated and highly capable, and like their American counterparts, they are quite capable of making major errors.

B. Japanese Labor and Product Quality

Japanese managers have been much less visionaries on the future of energy than on the future of labor. Correctly perceiving that the rapidly increasing cost of labor in the American market would create a situation where the repair of complex products would be extremely costly and inconvenient, Japanese invested considerable resources in insuring product reliability. Contrary to popular impression there is no special linkage between product quality and labor quality. Japanese products are not of high reliability because Japanese workers express filial feelings about the companies for which they work. Japanese automobiles are reliable because this was an explicit element in Japan's product strategy. Japan achieved reliability by spending more resources on this objective at the expense of designing cars which were as safe as typical American models. Regardless of what one may think of the motivation of the American automobile worker, only the decision to spend the necessary money prevents the production of reliable American automobiles. Perhaps this decision has been taken in recent months.

In all fairness, however, it should be understood that improving product reliability is a labor-intensive step. When these strategic decisions on product characteristics were made Japan had abundant labor resources relative to its competitors. Product quality could be improved at less cost in Japan than in the U.S. It will also be remembered that Japan has not always been associated with high quality products. In an earlier era

Japan innovated in the creation of low-cost, shoddy products which could be successfully exported to low maintenance cost foreign markets. Similarly, it may be remembered that in the past Japan has built world class industries with a labor force that exhibited both extremely high turnover and extremely high absentee rates.

C. Japanese Industrial Policy

In the same way that the quality of Japanese management and labor pose no truly special long-term barrier to successful American competition, this Committee should also be wary of the suggestions that the very pattern of organization of, and practices in, the Japanese economy pose special long-term problems for American competitive strength which require either emulation or other unique responses. Despite the great success of Japanese industry, the role of Japanese industrial policy in this success remains controversial. Much of the help given the Japanese automobile industry may simply have compensated for aid industrial policy was giving its potential domestic competitors. In common with the private sector, Japan's Ministry of International Trade and Industry has no special contraceptive against serious error. In the mid-1950's MITI, noting the success of Volkswagen, encouraged the Japanese automobile industry to develop following a similar strategy. The industry demurred and found success following Alfred Sloan's and not Adolph Hitler's marketing strategies. Again in the late 1960's, MITI, noting the great strength of Nissan's and Toyota's marketing domestic distribution, discouraged Honda from getting into the automobile business.

While MITI's assessment that a latecomer would have great difficulty breaking into the domestic market was correct, a point which should not be lost on those expecting large future automobile imports for Japan, it did not foresee that Honda could successfully develop with a primary emphasis on overseas markets.

These are only two examples which might be chosen. A Japanese-style government-business industrial policy will not insure an industry against the kind of strategic error which has presently laid the automobile industry low. Government-business cooperation in sectoral planning was probably most important not so much in channeling resources from one industry to another as in developing a common outlook and in rapidly and successfully diffusing information among all major actors in an industry. This institution has been particularly necessary because of other special features of the Japanese economy. Whatever positive benefits the Japanese practice of permanent employment might have it does create walls through which potentially useful information will not flow. Sectoral planning breaks down this process. It is not clear that this particular information is one the American economy faces.

D. Japanese Industrial Groups

Similarly this Committee and other committees of the House have heard much about Japan's heavily leveraged bank-dominated, trading company-dominated industrial groups and the special competitive problems they may pose for American industry. Again, these institutions should not be viewed apart from the special Japanese considerations which created them. Until very recently

Japan, unlike the United States, has not required most of its major corporations to prepare for their stockholders' income and expenditure statements which consolidate subsidiaries' profits with parent company profits. Nor has it required that parent companies and subsidiaries, when filling out consolidated statements, at least use a common settlement date. These accounting practices give Japanese corporations unparalleled opportunities to shift profits between legal entities for tax and market valuation purposes. Indeed, it is possible that much of Japan's distinctive industrial organization is an artifact of these equally distinctive accounting practices. Given these practices, the interests of financial flexibility in Japan are best served by retaining independent legal status for wholly owned components manufacturers and the like. Moreover, given the incentive not to consolidate separate divisions, the incentives to buy out minority interests may also be lacking. There is no reason to believe, however, that the corporate and industrial structure which has emerged from these accounting practices, in and of itself, gives Japan some special competitive advantage. Many agencies within the Japanese government are committed to ending these abuses and there is no reason to believe that American business or the public wishes to turn back these reforms made in the public accounting and securities industries during the past fifty years.

E. Japanese Debt Financing

While Toyota is no more heavily leaveraged than G.M., in general, Japanese manufacturers do rely far, far more heavily on

bank borrowing than do their American counterparts. This is a very real difference between the two economies and one which does have important consequences. Japanese business takes high risks and contrary to what you may have heard they do bear the consequences of this risk-taking behaviour. Debt-equity ratios which are four or five times the American level result in bankcruptcy rates which are also four to five times the American level. Large Japanese firms do go bankrupt. In recent years Japan has had two close to $1 billion in liabilities bankruptcies.

VI. WHAT KIND OF HELP

I would be most wary of the suggestion that there is any special magic in the distinctive institutions and management of the Japanese which pose a long-term competitive problem for the American economy. In framing solutions to the present difficulty. I think it is important that it be treated as the serious short-term conversion crisis that it most certainly appears to be. Drastic long-term changes in the structure and functioning of the American economy are not necessary. For example, the proposed Toyota-Ford joint-venture for producing small cars in this country which was announced while President Carter was in Japan last July will not bring early relief to the American automobile worker but runs the risk of seriously damaging the long-term interests of the American consumers and workers. In fashioning remedies to present difficulties considerable sensitivity must be shown to the special characteristics of the American automobile industry, which make many of the commonly proposed

remedies highly cost-inefficient. General Motors is better than half the American industry and it is difficult to argue that General Motors needs protection from Japanese competition. G.M. produces three times as many vehicles as, say, Toyota, and spends better than three times what Toyota spends on research and development. Solutions such as quotas and other special industry-wide help end up helping those members of the automobile industry which cannot credibly justify special aid more than those members of the industry which do need such help.

While the Japanese and their representatives would have us solve our problems by emulating them and while Japan's competitors would have us so fear the Japanese that protection is necessary, I urge this Committee and others in the House to take the middle road and see its way through the smokescreen of supposedly superior but mysterious foreign practices to deal with the present, serious economic and social problems which confront our nation.

GOVERNMENT INCENTIVES FOR CAPITAL INVESTMENT IN THE JAPANESE AUTOMOBILE INDUSTRY

Historically, loans at low interest rates from public financial institutions, government subsidies, special depreciation provisions, exemption of import duties on necessary machinery and equipment and protection in the home market have all been important if not critical to the development of the Japanese automobile industry. In recent years, however almost all special Japanese government programs designed specifically to encourage investment in the automobile industry have ceased. There do remain programs, however, which encourage investment in broader classes of Japanese industries. Some of these programs, including the tax-free reserves and depreciation allowances, are different from or more generous than American programs and despite their general purpose do really benefit the Japanese automobile industry.

Special tax-free reserves are a potentially important source of financing for new investment by automobile companies. These reserves reduce reported corporate income before taxes, reduce the effective tax rate and increase internal funds available for use at the firm's discretion. For some of the automobile companies, these reserves will reach as high as ten percent of total liabilities. In some years these reserves will account for a substantially higher percentage of the financing for new investment. Table 7.1 describes the major types of tax exempt reserves.

Though this was not always true, presently the special depreciation provisions of the Japanese tax code are probably more important than special tax-free reserves as an encouragement to investment in the Japanese automobile industry. In no major industry in Japan are depreciation reserves as large a proportion of total assets as they are in the automobile industry. In 1977, depreciation reserves were 25 percent of total assets plus depreciation. In Japanese manufacturing as a whole the comparable figure was no more than 15 percent. Cross-nationally the Japanese depreciation rate is two and one half times the present American and English rates and perhaps 15 percent higher than the German rate.

Under the provisions of various pieces of legislation passed by the Diet during the past fifteen years, including Tokutei kikai jōhō sangyō shinkō rinji sodu ho (The Particular Machinery and Information Industry Special Measure Law) and Tokutei denshi kōgyō oyobi tokutei kikai kōgyō shinko rinji sochi hō (The Particular Electronics Industry and Particular Machinery Industry Special Measure Law), the Japanese automobile industry, in common with certain other industry, has had access to tax provisions which allow special bonus first year depreciation write-off, larger than 100 percent total write-offs and special shortening of useful lives for certain specific kinds of investments or practices.

As was noted in Section 5 of this report, a significant share of Japanese automobile industry investment over the last five years has been in pollution abatement control equipment or in the facilities for making such equipment. On such investment, in addition to the special tax reserves just described and in addition to normal depreciation, the Japanese automobile industry is allowed a special 33-1/3 percent first year depreciation write-off. In addition, to the extent that the Japanese automobile industry locates its facilities in specially designated structurally depressed regions (often where ship-building had been concentrated) the industry is allowed a special first year depreciation write-off of 25 percent of the cost of machinery and equipment and a write-off of 16-2/3 percent of the cost of new structures. Finally, the auto parts section of the Japanese automobile industry greatly benefits from provisions which allow a special 16-2/3 percent special first year depreciation write-off on many kinds of machinery and equipment investment made by suppliers designated as small and medium scale enterprises. These same provisions also allow a 50 percent bonus depreciation over the useful life of equipment purchased by small and medium scale enterprises.

As with tax-free reserves, there was a time when access to loans at preferential rates from the Japan Development Bank and the Small Business Finance Corporation were extremely important in the development of the Japanese automobile industry. Since the late 1950's, however, such loans have had at best a minor role in the industry's development. Indeed, over the last thirteen years no more than 1-2 percent of all automobile industry investment has been financed by loans from government sources. In recent years loans from government financial institutions to the automobile industry for investment purposes have been concentrated in the area of pollution control and safety related equipment.

TABLE 7.1

MAJOR TYPES OF TAX-EXEMPT RESERVES

TYPE OF RESERVE	PROVISIONS
Allowance for Doubtful Receivables	Permits setting aside of fixed percentage of total receivables. Automobile companies are allowed 1.5% of total receivables. Net growth in receivables permits net growth in reserves.
Allowance for Retirement Payments	Permits setting aside 50% of the increase in retirements payments a company would have to make under the assumption that all employees retired at the end of the present financial reporting period.
Reserve for Price Fluctuations	Permits setting aside 2% of the book value of automobile inventories as a reserve for price fluctuations. Reserve can be added to only if inventory grows.
Reserve for Overseas Market Development	Permits setting aside 2.3% of revenues from overseas operations if company's capitalization is less than ¥ 100 million. If capitalization is greater than ¥ 100 million but less than ¥ 1 billion, 1.15% of revenues from overseas operations can be set aside. Where a company has a capitalization of greater than ¥ 1 billion, no such provision can be made. One fifth of the reserve must be added back to taxable income in five subsequent periods.
Reserve for Pollution Abatement Investment	Permits setting aside 0.15% of automobile revenues sales as a reserve for pollution abatement investment. Must be added to taxable profits after a period of three years.
Reserves for Product Warranties and Repairs	Permits setting aside a variable percentage of revenues as a reserve for product warranties and mandated repairs.

Source: Nihon kokuzei cho (Japan National Tax Agency)
kokuzei seido (National Tax System)

GOVERNMENT AUTOMOTIVE RESEARCH AND DEVELOPMENT AND GOVERNMENT INCENTIVES AND SUBSIDIES FOR PRIVATE AUTOMOTIVE RESEARCH AND DEVELOPMENT

By contrast with virtually all the world's major industrialized nations, the Japanese government plays a comparatively small role in the direct financing of research and development. Whereas in the United States and Europe, almost half of all research and development expenditure is financed by the government, in Japan this figure is closer to one-quarter. Similarly, in France and England one-quarter of all research and development is conducted by the government; in the U.S.A. it is over 15 percent; but as can be seen in Table 8.1, in Japan only 13 percent of all research and development is conducted by the government.

RESEARCH CONDUCTED BY THE JAPANESE GOVERNMENT

What is true for Japanese research and development in general is also true specifically for Japanese automotive research and development. Relatively little research and development work is done in Japanese government facilities. Table 8.2 contains a listing of automobile-related research and development projects being conducted in Japan's National Research Institutes during the past fiscal year. As can be seen in Table 8.3, there are as many as sixty specialized national research institutes attached to various Japanese government ministries and agencies. Of these sixty, only three do even modest amounts of automotive-related research and development. These three include the Mechanical Engineering Laboratory and the National Research Institute for Pollution and resources of the Agency of Industrial Science and Technology (Kōgyō gijutsu-in) of MITI and the Traffic Safety and Nuisance Research Institute at the Ministry of Transportation. Even at these institutes only a relatively small amount of their total activity is devoted to automotive-related research and development. For example, only 2 percent or 3 percent of the expenditures at the Mechanical Engineering Laboratory (or perhaps 9 or 10 researchers) are devoted to automotive-related research and development. Again at the National Research Institute for Pollution and Resources, no more than 1 percent of expenditures (or perhaps four researchers) are engaged in automotive research and development. The largest concentration of government conducted automotive-related research and development takes place at the Traffic Safety and Nuisance Research Institute. At least one-third of all research conducted at this institute is directly automotive related. Twenty researchers are engaged in automotive-related research and development.

In addition to the projects listed in Table 8.2, major automotive-related research and development is promoted by the Japanese government's Large Scale Project - National Research and Development Program (NRDP). NRDP - Large Scale Projects are organized and administered by MITI's Agency of Industrial Science and Technology. Unlike the projects listed in Table 8.2, NRDP projects are broadly conceived, involve a great deal of expense and risk, utilize technology and engineering resources from a great many fields and require the delicate coordination of the work of a number of

government sector laboratories with the work of private contractors.

Since the NRDP - Large Scale Projects first began in 1966, there have been among the sixteen projects funded two which relate to the automobile industry. The first, the Electric Car Project, began in April, 1971 and involved the expenditure of ¥ 5.7 billion over a seven year period. The project which involved work on experimental vehicles, batteries, electric motors and control devices, body materials, utilization systems and charging method was completed with satisfactory results in March, 1978. Table 8.4 shows how public and private interests were organized in pursuit of project objectives. Of the ¥ 5.7 billion spent, ¥ 4.9 billion was contracted out to private companies. In addition, private companies spent an equivalent amount of their own resources.

Following the conclusion of this project, work on the Electric Car continues in Japan under the auspices of an Electric Car Research Association. The Electric Car Research Association is composed of the contractors in the now-ended NRDP Electric Car Project and other major interests in the Japanese automobile industry. Except for office space, the Research Association does not presently have joint facilities. The Research Association is, however, the legal entity through which the government will make further grants for development of the electric car in Japan. Furthermore, all Research Association members are allowed to take a 100 percent first year deduction on all fixed assets used in connection with Research Association activities.

The Comprehensive Automobile Control Technology Project, the second automobile related NDRP large scale project began in April, 1973, involved the expenditure of ¥ 7 billion and is ending this year. The objectives of this project are to ease traffic congestion, reduce traffic accidents and air pollution and increase the social and public utility of cars by developing an integrated traffic control system which can re-route vehicles around highly polluted areas, give right-of-way priority to public service vehicles and provide advance indications or warnings concerning traffic regulations and information regarding emergencies. Specific tasks in the project include: 1) detailed design of the pilot system and sub-system and the prototype of the processing program; 2) basic design of the computer network and coordination; 3) development of the prototype of small, specialized simulators; 4) study and analysis of traffic flow in the pilot area; 5) fundamental research and evaluation of the social and financial aspects of the system; 6) pilot construction of devices for general evaluation of roadside and vehicle devices for route guidance and driving information and 7) pilot construction of emergency communication devices and fenite coil antennas. This project has some similarity with the Electric Route Guidance System sponsored by the U.S. Department of Transportation. The Comprehensive Automobile Traffic Control System Research Association will sponsor new research after this project ends.

.2 RESEARCH SPONSORED BUT NOT CONDUCTED BY THE JAPANESE GOVERNMENT

The aggregate figures on government sponsored research and development conducted by private firms in the automobile industry for the past 11 years are available in Table 8.5. As was pointed out earlier, the government's role in directly sponsoring this research and development is really very small. In Japanese fiscal year 1977, no more than 1.5 percent of all automotive research and development was funded by the government.

Apart from the NRDP Program, what money is made available for the sponsoring of specific automobile related projects comes from grant in aids and other programs for research and development sponsored by the Ministry of International Trade and Industry, the Ministry of Transportation, the Environmental Protection Agency, the Science and Technology Agency, Japan Development Bank and the Small Business Finance Corporation.

(1) Ministry of International Trade and Industry. Between 1950 and 1978, the Technology Promotion Division of the Agency of Industrial Science and Technology has provided more the ¥ 40 billion in subsidies to encourage development and use of new industrial technologies to meet social and industrial needs. Typically 50-50 matching grants are given to firms that propose the development of "core and important large-scale technologies" which would not otherwise be undertaken by the private sector. In recent years, support has been given for the development of technologies in areas such as opto-electronics, high precision instrumentation, alternative materials for wood and carbon utilization, housing systems and technologies for the conservation of resources and energy and pollution control. Support in 1978 came to ¥ 3.2 billion covering 87 individual projects. None of these projects could be considered directly automotive related.

(2) Ministry of Transportation. For the past twenty-five years, the Ministry of Transportation has had a Research Subsidies for Practical Technology program. In fiscal year 1978, this program made ¥ 176 million in awards. Table 8.5 gives a list of automotive research and development awards made under this program.

(3) Japan Development Bank (Nihon kaihatsu ginkō). In 1978, the Japan Development Bank made loans of over $4 billion to assist industrial and social transformation. Approximately 10 percent of this $4 billion went for the promotion of research and development. About half of this latter amount went for aiding the development of computers and the remainder helped the rest of the electronics industry, the distribution industry, high technology enterprises and heavy machinery. Until 1976, the development of automobile safety and anti-pollution equipment had also been a priority of the Japan Development Bank. In the early 1970's, ¥ 200 million annually had been given to the auto parts manufacturers for research and development in this area.

(4) Science and Technology Agency. The New Technology Development Agency of the Science and Technology Agency gives financial assistance to private companies to allow them to commercialize techniques developed by government research institutes and universities. In case commercialization efforts by private companies are not successful, the private companies do not have to repay the financial assistance they received from the New Technology Development Corporation. The Corporation introduces new techniques developed by government research institutes and universities to private companies and encourages private companies to undertake marketable commodities based on these techniques. In 1978 the Corporation gave 12 companies $14 million in financial assistance. The Corporation helped secure loans for another 13 companies. As yet there have been no projects under this program in the automotive area.

(5) Small Business Finance Corporation. Due to relatively inadequate capitalization, smaller firms in Japan are heavily dependent on outside sources of financing. Given the uneven character of the Japanese capital market, these firms must turn to banks for loans. Smaller enterprises, however, are at a considerable disadvantage when dealing with commercial banks. Their small size and relatively poor credit rating makes them relatively unattractive customers for commercial banks. The administrative costs of such loans are relatively large and in consequence, commercial banks charge such enterprises relatively high rates of interest, demand substantial collateral and make only relatively short-term loans. The Small Business Finance Corporation is designed to cope with the special problems faced by small and medium size enterprises. The Small Business Finance Corporation is affiliated with the Small and Medium Size Enterprise Agency which is in turn a part of the Ministry of International Trade and Industry. While SBFC made almost $3 billion in new loans in fiscal 1978, only $25 million was explicitly for the commercialization of new technologies. As a matter of policy, SBFC follows the industrial and social priorities set by the JDB. Prior to 1976 it aided many of the smaller auto parts companies developing new safety and pollution control technologies.

.3 TAX INCENTIVES FOR RESEARCH AND DEVELOPMENT EXPENDITURES

The Japanese fiscal system has a number of provisions designed to encourage research and development expenditures. If research and development expenditures exceed the largest amount of the expenditures of any preceding accounting period since 1966, 20 percent of the excess may be taken as a credit against the corporate income tax. Any individual firm may deduct as much as ten percent of its corporate tax liability. In addition, firms which are members of research associations (which have been discussed above) can take an immediate 100 percent depreciation deduction which extends to all fixed assets used in connection with research association activities.

CAPTIVE IMPORTS

Mr. BINGHAM. Thank you very much. Thank you all.

I must say this has been a fascinating series of presentations. I am struck by the fact that there has been so little duplication in what you have had to say. In fact, I would say there is pretty substantial disagreement among you in certain respects.

I would like to perhaps start with a couple of questions.

Mr. Saxonhouse, you speak with apparently very great knowledge of the Japanese automobile industry. Have you spent time in Japan researching their methods?

Mr. SAXONHOUSE. I conducted a study for the U.S. Department of Transportation, a study which took about a year to complete and part of this study involved being in Japan for a number of weeks.

As I said before, I have lived in Japan previously. I have observed the automobile industry at those times, and I have in the past, done other studies, so I would say I speak with considerable knowledge.

Mr. BINGHAM. Your presentation is one of the most reassuring on this whole subject that I have heard, and I wish we could have had some kind of cross-discussion between someone like yourself and the spokesmen for the American manufacturers who spoke earlier in this series of hearings.

It is particularly comforting to have you describe some of the real bloopers the Japanese fell prey to. We don't hear much about that these days. We are seemingly persuaded at the moment that they are, in spite of their short stature, 10 feet tall. We are desperately afraid of them and you are being much more reassuring that in the long run we will be able to cope with the problem.

I have a specific question about your statement on page 6 where you say:

> It is fair to say more Japanese vehicles have been kept out of the United States through American Government-imposed fuel economy fleet average standards which discriminate against captive imports than have been kept out of Japan by Japanese imposed barriers.

Perhaps I just don't understand what you mean by captive imports, but I am startled by the entire statement. What do you mean by "captive imports"?

Mr. SAXONHOUSE. Well, I mean an import which cannot be brought into this country without the permission of an American automobile manufacturer. Mitsubishi Motors has a long-term agreement with the Chrysler Corp. Indeed, I believe it is an agreement without term, that the Chrysler Corp. will decide the level of imports and the marketing strategies being pursued for Mitsubishi automobile products, in the United States

Mr. BINGHAM. That would be perhaps the Dodge Colt?

Mr. SAXONHOUSE. Yes, and in Japan it is known as the Mitsubishi Colt. Given that you have that agreement and given, as of 1980, the American Government does not allow imports to be used in determining fleet average fuel economy, an American corporation such as Chrysler has a clear incentive to replace a foreign import with a domestically produced small car.

Indeed, that was the reason why that standard was imposed. That is the reason why it is not possible to count captive imports in the fleet average.

The Congress, in its wisdom, felt that if General Motors, Chrysler and Ford could simply meet fleet average standards by bringing in imports, they might prefer to do that rather than producing small cars in this country.

The reason why this particular standard is interesting is that it hit Chrysler especially hard. You may recall that Chrysler, unlike Ford and General Motors, decided to fill out its product line, the subcompact end of its product line, by relying exclusively on foreign imports.

In the early 1970's, there was a decision that there would be no Chrysler equivalent of the Chevette. In the middle of the decade when these fuel economy standards began to have an impact on corporate planning, the Omni and the Horizon and other subcompacts were developed and Chrysler foresaw that those products would be directly competitive with the Dodge Colt and therefore, sought to limit through its own internal decisionmaking the imports of that product.

Thus developed the unhappy partnership that you now have between Mitsubishi Motors and the Chrysler Corp.

Mr. BINGHAM. Have there been complaints by Mitsubishi or by the Japanese Government that these practices were scrapping Japanese exports to the United States?

Mr. SAXONHOUSE. Given that the other Japanese corporations, automobile companies were taking such excellent advantage of the opportunities in the American market, perhaps the Japanese Government felt that it was politic not to raise this particular issue.

At the same time, Mitsubishi has been extremely unhappy and has continually remonstrated with the Chrysler Corp. There have been continuous attempts by Mitsubishi to get this agreement revised. No doubt in the future there will be some independent marketing of Mitsubishi Motors products in this country. We don't hear about this company too much in this country, but it is a large factor in the Japanese automobile scene.

It is a big company, bigger than Honda, which, of course, we do hear a great deal about in this country.

I think under other circumstances, in the absence of this tieup with Chrysler, there is no question but that they would have exported far many more cars to this market than they are presently doing.

EFFECT OF STEEL PROTECTIONISM

Mr. BINGHAM. I would like to ask you about your comment on page 7 concerning the degree to which protection of the steel industry has been an adverse fact to the American autombile industry.

Can you give us some average steel price figures? Are they in fact very different to the Japanese manufacturers and to the American automobile manufacturers?

Mr. SAXONHOUSE. This is a difficult problem. I do not have access to internal Japanese company documents. I do not have access to the actual transactions that are taking place between American manufacturers and their suppliers. Nonetheless consider that European manufacturers are prepared to sell at prices below the trigger price that we had established in 1977 and indeed are just now reestablishing today. To the extent that Japanese and European manufacturers are prepared to sell to our automobile companies at prices below what these companies are presently paying for steel and, presumably, this must be the case or the American steel industry would not be asking for this kind of production, there is a raising of costs for the American automobile industry.

I would be happy to include in your committee's report or as a supplement to my prepared statement a more detailed analysis of this problem with quantitative evidence where possible.

Mr. BINGHAM. I think that would be very interesting if you could supply that.

[The following was subsequently submitted:]

According to data recently supplied by General Motors, 2,800 lbs. of steel are purchased for each passenger car produced. Industry sources suggest that $450 a ton is a reasonable estimate of what the automotive companies presently pay for steel. If this is correct there is an average of $630 of steel in each American passenger car and at least 10 percent of the total cost of a passenger car are steel costs. During the first two years of the operation of the trigger price mechanism (TPM), the price index for American steel mill products went up by 21 percent and prices of imported carbon steel went up by 39 percent. While it is clear that not all these price increases can be attributed to TPM the price index for steel mill products in Japan went up by no more than 8½ percent during the same two year period. In reviewing similar evidence, the Office of Technology Assessments study, Technology and Steel Industry Competitiveness, does conclude that the 1977–79 version of TPM has led to price increases. The re-institution of the TPM this month with a 12 percent increase

in the trigger will lead to similar price increases in the future. From both a theoretical and an empirical standpoint TPM has meant higher prices for U.S. automobile manufacturers without, in itself, necessitating higher prices for Japanese manufacturers. If TPM has meant $100 extra in steel costs for American manufacturers, and if exporters have benefitted in their margins by an equal amount, then TPM has been of greater differential help to the Japanese automobile industry than any of the tax-free reserves, depreciation provisions or Japanese government subsidies mentioned in the appendix to my prepared statement.

DANGERS OF CAPITAL DRAIN

Mr. BINGHAM. Let me turn to the more general topics addressed by Dr. Etzioni.

You spoke of other dangers of capital drain affecting our economy.

Did I correctly infer from this statement that you were critical of the degree to which we provided assistance to developing countries in the Third World?

Mr. ETZIONI. No, sir; that would not be the main way it works. The main way it would work is that we buy growing amounts of oil at rapidly rising prices without systematic attempts to moderate price increases.

The No. 1 way it works is to effect the real exchange rate, as distinct from the currency exchange rate. The American worker has to work x number of days to buy a barrel of oil, and the oil exporters—to buy a bushel of wheat from us. Over the last years we have to work even longer for the same item. The net result is that a growing part of our GNP is transferred overseas.

A SHORT-TERM PROBLEM

Mr. BINGHAM. Mr. Cohen, would you agree with Mr. Saxonhouse that Japanese workers are not necessarily any better or more reliable, that there is a high turnover in the industry?

Mr. SAXONHOUSE. It is not in the automobile industry; it is in the textile industry to which I was referring.

Mr. BINGHAM. OK; well, you did refer to it as something that happened in the past, and perhaps I misunderstood, but let me ask it more generally then.

Do you agree with Mr. Saxonhouse's analysis that this is essentially a short-term problem because the Japanese do not really have a basic capacity to surpass our own and that we should not react in such a way that we are adopting what might be in the long run disadvantageous measures to cope with the short-term problem?

Mr. COHEN. I guess I would have to answer that yes and no. I do believe that there is a long-term problem. I don't think the Japanese have any special characteristics that in general we are not capable of replicating. The quality of Japanese products is in part, I think related to the quality of Japanese work. It is not 100 percent a function of the Japanese labor force.

In this country, American productivity has grown well above average and quality control has grown well above average in many of the Japanese companies that have opened plants here. I have read that the quality control at Sony's plant in California is now exceeding the quality control—in terms of defect-free production—for televisions produced in that company's Japanese plants.

When Motorola's Quasar Division was taken over by a Japanese company, I believe it is Panasonic, Japanese management techniques were introduced: Worker cooperation, having the worker give more input into the system, and having the worker feel that he was part of the system rather than just simply a hired hand to assemble parts. Soon after, productivity and efficiency in quality control increased.

To the extent that we do continue our labor policies and other economic policies that are causing this country to be economically outdistanced, I think there is a long-term problem. There is no long-term problem if we can learn, but there is if we do fail to learn.

Mr. BINGHAM. Unfortunately, we have a vote, and I am not sure whether it will be followed by other votes.

UNITED STATES-JAPANESE COMPARISONS

Mr. LAGOMARSINO. I just have a few questions.

Is there such a thing as a Chrysler bailout in the Japanese system, or has there been?

Mr. SAXONHOUSE. In the case of the autombile industry, Toyo Kogyo, which I alluded to earlier, got into tremendous difficulties because of particular emphasis on the Wankel at perhaps just the wrong time. At that time there was a concerted effort by a number of major banks, together with some Government guidance to ensure that this company did not go under.

I am not aware as to whether any specific Government guarantees were provided. I do not believe they were.

There have been other cases, however, in Japanese corporate history where there have been Chrysler-style bailouts earlier.

In 1961, a large Japanese brokerage house faced bankruptcy with a very large negative net worth, and the Government did see to it that it was bailed out. At the same time many Japanese companies are allowed to go bankrupt in the same way that many American companies are allowed to go bankrupt.

The Japanese have had no bankruptcy on the scale of Penn Central, but they have had two bankruptcies that were close to $1 billion in liabilities. These companies have gone under.

Mr. COHEN. The Japanese Government does in certain cases see to it that companies don't go bankrupt. They are not pristine pure in that regard. They just do it differently. The Ministry of Finance exercises administrative guidance to assure that the commercial banking system provides loans to certain companies.

Mr. LAGOMARSINO. I get the impression that there is better cooperation between the Government of Japan and the banking industry and the industrial concerns, than there certainly is here?

Mr. COHEN. For virtually every country, you could make that same statement.

Mr. LAGOMARSINO. What about such things as depreciation? Do they have realistic depreciation schedules unlike the ones we have?

Mr. COHEN. I don't know.

To some extent our depreciation schedules are unrealistic.

Mr. LAGOMARSINO. I read some of your specific suggestions and many if not all of them are something we should have been doing a long time ago.

Mr. BINGHAM. If you gentlemen can stay, I would like to come back and pursue the discussion with you. If you have to go, I can understand that.

[A short recess was taken.]

TRADE COMPETITIVENESS IN MANUFACTURED GOODS

Mr. BINGHAM. The subcommittee will resume.

Professor Cohen, you were talking about our trade other than the purchase of oil, as being in the surplus by $50 billion.

What would happen to that figure if you took simply manufactured products? I am thinking of the fact that a very substantial part of that figure is represented by agricultural exports.

Mr. COHEN. For calendar 1980, between $20 and $25 billion of that figure would be in agricultural goods. Then there would be other materials such as cotton and chemicals. No one ever knows whether to classify chemicals as raw materials or manufactured goods, so depending upon one's terminology, this figure would shrink considerably as one got to purely manufactured goods.

If you look at certain time periods, such as early 1978, we had a deficit in manufactured goods.

Mr. BINGHAM. How would you characterize the relationship in terms of competitiveness, looking simply at the manufactured goods?

Mr. COHEN. Today I don't think there is any major problem. This is an area where, if you pick and choose your statistics and time periods, you can prove almost anything. If you look at it in volume terms, price terms, if you look at our market shares adjusted for exchange rate changes in other countries, a variety of possibilities appear, so in the short term, to me there is no clear evidence that we face a competitive problem.

In my own opinion, however, in the medium to long term, I think there is plenty to worry about. Other countries are moving more heavily into research and development, and they are promoting closer and closer cooperation between Government and business.

Other countries more and more are making exports an unequivocal Government priority. These countries simply are not bothered with human rights considerations, corrupt practices considerations, antitrust, boycott considerations, and I think over the long term we as a country face increasing competition on the manufacturing side, not only from Japan but certainly from the so-called newly industrialized countries that mate a skilled cheap labor force with imported foreign technology. To me the time to worry about is the mid-1980's, and the time to act is the present.

We ought to get our act in order now for preparing for increased competition in the future, when indeed we may find the data clearly are pointing to reduced U.S. international competitiveness. In high technology goods, we are not doing as well as we once did. If you look at advanced technology, the Japanese are giving us a run for our money in the advanced computer and integrated circuit technologies.

The rest of the world will catch up and in some cases will surpass us in high technology goods if we don't constantly increase our productivity.

Mr. BINGHAM. Well, I was most interested in your statement that they tend to protect tomorrow's industries, while we look at yesterday's. That is a very striking statement, and I believe from what I know that it is probably correct.

PROSPECTS FOR THE FUTURE

Mr. Hout, you also really present a fairly optimistic picture in that you point to a number of varied companies that have been successful in the international markets.

How do you feel, generally speaking? Do you think that we are in trouble as we look ahead, or do you feel that the problem that we are having currently with the Japanese imports is a passing phenomenon brought about to a considerable degree by their luck at having focused on small cars at a crucial time?

Mr. HOUT. It is neither a passing phenomenon nor a long-term structural problem. My vantage point is that of the industry and the firm, and the one thing that strikes me is the tremendous difference by industry and by firm, the economics of competition varies so much depending upon the nature of the industry and the quality of the company so that in a number of products, such as long haul aircraft or chemicals, the Japanese are indeed well behind.

It would be very expensive, unless the Americans make significant mistakes, for them to challenge the profitability and market shares of the Americans.

On the other hand, you have some like motorcycles and small autos and consumer electronics which have been badly gored.

The differences between now and the sixties or up to the mid-seventies is when companies like Zenith and U.S. Steel and Harley Davidson, the motorcycle maker, when they really felt the brunt of the Japanese, this happened during a time when Japanese markets were basically closed and when Americans were kind of caught by surprise.

It is quite different now. The superior American companies who are winning the battles, people like IBM and Boeing, Du Pont, Hewlett-Packard, most of those markets are now open in Japan and they are very alert, and most of them have strong positions in those markets themselves, so it is quite different.

On the other hand, one must not get complacent. My organization works with one of the major Japanese auto producers, and I can say this much, that they are significantly advanced in their conceptualization and operation of the design and production economics of small cars.

Ford and General Motors have acknowledged this. American auto executives, if they are honest—and I think they are increasingly honest about this—will say that not only do the Japanese don't dump cars in this market, they in fact make a very large profit margin and have for some time, and it is not necessarily because of the price of steel or labor.

If they paid the same price for those products, they would still have a major advantage. The Japanese have simply thought through the economics of those, of designing and making a vehicle, so that there are some industries where the Japanese, and that is in small cars only, not large cars, there are some industries where

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the Japanese have shown such tremendous excellence that you can only view the future with optimism if you assume that the Americans will respond to the challenge, and they certainly have all the resources to do it.

In a number of companies and industries they certainly have. It is a difficult problem for Government to get hold of because the competitive situation is different from sector to sector, and I sympathize with you all trying to make sense of this thing.

It is very, very difficult.

Mr. COHEN. One basic point: We have been talking about the Japanese and small cars as if the Japanese had a monopoly on small cars. The United States and perhaps Canada are unique in that we produced big cars all along. The Europeans have been in the small car business from the beginning just as the Japanese because we are unique in having had such cheap gasoline and an auto industry appreciative of the high profit margin of larger cars.

It is Detroit that has been unique in making big cars, not the Japanese being unique in making small cars.

Mr. HOUT. That is a good thought.

U.S. EXPORT TRADING COMPANIES

Mr. BINGHAM. You referred at one point to the export trading company legislation which we were hoping to advance in this Congress, and I hope we still can, although we have run into some real obstacles, primarily because of the concerns of other committees. Would you feel that the kind of export trading company that is contemplated in that legislation would help very much in terms of entry into the Japanese market?

Mr. COHEN. For the Japanese market, I could only guess that it would be limited. My feeling is that only small- and medium size American companies would take advantage. If a trading company or a group of trading companies emphasized the Japanese market in terms of hiring personnel that could speak Japanese and understood all the intricacies of the distribution system, I would be confident that the export of certain goods would increase from the United States to Japan.

In terms of reducing our $9 billion bilateral deficit, it is obviously not a panacea, but it certainly would be an improvement to doing nothing at all.

Mr. BINGHAM. Do either Mr. Hout or Mr. Saxonhouse want to comment on that question?

Mr. SAXONHOUSE. I have a few thoughts on this subject.

I think a trading company such as being thought of in this legislation might well be advantageous to some American companies.

I question, however, whether it would make much difference for marketing within the Japanese economy. The Japanese trading companies do deal with American manufacturers, and when they are looking for products which might have a market in Japan they are quite well set up here and can find American manufacturers who meet Japanese needs.

I do not feel that the problem with cracking the distribution system in Japan, with cracking the Japanese market, is simply that we have an economies of scale problem and we need a trading organization large enough to be able to employ a stable of Japanese language speakers and people with detailed market information.

Let me just point out two examples which perhaps underline this point.

You may recall in my testimony I spoke of the situation of Honda Motor Co. There was a situation where a Japanese company operating in Japan could not break the distribution system that Toyota and Nissan had set up. It was very difficult to compete with them in their own territory.

If Honda has difficulty competing with those companies, I do not think a trading company from the outside will have much luck either. Let me say also that while I applaud gaining facility with the Japanese language, and I am a Japanese language speaker, I do think that we should recall the experience of Korea.

Korea, as you know, was a Japanese colony. Most Koreans over 40 speak Japanese. I think you will find that the Koreans make the same complaints about appropriate market access in Japan, make the same kinds of complaints that American companies make.

If you talk to the Korean Chamber of Commerce in Japan or in Toyko you will find very similar complaints being made as is being made by the American Chamber of Commerce in Japan.

I don't think language facility or even unfamiliarity with the culture is really the critical problem.

COMPARATIVE LABOR COSTS

Mr. BINGHAM. Finally, let me ask all of you a question that really surprisingly little has been said on in these hearings, and that is the question of comparative labor costs.

How do you assess that as a factor in our general problem of Japanese imports in the United States and how we cope with our trade with Japan?

Mr. HOUT. Comparative labor costs are very important when you are comparing countries which are at different stages of their economic development.

One of the hopes, and I think it is a dashed hope, that the orthodox view which I referred to in my testimony, that converging wage rates between Japan, Europe, and the United States and converging access to technology and flexible exchange rates, that all of these things working together would tend to make the advantage of wage and technology disappear; they have to a large degree, although the Japanese wages on average in most industries are significantly lower than ours, but in some not very much different.

If you take auto and steel as a couple of prominent examples where the U.S. wage levels are out of balance in relation to the rest, that is those unions or whatever have gained tremendous wage premiums here, if you neutralize those wage differences, if you put American labor at the same price as the Japanese labor, you will still have a significant cost advantage on the Japanese side.

And the reason is because the Japanese have designed the production economics in those businesses to the point where they are more efficient in making something at the end of the day with the same number of input hours of labor, so for the most part the labor issue with respect to Japan, while it is still a source of advantage in some Japanese industries, as a significant competitive or policy variable for you to worry about, is pretty much neutralized, I think.

Mr. COHEN. I tend to agree, that you really have to disaggregate this question by industry. The Japanese are way ahead of us in using the so-called robots to assemble automobiles. In certain industries, the Japanese technology is ahead of ours, but in other industries the labor cost factor would be more relevant.

I agree with my colleague that generalization for all industries might be dangerous. I guess the only generalization I would make is that cheap labor is not the secret of Japanese exporting success.

Mr. BINGHAM. Yes, Mr. Saxonhouse?

Mr. SAXONHOUSE. I agree that the situation varies from industry to industry a great deal and one has to be very careful.

I would say, however, that in the case of both automobile and steel, I believe that the wages in those industries are out of line with the experience of the rest of manufacturing in this country through the decade between 1970 and 1980.

Had the rate of increase in wages in the automobile industry been less, had the rate of increase in the wage in the steel industry been less, I think that the price at which the American industry could have been put out an automobile profitably would be less than it is today, and I believe that would result in more cars being sold, more steel being shipped.

If you look at productivity comparisons between the Japanese and the American automobile industry, I think you will find that between 1970 and 1978 the rate of productivity increase in the American automobile industry differs little from the rate of increase in the Japanese automobile industry.

Indeed, when I last looked at these numbers, I believe you are talking about a 41-percent increase in the Japanese automobile industry, and a 40-percent increase in the American automobile industry, over that 8-year period.

I believe the comparison would be somewhat different if you included current data. It would be more consistent perhaps with lay opinion but, at the same time, the price of Japanese labor does afford an advantage to the Japanese automobile industry. It is certainly not the only advantage but a cheaper American car might make up for its being somewhat less reliable, and some people will choose reliability. Others might choose a cheaper vehicle.

Mr. BINGHAM. What about the question of the longer hours and a longer work week; is that a factor? I understand that in Japan their work week is longer.

Mr. SAXONHOUSE. It is somewhat longer, though I think it is no longer significantly different.

You are talking about perhaps a 10-percent difference, if that, and obviously when you figure in cost per hour that will be a denominator.

Mr. BINGHAM. Well, gentlemen, thank you very much.

You have been very patient and again I am sorry that we did not have more of our members here because it has been an extraordinarily interesting session.

The subcommittee will stand adjourned.

[Whereupon, at 4:50 p.m., the subcommittee adjourned to reconvene at the call of the Chair.]

UNITED STATES-JAPAN ECONOMIC RELATIONS

THURSDAY, OCTOBER 16, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS,
Melville, N.Y.

The subcommittee met at 8:11 p.m. at 41 Pinelawn Road, Melville, N.Y., Hon. Lester L. Wolff (chairman of the subcommittee) presiding.

Mr. WOLFF. Good evening, ladies and gentlemen, welcome to the fifth in a series of hearings on the impact of Asian imports on the U.S. economy held by the House Subcommittee on Asian and Pacific Affairs.

This is very much like the mountain coming to Mohammed. Our other hearings were held in Washington. However, we wanted to get a deeper insight from the working man and private business as to the effect of the import of Japanese and Asian goods, particularly, into our market.

As chairman of the Subcommittee on Asian and Pacific Affairs, which shares joint jurisdiction with the Subcommittee on International Economic Policy and Trade, I feel it important to have this meeting as quickly as possible so that we could be prepared for the so-called lame duck session which is going to be held right after the election. The fact is that we had wanted to have this meeting in Washington, but to save the witnesses' expense and to save the time of the witnesses traveling to Washington, I took the first opportunity that I had available to come back to New York to have this hearing here this evening.

Tonight, we attempt to explore, in depth, the effect of both imports and exports on the United States and Long Island economy. The testimony will be taken from witnesses representing New York area businesses, labor organizations, and private organizations.

Our witnesses have been asked to address such questions as the effect of Government regulation on the Long Island international markets, the effect of Japanese and Asian imports on the Long Island economy and the ability of the Long Island management and labor to cooperate in building the economy in the future.

We hope that by holding these hearings in New York, we will be able to add the input of the individual workingman and the small businessman to the the "big picture" that we have been seeking in Washington.

At previous hearings in Washington, we have had the representatives of various industries affected. We had representatives of the automotive industry. We have had a number of economists, a

number of people in management and people from the State Department and the Department of Commerce. This is the added dimension of labor to round out the complete picture.

We thus hope to gain greater understanding of the ways in which the Federal Government can cooperate with American business and industry in promoting the economic growth needed to meet the challenges of Asian imports.

I should note for the record that this is an official hearing sanctioned by the Foreign Affairs Committee and the chairman.

LONG ISLAND—CENTER OF MANY INDUSTRIES

Long Island is the center of the electronics industry and a natural leader in the production supremacy in the international market which our economy so badly needs. Similarly, our area has long been a center of the garment and textile industry, and we are faced with stiff competition from Asia, not to mention the competition that is the wings from the People's Republic of China.

Our hearings have demonstrated that international trade should be a two-story street, and that there is no reason for the American worker to suffer if his union and his management cooperates in producing the most advanced product possible, and if the Federal Government cooperates with enlightened tax policies and far-sighted overseas investment incentives to make us competitive with the national trading companies of Japan and Western Europe.

The Washington hearings have focused primarily on the auto industry, because of the short-term needs of the industry as it regears to meet Japanese competition in the small and the economy car market.

As a result of the Washington hearings the subcommittee approved for the House action House Concurrent Resolution 363, calling upon the President to negotiate with the Japanese a temporary restraint on the export of automobiles to the United States.

SPARE PARTS

The subcommittee has also explored the potential $8 billion annual spare parts business which could be produced in the United States, and I hope some of our witnesses tonight will have some ideas on this point.

One of the problems that we do have with Japanese automobiles is the fact that under their warranty program, they will only accept Japanese spare parts. It is our intent to find out from you whether or not these spare parts can be produced here in this country for use in the Japanese cars. If so, then in the lame duck session that we have, we will put forth a measure to instruct our trade negotiator to make this one of the high points of their mutual trade agreements with Japan.

I hope that our witnesses, all, will not only give us the best of their thoughts, but will proceed with further actions by the various representatives that they have present here tonight to support the effort that is being made by this committee.

With that, I again welcome you all. I want to thank my colleague, Congressman Gilman, of the Foreign Affairs Committee, who unavoidably was detained up in his own district.

There is an election going on, as I think everybody knows. We are taking some time out from the election procedure to engage in these continuing hearings, but Mr. Gilman has his trade representative here with us this evening to sit in on this panel.

I will also include Mr. Ed Palmer, the staff director of the subcommittee, as well as Congressman Downey who plans to attend later in the evening.

Mr. Gilman's representative may proceed with his statement.

STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK; PRESENTED BY ANDREW ZARUTSKIE

Mr. ZARUTSKIE. I want to take this opportunity to commend the gentleman from New York, Mr. Wolff, chairman of the Subcommittee on Asian and Pacific Affairs, for his leadership on this important issue and for holding these series of hearings. As a member of the Committee on Foreign Affairs and the Subcommittee on International Economic Policy and Trade, I have followed with great interest United States-Japanese relations for some time, and have participated in the earlier hearings held in Washington on this very subject.

The dynamics of this problem for the Nation as a whole can readily be seen in the fact that one out of every six jobs in this country is directly or indirectly dependent on the American auto industry.

The dramatic increase in the importation of cheap Japanese cars over the last decade has significantly contributed to an historic trade imbalance with that nation. In 1969, the Japanese share of the American auto industry was approximately 2 percent. In 1980, that Japanese share is fast approaching 25 percent of the total market. The negative aspects of the auto imbalance in combination with all of the elements of our trade relationship has resulted in a trade imbalance of more than $47 billion during the last 10 years, with an $8.6 billion deficit in 1979 alone.

EFFECT OF MAHWAH PLANT CLOSING

As the Representative of the 26th Congressional District of New York, I am painfully aware of the negative effect that the current United States-Japanese trade imbalance has had on my constituents. The closing of the Ford Motor Company's Assembly Plant in Mahwah, N.J., has resulted in the direct loss of some 1,800 jobs in my district alone.

In addition, there has been an incalculable number of job losses from related services industries, not to mention the economic loss due to reduced utility demand and decreased tax revenues.

In an effort to minimize the impact of this situation, I, along with several other of my congressional colleagues from this area, met personally with the President at a White House Conference on the Mahwah plant closing. I also served as chairman of the New York congressional delegation's emergency task force on the Mahwah situation.

On the floor of the House of Representatives, I have fought to protect and actually increase the funding for the trade readjustment benefits to assist those most directly affected. In addition, I

have strongly supported a $750 tax credit for those citizens who purchase fuel efficient American made cars. This action would not only help our crippled auto industry, but help reduce the balance of trade deficit, slow inflation and boost the general economy.

I am particularly pleased to be here this evening and participate in this important meeting. This forum provides us with a unique opportunity to listen and to learn from you, the public, as to how this situation affects the lives of the individual citizens of this country.

Thank you very much.

Mr. WOLFF. Thank you very much.

We should like to now go to our first panel, composed of Mr. John Messer, the Long Island Association of Commerce and Industry World Trade Club; Mr. William Pedersen, Commissioner of Nassau County Department of Labor; Frank LoCascio, Secretary-Treasurer of Local 259, United Auto Workers.

Mr. Messer, please lead off.

STATEMENT OF JOHN MESSER, CHAIRMAN, WORLD TRADE CLUB OF THE LONG ISLAND ASSOCIATION OF COMMERCE AND INDUSTRY

Mr. MESSER. Mr. Chairman, members of the Subcommitteee on Asian and Pacific Affairs, I am John Messer, former chairman of the World Trade Club of the Long Island Association of Commerce and Industry, representing over 1,000 firms on Long Island.

I am also the director of commercial programs for Grumman International, Inc., a wholly owned subsidiary of the Grumman Corp., where we are working hard to increase the sale of our many products overseas. Today, I am speaking for the World Trade Club.

Mr. Chairman, we take the presence of Japanese goods and their success in the Long Island market very seriously. We welcome this opportunity to express our views.

We congratulate your committee on its concern with this situation. Mr. Chairman, we appreciate, particularly, your personal efforts and travel to learn the basis of Japan's export strength at first hand. We share your belief there is no substitute for being there if one is to understand the phenomenal business success.

With a population of more than 5 million, and over 37,000 independent businesses, Long Island ranks as a major market for Japanese goods. Long Island imports from Japan include not only cars and bicycles, television and stereo sets, cameras and radios, but also, machine tools, semiconductors and a wide variety of components used in local manufacturing.

Thirteen percent, or just over 4,400 of Long Island's businesses engage in exporting. More than 2,000 of these firms report that sales to Japan account for more than one-third of their total export sales. Not counting Grumman, which is building the E-2C for Japan's armed forces, more than 2,000 Long Island jobs are tied directly to the sale of local goods and services to Japan.

Our surveys indicate that Japanese imports have caused very few job losses in our local manufacturing labor force of about 165,000. Any job losses appear to be limited to the local electronics industry; specifically, in the assembling of stereo equipment and the manufacture of the semiconductors. The fact there have been

no claims made under the Federal Trade Adjustment Assistance Act would indicate to us that no local businesses have been damaged seriously by Japanese imports.

EVEN COMPETITION

The World Trade Club believes that the more serious challenge is to create an international climate of even competition. This requires first that the formidable disincentives for American firms to export be removed and that Government support be made more consistent with that of other nations.

The World Trade Club has campaigned aggressively to promote increased funding for the Export-Import Bank, clarification of the Foreign Corrupt Practices Act, streamlining of export licensing procedures, reduction of unilateral trade embargoes tied to human rights, relief from individual overseas income taxation, and broader support for the creation of export trading companies.

The ability to offer competitive financing is often the key to winning a foreign sale. The Export-Import Bank has been limited in its available funds to promote foreign sales and has withheld loans in most cases where overseas customers have failed to meet U.S. expectations on human rights.

HUMAN RIGHT POLICY AFFECTS JOBS

As you know, Long Island firms have lost millions of dollars in potential business as a direct result of the administration's trade policies with respect to human rights. Ambiguities in the Foreign Corrupt Practices Act have led most firms to reduce sharply many promotional activities such as company-sponsored factory visits for prospective foreign customers. The act's accounting standards have added significantly to the cost of doing business overseas.

The administration's criteria in procedures for export licensing have caused major delays in the export promotion of the high technology products for which Long Island is becoming famous. We endorse and applaud the recent legislative initiatives to limit export controls to those specific technologies which are militarily significant and which are not readily available elsewhere.

While the World Trade Club respects America's human rights ideals, we believe that meaningful improvements can be won best by working through the United Nations, instead of withholding our products and denying the American firms the right to compete.

We support fully Senator Chafee's efforts to raise the tax exemption on personal income earned overseas. Our current tax laws make it too expensive to maintain American employees overseas. This means that many overseas jobs formerly held by Americans are now being eliminated or lost to foreign nationals.

One positive tax incentive to stimulate exports, the Domestic International Sales Co. is now threatened with extinction unless Congress acts promptly.

Finally, we support the legislation now under consideration to promote the creation of trading companies similar to those in Japan. We believe that these companies, with their added financial strength, can reinforce our present export management companies

and freight forwarders in bringing smaller firms into international trade.

Japanese manufacturers seeking American markets are not limited by Government imposed disincentives. They benefit directly from the intense promotion efforts of their government.

In summary, the World Trade Club believes every effort must be made to equalize competition here and abroad.

Returning to protectionism can only lead to retaliation which will defeat our efforts to encourage more U.S. exports. Healthy, even competition promises the consumer better quality at lower prices. These are certainly worthwhile goals. We are confident of Long Island industry's ability to compete successfully anywhere that trading conditions permit. Our objective is to be so successful that the Japanese diet finds it necessary to hold hearings into the success of Long Island goods in Japan.

Again, we wish to thank your committee for this opportunity to express our views on this vital issue.

This completes my testimony, Mr. Chairman. I will be happy to answer any questions you may have at this time.

Mr. WOLFF. Thank you very much.

What we are planning to do here is to have the full panel make their statements, and then proceed with the questions.

Mr. Pedersen.

STATEMENT OF WILLIAM PEDERSEN, COMMISSIONER, NASSAU COUNTY DEPARTMENT OF LABOR

Mr. PEDERSEN. Mr. Chairman, members of the subcommittee, I deeply appreciate this opportunity to present a statement to this committee regarding the Japanese and Asian imports and their effect on Long Island. I thank Congressman Wolff for inviting me to submit this statement.

As Nassau County's Commissioner of Labor, my primary concern is jobs for Long Island. A region like Nassau and Suffolk Counties, which has developed from the desire of working men and women to own their own homes and raise families in a suburban atmosphere, must make jobs the first priority of a self-sufficient regional economy.

EFFECT OF JAPANESE GOODS

Viewed in that light, the huge influx of Japanese imports into the United States and the Nassau-Suffolk area has both a negative and a positive impact on the job economy of this region.

In my judgment, that impact is more negative than positive. Long Island is ideally situated for the development of sophisticated light industrial manufactures such as electronics, computer software, apparel, plastics and the like. Its labor force is highly skilled and motivated to perform in a very productive fashion. Its businesses, both large and small, are owned and managed by people who have roots in our region. These businesses are, however, being choked off by Japanese imports in these significant ways:

One, the imports of manufactured goods are cutting down on the markets available to the regional producers.

Two, some Japanese firms are acquiring Island-based industries and moving the acquired operation out of Long Island. With those moves go jobs.

One case with which I am personally familiar took 200 jobs from Nassau County.

Three, there is a trend toward movement into the Island by Japanese firms which are finding that their own inflation, coupled with the decline of the dollar, makes it less expensive to do business here. This importation of Japanese capital has some positive effect because it does create or preserve jobs.

However, in many instances, these operations are limited to function such as warehousing, assembly and distribution of Japanese-made goods. As a result the jobs created are very low-level, unskilled and semiskilled. They provide little or no outlet for the highly trained and skilled working force which makes up the residents of the working population here on Long Island.

TRADE ACT OF 1974

The Trade Act of 1974 recognized that our traditional free trade and reciprocal trade policies are having an impact on domestic industry which must be corrected with Government help. However, here on Long Island, the 24 firms which have been certified as eligible for financial and technical assistance under the Trade Adjustment and Assistance program, and the five firms which have actually received such aid, are an infinitesimal part of the import impact problem of our economy.

What is more, programs of this sort do not protect the viability and the growth of American industries. They merely subsidize their decline. In this sense, they are, in reality, subsidies for our foreign competitors.

The foreign attitudes, which overseas management seeks to indoctrinate in their workers, are also contrary to the traditions of the American labor movement.

Workers, particularly in Japanese-run firms, are trained in a pateralistic, dependent, non-self reliant subservience to the enterprise. American workers, particularly union members, are taught to regard themselves as free contributors to the success of the business and to derive their strength from the free association with their fellows. This attitude has been a very vital force in the economic and social progress of America.

It is, however, being weakened and destroyed by the influx of imports which is reducing the number of union jobs with every new influx of Japanese and other foreign capital.

Free trade which puts American jobs to flight is not free. The export business which comes to America is not an adequate substitute for a strong, productive domestic industrial complex. Paternalism will never replace a free trade unionism.

POSSIBLE SOLUTIONS

What is the solution?

I believe that every decision made by Congress in the area of foreign trade should be based on a labor-impact statement. Where imports will destroy jobs, the imported goods should be subjected to an ad valorem tax, based on the actual labor cost involved. This tax should be sufficient to increase the cost of importation to the

amount which a domestic producer would pay, using American workers who receive the prevailing wages in their industry.

Foreign purchasers of American businesses who chose to move an enterprise out of the United States should be assessed by a job flight tax. The moneys realized from both of these taxes should be used to augment the unemployment compensation, job retraining, and career rehabilitation for the worker who loses his job.

Long Island has a great future. There is room here for both domestic and foreign business. But to preserve our economy, we must and should require the overseas business to carry its fair share of the cost of protecting American jobs.

This is no more than our businessmen are required to do when they deal in other countries. It is only fair that foreign businesses who import goods and capital to the United States do likewise. Thank you very much.

Mr. WOLFF. Thank you very much, Commissioner.

Mr. Frank LoCascio, secretary-treasurer of local 259.

STATEMENT OF FRANK LoCASCIO, SECRETARY-TREASURER, LOCAL 259, UNITED AUTO WORKERS

Mr. LoCASCIO. Thank you for allowing us to come to testify before your committee on the matter of the Asian imports, primarily affecting the auto industry.

As you know, Doug Fraser, vice president of the UAW, has been testifying before congressional hearings on the foreign car import problems, primarily the Japanese imports.

What happened when the gas crunch came in 1979, was that the consumer panicked and record numbers of foreign cars, supposedly fuel efficient, were sold, even though fuel efficient domestic cars were available. The public's attitude was that the American car was a gas-guzzler and, unfortunately, we are stuck with our history.

The UAW had 220,000 workers on indefinite labor. The guess is that very few of these workers will be called back.

Japanese auto exports for 1980 will climb past our domestic sales for the first time in 3 years. Japan is now the world's top auto manufacturer.

IMPORT RESTRICTIONS

The domestic industry needs import restrictions, whether it comes voluntarily or Government imposed. Foreign car makers are determined to exploit the American car market. Sales of imported cars are expected to reach 2.2 million this year. A UAW proposal will be to limit this to 1.7 million, which was the level of sales during 1975 and 1976.

Further, to raise the duty charged to 20 percent of the U.S. Customs value instead of the 2.9 percent. Imports account for 29 percent of all U.S. car sales. Only a few years back, it was 18 percent. In the State of California, the percentage of foreign cars reached 50 percent. Nowhere in the world can you get such a bargain, where the number of cars you import are unrestricted and the duty is practically nil.

We can't do that to Japan or, for that matter, any other country, and yet, they can do it to us.

England, France, and Italy have worked out car limits with Japan. West Germany is now in the process of doing the same.

INDUSTRY AT FAULT

The Ford Motor Car Co. learned in 1977 that Japan was building up its production capacity so it could pour automobiles on the American market, and Ford could not convince our Government to move against this threat on the American car industry. The blame is not entirely the Government. Industry is mainly at fault. It did nothing to change its habit of producing, mainly, big cars.

It learned nothing from the first gas crisis. The consumer went back to driving big cars and big cars mean big profits, and the auto companies were not about to cut down on profits.

When the 1979 gas crisis came, the industry was totally unprepared to cope with it and found themselves saddled with large inventories of big, gas-guzzling monsters. Sales of all domestics virtually came to a halt. Meanwhile, the foreign imports had a run on their markets, waiting periods going from 4 months to 8 months on some models.

Japan, if it wants to display moderation and self-control, can cut down on its shipments of cars to the United States. Unless Japan adopts a voluntary restraint, or agrees to build cars in the United States, it faces rigid legislation restrictions; sentiments now seem to be building up around the country. It is argued the modest reduction of 500,000 units would return 70,000 to 100,000 workers to their jobs.

LOCAL EFFECTS

How has all of this affected us locally?

Our membership has dropped 20 percent. One plant that manufactures auto transmission parts had, at the height of its business, 500 employees, and since the gas crisis, that number of employees has gone down to 250. There has been roughly a 25 percent dealer mortality in the State. Some of these dealers span over two and three generations.

The International Trade Commission has been hearing testimony from all sides involved in this matter and must decide whether Japanese imports are the major cause of injury to the American automobile industry, causing the unemployment of 220,000 auto workers, and if we were to add all those workers whose jobs depend on the auto worker and have them laid off, then we are talking about over a million workers that have been, unfortunately, laid off because of the Japanese imports and the effect it has had on the American car market.

It is ture that we do have automobiles that pretty much either compare, if not surpass those of the Japanese models. Unfortunately, we have not been able to produce them at such record numbers to satisfy all the public's needs. The plants that do produce these cars are running two full shifts with overtime. They claim that within the next 2 years, we would be able to catch up with the foreign car market and bring back, probably, the import percentages down to about where it was in 1975, and that was about 18 percent.

Of course, it is also a myth that the Japanese automobile is a gas efficient automobile, if not a better one.

If there cannot be a voluntary restraint on the part of the Japanese Government; if they cannot see building plants here that will employ American laid-off workers, and if they persist on taking a hard-nosed stand, and I can't see us allowing this to happen, then I am in favor of passing whatever restraints we must pass on to them in order for us to just get back to where we were.

Thank you very much for allowing me to come here to testify before you.

U.S. CARS OVERSEAS

Mr. WOLFF. Thank you, Mr. LoCascio.

We will operate here under the congressional 5-minute rule of questioning. I will proceed first, and hope that my counsel here will call a halt to my questioning when the 5 minutes arises.

First of all, Mr. LoCascio, I would like to ask about a number of the small cars that are being manufactured by American companies overseas today. We see a number of the cars that are advertised for sale in the United States by American companies, but they are being manufactured in Germany and manufactured in other countries.

Why is that?

Mr. LOCASCIO. It is difficult for me to find the right answer. I can only think of one thing that at the time that the American manufacturer was looking for the foreign market, he, of course, had to invest into these foreign countries and put up plants.

The Ford Motor Car Co. has been getting the Capri, which is partially built, if not more than partially built, in Germany. That has been going on for many years.

These are markets, I believe, that were developed before the real problem hit us, which has been in the last 4 or 5 years.

As for the reasons they are being built in the foreign countries, I just don't have the right answer for you. I couldn't give you a truly informative answer on that.

Mr. WOLFF. One point in the trips that I made to Japan in attempting to discern their labor costs, one of the reasons that had been given for the lower cost of Japanese automobiles in the United States, if there is such a thing today as lower cost, has been the labor cost. Yet, there is not that great disparity any longer in the labor cost in Japan as there is in the United States.

I am talking, now, not of the cost of the hourly wage. I am talking about the fringes, the security benefits and everything else, and their lunch programs, which all add up to a high labor cost.

Why is there a disparity, then, in the price of the cars? Could you give us an answer to that?

JAPAN'S SUBSIDIES

Mr. LOCASCIO. From what I have been told, it is just like what we read about, steel being dumped on the American market. In a way, there is some sort of subsidy that gets back to that manufacturer. What form, I could not tell you, but they are, and I would say that we could not. They could not really sell that car for what

it is being sold for in the United States if it were truly priced properly and honestly. It would have to be much more.

I believe that they are being subsidized by the Japanese Government in some manner and/or form, and it allows them to produce these cars and dump them on the market here. For then, it is no longer an attractive price.

You go and buy a Honda, and you want to put a few trimmings on it, you are talking about $8,000, $9,000. A Honda, to me, is like a superdeluxe lawn mower. I just don't understand it, but I believe it is the Japanese Government that has worked out some kind of subsidy for these manufacturers that allows them to do that.

SMALL PARTS

Mr. WOLFF. Thank you, Mr. LoCascio.

Mr. Messer, you recently had—and I would like to ask this of Mr. Pedersen as well—we recently had a visit by some Japanese small parts manufacturers or purchasers on a purchasing mission.

What happened with that mission?

Mr. MESSER. I believe this was an effort on the part of the Japanese to exercise some restraint. The basic question was:

Why can't you buy American parts for your Japanese car? Many of them are, in fact, or should be interchangeable and can be locally produced, probably for the same or less because of the total volume. I believe it was found that as many as half of the parts of some makes could and should remain in the United States. I would expect the Japanese to move in this direction within the next 3 to 4 months.

Mr. WOLFF. Mr. Pedersen?

Mr. PEDERSEN. I concur with Mr. Messer in that regard.

There is one thing that I would like to make clear. I think Frank spoke on that, too. That is the productivity end of it.

The American worker has a much greater interest in productivity than the Japanese. They are paternalistic. They get a job in Japan and they have the job for the rest of their life. While here, we have a free enterprise system. We have the unions and, certainly, we have the fringe benefits. These fringe benefits are incentives for productivity. The American worker has far outstripped the productivity area of the Japanese or any other nation in the world.

Mr. WOLFF. I yield to counsel.

Mr. Pedersen, I am fascinated with your last statement on the lack of productivity consciousness on the part of the Japanese worker.

Mr. PEDERSEN. I said, I think our productivity is greater.

U.S. STANDARDS DON'T MEASURE UP

Mr. PALMER. I wouldn't question that.

Are you familiar with the fact that in the small parts business, there has been some criticism by the Japanese that one of the reasons for not importing more American parts is that American quality and standards do not measure up to Japanese quality and standards?

I address that to Mr. Messer and to you, Mr. Pedersen.

Mr. PEDERSEN. I would have to disagree with that.

Mr. PALMER. Are you aware of that statement?

Mr. Pedersen. I have heard it, but I disagree with it.

Mr. PALMER. I see.

Mr. Messer?

Mr. MESSER. I am aware of the statement. I would put it in a slightly different term.

Grumman has made efforts in the past to sell in Japan. We have found that they are very discriminating consumers. Perhaps more than the question of quality, their tastes are slightly different. We experienced this in Europe where we made efforts to sell our products. We think American products are extremely well made.

On the other hand, we did find out the French were very concerned about how large the wine rack was on a sailboat. We did not foresee that. The popularity of our boat was a direct reflection of these kinds of things. These are things that exist in the Japanese market that we have yet to learn.

U.S. EXPORT BUSINESS

Mr. PALMER. Mr. Messer, in your testimony, you described 13 percent, or just over 4,400 of Long Island's businesses, engaged in export. I wonder, do they consider themselves doing poorly or well, and do you have any specific recommendations they have given you on how they could do better in Japan?

Mr. MESSER. Clearly, they would like to do better. There is no question.

I believe the efforts to sell in Japan are, in fact, a recent thing for most American firms. Congressman Wolff has been very active in opening new areas for American firms in the telecommunications field. These are the kinds of things American firms wanted.

Given the competitive and even environment, the Americans will bid and win. I am convinced of that. That is the chance and the opportunity most American firms want.

FOREIGN PLANTS IN UNITED STATES

Mr. PALMER. Mindful of my own time, my last question will be addressed to all three of our panelists. I would like their individual reaction to the following:

If Honda announced they were going to open up a plant on Long Island tomorrow, as they have in other parts of the country, what would the reaction be, and what conditions would you set from your individual viewpoint?

Mr. LoCascio.

Mr. LOCASCIO. If Honda were to announce it was opening up a plant, a manufacturing plant in our country, it would certainly be welcome news. In fact, it does have a plant right now——

Mr. PALMER. I am talking about Long Island, sir.

Mr. LOCASCIO. It would be welcome news. I certainly would be rooting for them to open here on the Island.

Mr. PALMER. Mr. Pedersen?

Mr. PEDERSEN. Again, I will agree with Frank. Coming out of the building industry, I would certainly hope it would be a new building they would be putting up.

Mr. PALMER. Mr. Messer?

Mr. MESSER. I agree completely with what they said. I will go one step further; I hope they all build new homes.

Mr. PALMER. Mr. Chairman?

EXPORTING U.S. PARTS TO JAPAN

Mr. WOLFF. I would like to ask, since the Japanese had the trade mission here, as an import mission, what about our sending a trade mission to Japan to try to sell them on some of the American parts?

Mr. MESSER. Clearly, I think that is in order. I will not be at all surprised if such a mission were put together. I would expect it to consider representatives of the parts manufacturing industry of the United States and, in my opinion, probably, representatives of the union, who I think contributed very definitely in that campaign.

Mr. WOLFF. Maybe you can take the lead here, Mr. Messer, on Long Island and see if we can't do something like that.

Mr. MESSER. The World Trade Club will certainly take your suggestion under consideration.

Mr. WOLFF. Thank you.

Mr. Nelson?

AMERICAN TIRE DEALERS

Mr. NELSON. Thank you very much, Mr. Chairman.

I have one quick question. Do the Japanese or other import autos come with foreign or U.S. tires? Is there any requirement in this area; should there be one, and finally, if there were one, would that affect Long Island business?

That question was addressed to Mr. LoCascio.

Mr. LOCASCIO. You asked if the Japanese imports come with U.S. tires?

Mr. NELSON. With U.S. rubber, or Japanese, or others?

Mr. LOCASCIO. I believe they come in with Japanese rubber.

Mr. NELSON. My basic question is:

Do you think it would be helpful to require that they have U.S. rubber?

Mr. LOCASCIO. It wouldn't affect the economy here on Long Island since most of the rubber manufacturing plants are either—in fact, very few are left in Akron, Ohio. They have moved down to the sun belt. The immediate effect on Long Island would not be felt.

Mr. NELSON. Then, as a national measure, it might be useful, but it certainly would not help American tire dealers on Long Island?

Mr. LOCASCIO. Not on Long Island; only as an after-product kind of sale for them. In other words, it would be the replacement of original equipment. You would set up some tire storage here that would carry the type tire used on that particular model, but that is about all.

Mr. NELSON. Mr. Messer, as a free trader, what would be your reaction to that?

Mr. MESSER. In the long run, it would add to the cost of the car. You would have to have use requiring additional American tires. It is true that there would be a one-time bid for tires for such imports. I would assume the American market would continue to supply all of the new tires.

I can see that it would add to the cost, and I think that for the World Trade Club, one of our concerns is the containment of inflation, and as you maintain competition in the marketplace, I think that is the strongest force to control inflation that we have.

Mr. WOLFF. I have one final question.

One of the problems the United States has in selling cars in Japan is the fact that we do not make a right-hand-drive car for them; am I correct in this?

Mr. LOCASCIO. I believe that might be one of the issues, but no a major issue. I think it is really the cost of the automobile that makes it almost prohibitive to buy in Japan.

GREATER ACCESS TO JAPAN'S MARKET

Mr. WOLFF. That is because of the tax, the import duty placed on it.

As I understand from previous hearings, one factor that was involved was that the initiative for a smaller market as would exist there makes it impossible for the American manufacturer to make a right-hand-drive car, since the Japanese use right-hand-drive cars.

Mr. LOCASCIO. That would be one of the problems.

Mr. WOLFF. Is there any area you think we can mandate for the Japanese in our trade with them that will provide greater access to their market? I don't know whether that would be possible or whether or not it would meet with any kind of problems. I am just not quite sure. That is one thing that confuses me in the testimony.

Mr. Messer, you said no firms here had any applications, and yet, the Commissioner did say there were some applications that were at hand. Could we get a clarification of that?

Mr. MESSER. My statement related exclusively to the subject of Japan. There are others that relate notably to South Korea and other Asian markets.

The best information that I have is that none were contributed exclusively to Japan. The statement is narrowly correct; I believe in the broader sense of all imports, the Commissioner is correct.

Mr. WOLFF. Thank you very much, gentlemen. Is there anything you would like to add? Would be happy to include it in the record.

I take it, you would not object that if we have any further questions, we could put them in writing?

Mr. LOCASCIO. Not at all.

Mr. PEDERSON. Thank you.

Mr. MESSER. Thank you.

Mr. WOLFF. The next panel will include Mr. Parrington, Mr. Maisel, and Mr. Trenz.

Our leadoff for this panel is Mr. Eugene Parrington, president of local 25, International Brotherhood of Electrical Workers, who is our host tonight.

We thank you very much for the use of the hall. You have saved the Government a few dollars.

Mr. PARRINGTON. You are quite welcome.

Mr. WOLFF. Do you have a prepared statement?

Mr. PARRINGTON. I have a short statement. I don't have a statement as lengthy as some of the people have.

Mr. WOLFF. We appreciate the brevity of your statement.

STATEMENT OF EUGENE PARRINGTON, PRESIDENT, LOCAL 25, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. PARRINGTON. I would like to thank you for bringing this hearing to Long Island. We always seem like we are the appendix of the United States. We hear what is going on in Washington and Albany, and very seldom do we have the opportunity to partake on Long Island, so you have my deep appreciation for that.

I will read my statement now.

My name is Eugene Parrington. I am the president of local 25 of the International Brotherhood of Electrical Workers.

My first comment I would like to make is that a better name for this particular hearing could be: "the Impact of Exported American Jobs to the Japanese and Asian Labor Market on the Economy of Long Island". That is really what it is all about.

The IBEW represents electrical workers in every phase of electrical work, from wiring a bungalow, an industrial plant, to the manufacturing and installation of telephone systems, to the manufacturing of television and radio sets and the generation and transmission of electrical energy from powerhouses to your homes and businesses.

EFFECT OF IMPORTS

Every time an import from a foreign country enters this country, it represents a loss to an American craftsman in employment and wages. This loss of a job takes the American worker off the income tax rolls of both the State and the Federal Governments, causing an ultimate loss to these agencies in revenue needed for services and improvements.

An example of this loss of jobs as related to Long Island was the denial to the Long Island Lighting Co. to build a nuclear powerplant on Long Island. The power network will now tie in to a nuclear powerplant in Canada built by Canadians. The loss of employment to Long Island electricians will approximate 1,000 man-years of work. That is a lot of tax revenue New York State and Long Island could use, and the American worker could use too.

I feel that any item that can be manufactured in the United States that is imported should have a duty imposed on them to bring them into competition with American labor.

That completes my formal statement.

HIGH-TECHNICAL ELECTRONIC FIELD

I would like to add that we do lose jobs in the high-technical electronic field. If they were to build plants on this island, we would be in on the construction of those plants. When they are built in Japan, we don't have any part in those plants being built. We are involved in any type of construction on Long Island. We would welcome Honda or Datsun, as we brought out before, to Long Island, but specifically, I would like to make a comment that I would like to see American labor engaged in the construction of the plant and also the running of the plant.

Mr. WOLFF. Thank you very much, Mr. Parrington.

Mr. Trenz, you may proceed.

STATEMENT OF JAMES TRENZ, PRESIDENT, LOCAL 463, INTERNATIONAL UNION OF ELECTRICAL, RADIO, AND MACHINE WORKERS

Mr. TRENZ. Thank you very much. I don't have a prepared statement. I will have to speak extemporaneously.

I want to thank the chairman for taking time out in a busy election year to address his attention and the attention of Congress through his subcommittee to this all important problem of imports and their effect on jobs.

I had the occasion this afternoon to meet President Carter, and I introduced myself and told him, "I am from the IUE, and we are very much concerned about imports;" and we are also concerned about his reelection.

He commented that they both go together. I hope that certainly is the case, because we certainly need some relief.

I think it is appropriate to commend you, Mr. Chairman, for the traveling that you have done. Sometimes people——

Mr. WOLFF. Some people criticize that.

Mr. TRENZ. I saw that on TV, as a matter of fact. It struck me strange that, obviously, the one who is making the criticism hasn't traveled very far; I think—what is it, from Connecticut to here? In the neighboring state anyway.

To travel into the foreign countries, and I have traveled through Southeast Asia and into Japan and into some of these countries we are talking about, and in Europe and through Africa, and it is quite arduous, and it is not a kind of vacation and I am talking about traveling on behalf of my constituency as you did on behalf of yours. I think that it is really shocking to be criticized for going to Turkey, for example, as you did, to stop the poppy sales, to cut out some drug traffic in the streets of New York and the byways and towns of Long Island, and save untold lives, which you can't measure, and the anguish that comes from a family that is afflicted by drugs.

You are certainly to be commended, and I hope you keep that kind of traveling up. We need more of it in America, to be able to save the youth in this Nation as well as address ourselves to the problem of jobs for their adults.

I want to say too, that in my travels——

Mr. WOLFF. Excuse me. If I could use that in a commercial, I would like that very much.

COMMUNIST UNIONS

Mr. TRENZ. I have no copyright on that. I think it needs to be said.

Talking about travel, I was on the Chinese border too and in Hong Kong, and it so happens that in Hong Kong they have department stores that are owned by the Communists and they don't have unions there. They have Communist associations.

The prices in the Chinese stores—this goes back to 1973—in the Chinese department stores, the prices were cheaper than what the local merchants in Hong Kong were selling the products for.

If we think we have a problem with Japan, we better watch out what comes from mainland China, unless we begin to do something

in terms of national policy, through your committee and through the Congress of the United States.

I think there is beginning to be some awareness on the part of the public officials that there is a problem, because only recently in New Jersey, when someone discovered that the State of New Jersey was going to buy 450 Datsuns for the use of public officials; when the word leaked out, the legislature there, within a record time of 5 days, passed a law, they had to buy American, which really was a purchase in excess of $3 million. I think the tide is beginning to mount and the message is beginning to get across.

UNEMPLOYMENT

It so happens that the unemployment that is being caused by the imports is adding to the inflation. I heard testimony here about being concerned about inflation. That is why they are concerned about imports, and that is why we should have free trade.

For every 1 percent of unemployment in this Nation, it adds $17 billion to the national deficit. When the Government runs a deficit, it has to print more dollars and that is inflation.

I submit, Mr. Chairman, the best way to fight inflation is to create jobs so that instead of having people on welfare, drawing from the public trough, to the contrary, they are contributing to the public welfare, and by their taxes and by their being able to work. It is very important to us.

It is also a job-creating proposition. If we can generate export sales, no question about it, for every $1 billion in export sales, we will create 30,000 jobs.

REPLACEMENT MARKET

Now, it so happens that the Japanese car replacement market is worth $8 billion. Now, we, as American manufacturers, and I represent workers who make car parts, if we can get into that market, if Americans can assume that $8 billion market, that is 240,000 jobs. That is almost as many jobs as were laid off in the auto industry. There is a lot at stake here for the future of our country.

JAPAN'S BUSINESS AND GOVERNMENTAL RELATIONS

You talk about fair trade and, you know, it is really a myth, particularly in Japan. I was in Japan; I visited companies in Japan. I met with unions, managements and government officials. Japan is Japan, Incorporated. They have no antitrust laws in Japan like we have in the United States. They will divide up the market under Government supervision as between big manufacturers. The Government will see to it that the industries got the proper financing, particularly for exporting. It is almost like a military campaign in terms of the targets that are set out.

The whole culture and the whole system of big business and partnership with Government under the leadership of Government is completely different than what we have in this country. You can't compete against that with an idea about fair trade. The kind of products we are trying to bring into the Japanese market; that is what we would like to do. We would like to get into the Japanese market. We would like to get into the Common Market.

The Common Market does not make the same mistakes we do. They have import quotas as to television sets, and on automobiles; no question about it. They will tell them how many they could bring out.

We have orderly market agreements which are honored in the breach, which are exceeded. Then, when we start to make a fuss about it, like what has happened in steel, they go into a different kind of steel. They get around it; like a specialty steel.

We really are very naive in this country. Either we are naive, or those multinational corporations that benefit by this want to have it that way. The Congress is not listening. The Congress is not listening and it is about time they did begin to listen.

LOCAL LOSS

I will show you the loss in terms of local people. I have here a newspaper clipping from the New York Times, Friday, June 27, 1978, Business Day. It has a big picture about one of the plants that I represent, the workers which I represent in my local. "Recession at a Brooklyn Plant". Brooklyn is on Long Island. Some of those people live here in this area and, certainly, in the general metropolitan area.

Forty percent laid off by auto parts manufacturers, it was a real dramatic thing that the New York Times would go down and take pictures in the plant and interview the owner or the manager of the plant.

He points out that they had an inventory build-up, and that in order to flush out the inventory they had to lay off—these are parts not only for original equipment manufacturers, but for the replacement market. That is the $8 billion market that the Japanese are holding down.

I submit that their parts are not any better quality-wise than ours. On the contrary, if you look at replacements that this company manufactures and compare them to what I have been in some Japanese-made cars, I submit ours are superior.

AMERICAN WARRANTIES

Mr. WOLFF. Do we permit, on American warranties, to use Japanese parts? Does anyone know?

Mr. TRENZ. What happens with a warranty is that, or with any of the replacement parts, you buy a car, something goes wrong with it, the hose clamp, the thermostat; you bring it in to be repaired by the warranty or otherwise. The mechanic, the supplier will normally, if he has it at all in stock, will repair that part with the part that came out of the machine.

You are self-defeated by having Japanese parts which they won't permit us to, by licensing or otherwise, to supply. As a matter of fact, that is one of the points I want to make that this Congress should address itself to; that is the question of local content laws. We need local content laws. We need them to encourage Japanese local plants here.

We should, by law, provide, just as other countries do—Mexico does; the Common Market does—the Japanese never let you get into the door. They don't have to worry about local content, be-

tween their tariff and what have you. You cannot compete in that market because they have barriers. They talk free trade. We practice free trade and they practice tariffs. What we need is local content law.

If you are going to sell in the American market, you ought to employ American workers making a certain portion of that particular product; that is to say, that would be made in this country so that workers who are contributing to this economy can benefit by the sales in this market.

Mr. WOLFF. May I just interrupt? You have been so nice in your statement to me. I am going to have to call time at this point.

CHANGE TAX LAWS

Mr. TRENZ. I will try to bring it to a conclusion.

I would like to make two points:

One, we ought to change the tax laws so the multinational corporations are going to be taxed on the profits they make overseas. The existing tax legislation provides that when they repatriate the profits, at that point, they are taxed. Therefore, they have no incentive to repatriate the profits and reinvest them in local U.S. manufacturers to upgrade the level of American industry; to revitalize it.

To the contrary, they expand abroad so as to evade the taxation.

The final point I want to make, workers in this plant, forty percent laid off, as the Times article indicates, should be covered by the Federal Trade Adjustment Assistance Act as they are not now. We do not have SUB as they do in the auto industry. They are left to their own devices. They are certainly hurt by imports and should be covered by that legislation.

Thank you.

Mr. WOLFF. Thank you.

We will proceed with Mr. Maisel.

STATEMENT OF JACK MAISEL, LEGISLATIVE DIRECTOR, NEW YORK STATE COUNCIL OF MACHINISTS, INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS, AFL-CIO

Mr. MAISEL. Thank you, Congressman Wolff.

Mr. Chairman, distinguished members of this committee, thank you for inviting me this evening to express and present the views of New York State Council of Machinists with respect to the impact of jobs in our State resulting from importing and exporting of trade from Asia and those nations in the Pacific.

We welcome the opportunity before this committee because we know of few Congressmen so concerned, dedicated, and willing to correct injustices and unfairness that exist as that of Representative Lester Wolff from the Sixth Congressional District from the great State of New York.

In New York State, the Machinists Union has contracted with employers in virtually every county covering a wide range of services and products for industry, consumers, and the Department of Defense. We have over 100,000 members in the State.

On almost every occasion, whenever I meet with our membership, I can tell you they are besieged with worry and fear that

their jobs may not be there tomorrow. There is a constant nightmare that a sign will be posted at the place of work saying, "This plant is closed. Pick up your check at the Union Hall."

I don't think that it is necessary to take the time to talk about foreign imports flooding the market, replacing domestic products, or the dumping of foreign products at a loss, or the skills and training of our workers fired and unneeded today, nor is it necessary to remind this committee of the devastating and cruel hardships endured by those workers and their families as a result of being jobless.

But let me rather say that corporate America is amassing enormous and unprecedented profits while American workers are paying for it with unemployment and despair. It should be emphasized that such corporate profits were derived and obtained from workers' labor in the United States and that profits are being used to build factories in Asia and the Pacific region of the world, thereby throwing out American labor at the same time.

It is American capital, American technology, American engineering, American ingenuity that is being exported while importing unemployment in our shops and factories. American workers can no longer finance their own destruction.

RECOMMENDATIONS

Enough for the damage, and I suspect this is part of the reason for this hearing. Let me continue with recommendations to this committee.

First, to vigorously implement, without delay, the provisions of the Full Employment and Balanced Growth Act of 1978, better known as the Humphrey-Hawkins Act.

Second, legislation dealing with plant closings and relocations as introduced by Senator Donald Reigle of Michigan and Representative William Ford, also of the same State. Again, I will not go into detail as I am confident this committee is very familiar with the provisions and purposes of both pieces of legislation. It has been spoken about. Most people should know it. It deals with the impact of what happens to workers when the company they are working for leaves them stranded, the people in the community, and the devastating effect it has on the entire community.

Finally, I will state several of the proposals of the Machinists Union as they relate to international trade, tax, and tariff policies under the title of what we call "American Needs A New Trade Policy."

New legislation is needed to regulate imports and exports in short supply through export controls, tax policies, import relief provisions, and strictly enforced labeling as to the country of origin.

Provisions in existing laws, specifically item 807 and 806.30, which result in the export of American jobs should be repealed.

TRADE ACT OF 1974

Provisions in the Trade Act of 1974 to aid U.S. production and jobs—the escape clause, the provisions against unfair competition, et cetera—must be enforced to help build strong American indus-

tries and save jobs. Quotas on shoes, color TV sets, textile products, men's and women's clothing, rubber, among others, are essential.

The Overseas Private Investment Corporation, a Government agency that insures the investments of U.S. firms and banks, must be abolished.

Foreign grant, insurance, and loan programs should be supervised in terms of the U.S. interests at home as well as abroad. This means that the Eximbank loans, guarantees, and insurance activities should be carefully limited both in amount and the authority to expand the aciton.

Title V of the Trade Act of 1974, which permits over $3 billion a year in imports without any tariffs for any products manufactured by cheap foreign labor, must be repealed.

Tax loopholes and incentives for multinational corporations to move abroad should be ended, the tax deferral halted, the foreign tax credit repealed, and the Domestic International Sales Corporation abolished.

INCENTIVES

I would like to just emphasize the point of incentives, why America gives incentives to the corporations and the wealthy and superrich is certainly unwarranted. There is absolutely no reason for the well to do and the wealthy and the multinationals to get any kind of incentives, only in the hope, or in their strategy, that it may trickle down or may come down to some poor guy making the minimum wage; maybe he will get a half dollar more at the end of the year.

Tax incentives should go to the middle classs and the poor, especially, not the rich.

Again, Congressman Wolff, I thank you for the opportunity of speaking before this committee on behalf of the International Association of Machinists & Aerospace Workers, AFL–CIO.

COMPETING IN INTERNATIONAL MARKET

Mr. WOLFF. Thank you very much, Mr. Maisel.

I should like to pose one question to all three of you.

Do you think American industry is doing sufficient in export promotion to compete in the international market? We know that labor is prepared to produce that which is sold in the international market. We can't just sell to ourselves in order to maintain a favorable balance of trade. Because of the question of oil imports into this country and the like, we have to engage in an expanded export program.

What about American industry? Is American industry as active as it should be in the promotion of American products abroad?

Mr. Trenz?

Mr. TRENZ. I don't really think so, because I don't think that American industry is investing sufficiently in upgrading its own plant productivity, that is to say, in terms of a more effective and efficient way in which to do so. That is what happened in the steel industry, for example.

Mr. WOLFF. Isn't that due to the structure we have? In other words, for the most part, it would help both the machinists as well as our ability to compete in the world market if there were a

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greater depreciation allowance available to the American manufacturers, so that he would reinvest in capital goods to make us more competitive?

The reason the Japanese are more productive at times is the fact that they have newer equipment. We are operating with older equipment, that is, for the most part, written off, and yet there is not the same incentive to invest in capital goods which would be assimilated through the entire company.

SHORTSIGHTED POLICY

Mr. TRENZ. That is not the whole picture, Mr. Chairman. If you look at the steel industry, you will find that some big steel companies, instead of using the profits they made from those steelworks at the time when they had preeminence in the world market, and certainly in the U.S. market, instead they took those profits and began to acquire other companies and it becomes a fad; who is going to become the first conglomerate.

They graduated from that. Now it became multinational. Everybody wants to join the club. It becomes a status symbol.

Instead of using the profits made from those works to make them more competitive so they can maintain that edge, provide good wages and working conditions, at the same time, good profits in terms of continuing to hold on or improve their share of the world market and domestic market, they went to more attractive, higher profit yielding spinoffs and diversification in other industries which, perhaps, didn't have this same kind of export impact or even danger of import impact at that time or at this time. It is a shortsighted policy.

If we are going to do more rapid depreciations, we should have something to say about where they are going to invest the profits. We cannot take it very simplistically. We have to look at where they are putting in the money in terms of diversification.

Mr. WOLFF. The other electrical equipment being sold by the Japanese in this market, do they have to abide by the same U.L. standards that American manufacturers do?

Mr. PARRINGTON. When they are installed on a job, they do. They are inspected just as well as American made products are. I wouldn't say they pass as many times as American made products do. They are inferior in many ways. In order to pass these things that are encountered in the field, they are inspected with respect to body underwriter laboratories, and the field of inspection is just as any manufacturer would be.

I would—your question was: Is the American industry progressive enough?

From listening to Mr. Messer on the last panel, I would say they are making every effort to penetrate the export market. It was quite enlightening to me to listen to the gentleman make the statement he did. I am happy to see that.

Unfortunately, they had the very things that are barriers to us that I would like to propose in our direction; tariffs to prevent them from going under competition with our American industry. In order words, when they have a very substandard labor, I would like to see a tariff or duty placed on it preventing direct competition with American made products.

Mr. WOLFF. Have any of you experienced any of the Chinese missions coming over here at all?

JAPANESE TRADE MISSION

Mr. TRENZ. No.

I do want to comment on the Japanese trade mission that was supposed to be here, ostensibly here to find out whether they can buy our spare parts and so on.

They happened to be meeting in the same hotel in which we had our IUE convention. That was in the middle of September, when there was a great deal of heat being generated about doing something about the Japanese imports.

Lo and behold, they arrived just at that time, and they are having meetings in the hotel and so forth. The word was that it was a charade just to take the heat off. I believe that because Nissan has been talking about a truck manufacturing facility. They don't know whether they will do it, whether the quality is going to be good enough, or whether the labor is stable enough. They keep bouncing back and forth. We still don't have any kind of truck facility here built by a Japanese concern to market a Japanese truck.

There are very few Japanese owned enterprises, comparatively speaking. My union represents one, and when it came time for expansion—and it is located right here in Melville, if you please—when it came time for expansion, they didn't expand in Melville; there was property behind there. I would have liked to see my colleagues building a new plant behind to house that additional production. No; they went down south. They went down to Georgia, where they could exploit low wages and so on. They learned pretty fast.

COMPETING EFFECTIVELY

Mr. MAISEL. One comment.

What is very disturbing about what we are discussing this evening is the charge of the American workers are productively slower or they are not producing enough and they are falling behind.

The fact is that the corporation that designs the tools, that buys the material, that buys whatever equipment is necessary to produce the product, and they haven't been doing that. They should be buying better material. They should be competing more effectively. They should be learning things, but they don't.

They would rather use what they have. They use the same planks; the fault seeming to be with the American worker saying he can't produce fast enough. He is lazy and all these malicious charges.

In fact, it is the corporation policy that is holding them back. They simply are not willing to compete because they would rather buy things overseas, or open up plants elsewhere where there are greater profits.

Brother Trenz made a strong point. American manufacturers would rather buy out companies to increase their profits. It is very costly to build plants. It is very costly to get new equipment. It is much easier to buy an established company and increase their profits, and that is what seems to be happening. Big companies are

getting bigger and bigger, by buying others and buying readymade businesses and increasing profits sharply. We are taking the brunt of it.

REINDUSTRIALIZATION

Mr. PALMER. I have one question for all three panelists. There is a buzz word going around: "the reindustrialization of America."

In your experience with your managements through the unions you represent, have you had one or more discussions with management on reindustrialization of their machinery and their methods of producing?

Mr. TRENZ. We haven't had any discussions as such, but some of the bigger companies have invested in better machinery and more labor-saving machinery, higher technology.

While that makes them more competitive, it also means we have less people working there. It is a mixed blessing. You wind up with fewer people, who, perhaps, a company can afford to pay better. I don't know what happens to the other people who are now displaced by this technological improvement.

Viewed as a whole, the economy as a whole, if the profits of the companies were directed, you know, the economy as a whole, the industry as a whole, were directed in upgrading the total level of the economy and the competitiveness of the industry, generally, all industry in general, we could perhaps create more jobs in the long run by getting a bigger share of the market, hopefully.

Mr. PALMER. Mr. Maisel?

RELAXING REGULATIONS

Mr. MAISEL. I am a little suspicious when industry talks about reindustrialization. I think what they are really looking for is relaxation of some of the regulations they complain about.

For example, the safety on the job, they would like to relax that a great deal. They would like to relax some of the environmental laws that we have. They would like to, perhaps, go down to the minimum wage or below that for some of the newer workers.

I think what they are looking for is deregulation and the way it used to be when they could do anything they wanted. That is what they call, I believe, the reindustrialization. They are certainly not looking to spend a great deal of money.

Mr. PALMER. Mr. Parrington?

Mr. PARRINGTON. Reindustrialization, and I will stick to the construction industry that I am familiar with, in the past 25 years or a little more, we have retooled to the effect that 25 years ago a man did everything manually; he threaded pipe; he did stock and die manually; he bent pipe manually with an hydraulic bender. He did most of the pushing.

Today, everything is electric; electric stocks and dyes, electric hydraulic benders. The productivity is raised, I would say, in that period, about 75 percent as due to our contractors investing in tools that increase their productivity. I think it was a joint effort of both management and labor in our industry that brought it to the standard it is today.

Mr. PALMER. Thank you, Mr. Chairman.

Mr. WOLFF. Mr. Nelson?

Mr. NELSON. I had a question. I think I will ask the next panel. It relates to some of the topics we are discussing.

Mr. WOLFF. Thank you very much.

Mr. PARRINGTON. Thank you.

Mr. TRENZ. Thank you.

Mr. MAISEL. Thank you.

Mr. WOLFF. The next panel will consist of Mr. Carney, legislative chairman of local 1104, Communications Workers of America; Richard Vetter, president, local 44, International Union of Electrical, Radio & Machine Workers.

Mr. Carney, will you proceed first?

STATEMENT OF JAMES CARNEY, LEGISLATIVE CHAIRMAN, LOCAL 1104, COMMUNICATIONS WORKERS OF AMERICA

Mr. CARNEY. Thank you very much. First, I would like to thank you for allowing the Communications Workers to speak at this hearing.

My name is James Carney. I am legislative chairman of local 1104, Communications Workers of America, representing more than 2,000 telephone workers in Nassau County.

I am appearing here this evening to present a statement to this committee on behalf of the vice president of Communications Workers of America, Mr. Morton Bahr. Mr. Bahr could not be here as he is attending a meeting in Buffalo, N.Y. This is his statement:

CWA is a dominant organization in the field of telecommunications. We represent over 600,000 telecommunications workers across this Nation; 525,000 are employed by the Bell System and others are in General Telephone, United Telecommunications, dozens of independent telephone companies, Western Union, ITT World Communications and with a growing number of interconnects and cablevision employers.

In passing, I might say, 4,000 of our members who are employed as workers in the telecommunications live and many work in the 6th District in New York.

I point this out only to show you that this industry is of direct and vital importance to the economic health of Nassau County and the preservation of jobs within the county, as well as the State and the Nation.

IMPORT PENETRATION

We are deeply concerned with import penetration in our industry. We point out that a major sector of consumer communications electronics has been lost to imports. Black and white TV manufacturers no longer exist in the United States. We have lost a major portion of color TV.

We manufacture few radios. We are losing pocket calculators, even with U.S. firms such as Texas Instruments doing final assembly in such nations as El Salvador, paying near slave labor wages.

Our industry is changing dramatically. The microchips that will be that basis of the information telecommunications industry now emerging were developed in the United States, while we boasted the Silicon Valley in California and the highly sophisticated chip electronic industry in Boston and in other areas.

We have already exported this industry. The Japanese have already taken almost 25 percent of this market. We fear, having

looked at what happened in auto and steel, that the same can happen in telecommunications.

The computer terminal has entered the office, and soon, the home. There is no question that much of our manufacturing—whatever present polciy on trade leaves behind—will be computer driven from remote locations. The question is whether the telecommunications equipment will remain here or imported from abroad; most likely from Japan, Korea, or Hong Kong.

The newly deregulated telephone industry is already a case in point. Telephones are being imported from abroad, as is other terminal equipment. This will be increasingly the case as manufacturers, United States and foreign, and of course, the multinationals seek out cheap labor and favorable tax savings.

We are not only exporting our business in a basic industry, we are also restoring the sweat shops often under the label of helping developing nations. In the process, we are, at the same time, destroying the basic food producting farming in those nations and creating massive barrios around their cities.

INTERCONNECT INDUSTRY

The United States interconnect industry is becoming a massive importer. Our people are finding the made-in-Japan label on almost all their equipment. The Federal Government itself is buying equipment made abroad.

The case of Nippon Telephone represents all too clearly the kind of world we face. Nippon Telephone buys some $6 billion in equipment each year. Despite the agreement on trade and tariffs and our gentlemen's agreement with Japan, the U.S. companies cannot even bid on this equipment despite promises to the contrary.

The Nippon excuse is that our equipment—even though less expensive and better—does not inter-face with that of Japan; yet, our market is wide open to the Japanese, even under our "buy American" laws.

CONSUMER ADVANTAGE

Just one word about so-called "consumer advantage", the kind of verbiage we now hear from the Federal Trade Commission in the auto case.

The FTC staff, in that case, claimed that it will cost the American consumer some $6 billion annually if quotas or tariffs are applied to reduce auto imports. Although the FTC subsequently reduced that figure by a substantial amount, we still say nonsense.

We point out that this so-called consumer advantage usually vanishes entirely or almost at the retail store counter, that it largely vanishes in autos at the dealers. It comes from the inflation that follows a trade deficit and a weak dollar. It is paid in the even higher cost of oil, as OPEC and our domestic producers jack up the price allegedly to offset the impact of U.S. inflation.

It is paid for in taxes to support the million or more workers already jobless from the impact of imports. Every 1 percent of unemployment costs the U.S. Treasury alone some $20 billion in lost revenues. So much, then , for consumer advantage.

We point out also the United States cannot be the shield of freedom if it loses its basic industry; telecommunications manufac-

turing, autos, steel, and other. We cannot live as an effective Nation by taking in each others washing or pressing each others pants.

CWA does not seek an end to trade; that would be impossible. We do not seek a retreat into economic or political isolation. That also would be impossible and suicidal. We seek, however, fair trade rules that will preserve the bulk of U.S. industry here in the United States. We point out that, despite the textbook economics being preached in so many quarters, there is no such thing as free trade.

We point to restrictions in the Common Market and a virtual impossibility—for many reasons—of penetrating the Japanese market.

We also point out that a study made by the Dresdner Bank in West Germany not too long ago showed that American workers in manufacturing remain the world's most productive.

IMPOSITION OF QUOTAS

We urge the imposition of quotas on telecommunications imports, enough to preserve the U.S. industry and jobs while offering an incentive to domestic competition. We recommend self-defense against restrictions placed upon our industry and in Japan and elsewhere.

We feel that trade, in telecommunications and other industry, is too important to the welfare of our members, other workers and this Nation to be left to the vagaries of a rigged world market with its stateized companies, such as in the Soviet bloc, government subsidized and supported companies, import restrictions and the tender mercies of international financiers and multinational corporations.

As a great President said, it is the obligation of government to do for the people what they cannot do for themselves. Government alone has the power to preserve the American telecommunications industry and jobs, and other basic U.S. industries and the jobs it makes possible.

Thank you very much, Mr. Wolff.

Mr. WOLFF. Thank you very much, Mr. Carney.

Mr. Vetter, you may proceed.

STATEMENT OF RICHARD VETTER, PRESIDENT, LOCAL 444, INTERNATIONAL UNION OF ELECTRICAL, RADIO, AND MACHINE WORKERS

Mr. VETTER. Thank you, Mr. Chairman and members of the subcommittee.

I represent approximately 1,360 engineers at the Sperry plant in Great Neck. I am president of local 444, IUE. Our members are painfully aware of the problem of the inability to even buy American goods in many, many uses. Certainly this gentleman here mentioned many products; televisions, calculators have become just impossible to buy as American goods.

As far as the actual effect on Sperry, in our jobs, it is a little different. The point that we find is that the foreign trade policies affect us more directly than the imports themselves.

Some foreign countries require that companies receiving contracts must spend the equivalent in dollars in that country. They also favor companies which have a substantial presence in that country, and when workers perform in that country—like contracts obtained for that company—the employees working on the contract must be transferred to the division of that country.

We experienced that in the last few years, where people are actually transferred to the other divisions. They lose union protection and, sometimes, some of the benefits. When they are brought back again, they may lose their seniority and everything else, depending on how long they have been away. That creates a problem, the choice of staying with the union or going for another opportunity.

It would be far better if they could just be assigned to that for a period and stay employed by the Sperry Division in Great Neck and receive all the benefits.

I think we should examine our policies, therefore, in the light of discriminating policies of each country and insist they open themselves to real free trade before we allow them to have access to our markets. We cannot have a one-way street.

SUBSIDIZING INDUSTRY

The Japanese are noted for their subsidies of industry to capture foreign markets. Our computer industry is now under assault. Because we do not do a large amount of manufacturing computers in Great Neck, one of the divisions of Sperry Corp., that certainly is going to be threatened and is threatened by this particular problem.

At one time, military systems were almost exclusively made up of components that were American made and by Americans, which was the big thing. The high quality parts and everything else only came from the United States. Now, we find that many of the components of these military systems are coming from foreign countries and assembled in foreign countries.

We lose the capability here in this country. Some have already lost the manufacturing capabilities to make these things. What will happen in time of war? How will we devise their parts for these things? How will we actually handle these problems.

It is a big problem that should be looked at to see the extent that this happens.

We buy for different systems components for a lifetime supply, but these companies have to repair, and the difficulty exists when the American manufacturer goes out of business and some Japanese supplier is in business. We can't get the parts; we have to basically junk what is there and buy a Japanese part for that particular piece of equipment.

FOREIGN AND MILITARY SALES

The other area, of course, is the area of foreign and military sales. Congressmen in the area took to alerting us to what might be available in the way of helping us to sell military systems to foreign governments. I certainly think in the longrun we have to be considerate of the fact, as we mentioned here before, that while

many times, yes, you can get a component or product cheaper from a foreign country, and a consumer may say, "Well, it is a savings to me"; in the long run, he is going to pay out the difference in taxes to pay for those that are nonemployed. That is the important thing to look at. We have to look at the whole picture and not just the immediate gain you might think we are getting. That is an illusion.

Thank you, Mr. Chairman.

U.S. REQUIREMENTS

Mr. WOLFF. Thank you.

I would like to point to the fact that the American manufacturer must operate under minimum wage requirements, must operate under certain occupational health standards, and generally, certainly, environmental standards. Yet, products we bring into this country do not have to operate under any such standards, which, while essential, also cost a great deal of money.

The U.S. manufacturer should not have to compete in the same arena as others with no standards, because in effect, this means discriminatory policy against the United States. If we force American manufacturers to observe certain requirements, then the products that come in here should be made under the same conditions. Otherwise, there should be some sort of redress for us here in this country in order to help eliminate that type of discrimination.

There is no product here that could be made without obtaining minimum wage, and yet, as a result of labor conditions that exist in various parts of the world, these conditions are substandard. If we talk about the question of human rights—I believe the question was addressed to the area of human rights before—if we just try to upgrade the wage and labor standards of the people in those other countries, we are doing something in order to promote human rights as well as an economic factor.

Mr. VETTER. Certainly, many of the countries in the east who supply us with parts are basically working with what we would consider slave labor.

HUMANE CONDITIONS MUST EXIST ELSEWHERE

Mr. WOLFF. In India, for example, I have seen young children working in darkened rooms because they have to work with their hands at making rugs. These children must go blind in a period of 3 to 4 years. It is just a circumstance because of the nature of the job that they are doing and the fact that they are denied even a window for outside light to come in.

If we really are concerned with human rights, then I do believe that we have to attempt, through various organizations, whether they be the U.N. or the International Labor Organization, in addition to our bilateral organizations, to insist on fair and humane labor conditions existing where their products come into our country.

Mr. VETTER. Certainly, we impose labor standards on our own people; certainly we should insist on some sort of labor standard with imported products.

Mr. CARNEY. Mr. Chairman, I agree with you wholeheartedly. I believe, without a doubt, that if foreign manufacturers, given the same products, were to produce their products with the same restrictions that we have here in the United States with regard to environmental control and safety and everything else, in my mind, there is no doubt, we would be out-producing them by a far margin.

Mr. WOLFF. Thank you very much.

PROMOTING INDUSTRY OVERSEAS

Mr. Nelson?

Mr. NELSON. Since the AFL-CIO eventually came together to promote the common good, in listening tonight, I find myself wondering, since we are up against Japan, Korea, India, and Singapore, Inc., have we reached the time where the Long Island Federation of Labor and the Association of Commerce and Industry should join together in sending joint delegations to other areas to try and promote trade for Long Island, business for Long Island?

In a sense, it is the "if we don't hang together, we will hang separately," argument.

I am not talking about an official amalgamation of labor and management in the face of overseas competition. That is perhaps down the road a little bit.

Have we reached the point where, as union representatives, you think it is time that your union and the industry in which you work join together to promote business and trade for your individual industry, or is that down the road?

Mr. CARNEY. In the telecommunications industry, we are changing right now at such a fast rate. Everything now is electronic. The electronic age is here.

In communications and in telephones, they all used to be done by electromechanical switches, and that has all gone down the tubes right now. We are into the electronic age, the transistor and everything else.

I wanted to say something else: I saw a television program. I think it was NBC. I think the name of the program was "Japan Does It, Why Can't We". I found some very interesting things that came out of that program:

First, the fact that the Japanese Government does subsidize many of their industries, which was really shocking to me because we don't do that here in the United States. It gives them the opportunity to retool an industry that has already gone too long with the machines that they have, or to start new industry on that kind of a basis.

I also noticed that they have an entirely different approach to the worker and what goes on in there, and they are more involved in a collective group in service, quality, and productions, concerns which we do not have here.

Here in the United States, we find that most business is productivity. Everything is productivity. What is going to make the profit? Then, as I believe was said before, they take—as Mr. Trenz said before—they take the profit instead of reinvesting it to revitalize the company. They take that money and diversify.

It is a shame that happens. That is a major problem.

Mr. WOLFF. Mr. Vetter?

REINVESTING PROFITS IN THE UNITED STATES

Mr. VETTER. I don't think that would apply to us in particular.

I would also like to confirm the fact that it appears to us that we in the United States are leaders in technology in semiconductors and everything else; there is no question about it.

Then, by assigning that technology overseas, and building plants and investing the money to build plants, that money will not be reinvested in our own plants. Certainly, what is necessary in any system of modernization or whatever, you have to have reinvestment. That investment is not being made. It is being made by other companies here, being used to invest for their benefit.

Now that they are making the money there, they have restrictions. It stays there. It doesn't come back and get reinvested here. It is very serious.

IMPROVED CONDITIONS IN THE UNITED STATES

Mr. WOLFF. The more I think of this proposal that I have just laid down, I have been thinking about this for a long time, about the question of unfair competition coming from foreign products because of a disparity in wage levels. The more and more I think of it, it seems to me that if the United States is engaged in a true human rights program, then the whole question of working conditions, labor standards, and the like must be considered when we consider the whole area of human rights. It is not just the quality, but it is the quality of the working conditions as well.

This Nation improved and built a Nation that is admired by all because of what the unions have done to improve the working conditions of people. The sweatshops that existed in the world or in this Nation were done away with in most cases. I guess they still exist in a few places in this country.

The mere fact that we upgraded labor, increased the conditions and the lifestyle of individuals, and if we are to do this, it is not just the question of political freedom, not just the question of treatment in jails or places of incarceration, but in places where people live and in the places where people work.

I just want you to know that if I got nothing else out of this hearing tonight, it was an inspiration to go further in this particular area. I think it is one area where we really can utilize the committee that is involved here, which is a Committee on Foreign Affairs, and diplomatic relations as well as the economic area.

Thank you, gentlemen.

Mr. VETTER. Thank you.

Mr. CARNEY. Thank you.

Mr. WOLFF. Our final panel is the panel on textiles: Mr. John Girolamo, president, local 129, International Ladies Garment Workers Union; and Mr. Art Gundershein, director, International Trade Affairs, Amalgamated Clothing and Textile Workers Union.

We have been talking this evening about mostly hardware. I think we should now talk a little bit about software.

Mr. Gundershein, do you want to proceed first?

STATEMENT OF ART GUNDERSHEIN, DIRECTOR, INTERNATIONAL TRADE AFFAIRS, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

Mr. GUNDERSHEIN. Thank you very much, Chairman Wolff, for the introduction and for the opportunity of having these hearings to hopefully create a better understanding of the important situation within the community here. Frankly, having hearings outside of Washington, I think, is a much more delightful idea.

Many Congressmen overlook the virtues of this process. It ought to be practiced to a much greater extent.

Our union, the Amalgamated Clothing and Textile Workers Union, represents mainly workers in the apparel and textile fabric industry. Just recently, with a new merger, we now represent people who make shoes.

We have been concerned with the import problem now for over a quarter of a century and, for us, the trade issues have become as vital as negotiating better standards of working and income for our membership.

If I could, Mr. Chairman, I would like to actually have my statement entered into the record and summarize it for you, rather than reading it in its entirety.

I also ask the record be kept open. Some of the additional tables and figures I wanted to present, I couldn't bring them with me this evening because our office has just moved. We have just reinvested in New York City, by the way. We didn't leave the city. We completely renovated our headquarters from head to foot. We just reentered our buildings, and I am afraid the packing crates are still packed.

If I can, I will send them to the committee.

Mr. WOLFF. They will be put in the record.

Mr. GUNDERSHEIN. You are very well aware of the problem of the shift from domestic manufacturing to overseas production in the textile and apparel field. It has been now almost a quarter of a century since the U.S. Government has been so concerned with the disruptive effects of imports from Asia and other countries that they felt they had to enter into this kind of trade restraint program to rectify the situation.

We have now had, for 23 years, both voluntary and very strictly implemented agreements of one kind or other to control world trade on textiles and apparel. The first agreement was negotiated in 1961. The short-term cotton textile arrangement expanded into the long-term cotton textile arrangement.

Finally, in 1973, it included all major fibers in textile and apparel production.

The United States now has some 20-odd direct bilateral quota agreements, and I will get into discussion of that in a moment.

One of the more interesting points that ought to be brought out is the fact that our problems in the late 1950's and early 1960's were the same Asian nations that we still have today. Economic theory tells us that countries sort of have a ladder of progression and development. They started in soft goods industries and, then, move out and do other kinds of things.

ASIAN PROBLEM

It doesn't seem to work quite that way, because the same basic countries, Hong Kong, Korea, Taiwan, and Japan, who made up the majority of our import problem a quarter of century ago, still make up the majority of our problem.

There has been a slight shift, of course. Japan is no longer our number one supplier. It is very quickly being replaced by Hong Kong, and now, the People's Republic of China. Other than that, it is the same basic group of nations that present us with our problems.

We add to that the surrounding nations of Singapore, Macao, India, Malaysia, and the Philippines, our problem in textiles and apparel is basically an Asian problem.

The story is quite similar in shoes; 3 years ago, when President Carter was required to take import control action subsequent to a finding of injury by the International Trade Commission, he simply negotiated two orderly marketing quota agreements with Korea and Taiwan that covered close to two-thirds of all shoe imports in the United States.

The reasons these quota agreements and restraining agreements are so absolutely vital comes to the issue that has been raised time and time again this evening; obviously, the issue of jobs, employment, and livelihood.

The textile and apparel industry is still the largest manufacturing employer in the United States; somewhere close to 2½ million people still earn their livelihood through it, particularly here in New York State, which is still the largest single state in terms of the numbers of people in this industry. The latest figures we have, which are a couple of years old, is close to a quarter of a million people in New York still earn their living in this industry.

If you count the neighboring States of New Jersey and Pennsylvania, there are over half a million people who are dependent on the prosperity of the textile and apparel industry. The jobs provided in this industry are, in a sense, irreplaceable.

ENTRY INDUSTRY

Ours is an entry industry where prior skills and literacy are not required. It has been and still has the major opportunity of work available for all those who have suffered a disadvantage in our society.

The workers in this industry, for example, are mainly first-generation immigrants. They are disproportionate from the minority groups. Over half have no high school education. Women have found it as their primary work opportunity.

Factories are overwhelmingly concentrated in the center cities and in the small, one-industry towns. When these people are put out of work, what can they do and where can they go?

To suggest, as we hear all too often in Washington these days, maybe they can be retrained, retrained for other job alternatives, somehow our members have a great disbelief in that.

Can we realistically assume they will be made skilled mechanics in order to assemble airplanes in Seattle for Boeing, or are they going to be accountants for giant oil companies in Houston? These

are preposterous proposals. There are really no alternative job opportunities for them, and nobody has realistically faced that problem.

Many people have mentioned the fact that we are the one lucky industry in a sense that we have quota agreements and restraints on trade and have had for several years. Unfortunately, the agreements are not as effective and don't work in the manner in which we thought they would work, as many of us would like to see.

The problem is that the international ground rules for textile agreements allow a minimum growth rate of 6 percent for exporting countries whether there is a recession in the U.S. market or no recession. That growth rate is compounded year after year.

There are flexibilities of provisions which allow them to shift between products and so to sort of compound their quotas in a manner so they can come to dominate individual markets very quickly.

Third, because of historical experience and the way these agreements have been negotiated, the simple quota numbers themselves are in many cases enormous and allow tremendous quantities to come in, far more than our market could reasonably bear.

TEXTILE AGREEMENTS

The Carter administration frankly admitted the problem in the textile arrangements as they existed when the President took office and took some steps, I must say, to institute a new program to make the system work a little better. The President promised to get the bilateral agreements we have with the major exporting countries to be tightened significantly to do away with many of the flexibility and growth provisions that had been put into them. He committed himself to restraining many of the new countries that are entering our market in enormous numbers, particularly in the People's Republic of China.

On that program, he has sort of had a mixed record. There have been some significant changes in the agreements with the major exporting countries and the People's Republic of China has just, within the last few weeks, been put on under a quota agreement.

There are several aspects of the administration's program that have not been fulfilled, and we are still seeking a fulfillment of that, and as one of my first recommendations for the evening, I would suggest that Congress here would play a role in urging the administration to fulfill the remainder of the commitments:

The concept of a global evaluation of imports, the idea that mandatory growth rates be changed in such a way so as to have a look at the imports from all countries, and that if one wants to make provisions for the very, very poor countries who deserve and need special considerations, that ways ought to be approached to reduce the quotas of those who have too great a portion of our market.

The other major area where the administration committed itself and has not fulfilled to the degree we had expectations of was that imports would somehow be brought in line with the growth or the lack thereof of our own domestic markets.

In other words, for example, if the shirt or blouse industry, had a very good year, the imports could share in that. If they had a very

poor year and a great downturn, as there has been this last year, they would likewise have to suffer the same consequences our domestic suppliers would have to undergo.

MULTIFIBER ARRANGEMENT

Finally, I would urge, probably the most important thing is the basic international agreement, the multifiber arrangement, comes up for renewal next year. The administration is in the middle now of developing its position for renewal of the MFA, and there are some very important changes that have to be made in the basic ground rules covering imports into this country.

Members of Congress, such as yourself, who have been very concerned about the impact of trade, particularly on this industry—I must parenthetically say, by the way, we appreciate your concerns over these many years—it is vital you keep a close watch on the executive branch as it formulates its position and as it proceeds with the negotiations next year.

If for any reason the negotiations for renewal are not successful, I think it would be absolutely incumbent upon Congress to act swiftly in legislating special import control authority for the President that would be sort of an addition to, or outside of, the current powers that he has within the Trade Act of 1974 and the Agricultural Act of 1956.

No nation, no locality, be it Long Island or New York State, can exist without certain basic manufacturing industries, and those have to be maintained by whatever means are necessary. It is only through vigilance and it is only through the idea of preserving the dignity of work for people in the community that our members see as their own salvation in terms of their continued hope for the future.

Thank you.

Mr. WOLFF. Mr. DiGirolamo?

STATEMENT OF JOHN DiGIROLAMO, PRESIDENT, LOCAL 129, INTERNATIONAL LADIES GARMENT WORKERS UNION

Mr. DIGIROLAMO. Mr. Chairman, distinguished committee, my name is John DiGirolamo. I am district manager of the Nassau-Suffolk District Council of the International Ladies' Garment Workers Union.

Our union, as is well known, is composed of workers from a variety of backgrounds representing a cross section of many nationalities and religions. Our members are 80 percent female, who are often the heads of households.

Many of these workers, whose families or who themselves came to this country to build a secure life, now find their jobs threatened or being washed away by imports, oftentimes originating from the former homelands.

On Long Island alone, since 1977, hundreds of members in 22 union garment factories were certified by the United States Government to receive trade adjustment assistance to help alleviate the crippling impact the imports have had on their shops. Eight of these shops are still operating. Their workloads have been cut sharply. Fourteen have been forced to close their doors.

Our concern with the subject of imports, however, extends beyond the effect upon our members of Long Island or in the whole of New York State.

LOSS OF 106,000 JOBS

In 1973, employment in the production of apparel and related products provided jobs for 1,438,000 workers in the United States. By 1979, this number had decreased by 106,000. Over the same period, our union's research department estimates that the volume of apparel imports approximately doubled, bringing in the ration of imports to domestic production to 50 percent.

Moreover, this loss of 106,000 jobs nationwide does not include an additional loss in the potential jobs that would have been available were it not for an increase in the level of imports.

As grievous as this loss is for garment workers, the damage extends throughout our economy.

The Federal Government has recently estimated that for every 1,000,000 unemployed, the Treasury loses $20 billion in revenue and expenditures for unemployment insurance, food stamps, welfare, and related programs.

For the 106,000 jobs lost since 1973, an annual cost to the Government would come to $2 billion, 120 million.

To this, we must add the loss to the private sector economy which resulted because the wages of these 106,000 workers were no longer available to purchase homes, cars, appliances, and many other items.

This loss of consumption no doubt contributed to the job loss in other industries.

There is also a vicious social cost. According to the 11th Report of the National Council on Economic Opportunity, published in June of 1979, a rise of 1 percent in unemployment in the United States is responsible for a rise of 3.4 percent in admissions to psychiatric institutions, of about 4 percent in suicide, of 2 percent in deaths from cardiovascular and renal diseases and cirrhosis of the liver, 4 percent in State prison admissions, of 3.8 percent in homicides, 5.7 percent in robberies, 2.8 percent in larcenies and 8.7 percent in narcotics arrests.

Equally distressing, however, have been the responses of many so-called experts to the problems associated with the imports from low-wage nations. When we were first confronted with the rising tide of apparel imports, we were advised there were other ways to cope rather than through import restrictions. It was suggested our industry should become more competitive with these other nations in terms of wages and productivity. This recommendation was based on the questionable premise that free trade would result in every nation producing only what it could turn out best and cheapest.

COMPETING WITH FOREIGN LABOR

Let us examine, however, a few facts. A sewing machine operator in the United States earns on the average of more than $5.00 per hour, while workers performing identical labor in most exporting areas earn but a small fraction of this amount; much less than $1.00 per hour in Hong Kong; less than $.40 per hour in Taiwan,

Korea, or Singapore; around $.20 per hour in India and even less in Sri Lanka.

For garment workers in the United States to compete with such wage levels, even taking account of minor productivity differences, would call on them to turn out five to thirty times more work per hour than their counterparts in exporting countries, or to reduce their wages to something near $.75 per hour. Clearly, neither alternative is feasible.

Other proponents of unrestricted trade have suggested that if the hands of American workers cannot be more nimble than those of workers in low-wage countries, why then can we not compete by relying on our highly advanced technology?

Even in the less developed countries, apparel production is carried on by using the same current state-of-the-art technolgy as used in the technologically developed nations.

For that matter, such technology is frequently implanted there by American manufacturers of apparel or by giant U.S.-based chain stores. In addition, an internationalization of capital and managerial skills make wage rates the only factor of competitiveness in apparel manufacture.

EXPLOITATION OF FOREIGN WORKERS

Not only does this result in loss of job opportunities for American garment workers, it contributes to the continued exploitation of workers abroad.

Each developing nation which relies upon the export of apparel and other products of labor-intensive manufacture feels compelled to maintain low wage rates so the advantage will not shift to another third world country where workers earn even less.

If we examine the status of workers in Taiwan, Korea, and Hong Kong, or in the host of similarly situated nations, we find that they labor under abominable conditions. In each case, their governments pursue policies which restrict the rights of workers to organize and seek a better life. This is done to assure that wages remain artifically low.

Yet, these facts do not deter the believers in classic free trade from putting forward their advice, however unrealistic.

If garment workers and their employers find it impossible to compete with low-wage areas of the world, they say, so be it. The displaced workers, they allege, could find other jobs in plants producing shoes, electronic assemblies or other light manufacturing industries where the required skills are roughly comparable with those called for in the making of apparel.

Yet, time and again, we find that these industries which are presumably expected to furnish alternative job opportunities are also afflicted with the same sickness as we are; they are losing their jobs in the wake of growing imports from low-wages areas.

Confronted with this fact, the proponents of free trade suggest that people displaced by imports in the labor-intensive sectors move themselves into the capital-intensive sectors of our economy such as steel, auto or the like.

Here again, the advice fails on many counts. Workers in many capital-intensive industries have also been displaced by imports from the low-wage countries. Multinational corporations play a

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significant role in this development by their exports of technology, capital, plants, equipment, and managerial skills from the industrialized countries to the less developed ones.

OCCUPATIONAL ADAPTABILITY

Those who suggested that garment workers get employment in capital-intensive plants ignore another fact. Occupational adaptability is far from perfect.

During the war on poverty in the 1960's the Federal Government attempted to provide training which would upgrade the skills of unemployed and displaced workers through a variety of Federal programs. It should be noted that the economic conditions at that time were much more favorable than now. Economy was growing more quickly, inflation barely existed and energy was cheap. And yet, the average unemployment figure was around 4 percent during this period. Real employment was probably closer to 6 percent, owing to such factors as involuntary part-time work, discouraged workers, and undercounting in minority areas.

The lesson from the war on poverty is clear. If we are to achieve and maintain full employment, our economy must provide for a full range of job opportunities which would take into account the full range of worker's skills. We have to take into account the total weight of all the consequences which would occur if we were to allow the continued erosion of a basic industry such as ours, which provides a large number of jobs to people for whom few alternative job opportunities exist.

That is why, in the national interest of the United States, it is essential to adopt a rational trade policy for all of U.S. industry. The central feature of this policy would be negotiated import quotas with America's trading partners. Such quotas would link increments in import levels to increments in domestic demand. The initial level of import quotas must follow for the maintenance of job opportunities for all Americans.

Import restrictions alone, do not provide a long-term answer to the problems of the garment industry, nor the American economy as a whole. Clearly our Government must move forward rapidly with a comprehensive plan for the reindustrialization of the United States. Import restrictions, however, play a key role in this process, for without them, the basic fabric of the American economy will continue to weaken and reindustrialization will become an impossible goal.

Thank you very much.

I would like to add one thing.

I have brought quite a few of our members with me, just a handful in comparison to all the people that have lost jobs in the apparel trade. The people sitting right here, have all lost their jobs or have been slowed down by the imports.

COMPETING WITH OURSELVES

Mr. WOLFF. Thank you, Mr. DiGirolamo.

One factor, I think that one of the great problems that I have seen over the years is that our AID program, Agency for International Development, one of the major projects they were engaged in

was to set up textile operations and ready-to-wear operations in various places of the world. This was labor-intensive activity, and we promoted that type of competition.

I don't know whether or not that exists any longer. It seems to me with what you have said tonight, there should be a prohibition on the part of AID for going into that type of program. I think if we should only help the developing nations by going into programs, that are not competitive to our own.

Mr. Nelson just reminded me that in our hearings next February, that we hold on AID, I plan to introduce an amendment to that effect, because I do think that something like that is protective of our industry, and yet, is not an onerous type of protection. It merely shifts the burden of producing other types of merchandise that is noncompetitive to the American.

MOST-FAVORED-NATION STATUS

I have one point that I would like to make. We have a trade policy now that grants "most favored nation" status to countries. I think it is about time that we adopted, perhaps, a third tier of relationships on trade policies of a "nearly most favored nation", if you want to call it that, to take into account those nations that engage in what could be considered unfair labor practices in competition with the American marketplace.

I think it is about time that there was something between this "most favored nation" or not favored at all.

Mr. GUNDERSHEIN. I would like to comment on that absolutely terrific idea. If you are able to convince the State Department and the other people responsible for foreign policy considerations, it would be marvelous.

There is something you can do rather quickly. There is, as I have spoken of before, the generalized system of preferences. There was a program adopted as part of the Trade Act which presumably allowed the poorer nations of the world entry into the market, encouraged them to industrialize.

As a consequence of that encouragement, one of the inducements was the granting of no duties when their products came in. The countries eligible for GSP now include countries that ought not to be.

There ought to be some system of graduation. At what point do you no longer become a poor country and become an advanced country, if you want to call it that, or nearly developed country? Particularly, since the overwhelming amount of that program is really utilized only by five countries.

It is used by Hong Kong, Korea, and Taiwan. Those three themselves get 50 percent of all entries coming in. If you add Brazil and Mexico, you are up to 70 percent.

With five countries, all of whom have per capita incomes, and particularly segments of industries such as the garment industry and textile industry that is as developed as any country around the world, taking special advantage of this duty-free entry, we just think there ought to be an estimated graduation out of that.

IMPORTS FROM EASTERN EUROPE

Mr. WOLFF. How do you account for the large part of the men's wear coming in from some of the Iron Curtain countries, Yugoslavia, some from Czechoslovakia, Hungary and Romania?

Mr. GUNDERSHEIN. There are basically two reasons for this. One, Eastern Europe has traditionally been a producer of men's tailored apparel, which includes suits, overcoats, sports coats, and so on. That is an industry that has been long established there, and therefore the skills are there and the training is available for people entering the industry and so on.

Really, I think the more important factor goes to the relationship of Eastern European countries with Western European countries.

Western Europe has a system of what they call outward processing, somewhat similar to our 807 program. If you take the fabric and ship it to Romania, Yugoslavia, or an Eastern European country, it is then cut and sewed into a man's suit, returned back to France or Germany. There is a much lower duty rate or no duty rates; particularly if it goes from East Germany to West Germany, it comes in duty-free and then is shipped out.

We have discovered many French designer names, for example, who have those wonderful Yves St. Laurent and Christian Dior products made in the Eastern European countries and shipped out as though they were made in France.

AGREEMENT WITH THE PRC

Mr. PALMER. I have a question for the panel concerning the People's Republic of China, with whom we have recently signed agreements, both concerning textiles and importation of various types of ready-to-wear clothes, et cetera.

Do any of you have any comments on those agreements from the standpoint of your industries?

Mr. DIGIROLAMO. One of the things that President Carter managed to do with some of the imports from China was keep a lot of these imports on the docks rather than having them released and flood the country. They are going to come through, but they are being released gradually, from what I understand.

Maybe Congressman Wolff could add more to that. This is my understanding.

Mr. WOLFF. Could you repeat the question?

Mr. DIGIROLAMO. On the imports from China, President Carter has held back a lot of these imports, rather than having them flood our country. They were kept on the docks in the United States and are gradually being released.

Mr. WOLFF. I cannot inform you on that, except to say that we recently had the signing of the trade agreements, the series of trade agreements with the People's Republic of China.

TEXTILE AGREEMENT

Mr. NELSON. In general, on this problem, it is a classic case of conflict between jobs and trade policy, how that can conflict with other so-called "national interests" versus "strategic interests."

As the chairman has said many times, in Washington, the United States' pursuit of relations with China is being used as a larger struggle, part of a larger struggle with the Soviet Union.

In the last 2 or 3 years, when you met with a Chinese Embassy person, the first thing they talked about was the textile agreement. They wanted to know when the agreement would be signed so they could start selling. They were using that as proof of performance on normalization of relations in many ways. The specific issue of textiles kind of got lost in the larger issue.

Mr. PALMER. My question was addressed to Mr. Gundershein. How do you react to the agreement; if it is not something that affects you for the time being, so be it?

Mr. DIGIROLAMO. It hasn't affected us yet, but I have a terrible fear, once China starts releasing its imports into this country, we are just going to be drowned out. We will be inundated with work. Our people will be sitting by idly. I dread it.

I know there has to be a certain amount of import-export. I dread the fact that there is going to be a possibility of just flooding the country with garments.

Mr. WOLFF. I would just like to say, one point that I found in China is that their labor rates are unbelievably low, but their prices are unbelievably high. Although they are a Communist nation, we could learn from some of their marketing techniques, because what I saw in the making, that I related at one time at Jim Trenz' meeting, I saw some blown glass being made. It looked like what you'd see in Venice.

They were paying $0.07 an hour for labor. The vase that was made took about 15 minutes to make. The labor cost of it couldn't have been 3 cents—they used sand as a basic igredient.

When I went into the store, it was $14. They have a profit motive there, obviously.

Mr. GUNDERSHEIN. In response to your question of China, I do know the agreement intimately. The basic reaction is that it is absolutely important that China was put under a bilateral agreement, fundamentally important, and that the President did accomplish; and the five items that were put under the quota agreement, while the numbers were a little bit high, it did really serve the purpose of preventing a disaster from occurring. The President really ought to be given full credit.

As my brother here mentioned, the fact that embargoes were kept on products for a 2-year period in order to encourage them to come to the negotiating table and to, frankly, come with a reasonable position—one of the reasons it took so long to negotiate that agreement, the Chinese had absolutely preposterous figures in terms of what they though an agreement ought to constitute.

QUOTA ITEMS

Having said that, there is a remaining problem. Only five items are under quota. Those are the five items that they were shipping as of 1½ and 2 years ago.

China has approximately 20 times the productive capacity of Hong Kong, Korea and Taiwan put together at the present time because of the domestic market and by their barter agreements which they are arranging with various apparel companies around the world.

That enormous capacity is now very quickly spreading into other products. There are some, literally, dozens of other garments that now China is, all of a sudden, starting to send in. In a short time of 2 months, there has been a tremendous skyrocketing, for example, of wool sweaters that never appeared before. We have restraints,

quotas on cotton shirts from China, but we don't have manmade fiber. We have synthetic fiber.

There has been a tremendous shift into the sythetic fiber shirts. The real test will come on whether the administration will move quickly to negotiate quota limitations on every product as China becomes a major factor in our market. That still is, frankly, an open question.

Mr. WOLFF. That is a very good point.

COOPERATIVE ARRANGEMENTS

Mr. GUNDERSHEIN. I would like to address the question of labor and industry cooperation, the question of productivity and efficiency, becoming more competitive.

I must say, somewhat in distinction to our prior trade union colleagues, our two unions have been heavily involved in this for a couple of years. To us, it is a very important aspect.

You cannot simply ask the Government to take restraint action to keep out things, because you have an equal obligation to make your own industry as efficient and competitive as possible.

We have set up a cooperative arrangement, sort of 50–50, with our industry colleagues and the union through a nonprofit corporation and with some Government funds to do all of those things that are necessary to make our industry as competitive and as viable as possible.

We have used Department of Labor funds in terms of trying new workers and trying to develop new training methods which will be faster and will encourage more people to stay in the industry, to produce turnover rates. We worked very closely with the Department of Commerce and the National Science Foundation on a whole range of technological improvements in this industry and the introduction of those new technologies into our industry.

At the same time, I must say, with certain obligations on the part of the companies, undertaking to maintain people on the payrolls and to maintain their wage levels, so we are not—we believe very strongly that there is no—you cannot use the import restraint program to maintain an inefficient and backward industry.

We take some pride in this program. For us, it has been a very useful exercise, and frankly, it has had a number of other ramifications that in the long term will be very beneficial.

Mr. WOLFF. We thank you all for participating in this hearing tonight.

I must say to all of our witnesses, you have provided us with a very good body of information to add to that which we have already taken in the previous hearings, and to add to the human dimension, to something that we feel is totally necessay to assess this picture in its totality.

We thank you very much for appearing here this evening.

If there are no further questions by the panel, the committee stands adjourned at this point. This committee will make a formal report to the Congress. This hearing will be included in the formal report.

[Whereupon, at 10:50 p.m., the hearing was adjourned.]

APPENDIX 1

Estimated Fiscal Impact of 500,000-Unit Restraint on Auto Import

If 500,000 fewer autos had been imported in 1980, U.S. governments would have saved over $2.14 billion in first year lost revenues and increased spending. We estimate a budgetary impact of $2.07 billion for the Federal government and $0.07 billion for State governments.

These estimates consider reductions in personal income taxes, corporate income taxes, Social Security taxes, unemployment insurance premiums and sales taxes, as well as increases in Trade Adjustment Assistance, unemployment insurance, Food Stamps, Medicaid and welfare payments. Also considered is the increase in revenue from tariffs.

These estimates are in two parts. The first is an estimate of the first year costs to the government for each thousand workers laid off; the second is an estimate of the number of jobs which would have been saved during 1980 from a 500,000 unit restraint on auto imports.

The estimates include the effect of reduced auto production on industries which supply components and materials to the auto industry but do not consider the secondary effect of auto unemployment on other sectors of the economy.

This secondary effect includes both the effect of decreased consumption by unemployed auto workers and suppliers and the costs of income support for indirectly affected households. For example, AFDCU rolls (and State General Assistance rolls) increase dramatically when there is unemployment in the auto industry. The families claiming these benefits are laid off because of the decline in spending in other sectors by auto workers and suppliers or because they cannot compete for jobs with higher skilled laid off workers. Thus, increases in first year costs for the Food Stamps, Medicaid and welfare programs were actually much greater than those included in these estimates.[1]

These are estimates of first year costs only. They do not consider future year costs, which would result from structural change in the U.S. auto industry caused by current increased imports and which would affect additional groups of workers.

PART I: SAVINGS PER THOUSAND WORKERS

There are three categories of laid-off workers who create public costs as a result of abnormal levels of auto imports:

(1) Employees of auto manufacturers who were laid off as a direct result of increased imports. Federal costs include their TAA/UI benefits and their unemployment benefits[2] as well as lost income and Social Security taxes and UI premiums. Their level of TAA benefits makes them ineligible for Food Stamps, Medicaid or welfare payments. State costs include lost income and sales taxes.

(2) Employees of supplier firms laid off as a direct result of increased imports. They are not eligible for TAA, but Federal costs include employment benefits and lost taxes. Since unemployment benefits are lower than TAA, and since some of these workers exhaust their unemployment benefits before being reemployed, Federal costs also include Food Stamps, Medicaid and welfare payments. State costs include lost income and sales taxes, and Medicaid and welfare payments.

(3) Employees of auto manufacturers who were laid off, not because of import competition, but because auto sales have slumped as a result of general economic conditions. Although these workers receive unemployment benefits and pay less taxes, these government costs were not created by the rise in imports and, therefore, are not included in these estimates. However, the increases in auto imports in 1980 led DOL to determine that rising auto imports had contributed importantly to

[1] One indirect cost—the effect of reduced auto worker consumption on state sales tax revenue—was easy to calculate in the time available for this analysis and is included. A small offset to decreased spending by U.S. workers occurs because a fraction of the increased revenue of foreign auto producers is spent on U.S. goods and services—both auto components and other U.S. exports.

[2] UI premiums and benefits, including the State share, are considered part of the Federal budget, despite State control over premium rates and benefit levels.

reduced production in their plants, and this third category of workers became eligible for TAA benefits. Thus the difference between unemployment benefits and the higher TAA benefits is a relevant cost which would not have occurred if import levels had been 500,000 units lower and is included. Such determinations are retroactive and are expected to cover virtually all auto plants in 1980.

Although corporate income taxes and tariffs on imported autos are related to sales rather than employment, we have expressed them on the basis of cost per thousand workers to make it possible to relate the estimates in Part I to different assumptions about number of layoffs.

Category 1: Auto workers reemployed as a result of import restraint

Assumptions

Average earnings before layoff were $430 per week.[1] Typical family is husband, wife, and two children. Fifty-five percent of families have other earnings, averaging $159 per week.[2]

Number of weeks unemployed will be 34,[3] and earnings after reemployment will be the national average manufacturing wage, or $269 per week.

	Amount
Federal costs per worker:	
Lost Federal income tax[4]	$3,135
Lost social security tax[5]	1,828
Lost unemployment insurance premium[6]	20
UI benefit[7]	4,406
TAA benefit[8]	4,740
Total per worker	14,129
Federal costs per 1,000 workers	14,129,000
State costs per worker:	
Lost State income tax[9]	446
Lost State sales tax[10]	156
Total per worker	602
State costs per 1,000 workers	602,000

[1] Ford's Mahwah, N.J. assembly plant payroll divided by the number of workers. Consistent with Department of Labor data on average hourly wages in the auto industry.

[2] Current population survey data for first quarter of 1980.

[3] Estimate of Trade Adjustment Assistance Administration of number of weeks auto workers on permanent layoff will receive TAA.

[4] Assumes larger of standard deduction or itemized deductions of 23 percent of income. Income is not high enough to trigger taxation of UI or TAA ($25,000 for married filing jointly).

[5] 12.26 percent of first $25,900.

[6] Based on national average premium of 3.9 percent, paid on first $6,000 of each workers's salary in most States.

[7] $136 per week, based on DOL February statistics for maximum benefits for States we are using to represent auto manufacturing and supplier States: Michigan (weighted .5) and Indiana, Ohio, New Jersey, Pennsylvania and Missouri (weighted .1). This weighting system is used for all further calculations based on State information. Assumes 80 percent of workers are in States with extended benefits and 20 percent exhaust their benefits after 26 weeks. As of June 13, 1980, of the States listed above only New Jersey did not have extended benefits.

[8] Auto workers will receive the maximum benefit, which is the difference between the national average manufacturing wage and the worker's unemployment benefit.

[9] Based on information from ACIR on effective rates for representative States.

[10] Based on information from IRS on sales tax rates for representative States. Assumes half of decline in after tax income which results from layoff is reduction in savings and half is reduction in consumption, of which 75 percent is subject to sales tax.

Category 2: Suppliers reemployed as a result of import restraint

Assumptions

Average weekly earnings before layoff were the national average manufacturing wage, or $269.

Typical family is husband, wife, and two children.

Fifty-five percent have other earnings, averaging $159 per week.

Average number of weeks unemployed will be 34, and weekly earnings after reemployment will be $269.

	Amount
Federal costs per worker:	
Lost Federal income tax	$876
Lost social security tax	1,122
Lost UI premium	20

Federal costs per worker:	Amount
UI benefit [1]	3,272
Food stamps benefit [2]	315
Medicaid benefit (Federal share) [3]	25
AFDCU benefit (federal share) [4]	20
Total per worker	5,650
Federal costs per 1,000 workers	5,650,000
State costs per worker:	
Lost State income tax	204
Lost State sales tax	59
Medicaid benefit (State share)	22
AFDCU benefit (State share)	17
Total per worker	302
State costs per 1,000 workers	302,000

[1] $101 per week, based on weighted average benefit for represenative States. Assumes 80 percent of workers are in States with extended benefits, and 20 percent exhaust their benefits after 26 weeks.

[2] Average assumes 45 percent have second earner and receive UI for 34 weeks, 35 percent have no second earner and receive UI for 34 weeks, 10 percent have second earner and no UI weeks 27–34 and 10 percent have no second earner and no UI weeks 27–34. Also assumes participation rate of 65 percent, which is national average.

[3] Average assumes only 10 percent of workers are eligible and participate only during weeks 27–34, when they have no second earner and exhaust their benefits. Average benefit level $58 per week, and average Federal share (53 percent) are derived from program information on medicaid benefits of current AFDCU enrollees in relevant States.

[4] Averge assumes only 10 percent of workers have no second earner and exhaust their UI benefits. Half of these families live in States that have AFDCU programs, pass the assets test and claim their benefits. (Assumes average Federal share of AFDCU cost in relevant States is 53 percent).

Category 3: Other laid off auto workers

Assumptions

Number of weeks unemployed will be 34 for permanent layoffs and 5 for intermittent layoffs. Forty percent of layoffs will be permanent and 60 percent intermittent. Eighty-five percent laid off workers will be covered by TAA.[1]

Net TAA benefit is $133 per week (difference between TAA and UI).

Federal costs per worker:	Amount
TAA benefit	$1,877
Total Federal cost per 1,000 workers	1,877,000

SAVINGS NOT DIRECTLY RELATED TO REEMPLOYMENT

Lost Federal corporate income tax per category I worker [1]	$5,599
Offsetting revenue from tariffs on imports [2]	2,558
Net Federal cost per worker	3,041
Lost State corporate income tax per worker	933
Federal cost per 1,000 workers	3,041,000
State cost per 1,000 workers	933,000

[1] Assumes 13.33 autos not produced for each laid off worker and not sold at average retail price of $7,000. Federal tax obligation estimated at 6 percent of sales, and State tax obligation at 1 percent of sales, based on national income accounts, July 1979.

[2] Ad valorem tariff of 2.9 percent on $6,000 car.

[1] Estimates from Trade Adjustment Assistance Administration.

PART II: JOBS SAVED AS RESULT OF 500,000 UNIT IMPORT RESTRAINT

Import restraint (units)	500,000
Increase in U.S. auto production [1] (units)	450,000
Number of auto worker jobs saved as a result of import restraint (category 2) [2]	34,000
Number of supplier jobs saved as a result of import restraint (category 2) [3]	68,000
Number of other auto lay-offs (category 3) [4]	591,000

[1] Assumes 90 percent of import purchases replace new U.S. produced autos and 10 percent replace deferred purchases or used car purchases.

[2] Assumes each auto worker produces 13.33 autos per year.

[3] Assumes 2 supplier jobs for every auto worker job. This is a conservative estimate, since DOL input-output analysis suggests the ratio is closer to 3 to 1.

[4] Assumes 250,000 long-term or permanent layoffs in 1980 (averaging 34 weeks) and 370,000 short-term layoffs (averaging 5 weeks) for a total of 625,000. If 34,000 jobs are saved, this leaves 591,000.

CONCLUSION: ESTIMATED COST OF AUTO IMPORTS TO FEDERAL AND STATE GOVERNMENTS

[Dollars in millions]

	Category of workers			Other costs	Total
	I	II	III		
Number of workers	34,000	68,000	591,000	— [1] 34,000	
Federal costs:					
Lost revenues	$169	$137		$103	$409
UI	150	223			373
TAA	161		$1,109		1,270
Foodstamp, medicaid and welfare		255			25
Total	480	385	1,109	98	2,077
State costs:					
Lost revenues	21	18		32	71
Medicaid and welfare		3			3
Total	21	21	0	32	74
Total	501	406	1,109	130	2,151

[1] Category I.

APPENDIX 2

Text and Explanation of Senate Joint Resolution 193

Whereas, the President should be able to negotiate agreements with foreign governments to relieve foreign penetration of the United State automobile and truck markets, notwithstanding any proceeding pending before, or investigation being conducted by, the United States International Trade Commission, and

Whereas, the Congress intends to remove any potential obstacle to such negotiations, without prejudicing the President's right to conduct such negotiations under other provisions of law: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the President may, whenever the President determines such action approporiate, Negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries, and the importation into the United States, of automobiles and trucks, enter into, and carry out such agreements. The authority provided by the preceding sentence, and any agreement entered into pursuant to such negotiations, shall expire on July 1, 1985.

(b) The President shall seek information and advice from representative elements of the private sector, including representatives of consumers, with respect to negotiating objectives and bargining positions before entering into an agreement referred to in subsection (a) either in accordance with section 135 of the Trade Act of 1974 or in accordance with such other procedures as the President may establish.

(c) The President is authorized to issue regulations governing the entry or withdrawal from warehouse of such automobiles or trucks to carry out any agreement referred to in subsection (a).

Sec. 2. No action (including agreements between or among private parties) taken pursuant to an agreement referred to in subsection (a) of the first section of this joint resolution that is necessary to carry out obligations undertaken in connection with the agreement (as determined under regulations prescribed by the Attorney General after consultation with the Secretaries of the Treasury and Commerce) shall be treated as a violation of any law of the United States.

This joint resolution would have the force of law once it passes both houses of Congress and is signed by the President.

This resolution is a carefully tailored one. While it would allow the President to begin immediate discussions with the Japanese that could lead to an orderly marketing agreement temporarily reducing Japanese imports, it would not direct the President to enter into such negotiations or give him new powers to impose quotas unilaterally.

The preamble of the resolution would establish that it is the intent of Congress:

First, to permit auto trade negotiations with the Japanese even while the International Trade Commission proceeds with its investigation, and

Second, not to prejudice the question of whether or not negotiations on an auto import agreement could be conducted under any other Presidential powers.

Subsection (a) of the first section would give the President authority to negotiate with foreign governments to obtain import restraint agreements on cars and trucks. That authority and any agreement would expire on July 1, 1985, thus limiting any import reduction to the period vitally needed to convert the U.S. auto manufacturing facilities to the production of highly fuel efficient cars and trucks.

Subsection (b) would required the President to consult with interested parties in the private sector before entering into any agreement. The President could use the system of trade advisory committees that has been established under section 135 of the Trade Act of 1974, as amended, or a less formal procedure if that is more appropriate.

Subsection (c) would enable the President to implement any agreement by authorizing him to regulate the introduction of foreign cars into the U.S. market in accordance with the terms of that agreement.

Section 2 would exempt the act of entering into an auto export agreement, and any such action that the Attorney General determines is needed to implement such an agreement, from antitrust and other laws of the United States. This is intended to prevent the implementation of an agreement from being delayed by court suits.

APPENDIX 3

American Motors Position Paper on the State of the U.S. Automobile Industry in 1980

This paper describes the present state of the U.S. automotive industry and American Motors in particular. It was prepared to help members of Congress understand the external forces which have impacted the U.S. automakers, the industry's response to these factors and remaining unresolved issues.

Events of the past several months have affected American Motors adversely. Depressed sales have resulted in record losses and large layoffs. This has severely affected AMC's ability to raise new capital at a time when unprecedented expenditures are required to develop new more fuel-efficient vehicles. Positive government actions are suggested, and your support is requested.

I. THE PRESENT STATE OF THE U.S. AUTOMOTIVE INDUSTRY

The U.S. market for new automobiles and light trucks has been subjected to a number of severe pressures in the past year or so:

Economic recession;
High inflation rate;
Escalating gasoline prices;
Gasoline shortages caused by misallocations;
Precipitous decline in consumer confidence;
Severely restricted credit availability;
Continuing depreciation of the U.S. dollar.

As a result, an increasing number of U.S. car buyers have turned to small fuel-efficient vehicles. Accordingly, imported vehicles, principally Japanese, have achieved an increased share of the U.S. retail car market, now second only to GM:

U.S. AUTOMOBILE RETAIL MARKET SHARES

[In percent]

Model years	GM	Ford	Chrysler	AMC	Imports	Total
1976	46.8	23.4	12.8	2.6	14.4	100
1977	46.7	22.0	11.3	1.9	18.2	100
1978	46.9	23.3	10.3	1.6	17.9	100
1979	47.0	20.8	9.4	1.3	21.5	100
1980 August YTD	46.2	17.3	7.1	[1] 1.4	28.0	100

[1] 1.8 percent if 31,383 4-wheel-drive Eagle automobiles are included.

The increase in market share of imported four-wheel-drive trucks is even more significant, having grown from 3 percent in 1976–77 to 17 percent currently.

U.S. 4-WD LIGHT TRUCK RETAIL MARKET SHARES

[In percent]

Model years	GM	Ford	Chrysler	AMC	I.H.	Imports	Total
1976	44.0	23.7	10.6	14.7	4.4	2.6	100
1977	41.3	23.7	12.7	15.0	3.7	3.6	100
1978	37.5	30.8	8.5	14.4	3.5	5.3	100
1979	33.6	29.4	7.6	15.7	2.6	11.1	100
1980 July YTD	30.0	28.1	6.1	15.8	3.1	16.9	100

As a result, estimated 1980 model domestic automobile unit volume has declined 29 percent since 1978, while imported unit volume has increased 29 percent as shown below. For four-wheel-drive vehicles, 1980 domestic volume is off 47 percent, while imports are up 138 percent during the same period.

MODEL YEAR UNIT SALES VOLUMES

[In thousands]

	1976	1977	1978	1979	1980 estimate
Automobiles:					
Domestic	8,489	8,997	9,257	8,603	6,600
Imports	1,424	1,995	2,016	2,359	2,600
Total	9,913	10,992	11,273	10,962	9,200
4-WD vehicles:					
Domestic	592	707	956	857	504
Imports	16	26	53	107	126
Total	608	733	1,009	964	630

The dramatic drop in demand for U.S. vehicles comes at a time when the industry needs to raise an estimated $80 billion to finance new 1981–85 model products required to satisfy the American car buyers and meet federally mandated emission. safety and fuel economy requirements. Such massive investments would be difficult to raise even with normal sales and profit levels, but U.S. automakers currently are faced with the worst financial year in their history.

Net losses by GM, Ford, Chrysler and AMC in the April–June quarter totaled $1.5 billion, and total losses for 1980 likely will amount to $3 to 4 billion.

Indefinite layoffs by the U.S. automakers were 250,000 in late August (more than one-third of all workers in the industry). An estimated 600,000 additional layoffs have occurred in industries dependent on vehicle production.

Six assembly plants, four car company supply plants and 85 outside supplier plants have permanently closed.

1,139 domestic car dealerships have closed their doors since last September.

The recent shift away from domestically produced vehicles to imported vehicles was triggered, at least in part, by the higher perceived fuel efficiency and the alleged better quality of imported vehicles. While in the past, imports may have outperformed U.S. vehicles in fuel economy, the new 1980 and 1981 models offered by U.S. carmakers are fully competitive. Nonetheless, another three years or so is required for the U.S. manufacturers to completely change over production facilities to new more fuel-efficient vehicles.

Foreign cars, particularly the Japanese, excel in "fit and finish" which has led buyers to believe they must be of a higher quality and therefore more durable. To the contrary, data indicates that the scrappage rate of domestic cars is lower than imported vehicles.

For example, as shown below, 21.5 percent of all seven-year old imported cars have been scrapped compred with only 16 percent of the U.S. cars. Or put another way, 78 percent of seven-year old imports survive seven-years of use versus 84 percent of U.S. cars.

CUMULATIVE CAR SCRAPPAGE RATES

[Average rates July 1, 1970 to July 1, 1979]

Vehicle age	Percent of initial registrations scrapped	
	U.S. cars	Import cars
1	0.1	0.5
2	0.9	1.6
3	2.5	4.0
4	4.2	6.7
5	6.6	9.8
6	10.3	15.1
7	16.0	21.5
8	24.3	29.2
9	35.3	39.3
10	48.6	48.2

II. AMERICAN MOTORS' STATUS

Like the other U.S. auto manufacturers American Motors is experiencing significant losses in 1980. The Company reported a record loss for its third fiscal quarter (April-June), and a record loss is expected for the total fiscal year. In addition, American Motors' lenders recently limited its $150 million credit line to $90 million and a pledge of corporate assets as collateral. American Motors' plants are operating at about 50 percent capacity. The Company has responded appropriately in the circumstances to deal with current problems and protect its long-term viability.

Short-term actions to reduce corporate losses include a 13 percent reduction in the salaried workforce, a $60 million reduction in 1981 fixed costs and a significant reduction in 1981 non-product related capital expenditures.

The company's agreements with Regie National des Usines Renault provide for reciprocal distribution of products worldwide and for American Motors' manufacture of a new family of Renault-designed, fuel-efficient, front-wheel-drive cars at its Kenosha, Wisconsin facilities in mid-1982. Renault is providing $150 million in financing to American Motors for this project through a combination of equity, convertible subordinated debentures and subordinated debentures.

In addition, AMC will expand its successful line of four-wheel-drive Eagle automobiles and redesign its Jeep product line to increase fuel economy and efficiency. AMC's corporate average fuel economy for 1981 will be 1 mpg over the standard for passenger cars and 4 mpg better for four-wheel-drive vehicles. By 1983, AMC's passenger cars will achieve a CAFE of 31 mpg, a full 5 mpg over the standard.

Capital to implement American Motors' future product programs must be generated from profitable operations or from external sources. Current operating losses imperil the ability to attract outside capital and place future product programs at risk at the very time such programs need to be accelerated to assure the future viability of the Corporation.

In response to this problem, a temporary bridge loan was negotiated recently with Renault to supplement the residual bank financing and to permit American Motors' product development work for 1983–85 models to continue unhindered until a new long term financial structure is put in place this fall. Such a structure will require the continued support of Renault and the Company's lenders.

III. OUTLOOK

Despite the current depressed state of the U.S. automotive industry, the outlook for the 1980's is positive. The majority of the passenger car fleet needs to be replaced in the next 5–7 years. The U.S. automakers are in the process of converting production facilities to supply the vehicles required, but the conversion is hampered by unresolved issues including:

Restricted capital availability;
Continued Japanese import threat;
Continued flow of regulations;
Recession and high inflation;
Uncertain U.S. energy policy;
Inadequate availability of retail and wholesale credit.

While these issues confront the entire domestic industry, AMC is constrained in its response by its relative size and limited resources. The Renault-AMC relationship was forged to enable the company to continue to compete effectively in the small car market in spite of AMC's own relatively limited resources.

The company's strategic plan assumes a strengthened relationship with Renault and includes:

Continued production of current models.
Development with Renault and production in the U.S. of a new, fuel-efficient front-wheel-drive subcompact carline in mid-1982.
Development of a new generation of Jeep vehicles.
Continued expansion of four-wheel drive Eagle automobiles.
Continued importation of low volume specialty Renault vehicles.
Expanded international presence, particularly increased U.S. exports.
Expansion of AM General's government vehicle business.
Continued joint programs with Renault overseas, including a joint manufacturing venture in Mexico which will result in additional jobs for AMC's U.S. operations.

Unfortunately, the unresolved issues noted above may jeopardize the Company's ability, even with expanded involvement with Renault, to attract the necessary external financing at this time. Certain government actions would be helpful.

IV. RECOMMENDATIONS FOR GOVERNMENT ACTION

The following priority government actions are suggested.

1. An arrangement, hopefully voluntary, should be concluded to reduce Japanese passenger car imports substantially for two years.

2. The light duty truck (cab-chassis) tariff of 25 percent should be retained and not reduced in amount.

3. A refundable Investment Tax Credit with full credit applicable to assets having a useful life of three years or greater should be enacted to provide assistance in meeting future capital requirements. The U.S. Treasury should reimburse corporations for tax credits that cannot be utilized in periods of losses.

4. The financial community should be encouraged to cooperate with automobile manufacturers in making additional funds available for future programs.

5. The Automobile Fuel Efficiency Act of 1980 should be enacted.

6. Special emission regulations for high altitude and special California vehicle exhaust emission standards should be eliminated.

7. Proposed 1983 and subsequent model year light duty truck exhaust emission standards and related certification procedures should be deferred indefinitely.

8. Additional U.S. export incentives should be established.

V. SUMMARY

The domestic automobile industry is essential to the well-being of the U.S. economy, affecting about one of every six jobs in the U.S. The threats to the industry are real and capable of inflicting severe structural damage if not met by positive action. The recommendations listed above will help counter these threats and prevent irreparable harm to the industry.

Completion of the industry's changeover to new products will make available to the public highly fuel-efficient vehicles, stabilize employment and retain jobs for American citizens. With your understanding and cooperation, and that of the financial community, AMC is confident that the challenge will be met.

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