THREE CHEERS FOR BILL BROCK

U.S. Trade Representative William E. Brock announced last week that the Reagan Administration is considering dropping the "voluntary" restrictions on Japanese automobile imports when they expire next March. Calculations by Brookings Institution economist Robert Crandall reveal that this policy change would save U.S. car buyers $5.1 billion each year. Dropping import controls would also give U.S. automakers greater incentive to adopt more cost effective means of production. Brock deserves three cheers for his opposition to these import restrictions. The rest of the Administration should fall in line behind him and drop the restrictions immediately.

Brock drew attention in his statement to the huge bonuses given out by the automakers to their executives. General Motors, for instance, recently paid bonuses totalling $181.7 million to 5,807 executives, averaging $31,290. And Ford paid out $80.6 million to 6,035 executives, or $13,355 per head. These fat bonuses, funded by the hefty profits in recent quarters, suggest that U.S. auto companies no longer need protection from the Japanese.

This episode should remind Americans of the errors of protectionist policies. Under pressure from the then-ailing auto industry, the Reagan Administration in 1981 negotiated a "voluntary" limit on cars imported from Japan. The Japanese agreed to keep imports at 1.68 million cars annually for three years and 1.85 million in the fourth year. These limits have cost the American consumer dearly. Wharton Econometrics calculates that the average price of a new car has risen by $2,600 since restrictions went into effect in April 1981. Robert Crandall estimates that the price per car went up by $800 in 1983 alone thanks to reduced competition. Even taking into account rising labor and other costs, he says, at least $400 of this is attributable to the limits on Japanese imports. With the April 1984 sales of U.S. autos at an annual rate of 8.1 million, a staggering $3.25 billion extra burden is inflicted on the American consumer. Further, says Crandall, each Japanese car sold in America carries an average $1,000 premium, charged by the automakers since the restrictions keep supplies low while demand remains high. As such, the 1.85 million quota for the next twelve months would add another $1.85 billion to consumer prices. The total cost to American consumers over the next year if the restrictions remain in force--$5.1 billion dollars.

With the U.S. automaker profits for this year expected to top $10 billion, there seems no reason to "protect" the American manufacturer. These enormous profits have been made by selling 2 million less cars than were sold in the record 1977 sales year. The reason that U.S. firms can make more money by selling fewer cars is that restrictions on Japanese imports give U.S. automakers a quasi-monopoly, allowing them to boost prices and profits by restricting supply.

It was said that trade restrictions would give U.S. auto companies time to adopt more efficient modes of production, especially for subcompact cars. But it seems that once the quotas are lifted, the Big Three automakers plan to import hundreds of thousands of subcompact Japanese cars to meet current demand at reasonable prices. Despite trade protection, in other words, the U.S. auto industry still cannot produce small cars as efficiently as the Japanese. The lesson is clear. Protectionist policies do not make less efficient companies more efficient. Rather, they allow companies to continue in their inefficient ways, free of the incentives provided by competition and free trade.

American consumers will have a better supply of automobiles if import controls are lifted immediately, and the increased competition will moderate prices. This price competition is essential, because the United Autoworkers Union has made it very clear it intends the improved profits in the industry to be translated into higher wages and benefits for members, not price reductions for buyers. In addition consumers will have potential savings of $5.1 billion dollars over the next year for not paying non-competitive auto prices. They can spend this on other goods and services, meaning new jobs in America. This will boost employment in areas outside of the auto industry.

If the Reagan Administration truly wishes to help the American consumer, it should listen to Bill Brock and remove the restrictions on Japanese auto imports. The U.S. auto industry is not in danger of collapse. Nor is there any evidence that the quotas have improved America's trade bargaining position with Japan--Japanese auto companies are simply earning more money on each car sold. But rather than waiting until the March 1985 expiration date, controls should be dropped now. The sooner import quotas are lifted, the sooner U.S. companies will adjust to the world market situation and provide the right cars at the right price. And the sooner the American car buyer will get better value for his money. Then he too will join the cheering for Bill Brock.

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For further information:

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Thomas L. Martin, "The Eight Myths of Protectionism," Heritage Foundation Backgrounder No. 297, October 19, 1983.
Milton and Rose Friedman, Free to Choose (New York: Harcourt Brace, 1979), Chapter 2.