ISSUES RELATING TO THE DOMESTIC AUTO INDUSTRY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

JANUARY 14 AND 15, 1981

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Part 1 of 2

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WEDNESDAY, JANUARY 14, 1981

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (chairman of the subcommittee) presiding.

Present: Senators Danforth, Dole, Chafee, Wallop, and Matsunaga.

[The press release announcing this hearing follows:]

[Press Release No. H-68]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING

Senator John C. Danforth (R., Mo.), who will be Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittee will hold hearings on January 14 and 15, 1981 on issues relating to the domestic automobile industry.

The hearings will begin at 9:30 A.M., in Room 2221 of the Dirksen Senate Office Building.

Sales of domestically produced cars in early December indicate that the automobile industry has shown no real sign of improvement. In the first 10 days of December sales were 7.5 percent below those of a year earlier. The daily selling rate during this period was among the lowest since 1970. The Department of Labor estimates that approximately 175,000 auto workers are presently unemployed. Since the industry is unable to maintain profitable operating levels at the present sales rates, it is clear that unless there is a significant improvement in the industry's performance it will undergo fundamental changes including the potential failure of one or more of the producers.

The domestic industry recently was denied eligibility for import relief under the "escape clause" provisions of the Trade Act of 1974. Two joint resolutions providing independent authorization for the President to negotiate marketing agreements with foreign producers were introduced during the 96th Congress but neither became law.

Senator Danforth stated that it is his intention that the Subcommittee's hearings cover "all aspects of the problems facing the nation's automobile industry." Senator Danforth also stated that it is his desire to "move as rapidly as possible to fashion practical devices to assure the health of the American automobile industry."

Witnesses testifying at the hearings or submitting testimony should direct their testimony to all the factors affecting the performance of the auto industry, the causes of its present problems and possible solutions to these problems including, but not limited to the following:

(1) Taxation and regulatory changes, (2) Structural and technological changes, (3) The question of import relief, and (4) Mechanisms for assisting workers, dealers, and related industries including parts suppliers.

Requests to testify.—The Committee requested that persons desiring to testify during this hearing make their requests to testify in writing to Robert Lighthizer, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Thursday, January 8, 1981. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear.

If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.—The Committee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. The Committee urges very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—The Committee observed that the Legislative Reorganization Act of 1946, as amended, and the rules of the Committee require witnesses appearing before the Committees of Congress to file in advance written statements of their proposed testimony and to limit oral presentations to brief summaries of their arguments.

The Committee stated that in light of this statute and the rules, and in view of the large number of persons who desire to appear before the Subcommittee in the limited time available for the hearing, all witnesses who are scheduled to testify must comply with the following rules:

(1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon of the last business day before the witness is scheduled to appear.

(3) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

(4) Not more than 5 minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.—Persons requesting to testify who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies to Robert Lighthizer, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Monday, January 12, 1981.

Senator DANFORTH. Senator Dole, do you have an opening statement?

Senator DOLE. I have a statement that I will put in the record, Mr. Chairman.

I want to commend you for your action concerning this very important problem. I am not certain any of us have a fool-proof solution to the problem. There are a number of areas you have chosen to look at, any one of which might help this very important industry in America.

I would ask that my statement be made a part of the record.

[Opening statement of Senator Dole follows:]

STATEMENT OF SENATOR ROBERT J. DOLE

At these hearings the subcommittee will receive testimony on issues the magnitude of which are difficult to exaggerate. The automobile industry constitutes the very backbone of the economic strength of this country. Twenty percent of total employment in this country, or about 20 million jobs, are directly or indirectly dependent on or related to the automobile industry. The recent troubles of the industry have caused severe dislocations to ripple throughout the economy: As many as 700,000 workers in the automobile and related supplier industries and dealerships have been temporarily or indefinitely laid-off. These layoffs have strained unemployment insurance systems and caused the trade adjustment assistance program to escalate into a multi-billion-dollar-program. Our producing companies have suffered losses of staggering proportions.

These losses have made even more difficult the problem of converting the industry's capacity to the production of small cars. This conversion may require as much as $80 billion over the next five years. If accomplished, it would be the largest private investment program in history. As things presently stand, however, the real possibility exists that some members of the domestic industry will not be able to raise the necessary capital and may be forced to curtail some or all of their operations.

It is clear to every member of this committee, and I am certain to the members of the new Administration as well, that this country will not and cannot accept the destruction of this industry. Short of total dissolution of the industry, however, there is considerable controversy on how the needs of both the country and the industry can be met. Some commentators urge that the free market be allowed to work its will. Others argue that the free market approach is not practical in this particular industry. There is no free market and the consequences of the failure of the industry would be too severe to accept.

The controversy is further heightened by the industry itself which, because of various differences among its members, does not have a unified approach. One member of the industry sought relief from imports under the escape clause procedures, while another member testified during the same investigation that imports were not the most important cause of the industry's problems.

Preliminary examination of a number of both tax and regulatory relief proposals indicate possible significant drawbacks with each. They may be enormously expensive and the impact of the proposals varies greatly among the companies. In addition, the federal government has already put the Chrysler Corporation into a unique position within the industry by guaranteeing loans made to it.

These and other factors demonstrate the absolute necessity of the most careful consideration of all the proposals which are made to aid the auto industry. As I said on several occasions during and after the consideration of S.J. 193, the auto resolution, I am very concerned that the issues surrounding that resolution had not been fully and carefully examined. Both this committee and the new Administration will now have the opportunity to study all these issues, and I am hopeful that between the Congress, the executive, the industry and its employees, we can reach a general understanding of what is needed and agreement on how to get there. We have a most distinguished group of witnesses with us today to address these issues, and I look forward to their testimony.

Mr. Chairman, if I may add a personal note, I want to extend my congratulations to you. Not only is this the first hearing which you have chaired as a United States Senator, you have the distinction of being only the second Chairman of the Subcommittee on Trade and needless to say the first Republican Senator to serve in this distinguished capacity. The Finance Committee did not create the Subcommittee on Trade until the 93d Congress and in the eight years since then it has become the largest Subcommittee, demonstrating the vital importance of trade to our nation's economic health. I'm certain you will perpetuate and enhance the reputation which the Subcommittee had deservedly earned for its skillful handling of the trade issues.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

First, I want to join with Senator Dole and say how delighted I am that you are holding these hearings because I think they are tremendously important. It is well that we consider all aspects of this issue, not solely the overseas competition aspect.

I have a statement which I have put out at the table, but there is just one part that I would like to call to your attention and to the witnesses, too. Mr. Chairman, I have learned that the average hourly wage of major assemblers in the U.S. auto industry is $9.25, which is 60 percent higher than the $5.80 average wage of a production worker in my State, the State of Rhode Island.

Thus, Mr. Chairman, it seems to me that we have to bear in mind that any restrictive practices that are undertaken, aside from the trade consequences, should be considered in light of who is bearing the burden. If you have wage earners in Detroit who are substantially higher than the production wage of a worker, for example, in my State, it is difficult to proceed with the theory that the price of an automobile should be increased artificially through import restrictions, and that the extra burden be borne by a worker in Rhode Island—a worker who is earning less than those whom we are trying to help.

I recognize that there are many factors to be considered, but certainly the wage factor is one that I will be questioning the witnesses on as we get into this, Mr. Chairman.

[The opening statement and information was furnished by Senator Chafee:]

PREPARED STATEMENT BY SENATOR JOHN H. CHAFEE

Today's hearing on issues relating to the domestic automobile industry represent this Committee's and this Congress' commitment to assist an ailing major sector of the U.S. economy.

Hard times have come to the U.S. automotive industry. Layoffs are up, production and sales are down, and imports are continuing to hold their own or increase. The question of how to respond to this crisis in American industry grows daily more critical and passionate to the country and the world.

There is a growing clamor from business and labor for protection from competition, painful adjustments and distasteful workings of the market.

Recently, we have seen efforts made by the U.S. industry to encourage restriction of imports. Similar efforts have already begun this year.

Several important arguments have been raised against auto import restrictions, and thus far, the U.S. Senate has successfully and correctly fought off political pressures of protectionism.

Beyond the objections that such action would repudiate the Trade Act of 1974 and twenty years of U.S. trade policy, two facts bear repeating:

First, import protection for the auto industry would add billions of dollars to the cost of all cars, cause a net decrease in demand for cars, jeopardize thousands of auto dealers, and have a massive, inflationary impact. The Congressional Budget Office calculates a 20 percent drop in imports would cost consumers over $4 billion, while bringing only 9 percent of the laid-off workers back to the production lines. Even adding indirect employment gains, this means a cost to the U.S. consumer of up to $245,000 per job. The small gains in auto employment would be more than offset by employment losses elsewhere in the economy.

Second, aside from the presumption to tell people how much of what they will be permitted to buy, the numbers tell a different story. Imported car sales (Canadian products excluded) were about 2.5 million units in 1980, compared with two million units in 1978. During the same period, domestic car sales have plummeted from 9.3 million cars to 6.5 million. Therefore, even if there had been no increase in import sales, U.S. auto makers would still be in terrible shape.

It is a fact that total sales of automobiles manufactured in the United States have declined in 1979.

It is also a fact that unemployment among automobile workers has increased. Data published by Ward's Automotive Reports on May 19, 1980, show that about 220,000 workers were unemployed, compared to 200,000 in February of the same year.

However, it is not a fact that the sales slump and unemployment are caused by sales in the United States of foreign-manufactured automobiles. As acknowledged by UAW President Fraser in testimony on March 7, 1980, before the Ways and Means Committee, the reason for the slump in sales of U.S.-made cars is simply that beginning in February 1979, consumer preference switched rapidly to small cars—a market that Detroit was not prepared to supply. Fortunately for the American consumer, importers—especially those of small, fuel-efficient Japanese vehicles—had an oversupply at the time and proceeded to accommodate that segment of the market (which they themselves had created over the past 15 years). Detroit began to adjust its production and has increased its small car sales.

The market share of small cars—both U.S.-made and imported—went from 45 to 54 percent between 1977 and 1979.

During the period from 1977 to 1979, sales of larger cars dropped from 55.0 percent of the market to 45.9 percent of the market. Thus, it is not competition from imports in the small-car segment of the market, but the drop in sales of large cars that accounts for Detroit's sales slump and unemployment.

Commerce Secretary Philip Klutznick described the problem candidly in a May 19, 1980, speech before the National Press Club. He said:

"I say now I don't blame our friends the Japanese for having delivered nearly two million automobiles to American consumers last year. Rather, I blame ourselves and my friends in the manufacturing of automobiles for making a human error and missing the market, and as a result paying the price which those who miss the market pay in a free economy. No American should be asked to buy American in order to support that which he doesn't need at a price or a quality which he doesn't accept."

The present U.S. auto market is not a struggle between domestic and imported automobiles. It is, rather, a struggle between large cars and small cars—between modern cars and old-fashioned cars. This is reflected in statistics compiled by the Department of Labor and released February 15, 1980, which indicated that, out of 200,000 Ford and GM auto workers unemployed on that date, some 191,477 had been laid off because of decreased demand for large and mid-sized cars—rather than the increase in imported vehicle sales.

What are some other causes of Detroit's problems?

Let's begin with a look at wage costs.

In 1978, according to the Bureau of Labor Statistics of the United States Department of Labor, the average Japanese auto worker earned $6.68 per hour. Contrary to popular belief, this is higher than the $6.17 per hour earned by the average production worker in American manufacturing industries.

However, total compensation of the average U.S. auto worker in 1978 was $12.66—nearly twice that of the average Japanese auto worker, and more than twice that the average American manufacturing worker.

Viewed in an international context, Japanese auto workers' wages have been consistent with such workers' pay in other countries. In 1978, their level was equal to Italy's and higher than the United Kingdom's.

In 1980, the average hourly wage of major assemblers in the U.S. auto industry was $9.25, 60 percent higher than the $5.78 average wage of a production worker in Rhode Island.

Detroit's extraordinarily high auto workers' wage levels are in part responsible for its current problems. Robert J. Abernathy of the Harvard Business School testified last April before the Senate Banking Committee that the "Japanese producer has, roughly, a $500 to $600 cost advantage over domestic producers."

The United Auto Workers (UAW), he said, has "positioned the industry cost-wise to that $500 to $600 per car level that I talk about. That is most of the difference—the difference between the UAW wage and the average wage" (in the United States).

Economist Robert J. Samuelson elaborated on this point in a November 15, 1980, National Journal article, where he wrote:

"The industry is being strangled by its own wage-price spiral. In the fall of 1979, the UAW and the major auto makers negotiated a contract that has resulted in an increase in labor costs (including fringe benefits) of about 20 percent this year to $18 an hour. All forecasts of improved employment and profitability in the auto industry depend on a pickup in car sales. Yet, the combination of high interest rates and high prices could frustrate the forecasts . . ."

When we are asked to restrict Japanese imports, we are in fact asking a Rhode Island worker to pay hundreds of dollars extra for an efficient car in order to protect the job of an auto worker, whose salary is over twice as high. That's asking an awful lot.

The large drain on Detroit's capital represented by wages is, moreover, a major cause of the industry's capital formation problems.

This leads to a second major cause of the U.S. industry's current problems.

A great deal of discussion in the 96th Congress centered around ways to increase business productivity. The Capital Cost Recovery Act, commonly known as the "10-5-3" proposal, is the type of tax incentive that would greatly help the automobile makers retool faster and more economically, and to increase productivity.

Again, Japan demonstrates the importance of new, modern equipment and assembly techniques.

Japan's auto industry is far less labor-intensive than that of the United States.

Japan's industry produces, on the average, 45 cars per worker per year, with some plants producing as many as 67 cars per worker per year. This compares with productivity per worker per year of only 25 in Detroit. In Europe, the productivity is even lower; in West Germany, for example, it stands at 11 cars per year (The Washington Post, May 11, 1980).

It is for reasons such as these that American manufacturers have invested heavily in Japan. Ford owns 25 percent of Toyo Kogyo, General Motors owns 34 percent of Isuzu, and Chrysler owns 15 percent of Mitsubishi.

In addition to more rapid depreciation laws, other changes in our tax treatment of the U.S. auto industry should be considered by the Finance Committee. As an example I would be interested in studying the feasibility of granting the U.S. auto makers a tax holiday for repatriated profits from foreign investments. This would encourage the Big Three to bring back profits from foreign-based subsidiaries to be reinvested in the rebuilding of U.S. auto plants. I hope the Committee will hear other such tax proposals during the course of these hearings.

Other factors contributing to the U.S. auto industry's woes are a recession which has cut back on sales of all vehicles; uncertainty about the price and availability of fuel, and finally, of great importance, higher interest rates and tight consumer credit. Interest rates hovering between 15 percent and 20 percent have discouraged consumers from buying any major purchase with credit. Moreover, credit availability is tight or non-existent in the 15 states which continue to have usury laws establishing interest ceilings.

As Chairman of the Consumer Affairs Subcommittee of the Senate Banking Committee, I plan to schedule hearings on this subject. Congress must deal with the problems caused by the lack of and limits to consumer credit, if the U.S. automobile industry is expected to regain a strong competitive position. In this regard, I will be looking to the auto makers, as well as financial institutions, for suggestions, including temporary override of usury laws, and extending from three years to five years the credit plans offered by the auto makers' financing corporations.

The U.S. auto industry is surely in trouble, and with so many suppliers and automotive-dependent companies affected, ways ought to be found to ease this transition period. Treasury Secretary G. William Miller has said the only way to solve the domestic auto industry's problems is to speed up the industry's transition toward producing more small, fuel-efficient cars. "False barriers", he stated, "and restraints would only end up costing society more in the long run."

The Senate Finance and Banking Committees have the opportunity to assist this transition in a positive, constructive manner, as well as the responsibility to reject unjustified protectionist pressures, harmful to consumers, the public, and other free trading U.S. industries.

UNPUBLISHED DATA

ESTIMATED HOURLY COMPENSATION OF PRODUCTION WORKERS IN THE MOTOR VEHICLES AND EQUIPMENT INDUSTRIES, FOURTEEN COUNTRIES, 1975-1979

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, OFFICE OF PRODUCTIVITY AND TECHNOLOGY, FEBRUARY 1980.

ESTIMATED HOURLY COMPENSATION OF PRODUCTION WORKERS IN THE MOTOR VEHICLES AND EQUIPMENT INDUSTRIES, 14 COUNTRIES, MID-YEAR 1979

(PROVISIONAL ESTIMATES)

COUNTRY	EXCHANGE RATE (1): NATIONAL CURRENCY UNIT	EXCHANGE RATE (1): NATIONAL CURRENCY UNITS PER U.S. DOLLAR	AVERAGE HOURLY EARNINGS IN NATIONAL CURRENCY	RATIO OF ADDITIONAL COMPENSATION TO HOURLY EARNINGS	HOURLY COMPENSATION: NATIONAL CURRENCY	HOURLY COMPENSATION: U.S. DOLLARS	HOURLY COMPENSATION: INDEX U.S.=100
UNITED STATES	DOLLAR	-----	9.11	50.6	13.72	13.72	100
CANADA	DOLLAR	1.171	8.50	30.3	11.08	9.46	69
BRAZIL(2)	CRUZEIRO	(3)25.88	52.43	(4)25.0	65.54	2.53	18
MEXICO	PESO	22.82	(5)58.83	51.7	89.25	3.91	28
JAPAN	YEN	218.2	1,300	(6)14.9	1,494	6.85	50
KOREA(7)	WON	484.0	649	15-20	(8)763	1.58	12
BELGIUM	FRANC	29.33	226.2	69.3	383.0	13.06	95
FRANCE	FRANC	4.255	21.01	81.7	38.18	8.97	65
GERMANY	MARK	1.833	14.54	77.1	25.75	14.05	102
ITALY	LIRA	830.9	3,180	106.4	6,564	7.90	58
NETHERLANDS	GUILDER	2.006	12.92	(9)85.4	23.95	11.94	87
SPAIN(10)	PESETA	67.13	355	(4)40.0	496	7.39	--
SWEDEN	KRONA	4.288	30.65	60.4	49.16	11.46	84
UNITED KINGDOM	PENCE	47.12	228.1	31.3	299.5	6.36	46

(1) ANNUAL AVERAGE EXCHANGE RATE EXCEPT FOR BRAZIL.
(2) ESTIMATED ON THE BASIS OF 1974 HOURLY EARNINGS--DERIVED FROM ANNUAL EARNINGS BY ASSUMING 2068 HOURS OF WORK PER YEAR--AND THE AVERAGE EARNINGS TREND IN ALL INDUSTRY SINCE 1974.
(3) MID-YEAR EXCHANGE RATE. (4) ALL MANUFACTURING.
(5) ESTIMATED ON THE BASIS OF 1977 MOTOR VEHICLE EARNINGS AND THE HOURLY EARNINGS TREND IN ALL MANUFACTURING SINCE 1977.
(6) TRANSPORTATION EQUIPMENT INDUSTRIES. ALL EMPLOYEES.
(7) EARNINGS IN MOTOR VEHICLE INDUSTRIES ESTIMATED ON THE BASIS OF AVERAGE HOURLY EARNINGS FOR ALL EMPLOYEES IN TRANSPORTATION EQUIPMENT INDUSTRIES ADJUSTED FOR THE RELATIVE LEVEL OF PRODUCTION WORKER MOTOR VEHICLE EARNINGS TO ALL EMPLOYEE TRANSPORTATION EQUIPMENT EARNINGS IN 1976.
(8) MID-POINT OF ESTIMATED AVERAGE COMPENSATION RANGE. (9) ALL EMPLOYEES.
(10) TRANSPORTATION EQUIPMENT. EARNINGS ARE ESTIMATED ON THE BASIS OF 1978 TRANSPORTATION EQUIPMENT EARNINGS AND THE HOURLY EARNINGS TREND IN THE TOTAL PRIVATE NONFARM ECONOMY SINCE 1978.

FOR CONCEPTS AND METHODS, SEE ATTACHED GENERAL NOTE.

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, OFFICE OF PRODUCTIVITY AND TECHNOLOGY, FEBURARY 1980.

ESTIMATED HOURLY COMPENSATION OF PRODUCTION WORKERS IN THE MOTOR VEHICLES AND EQUIPMENT INDUSTRIES, 14 COUNTRIES, 1978

(PRELIMINARY ESTIMATES)

COUNTRY	EXCHANGE RATE: NATIONAL CURRENCY UNIT	EXCHANGE RATE: NATIONAL CURRENCY UNITS PER U.S. DOLLAR	AVERAGE HOURLY EARNINGS IN NATIONAL CURRENCY	RATIO OF ADDITIONAL COMPEN-SATION TO HOURLY EARNINGS	HOURLY COMPENSATION: NATIONAL CURRENCY	HOURLY COMPENSATION: U.S. DOLLARS	HOURLY COMPENSATION: INDEX U.S.=100
UNITED STATES	DOLLAR	-----	8.51	48.8	12.66	12.66	100
CANADA	DOLLAR	1.140	8.06	30.0	10.48	9.19	73
BRAZIL(1)	CRUZEIRO	18.07	33.91	(2)25.0	42.39	2.35	19
MEXICO	PESO	22.77	(3)50.84	51.7	77.12	3.39	27
JAPAN	YEN	208.4	1,211	(4)14.9	1,391	6.68	53
KOREA(5)	WON	484.0	560	15-20	(6)658	1.32	10
BELGIUM	FRANC	31.44	212.8	69.2	360.1	11.45	90
FRANCE	FRANC	4.501	18.75	79.4	33.64	7.47	59
GERMANY	MARK	2.005	13.62	73.3	23.60	11.77	93
ITALY	LIRA	848.8	2,745	106.5	5,668	6.68	53
NETHERLANDS	GUILDER	2.161	12.32	(7)80.6	22.25	10.30	81
SPAIN(8)	PESETA	76.49	276	(2)40.0	385	5.03	--
SWEDEN	KRONA	4.517	28.36	56.1	44.27	9.80	77
UNITED KINGDOM	PENCE	52.13	194.8	29.8	252.9	4.85	38

(1) ESTIMATED ON THE BASIS OF 1974 HOURLY EARNINGS--DERIVED FROM ANNUAL EARNINGS BY ASSUMING 2068 HOURS OF WORK PER YEAR--AND THE AVERAGE EARNINGS TREND IN ALL INDUSTRY SINCE 1974. (2) ALL MANUFACTURING.
(3) ESTIMATED ON THE BASIS OF 1977 MOTOR VEHICLE EARNINGS AND THE HOURLY EARNINGS TREND IN ALL MANUFACTURING SINCE 1977.
(4) TRANSPORTATION EQUIPMENT INDUSTRIES. ALL EMPLOYEES.
(5) EARNINGS IN MOTOR VEHICLE INDUSTRIES ESTIMATED ON THE BASIS OF AVERAGE HOURLY EARNINGS FOR ALL EMPLOYEES IN TRANSPORTATION EQUIPMENT INDUSTRIES ADJUSTED FOR THE RELATIVE LEVEL OF PRODUCTION WORKER MOTOR VEHICLE EARNINGS TO ALL EMPLOYEE TRANSPORTATION EQUIPMENT EARNINGS IN 1976.
(6) MID-POINT OF ESTIMATED AVERAGE COMPENSATION RANGE.
(7) ALL EMPLOYEES. (8) TRANSPORTATION EQUIPMENT.

FOR CONCEPTS AND METHODS, SEE ATTACHED GENERAL NOTE.

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, OFFICE OF PRODUCTIVITY AND TECHNOLOGY, FEBRUARY 1980.

ESTIMATED HOURLY COMPENSATION OF PRODUCTION WORKERS IN THE MOTOR VEHICLES AND EQUIPMENT INDUSTRIES, 14 COUNTRIES, 1977

COUNTRY	EXCHANGE RATE: NATIONAL CURRENCY UNIT	EXCHANGE RATE: NATIONAL CURRENCY UNITS PER U.S. DOLLAR	AVERAGE HOURLY EARNINGS IN NATIONAL CURRENCY	RATIO OF ADDITIONAL COMPENSATION TO HOURLY EARNINGS	HOURLY COMPENSATION: NATIONAL CURRENCY	HOURLY COMPENSATION: U.S. DOLLARS	HOURLY COMPENSATION: INDEX U.S.=100
UNITED STATES	DOLLAR	-----	7.86	47.7	11.61	11.61	100
CANADA	DOLLAR	1.063	7.51	29.3	9.71	9.13	79
BRAZIL(1)	CRUZEIRO	14.14	23.27	(2)25.0	29.09	2.06	18
MEXICO	PESO	22.57	44.12	49.5	65.96	2.92	25
JAPAN	YEN	267.8	1,123	(3)14.9	1,290	4.82	42
KOREA(4)	WON	484.0	417	15-20	(5)490	1.01	9
BELGIUM	FRANC	35.83	202.0	68.6	340.6	9.51	82
FRANCE	FRANC	4.915	16.89	78.2	30.10	6.12	53
GERMANY	MARK	2.321	13.01	72.5	22.44	9.67	83
ITALY	LIRA	882.8	2,382	107.2	4,936	5.59	48
NETHERLANDS	GUILDER	2.454	11.44	(6)79.8	20.57	8.38	72
SPAIN(7)	PESETA	75.26	229	(2)45.0	331	4.40	--
SWEDEN	KRONA	4.468	25.98	54.9	40.24	9.01	78
UNITED KINGDOM	PENCE	57.31	173.6	29.1	224.1	3.91	34

(1) ESTIMATED ON THE BASIS OF 1974 HOURLY EARNINGS--DERIVED FROM ANNUAL EARNINGS BY ASSUMING 2068 HOURS OF WORK PER YEAR--AND THE AVERAGE EARNINGS TREND IN ALL INDUSTRY SINCE 1974.
(2) ALL MANUFACTURING.
(3) TRANSPORTATION EQUIPMENT INDUSTRIES. ALL EMPLOYEES.
(4) EARNINGS IN MOTOR VEHICLE INDUSTRIES ESTIMATED ON THE BASIS OF AVERAGE HOURLY EARNINGS FOR ALL EMPLOYEES IN TRANSPORTATION EQUIPMENT INDUSTRIES ADJUSTED FOR THE RELATIVE LEVEL OF PRODUCTION WORKER MOTOR VEHICLE EARNINGS TO ALL EMPLOYEE TRANSPORTATION EQUIPMENT EARNINGS IN 1976.
(5) MID-POINT OF ESTIMATED AVERAGE COMPENSATION RANGE.
(6) ALL EMPLOYEES.
(7) TRANSPORTATION EQUIPMENT.

FOR CONCEPTS AND METHODS, SEE ATTACHED GENERAL NOTE.

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, OFFICE OF PRODUCTIVITY AND TECHNOLOGY, FEBRUARY 1980.

ESTIMATED HOURLY COMPENSATION OF PRODUCTION WORKERS IN THE MOTOR VEHICLES AND EQUIPMENT INDUSTRIES, 13 COUNTRIES, 1976

COUNTRY	EXCHANGE RATE		AVERAGE HOURLY EARNINGS IN NATIONAL CURRENCY	RATIO OF ADDITIONAL COMPENSATION TO HOURLY EARNINGS	HOURLY COMPENSATION		
	NATIONAL CURRENCY UNIT	NATIONAL CURRENCY UNITS PER U.S. DOLLAR			NATIONAL CURRENCY	U.S. DOLLARS	INDEX U.S.=100
UNITED STATES	DOLLAR	-----	7.09	46.3	10.37	10.37	100
CANADA	DOLLAR	.9861	6.74	28.4	8.65	8.77	85
BRAZIL(1)	CRUZEIRO	10.68	15.56	(2)25.0	19.45	1.82	18
MEXICO	PESO	15.43	31.64	53.9	48.69	3.16	30
JAPAN	YEN	296.4	1,043	(3)14.3	1,192	4.02	39
KOREA(4)	WON	484.0	262	15-20	(5)307	.63	6
BELGIUM	FRANC	38.58	186.9	68.0	313.9	8.14	78
FRANCE	FRANC	4.775	14.82	76.0	26.08	5.46	53
GERMANY	MARK	2.517	12.04	70.0	20.47	8.13	78
ITALY	LIRA	830.3	1,953	109.6	4,093	4.93	48
NETHERLANDS	GUILDER	2.642	10.48	(6)80.1	18.87	7.14	69
SWEDEN	KRONA	4.356	24.79	48.3	36.76	8.44	81
UNITED KINGDOM	PENCE	55.41	163.0	27.4	207.7	3.75	36

(1) ESTIMATED ON THE BASIS OF 1974 HOURLY EARNINGS--DERIVED FROM ANNUAL EARNINGS BY ASSUMING 2068 HOURS OF WORK PER YEAR--AND THE AVERAGE EARNINGS TREND IN ALL INDUSTRY SINCE 1974.
(2) ALL MANUFACTURING.
(3) TRANSPORTATION EQUIPMENT INDUSTRIES. ALL EMPLOYEES.
(4) EARNINGS IN MOTOR VEHICLE INDUSTRIES ESTIMATED ON THE BASIS OF AVERAGE HOURLY EARNINGS FOR ALL EMPLOYEES IN TRANSPORTATION EQUIPMENT INDUSTRIES ADJUSTED FOR THE RELATIVE LEVEL OF PRODUCTION WORKER MOTOR VEHICLE EARNINGS TO ALL EMPLOYEE TRANSPORTATION EQUIPMENT EARNINGS IN 1976.
(5) MID-POINT OF ESTIMATED AVERAGE COMPENSATION RANGE.
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ESTIMATED HOURLY COMPENSATION OF PRODUCTION WORKERS IN THE MOTOR VEHICLES AND EQUIPMENT INDUSTRIES, 13 COUNTRIES, 1975

COUNTRY	EXCHANGE RATE: NATIONAL CURRENCY UNIT	EXCHANGE RATE: NATIONAL CURRENCY UNITS PER U.S. DOLLAR	AVERAGE HOURLY EARNINGS IN NATIONAL CURRENCY	RATIO OF ADDITIONAL COMPEN-SATION TO HOURLY EARNINGS	HOURLY COMPENSATION: NATIONAL CURRENCY	HOURLY COMPENSATION: U.S. DOLLARS	HOURLY COMPENSATION: INDEX U.S.=100
UNITED STATES	DOLLAR	-----	6.44	49.0	9.60	9.60	100
CANADA	DOLLAR	1.017	5.95	28.3	7.63	7.50	78
BRAZIL(1)	CRUZEIRO	8.129	10.36	(2)25.0	12.95	1.59	17
MEXICO	PESO	12.50	24.99	47.4	36.84	2.95	31
JAPAN	YEN	296.7	932	(3)13.3	1,056	3.56	37
KOREA(4)	WON	484.0	207	15-20	(5)244	.50	5
BELGIUM	FRANC	36.69	166.3	67.2	278.0	7.58	79
FRANCE	FRANC	4.282	12.85	74.1	22.37	5.22	54
GERMANY	MARK	2.455	11.35	66.4	18.89	7.69	80
ITALY	LIRA	652.4	1,573	111.8	3,332	5.11	53
NETHERLANDS	GUILDER	2.523	9.59	(6)79.7	17.23	6.83	71
SWEDEN	KRONA	4.142	21.14	45.8	30.82	7.44	78
UNITED KINGDOM	PENCE	45.01	140.5	26.5	177.7	3.95	41

(1) ESTIMATED ON THE BASIS OF 1974 HOURLY EARNINGS--DERIVED FROM ANNUAL EARNINGS BY ASSUMING 2068 HOURS OF WORK PER YEAR--AND THE AVERAGE EARNINGS TREND IN ALL INDUSTRY SINCE 1974.
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PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, OFFICE OF PRODUCTIVITY AND TECHNOLOGY, FEBRUARY 1980.

74-747 O—81——2

General Note on Estimates of Hourly Compensation for Production Workers in Manufacturing Industries

Hourly compensation includes all direct payments made to the worker (pay for time worked, pay for vacations, holidays and other leave, all bonuses, and the cost of payments in kind), before payroll deductions of any kind, plus employer expenditures for legally-required insurance programs and contractual and private plans for the benefit of employees. In addition, compensation includes other taxes on payrolls or employment, even if they are not for the direct benefit of employees, because such taxes are regarded as labor costs. However, hourly compensation does not include all items of labor costs. The costs of recruitment and training, and plant facilities and services--such as cafeterias, medical clinics, and employee parking-- are not covered because data are not available for all countries. For consistency, compensation is estimated on an hours-worked basis for every country.

Hourly compensation provides a better basis for international comparisons of labor costs than the earnings statistics which are regularly published by most countries. Average hourly earnings do not include all items of labor compensation, nor do they include the same items of compensation in each country. Earnings generally include basic time and piece rates plus overtime premiums, shift differentials, other bonuses and premiums paid regularly each pay period, and cost-of-living adjustments. In some countries, earnings also include pay for time not worked (holiday, vacation, and other leave pay), bonuses not paid regularly each pay period, private or contractual family allowances paid by the employer, and the cost of payments in kind. Earnings are usually computed per hour worked if they exclude pay for time not worked and per hour paid if they include pay for time not worked. For some countries, however, earnings include pay for time not worked and are computed per hour worked. For all countries, earnings refer to gross payments made to the worker before payroll deductions of any kind--e.g., for taxes, social security, insurance, savings plans, or union dues.

The average hourly earnings figures shown in the tables have not been adjusted for differences in earnings definitions. However, the statistics for some countries have been adjusted, where possible, to account for major differences in worker coverage; differences in industrial classification systems; and changes over time in survey coverage, sample benchmarks, or frequency of surveys. The estimates, therefore, may not coincide with data originally published abroad.

Total compensation is estimated by adjusting average hourly earnings for items of direct pay not included in earnings and for employer expenditures for social security, contractual and private insurance programs, and other labor taxes. For the United States and other countries that measure earnings on an hours-paid basis, the figures are also adjusted in order to approximate compensation per hour worked. Adjustment factors are obtained primarily from periodic labor cost surveys and interpolated or projected to non-survey years on the basis of other available information; or they are obtained from censuses of manufactures or reports on social security and fringe benefits systems. Because compensation is partly estimated, the statistics should not be considered as precise measures of comparative compensation costs.

Hourly compensation is converted to U.S. dollars using the average daily exchange rate for the reference period. Changes in hourly compensation in U.S. dollars from one period to another are therefore affected by changes in currency exchange rates as well as by changes in compensation.

Hourly compensation in U.S. dollars indicates comparative levels of employer labor costs. However, because compensation includes more than current labor income of workers and because prices of goods and services vary greatly among countries, it does not indicate relative living standards of workers.

U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology.

JAPANESE AUTOMOBILE EXPORTS TO THE U.S.

1. Current Japanese automobile exports to the U.S. (shipment basis) have been in a downward trend in comparison with the corresponding months of last year. The October exports are down by 0.9% from the corresponding month of last year.

PERCENTAGE CHANGE FROM THE CORRESPONDING MONTH OF 1979

1980	July	27.2%	increase
	August	9.9%	increase
	September	4.2%	increase
	October	0.9%	decrease

2. The share of sales of Japanese automobiles in the U.S. market has been steadily decreasing (passenger cars).

THE SHARE OF JAPANESE AUTO SALES IN THE U.S. MARKET

1980	July	23.8%
	August	22.5%
	September	20.8%
	October	16.8%
	* November	19.6%

* Although the share of sales of Japanese automobiles in November rose due to the sharp decline of sales of U.S. automobiles, actual sales of Japanese automobiles in November are down to 136 thousand, the lowest monthly sales in 1980 (sales in July were 183 thousand).

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THE PLAIN DEALER

THOMAS VAIL, Publisher and Editor — ROY O. KOPP, Business Manager — DAVID L. HOPCRAFT, Managing Editor

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The auto decision

Thus far in 1980, one of every four American new-car buyers is buying Japanese. Statistically, Japan has captured a significant share of the American market. Does this mean that Japan is guilty of unfair marketing practices, of exploitation? Are the sales of Japanese-made, fuel-efficient cars a primary cause of the American auto industry's twin ills of high unemployment and financial losses?

In Washington, the International Trade Commission (ITC) has chosen to answer these basic questions no. As harsh or cruel as it sounds, we support the ITC's difficult and controversial 3-2 decision to deny the American industry relief from Japanese imports.

The ITC's rejection of higher tariffs or quotas represents an endorsement of the important principles of free trade. Its decision is surely anti-inflationary, and a victory for consumers, even though a minority of them.

Sad to say, the auto industry's wounds are as much self-inflicted as anything else. The recent economic downturn and a shift in consumer tastes to higher-quality, smaller and fuel-efficient cars are the overriding factors contributing to the problems of the domestic auto industry. Detroit, since the 1973-74 Arab oil embargo and subsequent rising oil prices, has misread the American market. Questionable quality of American-made cars also contributed to the Japanese jumping in and filling a void left by the American industry's neglect.

The dust has not yet settled on this issue of protectionism for the auto industry. The United Auto Workers union and the Ford Motor Co., which sought the relief from the ITC, are now turning their attention to Congress.

We urge Congress to resist any turn to protectionism, especially in the lame-duck 96th Congress.

Any assistance for the auto industry should be left to the incoming administration of Ronald Reagan and the new 97th Congress. It should not be protectionist in nature, but should address the long-term problems of providing incentives for investment and improving productivity. The very least that the next Congress should do, prior to taking up tax reforms, is authorize Reagan to negotiate with Japan for voluntary restraints on imports. Japan has signaled a willingness to consider such voluntary actions.

Dallas Times Herald

LEE J. GUITTAR PUBLISHER | KENNETH P. JOHNSON EDITOR | WILL D. JARRETT MANAGING EDITOR | BERT HOLMES ASSOCIATE EDITOR

28—A Wednesday, November 12, 1980

Free trade for autos

The U.S. International Trade Commission has rejected pleas for trade barriers on imported trucks and cars, ruling that the availability of foreign vehicles is not primarily responsible for the decline in the domestic auto industry.

The decision, a major victory for the supporters of competition and free trade, will benefit consumers who are searching for the best buys in terms of fuel efficiency, price, styling and quality workmanship. New models of American-made cars are standing up well in comparison to imports, current sales indicate.

Ford Motor Co., Chrysler and the United Auto Workers asked for the import restrictions, claiming the record losses and high unemployment among American automakers were due principally to a high level of imports. The commission voted 3-2 against that plea, saying that the industry's decline was due to the recession and to the shift by consumers to smaller cars.

General Motors opposed the trade barriers, but it has urged the U.S. government "to take the initiative in persuading the Japanese government, in its own self-interest, to voluntarily adopt more prudent trade practices with the United States."

The ITC vote split along party lines, with two Republicans voting in favor of trade barriers on imports and two Democrats voting against. The swing vote was cast by an independent, Michael Calhoun, who acknowledged the U.S. auto industry is suffering serious injury but said imports were not the biggest factor.

During extended testimony last month, foreign car makers and consumer group representatives said that soaring gasoline prices, the stumbling US.economy and U.S. auto company mismanagement were the cause of declining auto sales.

Although Japanese auto imports through October accounted for 21 per cent of the U.S. auto market, up from 16.6 per cent for all of 1979 and more than double their 9.3 per cent share in 1976, the imports' share of the U.S. market dropped sharply last months. Higher prices for the Japanese cars have had an effect, as have the introduction of more fuel efficient American cars and greater emphasis on quality manufacturing.

Since the Carter administration feels it cannot negotiate with the Japanese without an ITC finding of injury, the issue of trade barriers may have to be raised with President Reagan and the new Senate. It is difficult to see how Mr. Reagan, an avid supporter of competition and deregulation, could side with the Ford Motor Co. and the UAW.

In their current promotions, American automakers are stressing the improved fuel performance of their cars and their competitive prices. There are also some subtle appeals to "Buy American," a position which will be supported more specifically by the UAW in a previously announced $200,000 advertising campaign.

After the ITC ruling, Treasury Secretary G. William Miller said the only way to solve the domestic auto industry's problems is to speed up the industry's transition toward producing more small fuel-efficient cars. He added that it wouldn't help to create "false barriers and restraints that would only end up in the long run costing society more."

We have faith in the ability of the American manufacturers to compete in the marketplace, but it is obvious that a little restraint by Japanese exporters would help make the transition period a little less traumatic.

ECONOMIC FOCUS/ROBERT J. SAMUELSON

Industrial Strangulation

A relatively obscure government agency told Philip Caldwell and Bill Cunningham to get lost the other day. Caldwell is the $620,000-a-year chairman of the Ford Motor Co., and Cunningham is an unemployed auto worker in a recent advertisement by the United Auto Workers (UAW). Both Ford and the UAW want car imports restricted, but the International Trade Commission (ITC) said no. This was a good decision, and, because Ford and the UAW may now take their case to Congress, it's important to understand why.

The way we discuss the auto industry's problems is revealing of the American tendency to compartmentalize. We have an "inflation problem" or an "auto problem" or a "foreign policy problem," but we rarely relate them to each other. Failing to make connections leads us to constant error.

Auto import restrictions, aimed primarily at the Japanese, would be such a mistake. They would drive up car prices. They would hurt other industries, including some of our critical high-technology industries, that compete with the Japanese. And they would further undermine America's leadership abroad. We cannot ignore these side effects just because they are indirect or inconvenient. Import restrictions are the opposite of what effective economic and foreign policy ought to be.

No one disputes the near-depression conditions of the auto industry today. The number of auto workers on layoff remains near 200,000, and, in the third quarter alone, losses of the three major automakers exceeded $1.6 billion. The UAW would have you believe that imports caused this catastrophe. The ITC, after extensive hearings, simply couldn't agree.

Sales of imports (excluding those from Canada) will probably total between 2.4 million and 2.7 million units this year, up from 2.0 million in 1978. Meanwhile, sales of U.S. cars have tumbled from 9.3 million to about 6.5 million. Even if imports hadn't increased by a single car, the U.S. industry would be in deep trouble.

Everyone appreciates that the dramatic shift to smaller, fuel-efficient cars has crippled the industry, but what no one seems to talk about is that today's big U.S. cars are still vastly more fuel-efficient than cars even two or three years ago. What has further suffocated sales of these cars is high prices. Despite smaller size and less power, car prices have risen 50 per cent since 1975. The average price of a U.S. car today almost certainly exceeds $8,000.

The industry is being strangled by its own wage-price spiral. In the fall of 1979, the UAW and the major automakers negotiated a contract that has resulted in an increase in labor costs (including fringe benefits) of about 20 per cent this year to $18 an hour. All forecasts of improved employment and profitability in the auto industry depend on a pickup in car sales. Yet, the combination of high interest rates and high car prices could frustrate the forecasts.

The obsession with foreign cars has obscured these bedrock problems, and imposition of import restrictions would simply make other industries pay for the sins of auto companies and the UAW. Cars represent about a fourth of Japan's exports to the United States. Limiting their sales (Ford wants five-year quotas set about a third below current sales levels) would almost certainly cause the yen to depreciate. That would make other Japanese products cheaper and put other U.S. industries facing Japanese competition, both here and abroad, at a serious disadvantage.

The yen depreciation would result from supply and demand. The Japanese auto companies ultimately sell the dollars they earn in the United States for yen to pay their bills at home. Ford thinks quotas would raise car import prices by 8 to 15 per cent but, even with those higher prices, lower sales would mean fewer dollars for the Japanese to change into yen. Lower demand for yen on foreign exchange markets would cause its value to fall. Ford concedes this but ignores the consequences.

We cannot afford to. The whole complexion of competition between the United States and Japan is shifting from consumer goods toward high-technology goods: semi-conductors, machine tools, office equipment. Japanese and American companies increasingly face each other in third markets, and the record is not good. A recent study from the Georgetown Center for Strategic and International Studies reports that the U.S. share of manufacturing exports to developing countries fell from 28.3 to 22.1 per cent between 1970 and 1978. Japan's rose from 21.8 to 26.1 per cent.

Nor can we painlessly allow the UAW and Ford to dictate foreign policy. In today's world, countries aim to satisfy their economic needs as much as their physical security. Japan is an obvious case. Its imports consist overwhelmingly of raw materials, and the Japanese tremble at the possibility of being unable to obtain critical supplies.

One threat is an inability to maintain its export earnings, and Japan is highly vulnerable. Though competitive, many of its exports are not essential goods: cars, steel, stereos. They can be restricted and replaced, and in a period of slow economic growth, the temptation to do so is strong. Does anyone think the Japanese will thank the United States for encouraging this?

It may be, as Caldwell argues, that the Japanese can't retaliate by restricting U.S. exports. So? The world is a more subtle place, Mr. Caldwell. Our whole foreign policy has rested on a sense of shared interests. As that sense has diminished, so has our leadership position. Japan may not retaliate directly, but it will redouble its efforts to create new commercial and political alliances to protect its interests.

No one can be insensitive to unemployed auto workers. But when the UAW implies, as it does in its ads, that all joblessness is the result of imports, it is simply lying. When the UAW and Ford lobbyists come pleading to the White House and Congress, they ought to receive a simple message. Go home. Renegotiate your crazy contract. Get yourselves out of this mess. □

THE DAILY OKLAHOMAN
Thursday, November 13, 1980
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Import Quotas No Solution

IN rejecting petitions by Ford and the United Auto Workers union for restrictions against foreign cars, the U.S. International Trade Commission has acted in the best interest of American consumers.

Ford and the UAW had mounted an intensive campaign for a protectionist ruling that would have enabled the outgoing Carter administration to negotiate agreements cutting the number of foreign cars imported into this country. The commission rejected the petitions on grounds that, while U.S. carmakers and their workers undeniably have suffered at the hands of foreign competition, their plight is more of their own making.

In any event, the ultimate resolution of the problem — so far as any governmental action is concerned — should not be entrusted to a lame-duck administration.

The U.S. auto industry was late in adjusting its engineering and marketing strategies to meet the demand for smaller, more fuel-efficient cars — a demand that was clearly evident from steadily rising sales of the imports. Adding to Detroit's competitive disadvantage are higher labor costs not linked to increases in productivity, aging, obsolescent plants and equipment and increasing public dissatisfaction with a level of quality in assembly and finish that often doesn't match that of the foreign products.

On top of all that came a recession-induced slowdown in world car sales which is affecting all major manufacturers. Continued uncertainty about the future price and availability of fuel is another element in the picture.

Stacking the deck against the imports not only would deprive American consumers of their freedom of choice but in the long run would bring retaliation against U.S. exports. We cannot expect to increase U.S. penetration of foreign markets by erecting unreasonable barriers against imports.

—Monday, January 5, 1981 ——— The Detroit News—

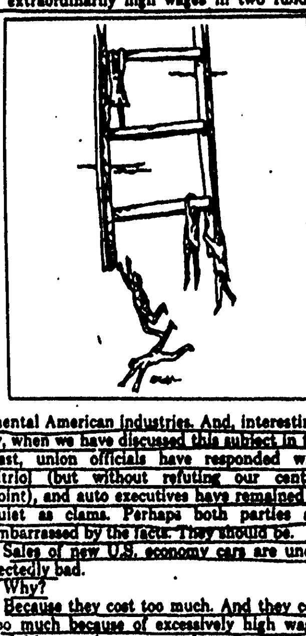
Our Opinions

The Great Wage Inequity

Men and nations may disagree about many things, but on one matter there is universal consensus: U.S. auto unemployment is high because U.S. auto sales are down.

The dramatic decline has been ascribed to the business cycle, the alleged shortage of fuel-efficient domestic cars, America's unfavorable trade relationship with Japan, and the inscrutable artfulness that has permitted the Japanese, far away on their little islands, to produce more motor vehicles in 1980 than the United States.

What is most curious about all the laments pouring out of business and union offices, however, is the refusal to concede the impact of extraordinarily high wages in two fundamental American industries. And, interestingly, when we have discussed this subject in the past, union officials have responded with vitriol (but without refuting our central point), and auto executives have remained as quiet as clams. Perhaps both parties are embarrassed by the facts. They should be.



Sales of new U.S. economy cars are unexpectedly bad.

Why?

Because they cost too much. And they cost too much because of excessively high wage-and-fringe packages wrung from the auto and steel industries by the monopoly power of huge unions.

Obviously, the abnormally high wages in the auto and steel industries, in relation to the earnings of unionized workers in other industies, are beneficial only to auto and steel workers who are *employed*. They inflict great economic harm on their fellow workers who are unemployed, and on workers in most other industries whose wages have lagged behind.

Wage-rate acceleration, a problem in itself when it exceeds productivity increases, has been uneven and unfair. Proof of this is a study by the Council on Wage and Price Stability. The council has pointed out that total employment costs (wages plus fringes) in 1952 were $2.32 per hour for steel and $1.96 for all manufacturing, which amounted to a premium of 18 percent in favor of steel. By 1977 that premium surged to an astounding 64 percent, reflecting total labor costs of $12.75 per hour in steel and $7.79 for all manufacturing.

The divergence in wage acceleration is also underscored by the surge of 450 percent in steel wages from 1952 to 1977, compared to the 297 percent for all manufacturing labor. Thus, the old union "catch-up" argument can be seen for what it is when you consider that the Consumer Price Index (CPI) in that period rose a much smaller 128 percent. That 128 percent rise in the CPI compares with a 140 percent boost in unit labor costs, which factor in productivity gains of a mere 67 percent.

And — and this is centrally important in our part of the world — the U.S. Bureau of Labor Statistics provides ample evidence that during the past two decades the upsurge in steel labor costs was matched by equivalent boosts in the auto industry.

In addition, from 1956 to 1976, steel prices were inflated at an 172 percent rate, compared to 96 percent for all industrial products.

It should not be overlooked that if steel wage and price rises paralleled those in manufacturing, the U. S. steel industry could today compete on even terms with the Japanese — and could underprice the Europeans.

Thus, it behooves organized labor to redress the unfair advantage that has accrued to a decreasing segment of the labor force at the expense of an expanding sector of the working population and the general public. The elite in the labor force should consider a wage freeze so as to trigger a reduction in steel and auto prices.

It is only just that those who gained an unfair advantage over other workers when they initiated and led the inflationary wage spiral, should originate a restructuring in wage rates that would redound to everybody's benefit. They should regard their own sacrifice as insurance paid to secure the continuity of their jobs and as investments in restoring the viability of two important industries.

The resultant declines in auto and steel prices would stimulate sales and increase auto and steel employment, while at the same time making a major contribution to dampening inflationary expectations — which expectations to a large degree are responsible for the current high interest rates.

It is a matter of basic economics. It is also a matter of compassion for all the good men and women in Michigan who are today unemployed because America can no longer afford their services.

THE DETROIT NEWS

March 3, 1980

Japanese cars called the best

DETROIT (AP) – The cars with the best quality and workmenship are produced in Japan, according to a survey of U.S. automotive engineers taken by an industry trade magazine.

The survey by Ward's Automotive World, also found that the 250 engineers who responded believe German auto quality ranks second behind Japan.

And among those who develop products for the five domestic automakers, only a little more than a fourth, 27.2 percent, say America's cars are the best-built.

Half the engineers polled responded to the survey. Results appeared the in the magazine's March issue.

Ward's said the engineers called Japan's cars superior not because of better technology but because of "better workmanship on the production lines, attention to fine detail and rapport with management that lets voices from the assembly line be heard."

Lee Caudill, senior engineer at the General Motor's Corp. Fisher Body Division, said Japan's cars got his vote for three reasons:

"The conscientious effort of the (Japanese) assembly line worker to follow engineering specifications exactly; if something is wrong in design, the assembly-line worker suggests a change and management investigates; through cultural education, both quality and pride of workmanship are a way of life."

The pro-U.S. vote was strongest – 41.2 percent – among GM engineers, although a combined Japan-German favoritism, 57.8 percent overall, outdid support for domestic products. Of the import total, Japanese vehicles got 37 percent of the laudatory vote.

A Ward's spokeswoman said a numerical breakdown of those surveyed at each of the five domestic carmakers was not available.

Ford Motor Co. engineers were strongest in their proJapanese vote, at 67.3 percent; Chrysler Corp. employees followed at 60.5 percent; and American Motors' Corp. designers were third at 47.4 percent. Among Volkswagen of America engineers, the survey said a plurality (48.1 percent) thought German cars had the edge on quality. Japan came second at 40.7 percent.

An unidentified Ford engineer echoed Caudill in the U.S. producers' defense, "We can equal the quality factor in design, but we don't have the same worker responsibility."

AUTOMOTIVE AGE

April, 1980

EDITORIAL

Let the Market Be Free

The automobile industry today continues to be racked with debate over whether or not there should be restrictions on imported cars and trucks. Whatever form these restrictions might take — voluntary limits by manufacturers, specific quotas, or local content laws to force import manufacturers to construct factories in this country — the end desired result is the same: to limit the number of non-domestically produced cars coming into this country.

Such an approach is not in the best interests of the country and in the long run it is not in the best interests of the domestic manufacturers. The thinking among the domestics seems to be that if there were just fewer small, imported, fuel-efficient cars around to buy, consumers would flock to purchase LTDs, Caprices and New Yorkers.

Baloney. Yes, there would certainly be more American-made cars bought, but the plain fact is, not many more. Instead, the buyers who are looking for small, imported cars would discover that the reason such cars were simply no longer available in sufficient numbers to meet the demand is because of artificial limits placed on those cars by the government. The consumer isn't dumb, and it would be perfectly clear to him that those limits came about through heavy lobbying by the domestic auto industry.

Rather than create a sudden demand for large American cars, any government-mandated limit — formal or informal — would create a backlash of resentment towards the source of such limits: the domestic car makers, not the government. This backlash would make it that much more difficult for the Big Three to successfully market the new small cars that they will be bringing out in the coming years and make buyers less eager for such vehicles.

The sudden rise in import share of the market has come about because car buyers want small fuel-efficient vehicles with a high quality of fit and finish. Many consumers find these attributes in Japanese vehicles. But people aren't buying Japanese cars because there is some strange conspiracy. They would buy cars made at the South Pole by penguins if they were well screwed together and got good fuel economy.

So that is what the domestics need to make. And, no, those factories can't be changed overnight from building the kinds of cars Detroit used to build to the kinds of cars it must build today. But it's going to have to be done quickly. Detroit must adapt and compete with products that are as good or better than the imports.

The transportation needs of this country have changed — permanently. Americans need, want and deserve personal transportation, but it must come in more energy-efficient packages than have been produced by Detroit, on the whole, in the past. The domestic manufacturers can and will adapt to meet the needs of the country and the wants of the consumers. But they must do so in an open market where competition will ultimately work to the benefit of all.

— *Chris Hosford*

The Detroit News
January 11, 1981
Page 14A

Workers' Wages

I was both pleased and extremely surprised by your Jan. 5 editorial, "The Great Wage Inequity." Pleased, because what was said needed to be said. Surprised, because I didn't believe anyone in this city had the gumption to say it.

In no industry in the world except for the American auto industry are unskilled workers so grossly overpaid, particularly when their working habits are also taken into consideration. Rare indeed is the auto worker who puts in a full day's work for a full day's pay.

I speak from experience, having worked as a UAW member. Though I worked very hard for Chrysler Corp., I cannot say that I was undercompensated. Unlike most union members (though certainly not all) I have always believed that there is nothing dishonorable in putting in a decent day's work, especially for rather handsome wages.

Doug Fraser would be well-advised to take a few courses in very basic economics and a few reality therapy sessions in addition. It is obvious that Mr. Fraser has little grasp of either concept.

The American auto worker is not to blame; the UAW has subjected him to a barrage of verbal garbage for years. The average worker has been led to believe that not only is he entitled to exorbitant wages but he is worth such wages to the companies.

It is the UAW, not the companies, that has betrayed the auto worker. Not that the companies are blameless. By acceding to the union's demands, year after year, and tacking their expense onto their new cars, the auto companies have priced their cars out of the price range of many families, even considering the current high interest rates.

I want to be there when Mr. Fraser explains to those thousands of workers out of work due to the collapse of Chrysler and Ford Motor Co. the justification for his refusal to make unilateral concessions.

I am certain that those workers will take great comfort, and feel a certain warm glow, when they are informed that the union stuck to its principles.

R.K. VAUGHT
Mt. Clemens

Regarding your Jan. 5 editorial, "The Great Wage Inequity":

I was in total agreement with you until you discussed "the resultant declines in auto and steel prices."

Do you think for one moment that prices will be lowered? No way! There is no more free market. The auto and steel companies will just pocket greater profits.

If we were still in the old supply and demand free market status, why would the auto companies be raising prices in the midst of a depression?

J.R. EGAN
Detroit

THE WALL STREET JOURNAL, TUESDAY, JANUARY 6, 1981

The Danger of Excessive Labor Income

By Peter F. Drucker

It is rapidly becoming clear that both productivity and capital formation depend heavily on the "labor-income ratio"—the proportion of value added paid out in wages and fringe benefits—and that this is true whether we are talking about a company, an industry or a national economy. If the ratio goes above a certain threshold, apparently between 80% and 85%, productivity declines and capital formation falls too low to maintain present jobs, let alone create new ones.

Consider the U.S auto and steel industries. It is common today to bemoan the decline of American industrial competitiveness and to wonder what has become of American management. In truth, however, the "American disease" is by and large confined to autos and steel.

The bulk of U.S. manufacturing industry—from fashion goods to airplanes, from textiles to computers—has been enjoying an extraordinary export boom these last two or three years, almost as vigorous as the export boom immediately after World War II when the industrial plants of our potential competitors lay in ruin. The export performance of most American industry explains why the much-heralded 1979-80 "recession" was so much shorter and milder than anticipated—despite oil price jumps and the near-collapse of the auto and steel industries.

Heavy Wage Outlays

Autos and steel, thought to be the rule, are thus truly the exception. And they are the exception principally because they spend too much, relatively, on wages and fringe benefits. In most American manufacturing, the labor-income ratio is probably still below 80% (though reliable data are hard to come by). But in autos and steel, the ratio is well above 85% and may approach 90%.

Labor costs in the U.S. auto and steel industries — whether measured per employe, per hour actually worked or per unit of output—are 50% to 100% higher than the prevailing labor costs of other American manufacturing industries. At Ford Motor Co., the hourly labor cost per employe, including all fringes, is about $27, compared with about $15 even in high-paying industries such as chemical manufacturing. Since the labor costs of Japanese and German auto and steel makers are roughly on a par with prevailing American labor costs in *other* manufacturing industries, it's no wonder that the U.S. auto and steel industries have had so much trouble competing against imports, and that so many auto and steel workers are out of a job.

Apart from worsening import competition, a labor-income ratio of 85% to 90% makes capital formation impossible and thus endangers the jobs of tomorrow.

In Europe Ford has already done a superb job producing and marketing competitive, fuel-efficient small cars. But in this country it cannot generate the capital fast enough to change its plants to producing cars it already makes, cars that have been proven in the market. The steel companies are in the same boat, and in such circumstances it makes little difference how good management is, how well it is planning and how well it can design and market.

On the economy-wide level, too, countries where labor income accounts for more than 85% of gross national product—Britain, the Netherlands, Belgium and Scandinavia—are in the deepest trouble. By contrast the Germans and Japanese operate on labor-income ratios of 70% to 75%, or at most 80%.

Indeed the labor-income ratio seems to be more important for the ability of a country to perform than is the proportion of GNP that goes through the transfer mechanism of government. In Germany the transfer proportion is high, in Japan it is quite low. Yet both economies perform somewhat alike, and far better than countries such as the U.S. where the transfer proportion is comparatively low but where key industries have a high labor-income ratio.

Economists and economic policymakers have traditionally paid little attention to the labor-income ratio, for the simple reason that it never was a problem before. The relationship between "wage fund" and "capital fund" has been studied and argued about for almost 200 years, since David Ricardo's first theoretical papers. But right down to John Maynard Keynes, the central question was always how to prevent the "capital fund" from becoming "excessive." But now, with a labor-income ratio above 80% to 85%, even convinced Keynesians accept the idea that economic theory and economic policy have to concern themselves with restoring productivity and capital formation.

High labor-income ratios also pose a life-or-death crisis for the labor union and for traditional wage-setting through collective bargaining. It is no coincidence that the two U.S industries in so much trouble, with so much unemployment—autos and steel—are the two industries where there is a virtual labor union monopoly, with practically no non-union plants.

What's more, a labor-income ratio of 80% to 85% invalidates all the fundamental tenets of the labor movement—e.g., the axiom that the labor share of GNP can never be excessive. When the labor movement started, well over 100 years ago, labor's share of GNP was at most 40% or so. Hence Samuel Gompers, the pioneering leader of American labor, defined the aim of labor as "More."

But can this aim still be maintained when labor income is 85% of national product, and there is no more "more"? Or does one then have to ask what limits have to be set on labor-income as a share of gross product to enable a company, an industry or a country to form enough capital for the jobs of tomorrow?

It has similarly been a tenet of the labor movement that a union monopoly—unlike a business monopoly—can never do damage. A business monopoly, Adam Smith pointed out, reduces aggregate demand and thereby creates unemployment. By contrast, labor economists have been arguing for a century that a union monopoly can only create demand, i.e. purchasing power, and therefore will not promote unemployment. Even most "pro-business" economists have accepted this, excepting only a few American heretics, such as George Stigler and the late Henry Simons, both at the University of Chicago. But surely in the U.S. auto and steel industries, union monopoly has helped create massive unemployment.

Drucker on Management

The two U.S. industries with so much unemployment—autos and steel—are the two industries where there is a virtual labor union monopoly, with practically no non-union plants.

Unions, finally, have argued since well before Marx that the worker's propensity to save would go up at least as fast as his income. Capital formation in a society of low "surplus"—that is, little income other than labor-income—would be no lower, and, the argument ran, probably higher, than in a society where capital formation is in the hands of "capitalists" or of business. In postulating the "multiplier" effect of consumption demand on investment, Keynes gave only an elegant theoretical formulation to what had long been an axiom among socialists and labor economists.

But can any of these axioms still be maintained? Or will we have to replace them by totally different postulates? One might be that labor income has to be kept below a certain point, say 80% to 85%, if a company, an industry or a country is to be ensured adequate capital formation. Perhaps we should limit union monopoly powers to enable industries dominated by unions to maintain their competitive position as well as their ability to create future jobs.

Keeping the Balance

We might also have to balance every increase in the share of labor income with measures to stimulate capital formation especially in businesses – whether that means a shift from taxes on higher incomes to sales taxes, for instance, or the removal of taxes on savings, capital gains and business profits. Maybe we will even have to make acceptance of a rise in the labor-income ratio dependent on the capital formation rate—or link the two in some way which does not, as Keynesians and Friedmanites both assume, rely entirely on the "invisible hand" of a "multiplier" which automatically turns consumer demand or money supply into investment.

As events in Poland in the last months have shown again, a modern society needs the labor union. There has to be a "countervailing power" against the power of the "bosses" – even in a market economy where the market sets severe limits to the power of the "bosses." But "countervailing power" is still power. And to be legitimate, power requires what the union so far lacks: clear responsibility, accountability and pre-set limitations.

Mr. Drucker is Clarke Professor of Social Sciences at the Claremont Graduate School.

Senator DANFORTH. Senator Riegel and Senator Roth also have statements which will be put in the record.

[The prepared statements of Senators Riegel and Roth follow:]

STATEMENT OF SENATOR DONALD W. RIEGLE, JR.

Mr. Chairman and members of the Committee, I appreciate the opportunity to present my views to you today on a matter of the greatest urgency and importance to our nation.

By any objective measure, the domestic automobile and truck industry—and its workers—are now in a period of economic devastation that can only be compared to the great depression of the 1930's. Due to the strategic size and importance of the auto industry to the national economy—and its vital relationship to feeder industries including steel, textiles, rubber and glass and others, we find the economic damage in the auto sector pulling down the entire national economy.

I believe it is accurate to say that the auto sector problem has been the largest single contributing factor to our current national economic malaise.

At the same time that we see massive unemployment, staggering operating losses, high interest rates, plant and dealer shutdowns, and weak sales of American built automobiles—we see a massive increase in the importation and sale of foreign cars, overwhelmingly Japanese, and an unprecedented boom in Japanese auto production targeted for shipment of the U.S. market.

Ford and the UAW took the case concerning imports to the International Trade Commission seeking relief under Section 201 of the trade act, but the effects of the import problem go beyond Ford and the UAW. Thousands of dealers and automobile supplier firms in all 50 states are affected along with the entire American auto industry. Taking action to limit imports under Section 201 requires a finding by 3 of the 5 Commissioners that imports were a "substantial cause" of injury, that is a cause which is important and not less than any other cause. In an unfortunate, and I believe ill-advised decision, the ITC ruled against the American automobile industry. In making its decisions, however, two of the five Commission members found that imports are a substantial cause of injury to our domestic industry. In addition, two of the three Commissioners that voted against a finding of substantial cause had some interesting comments. Commissioner Alberger said, "I find that there are increased imports of automobiles and light trucks, and further find serious injury to the domestic industry producing such products."

Commissioner Calhoun commented, "* * * I am compelled to add that imports have, nevertheless been a significant thorn in the industry's side."

"* * * It is a disappointment to me that in my reading of Section 201 it fails in this case to protect our automobile industry from just an excess at the hands of these foreign manufacturers."

Relief from imports is not the total answer, nevertheless, it must be one element of a broad national policy to revitalize the American automobile industry. It is apparent from the comments of Commissioner Calhoun that he felt his hands were tied with regard to this problem. Ours, however, are not.

I have recently introduced Senate Joint Resolution 5 and I believe this legislation begins to address the import problem. Our joint resolution would strengthen the President's ability to avoid an economically damaging surge in auto imports during the next few months. It would be a strong signal to Japanese car makers not to exploit the vulnerability of the American auto industry while it adjusts to new market conditions.

The provisions of this joint resolution are carefully circumscribed. The joint resolution would remove any legal obstacle to negotiations on a voluntary restraint agreement or an orderly marketing agreement to temporarily reduce auto imports into the U.S. market.

It would not direct the President to enter into such negotiations or give him any new powers to impose quotas or tariffs unilaterally.

Subsection (a) would give the President authority to negotiate with foreign governments to obtain import restraint agreements on cars, trucks, and auto parts used in assembly. That authority would expire on July 1, 1984.

Subsection (b) would place two reconditions on any negotiations: First the President would have to consider that the importation of autos, trucks or parts used in assembly is causing or threatening to cause serious injury to the domestic industry; and second, the President would have to be satisfied that the domestic industry has exhausted remedies under Section 201 of the Trade Act of 1974. Any agreement would expire on June 30, 1984, thus limiting any import reduction to the period vitally needed to convert U.S. auto manufacturing facilities to the production of highly fuel efficient cars and trucks.

Subsection (c) would require the President to consult with interested parties in the private sector, including representatives of consumers, 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 (d) would enable the President to implement an orderly marketing agreement by authorizing him to regulate the introduction of foreign cars into the U.S. market in accordance with the terms of such an agreement.

Section 2 would exempt the act of entering into an auto export agreement, and actions necessary to implement any agreement, from antitrust laws of the United States of any State. This is intended to prevent the implementation of an agreement from being delayed by court suits.

Auto manufacturing is the keystone of this Nation's economy. It directly creates 1 out of every 12 manufacturing jobs and generates prime demand for such basic industries as steel, aluminum, rubber, textiles, machine tooling, and increasingly, electronics. it affects the economy of every state, and its health is vital to 50,000 small and medium-sized supplier firms and to 28,000 auto dealers.

The collapse of domestic auto sales has caused the layoff of 1 million American workers and has dangerously weakened the financial structure of the U.S. economy's dominant industry. The latest national unemployment figures are 7.4 percent. In some states and regions of the country, unemployment has reached levels which are catastrophic.

The Japanese efforts to further penetrate the U.S. market are escalating these problems into a disaster. Japanese imports captured more than 21 percent of the U.S. market in 1980, and the Japanese are expanding their capacity enough to supply 50 percent of this country's vital small car market. That threatens to cause a massive permanent loss of U.S. jobs and a continued rise in the auto trade deficit with Japan well beyond the present $10 billion deficit.

In my own State of Michigan, unemployment was 12.2 percent in December. Unemployment has been at the highest level since the Great Depression; 524,000 people are now jobless in my State. Almost 280,000 people are collecting unemployment insurance, and more than 250,000 have been out of work so long that they have exhausted all their unemployment insurance benefits. More than 1 in 9 of our citizens have been forced to turn to some form of public assistance. We are suffering from the greatest economic catastrophe since the Depression of the 1930's. These are stark and brutal facts. They paint a grim picture of the human devastation to the people of my State.

But while the worst of this recession is centered in Michigan, it is a national problem where unemployment in December was at 8.5 percent in Ohio, 8.9 percent in Illinois, 7.5 percent in New Jersey, 7.5 percent in Pennsylvania, and 6.9 percent in New York. Because of the large size of these industrial states, the percentage figures represent millions of persons.

Today's problems in the American auto and truck industry are immense with massive financial losses being incurred at a time when $80 billion of new capital must be raised in order to modernize plants and retool production lines. The domestic auto companies are working at maximum speed to accomplish the conversion to smaller fuel efficient cars.

The 26.7 percent penetration by foreign suppliers, the extraordinarily high interest rates and the recession have combined to deal a crippling blow to the industry at this time. The prospect for the industry over the next several months is grim. Japan has substantial excess auto manufacturing capacity to further increase their U.S. market share if they choose to. Our domestic industry is in such a highly vulnerable position that we are almost certain to have continued shutdowns of American auto plants over the next few months.

Of particular concern is the strategy of Japanese automakers to penetrate the U.S. market. They have already strengthened their U.S. retail networks, increased overtime, and expanded production capacity to capture a whopping 21 percent of the U.S. auto sales in 1980. Because auto consumers typically show strong brand loyalty, the Japanese penetration threatens to permanently restructure the U.S. auto market and reduce the market shares and employment of domestic car manufacturers.

The Japanese Government has indicated its willingness to work out mutually acceptable limits on auto exports and avoid further disruption of the U.S. auto market.

Carter administration officials, however, believe that they need additional legal authority before they can enter into such negotiations. While there is considerable disagreement about the President's present authority to act in this matter, Congress should clear any legal obstacles to negotiations that both sides feel would be in the long-term interests of both countries.

I am pleased that the Senate Finance Committee's Trade Subcommittee has scheduled hearings on the auto crisis. I believe that we must make a broad national response to end that crisis and that adoption of Senate Joint Resolution 5 would be one important element of that response.

STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

I would like to thank the Chairman, Senator Danforth, for conducting this hearing on a most critical issue: the state of the domestic automotive industry. This important sector has seen declines on all fronts—sales, profitability, international market share—and we must focus increased attention on ways of turning this situation around. We must develop ways of dealing with increasing imports, the spiraling cost of money, escalating capital expenditure requirements and growing regulatory compliance costs.

The very existence of this crucial domestic sector is threatened. Sales are down over 20 percent from last year, and imports are capturing a larger and larger share of those consumers who can still afford to purchase cars and trucks. Labor faces widespread layoffs. Approximately 250,000 auto workers had been separated indefinitely as of November 1980, and 175,000 of these face protracted unemployment.

Moreover, declines in the auto and truck industries have sent shock waves throughout our economy as producers of secondary and tertiary goods and services suffer lost markets. Auto dealers, car haulers and others in our vast distribution network are seeing their source of livelihood disappear. Producers of steel, rubber, glass, plastics, zinc, electronic products and aluminum are also threatened. It has been estimated that, in my own state of Delaware automotive and related industries employ 21 percent of the work force. In Delaware and throughout the United States, we must reverse the downward spiral of the automotive industry if we are to restore a vital part of our nation's economy to health.

The American automotive industry has taken financial risks of its own. It plans to commit $40 billion ultimately to retool and meet foreign competition and domestic demand for more fuel-efficient vehicles. Over the near term, it is estimated that capacity will be available this year alone to produce 5.4 million cars with fuel economy roughly equal to that of many imports. In addition, to slow production cost increases, Chrysler Corporation, for example, has invested $50 million in new, automated machinery, computerized quality controls and other assembly line equipment for its Newark, Delaware, plant alone. If Chrysler and other U.S. auto producers do not receive support from the U.S. Government and the American consumer, however, many of the dollars they have invested will be wasted.

I firmly believe the health of our automotive sector should be of serious concern to all Americans, indeed to the entire world. As a leader of the Free World, we must maintain one of the industries that form the economic and national security backbone of our country. Our trading partners in Europe, the Far East and elsewhere should also recognize they have a stake in a strong America built on healthy industries.

Senator DANFORTH. I have a brief statement which will also be put in the record. Let me embellish it in this way.

It is clear that the automobile industry is in serious trouble right now. Chrysler is on the front page of the paper every day. Ford lost some $1.2 billion in the first three quarters of last year. This is a major industry in this country. There is a demand throughout the country that Government do something about the automobile industry.

My concern has been that with a change in the Congress, and with a change in the administration, we are going to not move as expeditiously as maybe we should. The tendency when a new administration comes in is to take a great deal of time filling important positions, and then to commence a leisurely study of the problem before devising a program to deal with it.

Whatever we do, I doubt that we have time for a leisurely study. Therefore, it is my view, and the reason for this hearing that we should try to understand the options that are available to us at a very early date, so that we are ready to act at a very early date.

One of the options, of course, is essentially to do nothing. To let general economic conditions work, to let the system work. To hope that with improvement in the economy, lower interest rates, the situation will right itself, and the automobile industry will regain its strength with the rest of the economy.

The other approach would be to take the position that the automobile industry is in such a state of emergency right now that we cannot afford to take the time for general economic conditions to right themselves. Therefore, some legislative package is necessary to try to improve the situation for the automobile industry.

If we are to follow that course, then it is important to recognize that there is no free lunch. Any kind of package that is put together by the Government specifically targeted toward improving the situation in the automobile industry has not only positive effects, but possible negative effects as well.

Any kind of a tax program which would provide, for example, a refundable tax credit, has revenue consequences, budgetary consequences, which may have adverse effects on the economy as a whole. Similarly, any sort of trade restriction, while it may be helpful to the automobile industry, may be harmful to overall trade policy.

So it is important to consider what the options are, and what the tradeoffs are in each of the options. It would be my hope that these hearings would be an opportunity to consider those alternatives, to consider those tradeoffs, and to determine what sort of time schedule we are on.

If we are going to have some sort of an emergency program for the automobile industry, how long will it last. How long will the emergency last. Or, will this be the kind of thing that once we get it underway, it is going to have a life of its own which will continue in perpetuity.

[Opening statement of Senator Danforth follows:]

OPENING STATEMENT BY SENATOR JOHN C. DANFORTH, COMMITTEE ON FINANCE, SUBCOMMITTEE ON INTERNATIONAL TRADE—THE PROBLEMS OF THE U.S. AUTOMOBILE INDUSTRY

The U.S. auto industry is in a state of crisis. The industry has just concluded its worst sales year in the past two decades. More than one-half million workers in auto production and related industries have been out of work. The survival of the third largest U.S. auto producer is dependent upon federal loan guarantees. Our second largest producer lost $1.2 billion in the first 3 quarters of last year and has unsuccessfully petitioned for relief from harm caused by imports. The leading U.S. automaker, and the world's largest, lost money last year for the first time since 1921. Demand for all automobiles has been sharply reduced by the recession and high interest rates. At the same time, imports have taken advantage of a sudden shift in consumer demand for smaller, more fuel-efficient cars before U.S. manufacturers could retool to meet that demand. This is clearly a problem which cannot be ignored.

When I announced these hearings, I stated my intention to move as rapidly as possible to fashion practical devices for making sure that the automobile industry remains alive and well. I remain committed to the goal of having an automobile industry in the United States which is competitive both at home and abroad. Congress must move quickly but prudently in assessing proposals for restoring the competitiveness of the U.S. auto industry and putting displaced U.S. workers back to work. I say "prudently" because whenever the government considers proposals that may interfere with the free workings of the marketplace, it must do so cautiously. Our recent economic experience reflects more than one sad story of the unintended consequences of well-intentioned acts.

The purpose of these hearings is to try to find out what the automobile industry needs, and what will be the most effective means to help meet those needs. Following these hearings, the Committee will review all proposals to determine what, if anything, should be done. We hope to work closely with the new Administration. We are not looking for solutions which may be satisfying from a symbolic point of view but which will not actually get us to our final goal of a competitive industry; nor can we limit our view to short-term solutions without concern for the future viability of the industry and for the needs of the country.

We ask that the witnesses limit their prepared remarks to summaries of their written statements, which will be made a part of the record, so that as much time as possible can be left for the exchange of views which is needed to begin fashioning truly practical means of reaching our stated goal.

Senator DANFORTH. The first witness is Ms. Maryann Keller, first vice president of Payne, Webber, Mitchell & Hutchins, Inc., of New York.

STATEMENT OF MARYANN N. KELLER, FIRST VICE PRESIDENT, PAINE, WEBBER, MITCHELL & HUTCHINS, INC., OF NEW YORK

Ms. KELLER. In the 5 minutes that are allotted to me for oral presentation, I thought I would first like to put the role of the auto analyst in perspective.

We are a rather peculiar breed of people in that we really have no axe to grind. Our specific function is to assess the exogenous factors that impact industries and individual companies with the specific objective of determining whether or not there is an investment merit to owning an individual stock.

I have a reasonably good record in the stock selection process mainly because I have been a seller of auto stocks for the last few years, and I think that that opinion probably depicts the health of the automobile industry as well as any.

The attitude of investors is really a reflection of what they perceive to be the earning power of the industry, the industry's ability to finance itself, and as a result what is their prospect for dividends.

In assessing what happened to the automobile industry over the last decade, there are a number of things that have come out and have influenced the industry's ability to attract capital, and the industry's investment merit.

First, the growing regulatory burden has adversely affected this industry and has to be cited as a key factor in investor hesitation over auto investment. It is rather interesting, and I think brought out well in the Chrysler hearings 1 year ago, that the smallest companies bore the greatest financial burden from regulation.

The consequence of imposing regulation on a timetable weighs heaviest on those companies with limited capital and manpower resources, and so there is an inverse relationship on the burden of regulation to the size of the company.

I might add that in countries such as Germany and Japan, Governments tend to be far more cooperative with their automobile industries. They seek to achieve similar goals to ours with respect to fuel efficiency, emissions, and safety, and yet often Governments take a more active role in supporting those investments and research directly.

Senator CHAFEE. Ms. Keller, just one interruption.

You are not suggesting that the environmental controls that were placed on U.S. manufacturers are any different from those placed on foreign manufacturers. Foreign competitors had to meet the same standards in the United States.

Ms. KELLER. They had to meet the same standards in the United States, yes, but, basically, they were starting with a very different product than we were. You know, a 4-cylinder engine is considerably easier to clean up than is an 8-cylinder engine. Fuel efficiency starts at a much higher level for a European manufacturer who has always been building a small car.

I am not suggesting that those goals and objectives were not meritorious. I am simply suggesting that the penalty that arose in the industry was inverse to the size of the company.

There was also some inconsistency among the various regulatory goals and in certain legislation. I cite, for example, the Energy Policy and Conservation Act of 1975. Consumers, through this act, were virtually promised inexpensive gasoline. At the same time the task of improving fuel economy to fulfill energy conservation became the direct responsibility of the automobile industry.

Without the incentive that might have arisen from higher gasoline prices which might have prodded the consumer into small cars, the industry was forced during the past 4 years to spend the bulk of its money in modernizing and improving the efficiency of their largest cars. Higher fuel economy was often negated by tightening emissions standards.

I would suggest that one only has to look at the statistics, the sales statistics of the period 1975 through 1978, to realize that the American public was on a gas-guzzler binge.

Consumers bought large cars and lightweight trucks to the point where the capacity of the industry to build them was strained. To fulfill fuel economy standards in an era of cheap fuel resulted in substantial wasted investment by the automakers.

Since small cars, including imports, were clogging the docks and selling poorly—there was very little incentive to spend money to modernize a car that was unwanted. So, GM, Ford, Chrysler, et cetera, put the bulk of their resources in their largest cars, which was necessary by virtue of the need to achieve fuel economy standards that were specified each year from 1978 on.

Some of the legislation regarding emissions and safety clearly was contradictory because of increased weight of cars and reduced fuel economy.

During the 1970's labor unions demanded and received wage-and-benefit settlements which exceeded the pace of the average manufacturing worker in this country.

This might have been affordable by the automobile industry in an era when the big car was most popular. It was a time when American manufacturers dominated a segment of the market with a unique product which the consumer wanted to buy. So the higher costs of those wages and benefits were passed along to the consumer who was willing to pay for them.

There is a long-term problem emerging in the industry, since we are increasingly building cars that look like the Japanese and European competitors.

You have already indicated that the average Japanese worker makes substantially less than the U.S. worker, and I believe that Secretary Goldschmidt's assessment was that the Japanese had an advantage of $1,000 to $1,500 per car primarily due to labor costs and productivity advantages. This poses a problem regarding employment.

During the next decade, the automobile industry is destined to lose a great many workers through down-sizing. Smaller cars are simpler to build and require fewer man-hours. Productivity improvement is also an absolute must.

There is no question in my mind that the U.S. auto industry is going to rely more upon affiliates, its own subsidiaries, and independent foreign manufacturers for major components. These trends are already in place. In addition, there is also the possibility of importing complete cars, or kits by U.S. companies from their subsidiaries. For example, Ford's relationship with Toyo Kogyo will result in a minicar built by Toyo Kogyo for Ford in 1984.

For the industry to regain its competitiveness throughout the world, these processes have to be allowed to continue. To impose any restrictions on them, would cause the industry to suffer over the long term. On the other hand, I think the social obligation of dealing with the unemployed has to be addressed, and addressed before the problem becomes acute.

During the last year I have heard about and read about numerous proposals to help the automobile industry directly. The short-term proposals primarily relate to tax credits for the purchase of new cars, or tax credits to get rid of the gas guzzlers, and stimulate sales by boosting scrappage.

It is my opinion that these credits do very little to improve the health of the automobile industry. Any merchandizing program, any rebate program would have the same effect whether Government or company sponsored in that it merely tends to pull demand forward. On the cutoff date for that program, demand simply dries up. Dealers would tend to bargain less by using the credit to secure the sale.

I think improvement in the overall economic environment is probably more critical than a very expensive, and short-term, quick fix that is not going to solve the basic problem.

The long-term tax-related issues present a rather unique problem for auto-specific legislation. We have been talking about the auto industry as if it were one company or that all companies in it were homogeneous, and they are not. That is something that has to be brought out and understood in any proposed legislation in the tax area.

General Motors will be profitable in the fourth quarter. The company has turned the corner. For the full year it will undoubtedly lose something in the area of $700 million, for GM, a record loss. General Motors is an enormously powerful company. Its spending program is almost double that of its nearest competitor. Its spending program will not only result in highly competitive fuel cars, but will also result in the most modern assembly plants in the country. GM's overseas operations are getting their share and will support profits in the future.

So General Motors is undertaking a far reaching, very aggressive, and very ambitious program that is destined to preserve and enlarge GM's role in the auto industry.

Tax credits, obviously any tax incentives, such as 10-5-3—mean more to GM than Ford. The company will be profitable in 1981, and has the ability to spend extraordinary amounts of money. Needless to say, tax incentives are very valuable and will increase cash flow.

On the other hand Ford Motor Co. will probably lose about $1.6 billion. Chrysler Corp. by its own estimate is about $1.7 billion. Ford will not be profitable in 1981, neither will Chrysler.

I think Ford's loss will be considerably smaller in 1981, but nevertheless it will remain in the red in the United States where tax incentives would be obviously applicable to its larger competitor. I think this has to be borne in mind when formulating long-term special help for the automobile industry. The fact that there is a fragile competitive balance right now among the automakers that could be disturbed by tax legislation that did not keep in mind the differences between the companies.

On the issue of imports, I would have to characterize myself as a freetrader. It seems to me that the only thing that would be resolved in this country as a result of import restrictions or quotas would be improvement in the profitability of small cars and not more volume or employment.

The mechanism by which prices would rise is fairly simple. Foreign car dealers have a profit objective as any businessman might. They would, if allocated 20 cars per month instead of 25 cars per month, price them to fulfill their profit objectives on the lesser volume.

It would have the effect of boosting all small car prices, and give the auto companies the opportunity to offset their cost disadvantage relative to the Japanese. It would not necessarily, in my opinion, stimulate higher car sales.

I think there is evidence already in the truck market where we have imposed a 25-percent duty on small trucks, that this has not shifted demand to domestic lightweight trucks.

Thank you.

Senator DANFORTH. Ms. Keller, with respect to the objectives of the Congress, do you think it would be enough for us to just say, "Well, General Motors can survive. Therefore, that is sufficient for the American automobile industry." Or, should we attempt to keep two major competitors, or three major competitors in the automobile industry?

Ms. KELLER. I think that the auto industry is evolving into a different form throughout the world, something that we have not had to deal with in the past. I think in reading a portion of Secretary Goldschmidt's report, he highlighted the internationalization of the auto industry, and how we should not set up barriers, specifically antitrust barriers, to the possibility of joint ventures and cooperation. GM will survive no matter what Congress concludes. Chrysler can survive only through merger.

Over the long term, those who have said there will be eight major auto companies in the world by 1990, were probably correct. This is a mature industry that is growing very slowly and requiring enormous amounts of capital in order to remain competitive. That suggests that the smaller, less efficient companies are going to have to develop some structure that is perhaps different from the way that we have always known them.

It is still questionable whether the Government should play an active role as this evolution takes place. It certainly is playing an active role in Europe. I don't think that we should overlook the fact that other governments have evolved a very cooperative relationship with their auto industries, and have successfully in many cases been able to restore their competitive health. I specifically cite Volkswagen in the early 1970's when it went through a transition.

Senator DANFORTH. If we were to do nothing, if we were just to rely on the general economic conditions, or the kind of tax proposals like 10-5-3 or something similar, which would have a general effect on American industry, but not targeted toward the automobile industry itself, what would happen to Chrysler and Ford?

Ms. KELLER. I think that Chrysler's only hope for survival is the liaison with a foreign manufacturer. That has been said many times before, and certainly many times over the past week. It is something that I do believe.

I think that Chrysler Corp. is a very immediate problem. Chrysler has a problem of consumer perception. Chrysler products are virtually unsalable. It is the fact that the product is built by a company that is a hair's breadth from nonexistence. The consumer, in order to be encouraged to look at those cars objectively, has to feel secure that the company is going to be around.

The problem could have been the same with American Motors. It was resolved when Renault decided to step up and to buy substantial equity interest in American Motors. It resolved that potential bankruptcy.

If we were to do nothing in the case of Ford, I think the company will come out of its problems. Ford is as dependent on its overseas operations as it is on its U.S. operations. Over the past 5 years, the overseas operations have been immensely profitable. The North American operations have been the drag, particularly since 1979.

The reason that Ford will be unprofitable in 1981, is largely because the European countries are enduring recessions. It is in Germany, for example, that Ford is now losing quite a bit of money. Those are some of the specific factors that will cause Ford to be unprofitable. Its loss in North America should be substantially smaller in 1981 and might have been entirely offset by European profits.

To do nothing in the case of Ford, we have got to hope that the European economy will turn in the second half. Europe has been, in fact, a major provider of earnings for Ford. As far as the company's ability to fund its capital investment program, it is far less ambitious than General Motors and the funds can be attained, though at a higher cost.

I think that it is going to result in Ford becoming less integrated in this country, perhaps ultimately having a smaller market share, being more reliant on outside suppliers, foreign as well as its own subsidiaries. So, structurally, it will be different, but I don't see that there is a long-term survival problem for Ford. There will be little structural change at GM.

As far as General Motors is concerned, as I indicated earlier, I think that it is on the path to recovery now.

So to do nothing, basically, and allow things to just progress, you have one company that simply grows, and it grows whether you do anything about it or not. Ford could benefit from a more active Government role, moderation in regulation which will help it disproportionately to GM, and refundable tax credits, if you are going to have tax incentives. I think those are active roles that the Government can take, which would help Ford substantially.

Senator DANFORTH. Senator Dole.

Senator DOLE. You indicated in your testimony before the Banking Committee that one of the problems, or many of their problems are partly due to our energy policy, or lack of an energy policy.

Is there any indication that this problem has been resolved to date?

Ms. KELLER. I think that this is a very critical issue. You have to appreciate that automobile programs that are on the drawing board today are the cars of 1984 and 1985. So a very clear understanding of what our energy policy is is absolutely essential to their long-term product planning. I think that this is really where they got caught in the late 1970's.

I am not sure that there is a clear understanding of what our energy policy is, and what the long-term gasoline costs are going to be. I think the industry itself, certainly Henry Ford II supported progressive hikes in gasoline taxes in order to move the consumer gradually toward smaller cars in the mid seventies.

I suspect that the automobile industry would like to have some indication that this will be the Government's attitude toward higher gasoline prices, if this is, indeed, what it is.

I think that there is also a fear that present energy policy might lead us into another shortage such as we experienced in 1979. I might point out that shortages, probably more than price increases themselves, have a way of pushing people into panic buying of small cars and to imports.

In the second week of February 1979, it is almost as crystal clear as that, the American public suddenly realized that there were going to be gas lines again. They went out and bought every imported car available. Had there been better allocation program, we might not have seen the gas lines, and higher prices for fuel between 1975 and 1978 might have created a broader model mix such as exists today.

It is ironic that in the auto environment of today, January 1981, imports are not selling as well as they did earlier in 1980. There is inventory being built up at imported car dealers. They are beginning to discount. There has been some indication that some large cars are now not quite the drag on the market that they were.

Senator DANFORTH. Thank you.

Senator Dole.

Senator DOLE. You have mentioned the report by the Department of Transportation, the U.S. Automobile Industry—1980.

Have you had a chance to review that report, and the recommendations made by the Department?

Ms. KELLER. Only the summary.

Senator DOLE. I listened and watched with interest Secretary Goldschmidt on the McNeil-Lehrer program last evening. Apparently one of the recommendations is that the Government should negotiate an import restraint agreement with the Japanese, which reflects the real time period it will take the U.S. automakers to accomplish the transition to the production of smaller cars.

As I understand, you do not share that view.

Ms. KELLER. No; I do not, because I don't believe that quotas or restrictions necessarily increase the volume of domestic cars.

With respect to how far along the auto industry is in the transition, you know the question of quotas was raised last spring, and we are now 1 year beyond that, and 1 year closer to the resolution of our lack of small-car problem.

I might add, to give you some specifics, in March or April of this year, Ford will introduce two new small cars, sporty versions of the Escort and Lynx, which represent additional capacity in subcompacts. By the way, it has proven to be a very successful car in the marketplace.

In May of this year, General Motors will introduce what it has come to call the J car. This car will be smaller than the cars that we call the X cars. It will be available from the Chevrolet, Pontiac, and Cadillac Divisions. In September of this year, there will be J car versions for Oldsmobile and Buick.

In September of this year, General Motors will downsize—pardon my use of industry jargon—the intermediate cars, cars that are nameplated Malibu, Le Mans, Cutlass. Those cars will become approximately the size of the X car.

So you can see that the industry is well along in the transition. As a matter of fact, General Motors virtually completes it by September 1983, and General Motors at this point represents 65 percent of the domestic car market.

As far as Ford's transition is concerned, it is a much longer term problem in that Ford will not be fully front-wheel drive until perhaps 1985 or later. But, specifically, beyond these sporty Escorts, there will be another version of the Escort available in September. Ford then plans to introduce a new car every 6 months.

The transition, as I said, for Ford is going to take longer. GM is obviously way ahead, but both companies are certainly on the way toward offering a more competitive line.

Senator DOLE. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. What would you specifically recommend that we do, Ms. Keller, if you were sitting here?

Ms. KELLER. I suspect that my concern as an analyst has always been the lack of coordination among all of the regulatory agencies that affect the auto industry.

I am certainly not suggesting that laws that have been promulgated with specific objectives, such as clear air and safety, should be repealed or rescinded, but rather that future regulations perhaps deal on a more coordinated basis, a more cooperative basis with the industry as to what might be achieved, and what are the cost penalties that might be incurred in achieving those things.

Certainly, I would not rule out the possibility of Government support for those programs. Certainly, on a worldwide basis, it has been done elsewhere. The Germans——

Senator CHAFEE. If I could interrupt a minute.

I don't think there is support for more Government regulations affecting the automobile industry. We have been through most of that.

Ms. KELLER. I am referring mainly to pending legislation and interpretation of existing regulation.

Senator CHAFEE. Are you talking particularly of the clean air emission standards?

Ms. KELLER. The airbag, for example. Whether or not we need a 5-mile-per-hour bumper. Certain of the standards that might apply to diesel engines. Certainly the heavy duty truck emission standards. These seem to be very, very specific, but it is in these areas that the industry could be helped with some relief.

Senator CHAFEE. When you say: "helped with some relief", do you mean not imposing them? In the last part of your previous answer you indicated the Government could help. Do you mean in a financial way?

Ms. KELLER. It certainly has been done. It is possible that that might be an alternative, particularly for those companies that can least afford it.

Senator CHAFEE. Could you be a bit more specific? Let's take Ford as an example. What would you have us do?

Ms. KELLER. The auto companies, I know, have submitted what they call their "wish lists," and they are more familiar than I with each of the individual regulations that are yet to be fulfilled and the cost of those regulations. All I am suggesting is that their expressions of concern be given perhaps a more charitable review than they seem to have had.

Senator CHAFEE. A sympathetic hearing?

Ms. KELLER. Yes.

Senator CHAFEE. I think you will find that here. I look forward to hearing what the auto companies suggest. Certainly, I for one would find it unfortunate if there is only one surviving U.S. automobile manufacturer, namely, General Motors, which you indicated already has 65 percent of the U.S.-manufactured automobile sales. Is that correct?

Ms. KELLER. Of the domestic car market, or approximately half of the total market.

Senator CHAFEE. But 65 percent of the domestically produced automobiles are GM's?

Ms. KELLER. Yes.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Wallop.

Senator WALLOP. Thank you, Mr. Chairman.

Ms. Keller, let me begin by complimenting you on the clarity of your statement, and your responses. It is rather refreshing to have somebody go directly to the question that has been asked, and try to satisfy it.

In your remarks, you have said something to the effect that the processes now in place in the industry worldwide must be allowed to continue. You included the increasing use of foreign components.

Can you expand upon that idea? How do you anticipate it working, and what will it do to other domestic American industry, such as glass, plastic, upholstery, and paint?

Ms. KELLER. Let me look at some of the major components in the automobile to give you some of the reasons as to why this shift is occurring.

In the case of Ford, for example, Ford does not have the capital resources, perhaps, or the time to develop a diesel engine of its own. It has been forced to rely upon outside suppliers for its diesel engine production.

In a few years it plans to import from Toyo Kogyo, and Ford owns 25 percent of Toyo Kogyo, a substantial number of diesel engines, 4-cylinder diesels, several hundred thousand conceivably a year. At that same time, Ford has already negotiated to import over 100,000 6-cylinder diesel engines from BMW in Austria.

That is one area where importation of products satisfies a company's inability to develop on a time scale the necessary technology of their own, and a necessary productive capacity of their own.

Senator WALLOP. May I interrupt for just a second?

Is that inability capital related, or technology related?

Ms. KELLER. It probably is, in this case, both. But certainly capital for Ford is a major consideration. General Motors has always had diesel engine technology in its Opel operation in Germany, and so I think was a bit ahead on technology.

Ford has stressed the Proco engine, which you may have heard of, as its response to the diesel engine. With the radical down sizing that is going to take place in American automobiles, the Proco engine does not appear to be the solution. So diesels appear to be the more likely candidate, and Ford was going along the wrong path.

As another strategy, of course, there is a massive engine building boom taking place in Mexico now. Our four North American companies, and I am including Volkswagen in that, are all building engine plants in Mexico. Clearly the Mexican auto industry cannot absorb the productive capacity of four huge engine plants. Most of that is going to be destined for the United States.

Why is it being done there? There are trade restrictions in Mexico that must be fulfilled. There is also the benefit of, I believe, the $1 an hour labor in Mexico, which clearly is an incentive.

As far as some parts like shock absorbers, pumps, upholstery, as you have mentioned, there is some out sourcing taking place. It is not taking place on the grand scale that we see for the major components, which tend to be very well reported in the press. But there certainly is opportunity for Japanese manufacturers, for example, or Taiwanese manufacturers to supply some of these parts to the domestic auto industry. The domestic auto makers, because of their own cost disadvantage relative to the Japanese, are increasingly utilizing parts that are imported from Japan.

Our own parts manufacturing industry is also moving abroad. We see more and more of the move out of the industrialized Midwest into the lower labor cost base in the South, and some American parts companies are moving into Latin America as well.

Senator WALLOP. Does that mean we will see the American parts industry and the American automobile industry go the way of the

American television industry? Ultimately, nothing is left for us to do but consume, and how are we going to earn money to pay for the consumption?

Ms. KELLER. I don't think that I am suggesting that the American parts industry is going to be fully located in Taiwan or Japan, or that we are going to be fully satisfied by parts sold to us by foreign manufacturers. Oftentimes we are talking about the foreign operations, the Mexican or Brazilian operations of Ford or GM. We are talking about the Brazilian or Mexican operations of Bendix or Eaton. So they are American companies. It is certainly beneficial for them to maximize profits rather than lose business. We have seen in the case of Ford that the earning power of foreign operations is extremely important in maintaining the viability and financial health of a company.

I don't look at it in the same context as you would. I look at it as being something that is very rational and absolutely necessary for these companies, and they are simply responding to the competitive environment that is directing them.

Senator WALLOP. Thank you.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

On January 9, the Wall Street Journal carried an article which reported that the Ford Motor Co. declared a dividend for the first quarter of 1981 of 30 cents a share. As I understand it, this is the third consecutive quarter in which Ford has not changed its dividend rate. How do you view Ford's dividend policy?

Ms. KELLER. I think to a lot of people the payment of a dividend when a company is going to lose $1.6 billion seems an anathema. I would suggest that the company did cut its dividends substantially in the last year. So, Ford's shareholders have suffered in the process.

The payment of a dividend is also a barometer, I think, for the investment community. The total abolition of a dividend in this case, which perhaps some have suggested would have been prudent, may have frightened potential lenders to the company.

Ford is not about to follow the path of Chrysler. To have provided a dramatic signal, such as the abolition of a dividend, I think would have suggested a financial distress far beyond what was warranted. I think it is important to realize that in 1979 Ford did pay its shareholders $3.90 cents a share. This year, the maximum would be $1.20.

I, for one, think that there is a growing possibility that in the next quarter there might be a modest dividend cut, although I do not see the elimination of the dividend.

Senator MATSUNAGA. One analyst, Mr. Healy, is quoted as saying that the cut—I suppose he means a further cut——

Ms. KELLER. Yes.

Senator MATSUNAGA [continuing]. Any further cut would have been politically helpful. If Ford shareholders are making sacrifices, then Ford workers might also, he reasons. You don't agree with this reasoning?

Ms. KELLER. I guess, no, I don't. I think that the shareholders have been asked to make a huge sacrifice already.

I think you have to understand how much money would have been provided by a dividend cut relative to the amount of money that Ford requires. Ford will spend $3.3 billion this year. If they had eliminated the dividend, they would have saved about $150 million, which is insignificant to the total.

For a company to at least be able to provide a signal to the investment community that it is going to be here, and that it is a credible borrower, I think that that is as important as the other interpretation that he has chosen to give it.

Senator MATSUNAGA. In the last Congress, Ms. Keller, the Finance Committee of the Senate reported out a tax bill which reduced the long-term capital gains tax and corporate tax, and provided credits for research and development. The bill also increased the minimum accumulated earnings credit, and expanded the investment credit for used property. Have you had a chance to review the Finance Committee's proposed tax cut program?

Ms. KELLER. Only in a very general way.

Senator MATSUNAGA. Do you feel that enactment of such a program would help the domestic auto industry?

Ms. KELLER. Although, I agree with the principles, again, I would highlight the difference among the automakers. Anything that did not have a refunding provision associated with it—to give a tax credit for research and development, for example, that might be laudible but, on the other hand, if you are losing money, a tax credit really does not make much difference.

I think the whole area of taxation with respect to capital formation, that is something that I would prefer to allow an economist address, but it is certainly I think a critical issue that the country has to address.

Senator MATSUNAGA. Thank you very much.

Senator DANFORTH. I would like to ask you several questions in the 5 minutes allotted me. I would appreciate if you just hit the highlights.

Ms. KELLER. Yes.

Senator DANFORTH. There have been a number of proposals in the past few months as to what we could do to help the automobile industry. I would like you to comment briefly on each of them.

The first was in the bill that was before the Congress last December with respect to authorizing the President to negotiate voluntary restraints with the Japanese on imports.

Ms. KELLER. Again, I think I would go back to the comments that I have already made. If you limit the imports to any meaningful degree, I think that it will serve to boost the overall price of cars. I don't think that it could be demonstrated that it would result in higher sales, or higher employment.

Senator DANFORTH. You think that it would not be terribly helpful to the domestic industry?

Ms. KELLER. Certainly not at this point in time. The domestic auto industry, as I have indicated, is in the process of increasing its small-car capacity and should be there very quickly, certainly within the next year. We have small-car capacity in excess of 4 million.

I think a proposal such as that, if it is going to be really meaty and really push back imports, would not serve the purposes that you really would seek. A proposal that would tie sales to market share would allow volume to rise and fall, so that we would not have market share expansion, perhaps would limit them in the case of panic buying of small cars and might be more acceptable. If we were going to have another energy crisis that would suddenly collapse demand for all of our cars, or most of our cars, perhaps that is a better way to do it.

In Britain, for example, the Japanese volume is tied to share as opposed to specific volume. But I am opposed to import restriction.

Senator DANFORTH. All right.

The second suggestion is tax incentives of one kind or another to stimulate demand for domestic automobiles. I understand that you proposed such a program last summer, a temporary rebate program of some kind for purchases of domestic automobiles.

Ms. KELLER. I think I simply mentioned that this has been aired. I am not sure that I specifically agreed to it. I think that any program that gives a tax credit does not solve basic problems. What it does, it uses up the inventory in the car dealers' lots, and therefore may not stimulate production. On the other hand, the day after the program is complete, car sales just drop away.

Senator DANFORTH. If we had an immediate emergency right now, if the automobile industry were right now in an emergency condition, and we had to get it through the emergency for 1, 2, or 3 years, or whatever length of time it would take, stimulating demand would be a short-term fix, wouldn't it?

Ms. KELLER. Short term, but probably, if you are going to have it imposed for that long a period of time, you would only be reflecting normal demand in any event. If I knew that a tax credit program was going to be in effect for 2 years, and I needed to buy a car next year, I certainly would not buy one today, simply with the knowledge that this program would allow me that latitude.

Senator DANFORTH. A third idea in the general range of things that could be done would be to, in effect, give the industry money, that is a refundable tax credit or a change in the loss carryback.

Ms. KELLER. I think either of those proposals deserve some further consideration. Using a longer tax loss carryback would certainly be beneficial to Ford. The refunding provision on tax credits would also help that company. General Motors could take advantage of any tax proposals that would offer tax incentives, credits, et cetera.

Senator DANFORTH. The fourth type of proposal would be to try to lower interest rates for dealers, through SBA loans, for example.

Ms. KELLER. That would simply allow the dealer to perhaps stockpile more cars in the lot. Basically, the dealer's problem is one of lack of volume, not necessarily the fact that he is paying such a high rate on the car.

That is a problem in and of itself, that his costs are high and he cannot bargain with the buyer. To give him the ability to carry more at a lower rate does not necessarily solve the fundamental problem of how do you get sales going again.

Offering lower interest rates on consumer loans—in fact, interest rates on consumer loans, even though they are up, have not really been the major impediment to car sales. I think psychologically interest rates cause people to shy away from consumer durable purchases, but in reality a $6,000 car loan over 4 years at 12 percent versus 16 percent adds about $7 dollars a month. It is not that much.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Nothing further.

Senator DANFORTH. Senator Wallop.

[No response.]

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Do you agree with the decision of the International Trade Commission relative to the damage done to the domestic auto industry by foreign imports?

Ms. KELLER. Yes, I basically do.

Senator MATSUNAGA. You do.

Ms. KELLER. Yes.

Senator DANFORTH. Thank you, Ms. Keller.

Ms. KELLER. Thank you.

[The prepared statement of Ms. Keller follows:]

PREPARED STATEMENT OF MARYANN N. KELLER, FIRST VICE PRESIDENT, PAINE, WEBBER, MITCHELL & HUTCHINS, INC.

The motor vehicle industry is cyclical and tends to move in tandem with changes in the economic environment. Total sales were 8.97 million in 1980, 15.7 percent below the 1979 level. The 1980 recession, which incorporated credit restrictions and high interest rates, was the primary cause of the slump in vehicle demand. The residual effects of the gasoline shortage of 1979 and the run-up in energy prices that occurred between late 1978 and March, 1980 resulted in a shift toward fuel-efficient cars in general. Domestic automakers lacked sufficient capacity to respond to an abrupt change in consumer buying habits which was a key factor in the rising market share of imported cars over the last two years. Foreign penetration reached a high of 26.7 percent in 1980 compared with 21.9 percent in 1979. Market shares for importers fell in the summer and fall because of: (1) product shortages among importers which have been resolved; (2) stabilization of gasoline prices which has taken some of the pressure off of larger cars; and (3) price hikes by the Japanese related to new small models by Chrysler and Ford in October, 1980.

Domestic auto sales and production declined 20.9 percent and 25.9 percent to 6.58 million and 5.90 million respectively from 1979. The greater absolute fall-off in output caused by nearly a 400,000 unit reduction in dealer inventory since December, 1979.

The truck side of the motor vehicle industry fared even worse particularly when compared against its performance in 1977 and 1978. In the late seventies consumers were encouraged by the cheap, plentiful gasoline to go on a truck buying spree and substitute light-weight trucks as personal transportation. Their purchasing activity increased truck sales between 1975 and 1978 by 66.5 percent compared with a 32 percent increase in car volume over that same period. The recession together with the relative inefficiency of a truck to that of a car caused domestic volume to fall 28.5 percent to 2.49 milllion in 1980 and output to collapse 48.5 percent to 1.50 million as a result of inventory liquidation throughout the year. Total output of cars and trucks in the United States amounted to only 7.40 million, the lowest level since 1961.

A premature decline in interest rates in the late spring buoyed hopes of a fourth quarter recovery in car sales. Throughout the summer months a slow but steady increase in the seasonally adjusted sales rate seemed to support that contention. Domestic small car capacity was increased by the launch of Escort/Lynx and Reliant/Aries. However, volume fell far short of expectations and run-up in interest rates which raised fears among consumers of another downturn in the economy. High rates seem to have a psychologically depressing effect on sales since the actual boost in the monthly payment due to higher rates is modest. Ford and Chrysler responded to a rapid build-up in dealer inventory by instituting costly rebate programs tied to the prime rate.

Meaningful recovery in car and truck sales probably will not occur until the second half of 1981. Total sales are forecast at 9.6 million, of which 2.3 to 2.4 million might be imported. U.S. automakers should be better able to cope with another major shift to small cars after GM launches its J-car in April and Ford introduces a sporty version of Escort/Lynx somewhat earlier. In September GM and Ford will both launch significant new small models which should raise the industry's small car capacity to about 4 million in 1980. Unless another energy crisis develops as a result of the Iran/Iraq conflicts, the domestic industry should be able to recapture some market share from imports. This year import penetration could drop to 24.5 percent, 2.2 percentage points below 1980.

Truck volume should also recover slowly with total retail sales rising about 6 to 7 percent to 2.65 million in 1981. Imports captured 19.5 percent of total 1980 truck sales, though the penetration fell during the fourth quarter as the 25 percent tariff raised prices. It does not appear that the tariff has shifted demand in favor of domestic models since present U.S. trucks are not comparable to Japanese makes. Import penetration in the truck market should fall to 15 percent in 1981.

Lack of small cars and economic factors have been reponsible for low output and losses in the domestic auto industry. The combined loss of Ford, GM, Chrysler and American Motors probably amounted to more than $4 billion in 1980. Only General Motors appears to have turned the corner and will report a profit of about $160 million in the October-December period. In 1981 General Motors should be profitable each quarter and for the full year, could earn as much as $1.4 billion. This performance contrasts with continued losses at Chrysler, Ford and American Motors totaling $1.1 to $1.3 billion. Ford's North American loss should fall from 1980 but the recession in Europe has now dragged Ford operations in Britain and Germany into the red.

The losses or, in GM's case, modest profits, complicate the problem of funding record capital expenditures. Projected spending will result in the launch of fuel-efficient cars, modernizing plants to boost production efficiency and increase investment abroad to maintain or improve competitiveness in Europe or Latin America.

Critics of the auto industry have often cited the historic emphasis of automakers on larger cars as the primary reason for their below normal performance in 1980. Unlike European and Asian markets, the United States evolved in an environment of cheap energy and large, luxurious cars were desirable and affordable. The Europeans and Japanese were not prescient; their automobiles simply reflected high gasoline taxes imposed to reduce oil imports. Consumers, according to these critics, were telegraphing their desire for small cars to an unreceptive industry. It is too easy to blame Detroit for its own ills and not entirely accurate. Following the oil embargo of 1973 and 1974 car buyers quickly reverted to large models following a brief buying spree of small cars. Consumers were unconvinced that the domestic energy situation had undergone a permanent change. Their doubts were confirmed at the pump as gasoline prices remained constant through 1978. The Energy Policy and Conservation Act of 1975 promulgated fuel economy standards to force the industry to achieve certain objectives. On the other hand, that same legislation had the effect of reducing the price of gasoline.

Without the incentive of higher gasoline prices, implemented through taxation or decontrol, car buyers went on a gas guzzling spree. Full-size cars and light-weight trucks were virtually sold out whereas dealers were overstocked with small models, including many imports. Automakers had to interpret government energy policy in formulating long-term product strategy while, at the same time, fulfilling the CAFE requirements. Between 1976 and 1978 virtually all larger cars had to be redesigned in order to improve the fuel efficiency of the least efficient but best selling models. During that period, expenditures to boost capacity in small cars seemed pointless in view of the low level of capacity utilization of small cars. The inconsistency between energy policy and fuel economy standards resulted in automakers wasting hundreds of millions of dollars on products that were obsoleted by the second energy crisis in 1979. The shortages and doubling in gasoline prices prompted a second, and more permanent shift, in buying habits in favor of small cars. All automakers comfortably exceeded fuel economy standards last year. The market place demanded a more efficient mix of automobiles than that legislated by the government.

The transition to fill this demand has been accelerated. Unfortunately the recession and unequal resources of each automaker have significantly altered the competitive balance in the industry. Proposed remedies often overlook the differences among the individual companies and the fact that measures to aid the industry might further distort competition.

In the short run, there appears to be little that the government can do to improve automotive sales, employment and earnings. Interest rates and underlying economic trends will determine the health of the industry in 1981. Proposals to stimulate buying by offering consumers tax credits on the purchase of a domestic car would be extremely expensive in terms of lost tax revenues. Like rebates such incentives would have the effect of decreasing sales in the future by pulling demand forward.

Import restrictions might not boost domestic sales or production since there is mounting evidence that foreign car demand is also weakening. Import restrictions would also raise the general level of auto prices which would tend to depress total sales. The auto pricing strategy implemented in September by Detroit which (1) raised prices by a large, but justifiable amount; (2) narrowed the dealers ability to bargain by reducing discounts and (3) heaped the largest increases on the smallest cars has also been a factor in the disappointing volume in the fourth quarter. The panic buying of small cars has subsided. Barring another energy shortage in 1981, moderate gasoline price hikes should be absorbed by the public without further significant changes in the model mix.

Over the long run, the government has a better chance of creating a more favorable operating environment for the industry. A favorite theme during the recent election campaign was over-regulation by the government. The auto industry's ability to respond to the marketplace has been progressively diminished as personnel and financial resources were directed toward compliance with progressively more restrictive fuel economy, emissions and safety regulations. The modification of pending regulations appears possible without foresaking clean air, fuel efficiency or safety. A reassessment of the need and timing of pending regulation could possibly be the most beneficial means of helping the industry.

The cost of meeting various standards falls heaviest on the smallest, and, at the present time, least profitable automakers. Their more limited capital resources could be redirected toward product development and productivity. A new, more understanding relationship with the government would do much to improve the financial community's perception of the industry and possibly enhance its attractiveness as a borrower.

The industry has supported certain tax measures which would increase cash flow and reduce the need for outside capital to fund expenditures. The most frequently mentioned proposal, 10-5-3, would allow for faster depreciation but would reduce amortization. Tax credits have been proposed for more rapid depreciation, amortization of tools and research and developments, etc. Unfortunately, unless such proposals incorporate a refunding provision they are of no use to Ford, Chrysler and American Motors. General Motors, on the other hand, with its enormous expenditure program and greater ability to finance, would stand to gain disproportionately.

Over the long term, the industry faces serious financing problems as part of its retooling program. An allied issue is current and potential unemployment in the industry. Employment in the automobile industry will decline as a result of productivity gains, simplification of vehicle design, out-sourcing of parts abroad and potentially rising levels of captive. The government can approach these problems in the context of national policy to encourage more productive investment or through proposals aimed at solving the specific problems of the auto industry.

Senator DANFORTH. The next witness is Robert Hormats, Acting U.S. Trade Representative.

STATEMENT OF AMBASSADOR ROBERT HORMATS, ACTING U.S. TRADE REPRESENTATIVE

Ambassador HORMATS. Thank you, Mr. Chairman.

I believe the committee has the written version of my testimony. In order to spare the committee the boredom of having me repeat it in its entirety, let me just go over a few points that I consider to be most important to the discussion of the trade aspects of the auto problem.

As the members of the subcommittee will appreciate, my testifying today, only a few days before the end of this transition period, is a somewhat unique experience. I am delighted to do so because I believe I can be helpful in providing some degree of background information based on my recent experience in dealing with auto trade issues.

In fairness to both the present and incoming administrations, however, I believe it appropriate to avoid making specific policy recommendations. I would be pleased, however, in response to the questions of the members of this committee to discuss technical considerations relating to options for dealing with the trade aspects of the auto situation.

The problems of the auto industry, I think, are very clear to this committee, and certainly have been outlined in the testimony just provided, and will be doubtless discussed further in future testimony.

Likewise, the very severe problems that the difficulties of the industry have caused for American labor will be discussed in greater detail in the statement of Mr. Fraser and Mr. Oswald, both of which I have had a chance to read before coming here.

I will, then, move very quickly to the specific elements of the trade problem, which we have dealt with over the last year or so.

I would say, first, that we obviously in the administration have had an anguishing time dealing with this issue. The very difficult unemployment problems, the very difficult problems that the industry as a whole faces have been acutely aware to all of us.

Early last year the administration addressed the question of import restrictions. President Carter concluded that for economic and energy reasons, because at the time there had not been resource to the appropriate provisions of U.S. law, he could not support the use of import restrictions.

On a number of occasions, Ambassador Askew stressed before this committee his view that major antitrust questions could be raised if the U.S. obtained restraints without a positive finding by the ITC under section 201. Subsequently there was a negative finding by the ITC on the UAW and Ford petitions, and legislation authorizing negotiations on restraints failed.

The last event of last year was the letter from the Associate Attorney General, Mr. Shenefield, in response to a letter from Senator Levin which to a degree clarified the administration's position on the question of negotiating restraints.

In other areas of trade policy, the administration has pursued two central objectives. One is seeking greater access to the Japanese auto and auto parts market for U.S. firms. The second has been encouraging economically viable investments in the United States by the Japanese auto industry. I would like to report in some detail on the results of both of those.

We had a series of negotiations with the Japanese, culminating in May 1980 with an agreement by Japan to eliminate tariffs on most automotive parts, to liberalize Government automotive standards in order to help our auto producers gain greater access to the Japanese market, and to sponsor two missions by Japanese companies to the United States—one to investigate parts purchases, and the other to investigate the possibilities of investment in parts production, preferably through joint production and licensing.

These are by no account panaceas for the problems of the automobile industry. We know this. While they may help some companies more than others, we believe them to be important as an overall part of a broader effort to deal with the problems of the auto industry, because they do two things.

One, they will permit American companies to, hopefully, gain a greater share of the Japanese market and to profit from some degree of Japanese investment in the United States. Two, they eliminate the restrictions which have enabled, with some justification, Americans to criticize the Japanese as being unfair at a time when the U.S. market is very open to Japanese cars and Japanese parts. So they serve both an economic and, if you will, a political or a fairness objective.

With respect to Japanese auto parts export, let me just discuss briefly what has happened. There was a mission that took place in September 1980. The Japanese companies came for a couple of weeks. There has been, and I can report to the committee, if it wants, some degree and I think a useful degree of followup to the mission in terms of contacts between U.S. firms and Japanese firms.

Very few contracts, in fact, have been signed to date, but a number are under investigation and negotiation, and a number of sample orders have been requested by Japanese firms from U.S. manufacturers. Also a number of price quotations have been requested of U.S. firms by Japanese companies.

So we are looking forward to additional progress. We are going to be monitoring this very carefully over the next several years. A report is going to be issued in early February on the preliminary results of this mission. This is being done by the Department of Commerce and MITI.

On a recent visit to Japan, Under Secretary Hurstein of Commerce and I emphasized the great degree of importance we attached to dramatic increases in Japanese purchases of U.S.-made parts.

The parts industry, along with the actual auto producers, has been badly harmed by recent economic events and the downturn in the U.S. industry. It is our judgment that procuring more parts in the United States, and dramatically increasing the U.S. exports of parts to Japan, the parts industry can be helped somewhat. This, again, as I said, is not a panacea, but can be helpful.

Perhaps more important in the near term is the after-parts market for Japanese cars already in the United States. There is, as we all know, an increasing number of Japanese cars in the United States. Unfortunately, the firms that sell those parts do not certify American-made parts for use as replacement parts for use when the Japanese cars need repair.

This we estimate to be a potential $5 billion market over the next several years, and we have urged Japanese companies to enable American suppliers to be able to provide those parts. We believe that this is particularly important.

With respect to standards, Japan has agreed to improve 11 safety and inspection standards. These standards were improved after a long series of negotiations. We have been encouraged by the Japanese's willingness to do this. Some things have been particularly helpful. For instance, acceptance of EPA test results, and some improvements of other standard requirements.

However, I must say, in all candor, that there are still cases of inconsistent and burdensome application of testing to U.S. autos. We continue to work with the Japanese to follow this up, because we believe that standards still are a distortion to trade. In the interest of fairness, we expect the distortions to trade to be removed as soon as possible.

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With respect to investment, Honda and Nissan have both announced plans to produce vehicles in Ohio and Tennessee, respectively. Toyota has promised us a study on investment possibilities by the end of the year. It has not arrived, but we are told that it will be ready in February.

Discussions between Ford and Toyota, and Chrysler and Mitsubishi are continuing. We are hopeful that these will achieve results because we believe, as the previous witness indicated, that there is potential in both areas for production which can be beneficial to American companies, and to U.S. employment, and utilize currently underutilized facilities.

We also, in particular with respect to parts investment, look forward to licensing and joint production arrangements, in large measure because these would both help American firms to more quickly gear up to produce the new types of parts which are going to be particularly important in the new generation of automobiles.

The more quickly American firms can gear up to supply this domestic demand, and the international demand, the better it will be for the overall U.S. industry, and the better we will be able to prevent the movement of these parts purchasers offshore, which is a major problem which I will address in the questioning.

One area that I must report negative progress is with respect to the Japanese commodity tax. The Japanese commodity tax is at a 15 percent level for cars with an engine displacement of less than 2,000 cc's, and 20 percent for cars with larger engines.

We had tried to get the Japanese to come up with a unified tax, or lower the tax levels to something that would be helpful. In fact, the Japanese, after some toing and froing with us, did decide on an increase in the commodity tax to 17.5 percent on cars with engine displacements smaller than 2,000 cc's, and 22.5 on engines above 2,000 cc's.

This is, to say the least, unhelpful, because it permits an increase in taxes on the American cars which already are more expensive in Japan, and it simply widens the differential between Japanese cars and imported cars. Perhaps worse than that, it depresses demand for cars in Japan by raising the tax, which encourages and, indeed, in some cases, might force certain car producers to look even more aggressively for foreign markets. On both counts, it was in my judgment a policy mistake by Japan, extremely unhelpful from our point of view.

The last substantive item I might touch on is capacity. At the Venice summit, this committee may recall, President Carter raised the question of increases in Japanese capacity that were reported in the newspaper. We were reassured that there were no increases planned in the near term for export to the United States.

However, going over recent data, and particularly looking at the very excellent report of the Department of Transportation, there are indications that the Japanese will increase production capacity by 1983 by about 20 percent.

This raises major questions. Where will these cars go?

The Japanese domestic market is not exactly vigorous. The Europeans are disinclined to take additional Japanese cars. In fact, some countries are showing signs of wanting to cut back. The developing countries, not all but most of them, are served by assembly plants in those countries. It makes you wonder where those cars are going to go.

So we are particularly concerned, both about this capacity which may, in fact, become overcapacity, and we are concerned about the Europeans, particularly some European countries—two or three that I could name—which egregiously protective devices, which could force a diversion of the cars and, in fact, may well be forcing diversion of the cars already onto the American market.

These are all major trade problems. I cannot report overwhelming success in any of these areas, although I think some positive steps have been taken. The committee has before it, in examining the auto problem, a very serious problem because there are major dilemmas here.

The question of the import restrictions, or not to restrict imports, and the question of how far we go in providing tax and financial benefits to one industry, even though it is the most important industry in the United States in aggregate, are very major questions that involved both this industry and major precedential problems.

I am impressed by the degree of commitment of the United States to building cars which American consumers want. I think the industry has recognized that it has to produce a quality car which is much more energy efficient than the past generation of autos. I believe the industry is making major strides in trying to do this. I am also impressed by the enormous difficulties the industry confronts.

I very much look forward in this session, and perhaps in months to come, in working with the committee in helping you to fashion solutions to the problem.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you very much.

The United States has expressed concern to the Japanese about the impact of Japanese imports. As I understand your testimony, however, the trend has been more alarming rather than less—an increase in Japanese capacity, a use of their commodity tax in a way which would tend to reduce Japanese domestic purchases of automobiles, including their own, leaving more available for export.

Also isn't it a fact that the value of the yen has been artificially depressed with the purpose of increasing exports.

Ambassador HORMATS. Yes.

I think it is a mixed record. I believe the Government of Japan, with respect to tariffs and standards, and such things, has genuinely made an effort to be helpful. On the other hand, I think that the change in the commodity tax has been harmful.

With respect to the yen, I don't think that they have artificially depressed the yen. A number of things account for the depressed yen, the energy situation and a number of other things. The yen seems to be strengthening somewhat vis-a-vis the dollar today.

With respect to auto exports in general, there has been a very slight decline in these last couple of months as opposed to the same period last year. But overall there does not seem to be this restraint that the Japanese said they were asking their companies to perform. If it is there, it is very hard to see. I really have not seen any changes in the Japanese car exports that cannot be accounted for by the market forces.

In other words, I think that all along it was our judgment that there was really no restraint. The implied decline in Japanese auto exports to the United States would have occurred simply because of market conditions in the United States, and not because of any specific actions taken by Japanese firms. It is the conclusion of the USTR. It is Charlie Schultze's conclusion. It is the conclusion of other economists who have looked at projected Japanese exports.

Senator DANFORTH. When the so-called Riegel amendment was before the Senate last December, the argument made against it was that it is contrary to the basic principle of free trade.

On the one hand, there are those who believe that the status of free trade between the United States and Japan today is pretty much of a one-way street. American markets are readily accessible to the Japanese. However, on the other hand, Japanese markets are not readily accessible to the United States.

In Hobart Rowen's column of 10 days ago, he states as follows: "Robert Hormats, the highly respected Acting U.S. Trade Representative, said recently he was one of those being turned off by the Japanese tendency to figure out just how little they can do, and then do only that."

Could you comment on that?

Ambassador HORMATS. Yes, I will be delighted. [General laughter.]

I think that the problem has been that the Japanese negotiating style and the American negotiating style differ, and the Japanese approach to the world economy differs dramatically from the American approach to world economy. Let me elaborate on the first point.

The Japanese operate with a system trying to develop a consensus. They seemingly can only develop a consensus around what I would call minimalist options. Instead of concluding that Japan has more to gain from an open trading system than any other country in the world, and more to lose if that system is closed, and acting in a leadership capacity on the basis of that judgment, there tends, in fact, to be a sense of how little can we do in order to abate these pressures.

I believe that it occurs not just in the auto sector, but I can tell you from the experience of excruciating tobacco negotiation, and others, it happens there, too. I think it is largely the result of two factors:

One: This consensus building process in Japan which leads them to come to minimalist options.

Two: I don't think they fully appreciate the dramatic changes in the role of Japan in the international economy, from a country, insular and highly vulnerable, which it is, and a relatively small economy 20 years ago, to an economy now which is the second largest trading nation in the world.

What Japan does has a major effect on the world economy, particularly because they tend to penetrate certain sectors very rapidly, because they are very competitive, and they are very good, and they make good products. But I don't think they fully appreciate the degree to which the quality and the effort of their own exporting tends to hurt other countries.

I think that as a result of both of those factors, they do not sufficiently move upfront and say: "We are getting a good deal in the American market. There are certain barriers in our market. Let's graciously open up, liberalize, do more." I think if they were to do that, they would dramatically improve both the economics of trade, and the impression of them in the United States, which is very bad.

Having gone out to Detroit and other places, where there are people unemployed, the situation is much more tense there than I certainly appreciated before I went there.

Senator DANFORTH. Senator Dole.

Senator DOLE. I have read your statement in which you indicate that you prefer not to respond to any policy questions for rather obvious reasons. Therefore, I have no questions. [General laughter.]

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Hormats, first, you appeared optimistic in your testimony that considerable improvement had taken place, and then you went through a whole series of steps in which I cannot see that much improvement has taken place.

Is that too harsh a judgment? In other words, has nothing really taken place? They have taken some positive steps in the standards area and they are going to followup. In the investment issue, I imagine something substantial has taken place there.

I thought that you were cheered by what I thought to be slight comfort, in that the commodity tax seems to be directed specifically against American automobiles, and that it was increased by only 2.5 percent, rather than 5 percent.

On the capacity issue, I must say that I was shocked. If the capacity is going up by 20 percent, that is a whale of a leap, isn't it? In units, you go from 9.4 to 12 million units. That is a mammoth jump.

Even though you found some cheer in your statement, I came away more gloomy than when you started.

Ambassador HORMATS. Maybe you derived more cheer from it than I meant.

Senator CHAFEE. No; I derived no cheer from it. [General laughter.]

Ambassador HORMATS. I think the most positive statement I made was that some positive steps had been taken, and certainly none with respect to the commodity tax, which I indicated was a step in the wrong direction.

I am not cheered at all. As a matter of fact, I think the situation with respect to the trade relationship with Japan has, as I said, some positive steps, but much needs to be done. I am not sure, and I cannot tell this committee that it is going to be done, or it is being done. I am not optimistic in this area.

I would hope, for instance, that when we get the results of the parts purchasing mission, that we will have some reason to believe that there will be an increase in parts export from the United States to Japan. But at present the figures are not good.

There were less than $100 million worth of American parts exports in 1980 at a time when we are importing from Japan, depending on how you read the figures, well over $1 billion, perhaps $1.5 billion worth of parts. This is just one example. In my opinion, Japan can dramatically increase parts exports from the United States.

Obviously it is a little too early to determine exactly what the results of this mission will be, but my hope is that they will use this mission as a beginning to make substantial parts purchases. But I don't want to leave this committee with the impression that things are good. They are not.

Senator CHAFEE. I find that one of the most difficult points in trying to sell or maintain our essential free-trade position in the United States is the restrictive incumberances that Japan has. I did not know that a tax on an automobile was a commodity tax, but nonetheless there it is.

This whole series of steps that you outline here are impediments. It seems to me that the Japanese, by maintaining these, are doing themselves great potential harm.

Ambassador HORMATS. I totally agree.

Senator CHAFEE. What would be the ramifications of efforts in the U.S. Congress to restrict imports from Japan? What would happen?

Ambassador HORMATS. How would the Japanese react; is that your question?

Senator CHAFEE. Yes; what do you see would be the consequences of such action?

Ambassador HORMATS. It is a little bit hard to say at this point. I can tell you from discussions in Tokyo a couple of months ago that the companies feel let off the hook by the negative 201 decision. They feel that now that the ITC has determined that there is no substantial cause of serious injury, or threat of injury, that they are out of the woods, so to speak. This is not the view of the Government. This is the view of the companies.

I think, in part as a result of that thinking, that spirit, it would be somewhat more difficult than otherwise would have been the case for the Government to encourage the companies, to get the companies to subscribe to some sort of export restraints. This is not to say that the Government of Japan would not do it. But it just underlines the difficulty that I believe it would have vis-a-vis its own companies.

Second: I think the process of how the Congress were to go about this would be particularly important. The Japanese may well, even under a 201 finding, almost certainly under some sort of legislated restraint, feel that they would be entitled to ask for substantial compensation.

As you probably know, the GATT entitles a country, if it has escape clause or 201 action taken against it, to obtain compensation or to take some sort of compensatory withdrawals of tariffs in order to reduce an equivalent amount of trade.

So that one way or another, I think, the companies would probably, although not certainly, ask for a degree of compensation to offset the loss of exports that would result from some sort of restrictive action.

Senator CHAFEE. You mention in your testimony highly protectionist measures of some European nations in regards to automobiles coming into their country. How do they get away with it? They are all signatories to GATT.

Ambassador HORMATS. Yes.

Senator CHAFEE. What countries are you referring to?

Ambassador HORMATS. Italy, France, and Britain are the three that stand out in my mind, starting with Italy which limits Japanese imports to 2,500 cars. This is what is known as grandfathered into the GATT. It was there before the GATT, therefore they have permission to keep this sort of restriction. It was there as a means of retaliating against some Japanese restraints on Italian exports that occurred years and years ago.

The French hold Japanese cars to roughly 3 percent of the French market. This is done through some sort of voluntary restraint that is normally not exposed to the light of day.

The British have an agreement with the Japanese companies to hold Japanese exports to, I believe, 11 or 12 percent, something like that, of the British market. This is done, again, through a company to company type of deal.

Senator CHAFEE. Has this had very serious ramifications on British trade with Japan, or French trade with Japan?

Ambassador HORMATS. Not that I am aware of. I think the Japanese, in a way, seem to accept this, I am sure somewhat grudgingly, but they tend to accept these things. I don't know that there have been any instances where the Japanese have taken retaliatory action against these measures. I may be wrong, but I am not aware of any instances in which they have.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Ambassador Hormats, your testimony has been confined to the impact of Japanese imports on the domestic auto industry. Has the domestic auto industry been affected by imports from other countries, particularly, from Germany?

Ambassador HORMATS. For the most part, imports as a share of the small car market, most European exports of autos to the United States have declined rather considerably.

Senator MATSUNAGA. I see.

Ambassador HORMATS. Japan is the most visible element of the problem. But in following up the spirit of your question, there are other practices of other countries which are problems not so much in that they result in imports into the United States.

The previous witness referred to the question of increasing amounts of offshore production, in part encouraged by particular investment policies of other countries. Mexico is a case in point.

Mexicans have what they call an automotive decree. That automotive decree in many ways compels American producers, both of autos and of parts, to produce in Mexico in order to meet local component requirements, and to meet export requirements.

That, while it is not the same type of problem as import penetration, it is nonetheless a major problem and a growing problem.

Senator MATSUNAGA. What percentage of Volkswagen sold here is manufactured in the United States?

Ambassador HORMATS. I don't know what percentage. I could probably get that for you, Senator. I will say that a substantial number of the Volkswagens are sold here, but I don't know the exact percentage.

Senator MATSUNAGA. You are suggesting that we press Japan to follow Volkswagen and manufacture cars in the United States?

Ambassador HORMATS. I would not want to encourage uneconomic unviable investment. That is a favor neither to us nor to Japan, because if you have an unviable investment, it means that sooner or later it is going to go out of business and displace a lot of workers.

My judgment, however, is that there is plenty of room in this market for the Japanese to invest. I think we have seen that Honda and Nissan have taken this opportunity. The largest exporter of Japanese cars to the United States is Toyota. It strikes me that there are good possibilities, I would imagine, for Toyota to invest here, too. They ultimately have to make the decision, but my hope is that they will look at it very hard, and will make a positive decision.

Senator MATSUNAGA. Are the Japanese automakers presently looking into the prospect of establishing plants here?

Ambassador HORMATS. Yes; they have commissioned three firms, the Moore Institute, SRI, and I think A. D. Little, if I am not mistaken, to do studies on the possibilities of investing in the American market. The fact that the studies were not completed in December as planned is disappointing, but they will be completed in February. On the basis of those, as well as other inputs, Toyota will make a decision.

They are looking into it. From all the accounts we have had in discussions with them, I believe they are seriously looking into it, although I cannot prejudge the outcome.

Senator MATSUNAGA. Is the present administration opposed to the imposition of import quotas on Japanese imports?

Ambassador HORMATS. The present administration has never testified in favor of those. The last testimony given by the administration was on the question of clarifying the Presidential authority to negotiate quotas, but it never addressed that particular question.

Senator MATSUNAGA. As I understand it, the European countries have imposed restrictive quotas on Japanese imports; am I correct?

Ambassador HORMATS. Yes, sir, three of them do. They are done in different ways, but they are restrictive nonetheless.

Senator MATSUNAGA. What are the European countries doing, that is, our friends over in Europe, to help us in our dilemma? Are they receptive to increasing their imports—lifting their quotas on Japanese imports?

Ambassador HORMATS. I think I would say that they were not receptive, and I think that is putting it mildly. The general pressures in Europe are to be more restrictive. An example, Belgium. Belgium, in itself, does not have a car company, a Belgian car company. They do have French assembly plants in Belgium.

I think it is fair to say that certain of the French producers may be—I don't want to cast any aspersions on them, but may be encouraging the Belgians to be more restrictive. So the pressures are going in the other direction of being more restrictive.

We have informed the Europeans, and we have informed the Japanese prior to what was called the summit meeting between the Japanese and the European companies, that any hint of additional restrictions by Europe or compliance in some sort of restrictive device by the Japanese would just increase dramatically the pressures in this country for restrictions because of the diversion problem.

So far as we know, and you don't always know what happens in this area, but so far as we know, there is no additional restriction, but the pressures are certainly in that direction.

Senator MATSUNAGA. One last quick question.

Is the auto industry in Europe in as bad a situation as we are?

Ambassador HORMATS. Yes; they are. It differs from country to country. If you go country by country, British Leyland is having very difficult problems, and you are probably aware of those. In other countries, there are problems in large measure because there is an economic decline in most of Western Europe that is hurting auto imports.

In most countries there is also a substantial increase in penetration from Japanese cars. They are in difficult trouble, and some are worse than others. In general, I would say that the auto industry is in weak shape in Europe, too.

Senator MATSUNAGA. Thank you, I have no further questions.

Senator DANFORTH. Mr. Ambassador, just one question.

When Ms. Keller testified, she drew a distinction between import restrictions keyed to a market share, and import restrictions which were in a fixed amount. Do you see a basis for such a differential? Could restrictions on the basis of market share be worked out, if we were to go that route?

Ambassador HORMATS. The answer to the second part of the question; I suspect you could find a device for doing it, although it is not traditionally done that way. I don't think that it is beyond the ken of man to design something along those lines.

I would say, however, that in the immediate sense, it is probably a distinction without a difference. As I understand the thinking behind those who advocate restrictions, it would be to reduce the Japanese share of the U.S. market.

It strikes me that whether you put on an absolute number, or a share of the market, the intention behind both, at least in the near-term sense, is restrictive, and to reduce imports. Therefore, I think that in an immediate sense, the economic impact would be roughly the same.

The device by which you do it may be somewhat different, but the economic impact, depending of course on the levels and the percentages, would be pretty much the same.

Senator DANFORTH. Thank you.

[The prepared statement of Mr. Hormats follows:]

PREPARED STATEMENT OF AMBASSADOR ROBERT D. HORMATS, ACTING U.S. TRADE REPRESENTATIVE

I appreciate the opportunity to testify before this Subcommittee on the auto issue. As the members of the Subcommittee will appreciate, my testifying only a few days before the end of this transition period is a somewhat unique experience. However, I am pleased to do so because I believe I can be helpful to this Committee by providing background information on the basis of my recent experience in dealing with auto trade issues. In fairness to both the present and incoming Administrations, I believe it appropriate to avoid making specific policy recommendations. I would be pleased, however, in response to your questions, to discuss technical considerations relating to options for dealing with the trade aspects of the auto situation.

BACKGROUND

The U.S. auto industry is in serious trouble. Its problems bring with them the human tragedy of massive unemployment (roughly 20 percent for the industry over 1980), which tends to be concentrated in certain regions.

The causes of the auto industry's problems have been much debated in the Congress and the Executive Branch as well as among the American people. The dramatic increase in oil prices followed by an equally dramatic shift in consumer demand from large, energy-inefficient cars to small, energy-efficient cars, the general economic downturn and high interest rates, along with intensified competition from imported cars, have all had, to varying degrees, an adverse effect on this industry.

And the industry's problems could not have occurred at a worse time. Just as it is attempting to raise the capital needed to finance the investment required to build the new generation of energy-efficient cars, it finds itself suffering large losses. This raises major concerns about the ability of the industry to achieve the adjustments to which it is committed.

Other witnesses will discuss, in considerable detail, domestic economic, financial, and regulatory issues. I, therefore, do not wish to dwell on these except to say that it is in these areas that the possibilities for fundamental improvements in the U.S. auto industry exist. There is no substitute for improved productivity in the U.S. industry and substantial strengthening of domestic demand.

TRADE ISSUES

Early last year, the Administration addressed the question of auto import restrictions. President Carter concluded that he could not support the use of import restrictions because of their impact on inflation and oil consumption, and because at the time there had not been recourse to the appropriate provisions of U.S. trade law. Ambassador Askew stressed before this Committee his view that major antitrust questions could be raised if the United States obtained restraints without a positive finding by the International Trade Commission under Section 201 of the Trade Act of 1974. The negative finding by the ITC on the UAW and Ford petitions and the failure of legislation authorizing negotiations of restraints occurred toward the end of the fall. At the very end of the year, in response to a request from Senator Levin, the Associate Attorney General clarified the Administration position on the constraints affecting the ability of the President to negotiate with foreign governments to restrain imports.

In areas other than those pertaining to import restraints, the Administration has pursued two trade policy objectives to promote long-term adjustment by the auto industry: (1) seeking greater access by U.S. firms to the Japanese auto and auto parts market, and (2) encourage economically viable investments in the United States by the Japanese auto industry.

As a result of a series of negotiations, the Japanese Government agreed in May 1980 to eliminate tariffs on most automotive parts, to liberalize government-set automotive standards, and to sponsor missions by Japanese companies to the United States to investigate the possibility of (1) increased purchases of U.S.-made auto parts, and (2) investment in parts production in the United States—preferably through licensing and joint ventures so as to take advantage of existing U.S. parts capacity.

As I and others have told members of this Committee, none of these policies is a panacea for the U.S. auto industry or its workers. Some may be of only marginal benefit. Others of somewhat greater help. However, taken together with domestic measures in such areas as regulatory and tax policy, the trade objectives pursued by the Administration can benefit the industry during this difficult transition period and in the period beyond. We have also stated that efforts to open foreign markets and encourage investment cannot bear fruit overnight, although progress in some areas such as authorizing Japanese auto dealers to use American-made replacement parts, could bring some quick benefits to certain firms.

Bearing this in mind, let me briefly summarize the results achieved to date and the problems that remain.

AUTO PARTS EXPORTS

The Japanese Government will submit to the Diet in February legislation to eliminate tariffs on most auto parts by April. The list of parts that we presented to Japan was drawn up after extensive consultation with U.S. parts manufacturers. We attached great importance to these tariff eliminations because the U.S. parts industry has been severely damaged by recent developments in the auto sector. Increased exports of parts can help that industry to earn the capital to retool in order to meet both domestic and foreign demand for parts for the new generation of cars.

For the same reason, we attached a high degree of importance to the Japanese auto parts purchasing mission of September 1980. For two seeks, members of the Japanese and U.S. automotive and parts industries discussed possibilities for increased parts exports. The Japanese mission members stated that they were impressed with the efforts and ability of U.S. parts firms to produce high quality parts and to meet delivery schedules.

In keeping with the agreement reached between the United States and Japan at the end of the auto parts mission, the U.S.-Japan Trade Facilitation Committee will monitor the results of the mission over 2 years and is conducting an initial survey of U.S. and Japanese firms which participated in the mission with the view toward issuing the first follow-up report on the results of the mission in early February. These surveys are being undertaken by the U.S. Department of Commerce and Japan's Ministry of International Trade and Industry.

Both Under Secretary of Commerce Herzstein and I, in a recent visit to Japan, stressed the importance we attach to dramatic increases in Japanese purchases of U.S.-made parts. So far, we have no evidence of any such increases. Commerce and USTR intend to continue to monitor closely the follow-up to the parts purchasing mission and the full results will be reported to the Congress. I believe that we can reasonably, and appropriately, expect such exports in 1981 to be dramatically higher than the 1980 figures. In 1982, we expect continued significant growth.

More significant in absolute value in the near term is much greater participation by U.S. firms in the replacement parts market for Japanese cars in the United States. We estimate that this should be a $5 billion market over the next few years. We believe that American firms should have the opportunity to fully participate in it. We have, therefore, urged Japanese companies to authorize American-made parts for use as replacement parts by U.S. dealers of Japanese cars. We look forward to a report by the Japanese Auto Manufacturers Association for further ideas.

STANDARDS

Japan has also agreed to improve 11 safety and inspection standards so as to reduce their restrictive impact on imports. The testing of U.S. autos, and the modification of design necessary to assure their compliance with Japanese standards, add significantly to the price the Japanese consumer pays for an American car. We have been encouraged by the willingness of the Japanese to adjust a number of inspection procedures (e.g., acceptance of EPA test results) and several standards reqirements; however, we continue to find cases of inconsistent and burdensome application of testing and standards to U.S. autos.

Again, Japan has taken a number of positive steps. But continued progress and follow-up will be essential. We respect the desire of Japan to protect the health and safety of its citizens, just as we wish to do the same through our own regulations. Nonetheless, the overzealous and overly bureaucratic application of this principle, and the multitude of impediments which arise therefrom, are important distortions of trade. In the interest of fairness, we expect such impediments to continue to be removed.

Investment.—The Japanese Government has encouraged its companies to explore possibilities for economically viable automotive investments in the United States.

To date, Honda and Nissan have announced plans to produce vehicles in Ohio and Tennessee, respectively. Ground breaking for the Honda plant took place last month. It will take place for the Nissan plant this month. Both plants will be in full operation by 1983. These are encouraging steps and will boost employment in these areas.

Toyota, the largest Japanese exporter to the U.S. market, informed us in May 1980 that it was commissioning studies by three prestigious research firms on the feasibility of investing in auto production in the United States. We were disappointed that the studies were not, as expected, completed by the end of 1980. We have, however just received word that they will be completed in February. Toyota has informed us that "it remains interested in establishing an economically viable auto manufacturing capability in the United States if this can be accomplished."

We understand also that discussions continue between Ford and Toyota regarding possible co-production of small vehicles in the United States. Similar discussions are taking place between Chrysler and Nissan. While it has not felt it appropriate to intervene in those negotiations, the U.S. Government has encouraged these efforts. Both negotiations, if successful, can benefit the companies involved, increase U.S. employment, and utilize currently under-utilized facilities.

The Japanese Government has also sponsored a mission of Japanese firms interested in investment in auto parts production in the United States. I do not, at this point, have any specific results to report. Our major objective has been to encourage joint production or licensing which would help American parts-producers to more quickly gear up to produce parts for the new generation of autos. This would include newly produced Japanese cars produced in Japan, Japanese cars already on the road in the United States, and possibly some U.S. cars.

Commodity tax.—One area in which negative progress has been made is on the two-tiered commodity tax; which Japan applies to all cars. The commodity tax is 15 percent on cars with engine displacement less than 2,000 cc's, and 20 percent on cars with larger engines. Because American autos fall in the higher tax category, there is a marked increase in the cost differential between U.S. and Japanese autos. While the U.S. Government accepts that a country has a right to impose such a differential tax as a tool of energy policy, we believe that engine size is not always an indicator of energy efficiency. And, the arbitrary 2,000 cc break often penalizes energy-efficient cars.

Recently, the Japanese Government proposed to increase both categories by 5 percent. The U.S. Government and the U.S. industry notified the Japanese that this move would be viewed unfavorably because, while it affects both domestic and foreign cars, foreign cars are generally more expensive than domestic cars. While the percentage increase is the same, the absolute amount of the increase—which is what the consumer cares about—will be greater for higher priced cars. Therefore, the burden of the tax increase would fall heavily on the imported cars. In addition, higher taxes would depress Japanese domestic demand for Japanese cars, which would likely result in greater pressure on companies to export.

Subsequently, the Government of Japan announced that the commodity tax would be increased on both categories by only 2.5 percent rather than 5 percent (i.e., to 17.5 percent on cars with engines smaller than 2,000 cc's and 22.5 percent on those with engines above 2.000 cc's.) While somewhat better than the earlier proposed change, the same problems of greater relative impact apply because of the differences in base value. Even if the tax rates were the same, the amount of tax collected on the cars with larger engines would be greater because of the base differential. By raising the rates, the situation is worsened.

The U.S. Government is on record in asserting that the commodity tax, as presently structured, impairs our exports and does not achieve the aim of taxing automobiles on a fuel-efficiency basis. In its recent commodity tax changes, Japan missed an important opportunity to help reduce barriers to its market in the auto sector. In fact, it worsened the situation. It would be most appropriate for Japan to reconsider this action both to better accomplish its own domestic energy ends and to remove yet another trade distortion.

Capacity.—At the Venice Summit, President Carter raised the question of reported increases in Japanese production capacity. Subsequently, the United States was given reassurance that in the near term capacity increases were not planned for the export of cars to the United States. This was welcome.

But the general picture with respect to production capacity is disquieting. According to the Department of Transportation, the Japanese will increase production capacity by approximately 20 percent by 1983. In addition, the Department of Transportation points out that with overtime and accelerated line speeds, Japanese production, on an annualized basis, has the potential to reach 12 million units, although current plant capacity is rated at only 9.4 million units.

One might legitimately ask where these cars will go. Europe is unlikely to take greater numbers of Japanese cars, and, in fact, may cut back. Many of the developing country auto markets are supplied from assembly plants in those countries. And the Japanese market is not growing vigorously. Clearly, careful watch will have to be kept to ensure that the open American market is not seen by others as the outlet for autos produced with excessively expanded plant capacity and is not harmed by diversion from less open markets. This involves close scrutiny of Japan's investment prospects and efforts to ensure that the highly protectionist measures of some European nations do not result in more cars entering the U.S. market.

CONCLUSION

I hope that this brief summary of auto trade developments has proved helpful to the Committee. As I said at the outset, I have intentionally avoided making, or implying, specific policy recommendations. I am impressed by the degree of commitment of the U.S. auto industry to building cars which American consumers want. I am also impressed by the enormous difficulties they face in achieving this end. In addressing these difficulties, and seeking appropriate ways to assist the industry and its workers, this Committee has an enormously important task. I look forward to working with you in the coming months to help fashion a successful approach to this problem.

Senator DANFORTH. The next witness was to be Mr. Douglas Fraser, president of the United Autoworkers. However, as the morning paper indicates, he has been engaged literally around the clock in negotiations. Therefore, he is represented today by Mr. Steve Schlossberg.

STATEMENT OF STEPHEN I. SCHLOSSBERG, DIRECTOR OF GOVERNMENT AND PUBLIC AFFAIRS, UNITED AUTOMOBILE WORKERS

Mr. SCHLOSSBERG. Mr. Chairman, I am Stephen I. Schlossberg. I am director of government and public affairs for the United Automobile, Aerospace, and Agricultural Implement Workers, commonly known as the UAW. I am accompanied by Dick Warden, UAW legislative director.

I wish, first of all, Mr. Chairman, to thank you for these hearings, and to give you the most sincere apologies of Douglas Fraser, our president, who has, as you know, been in all-night negotiations, and is still engaged under a deadline that time and affairs impose on Chrysler and UAW with respect to the loan guarantees. He would like to have been here. He asked me to convey his very deep regrets to the committee for his absence.

Mr. Chairman, with your indulgence, we would like to ask that our entire statement be entered into the record. I will try to summarize that very briefly for the committee.

First of all, we say that this committee knows the importance of the automobile industry to the economy of this country, and to this country. Some 1 in 6 people, normally employed in this country in manufacturing, are employed in some way in the automobile industry. Our unemployment and our problems radiate from direct automobile unemployment to supplier and feeder unemployment, and communities are very seriously affected.

I know I need not dwell on the fact that in the large automobile producing States, where most of the UAW membership are located, we have numbers like 524,000 unemployed in Michigan, 425,000 unemployed in Ohio, 493,000 in Illinois, over half a million in New York, 400,000 in Pennsylvania, and 162,000 in your own State of Missouri.

The rates of unemployment in the heavy automobile States run from 7.1 percent to 12.7 percent. In the city of Detroit, it is almost 13 percent unemployment. I know I need not tell the committee the dreadful human consequences of this kind of unemployment, which seems pervasive, and seems to affect the communities in which our people live.

It affects not only their livelihood, and the livelihood of others in the community who are depending upon those economic units of the automobile industry for survival, but it affects the emotional and physical health of the workers who are unemployed. Indeed, a whole generation may have been affected by the seriousness of this.

I need not dwell before this committee on the importance of the automobile industry in other respects. It was, after all, the automobile industry that in World War II gave us 500 bombers a day, when the aerospace industry was doubtful about how long it would take them to begin producing.

If the arsenal of democracy had not had the automobile industry, and the ingenuity and the capability of that industry, it would not have been able to supply the tools for democracy to fight for its survival.

The automobile industry is important not only as an economic unit, but as a strategic industry in this country, and we need help. We need help desperately. I don't think there is any doubt about that.

These companies have made major commitments, committing themselves to capital expenditures of something between $70 and $80 billion over the next few years, and they need a little breathing room. They need a little help. They need several things that this committee can address forthwith.

We need some respite on trade, not permanent import restraints. I think Ambassador Hormats did not tell you that almost every country protects its automobile industry, where it has an automobile industry, better than this one. Some 27 out of 28 do so, either with higher tariffs, with gentlemen's or under-the-table agreements, or with open restrictions. They have not permitted their markets to be savaged like ours.

We had a little respite in the fall from the percentage of Japanese imports, and imports into this country. It is over now. It started to rise again in December. It is in the 27-percent range of our market. It is likely to go to 33.3 percent.

So we implore this committee, as we have gone to the Congress before, to give us some temporary respite. If after a few years, 2 or 3 years, when this industry converts from approximately one-third subcompacts, small, fuel efficient cars, to better than three-quarters of its output in that area, then we say that those employers ought to stand head-to-head in a real free trade situation with Japan and any other country in the world. We need that little period of restraint.

It is commonly accepted that an industry that has a targeted market, and works under central planning as the Japanese industries have done, also protect their industries during the development period. The computer industry, and the chip industry are protected in Japan, and we hope to get the quotas and tariffs down in the mid-1980's so that we can compete. Autos were protected there long ago, when it counted.

So we want only a temporary respite. We want not quotas and tariffs at this moment from you. We ask only that you do two things: That you authorize the President, and encourage the President to negotiate, really negotiate, with the Japanese for some kind of temporary respite—a orderly market agreement, a voluntary market agreement. Second, that you ask for a Japanese content here.

Our whole problem is not caused by imports. We have these terrible interest rates that make it impossible for a dealer to maintain an adequate inventory. Automobiles cannot be sold in catalog showrooms. People like to kick the tires, smell the car, hear the door click, and look at the paint. If a dealer cannot afford to carry a stock of cars, he cannot appeal to the basic buying habits of the car-buying public. So we ask for respite on interest rates.

We ask for targeted aid for capital investment for this industry. We ask for refundable tax credits for the amounts that are spent. The Government should demand that in return for that, this industry produce high quality, low cost, fuel efficient cars.

The UAW is ready to make every contribution it can, and its workers have shown that. The very fact that right now we are in this very serious business with Chrysler, where in 40 years of collective bargaining the benefits have always been the same, as GM and Ford, and we are sitting there trying to save this company from extinction because it would be so serious for our workers and for the community as a whole. I hope that company will be saved. I think it will. Whether it will or not, I don't know, but the UAW will not be responsible for not saving it, if it does not happen.

This industry can recover. This industry can be a bellwether of economic recovery in this country, and it has made the commitment to do it. The UAW has made its commitment to assist in every way. To work for quality. To continue our productivity.

I might point out that this industry has shown an increase in productivity every year until 1978, when because of the idle plant capacity and the necessity for the conversion of the industry, it was impossible to show a gain in productivity.

As you know, productivity depends on investment, on new plants, technology, and so on. We are willing to make those kinds of contributions. We need help in capital formation. We need a respite from this terrible attack from overseas which is targeted on our market.

If we can get that, I can promise you a healthy industry, I think.

Senator DANFORTH. Thank you very much.

It is my understanding that the Department of Transportation report indicated that the cost of a Japanese car in California is about $1,000 to $1,500 less than the cost of an American made car.

Mr. SCHLOSSBERG. I believe that is correct. Those figures are exactly as in the report.

Senator DANFORTH. It is also my understanding that the labor costs in Japan are about two-thirds those of the United States.

Mr. SCHLOSSBERG. I think that is correct, too. Your reading of the report is accurate. I would point out, however, that productivity in this country, I believe, is still a little higher in the automobile industry than it is in Japan. I would also point out that the Japanese automobile workers make approximately 50 percent more than the standard manufacturing workers in the other industries in Japan. Whereas in this country American automobile workers make about 14 percent more than others in heavy industry in a similar rating—from 12 to 14 percent more.

Even in the Transportation report, which we really have not had time to study in great detail, it indicates that difference is not wholly due to wage rates. If you are concentrating on only one kind of body, you can use robots and automation, and technology that you cannot do if you are trying to make a full line of cars, covering all sizes.

Senator DANFORTH. Let me concentrate on that, if I can, because I know Senator Chafee has earlier indicated that he wants to get to the labor costs question.

On the question of modernization and new technology, what is the position of the United Auto Workers?

Obviously, the history of much new technology has been that machines replace people. Robots are used for welding instead of men and women.

Mr. SCHLOSSBERG. Right.

Senator DANFORTH. What is and will be the position of the United Auto Workers with respect to plant modernization, even if the result of it is fewer people required?

Mr. SCHLOSSBERG. Senator, the UAW has never opposed automation and new technology in any respect. We have always believed that anything that makes for less human endeavor, and for more efficient production should be used.

We do ask that in the introduction of new technology and automation that that be done humanely, as humanely as possible, through attrition, and that there be adequate measures for the human factors that are involved. That is retraining, relocation, and in every way to soften the human impact.

There is no question that at one time the average worker, just 20 years ago, made eight cars a day. Today, the average worker makes at least 17 much more complicated cars a year. That is quite a difference.

Senator DANFORTH. I want in a minute to get into the question of your views of the trade adjustment assistance program, and how it is working right now.

With respect to the automobile industry itself, you would expect it to modernize as quickly as possible, without providing a kind of what is usually called a kind of "featherbedding" approach to protecting people who really are not efficiently used in the automobile industry?

Mr. SCHLOSSBERG. We do think this, and this goes to the whole question of trade adjustment assistance as well as anything else. When a whole society makes progress, whether it is through free trade or whether it is through new technology or in any respect, that benefit the whole society, we do not think it is equitable for one segment of that society to bear the whole burden, and to pay the whole cost of the societal benefit.

When workers are unemployed due to new technology or due to economic dislocation, or due to the ravages of trade on their industry, this society owes them a better break than they have gotten, both in terms of retraining and relocation, and in adjustment assistance. In all respects, whether the damage is done by trade, or whether the damage is done by economic dislocation, the flight of capital moving from place to place, abandoning old plants, or whether it is done by automation.

We do represent the view that human beings should not be made to suffer. Having said that, I will also say that there is no "featherbedding" in the automobile industry. No one stands by and watches somebody else do. There is no effort to pay people for work not done.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

As I indicated in my opening remarks, I am deeply concerned about the state of the U.S. automobile industry. I think that there are steps that we should take here in Congress.

You mentioned targeted aid in the form of refundable tax credits. I support that. I wish to get on with the tax incentives in the form of more rapid depreciation which, of course, without the refundable tax credits, would only apply to companies that are making money.

In the testimony of Ms. Keller, we had some statements to the effect that we ought to have a more uniform approach to the emission controls, and environmental requirements, and other Government requirements that we place upon the automobile industry. I agree with that.

I am troubled by what you are proposing here today. Namely, that there be some kind of a trade restriction placed upon the Japanese imports, for a brief period whereby you believe that the industry could catch its breath and get organized to compete.

One of the areas that bothers me is the very group that you represent. The UAW is part of the problem.

You have negotiated the most successful, and the highest wage rates, with the fringe benefits total package, that exceeds anything any industry has in the country. That is fine, but now you are at a point where you killed the goose that lays the golden eggs.

Mr. Iacocca has stated that the Chrysler hourly wage is $19.24. It will go up, he indicated, to $22 and above. I have not heard the UAW dispute those figures.

I do know that when we compare the average hourly pay for an automobile worker to the average hourly wage of the workers that I represent, there is a tremendous disparity. You indicated that there is only a 14-percent difference in your testimony, but it is much higher than that. You indicated that the people you represent are all skilled, and I don't know whether that is so or not.

Could you please comment on this situation that the automobile industry is in as a result of the very, very high wages. This is not just my view. As you know, there have been a series of articles. Here is an article from the Detroit News of Monday, January 5, "The Great Wage Inequity." There have been articles by Mr. Drucker.

Could you comment on this wage situation?

Mr. SCHLOSSBERG. Senator, first of all, let me say that I think the figures Mr. Iacocca is talking about are total labor costs, including statutory costs——

Senator CHAFEE. Yes; fringe benefits.

Mr. SCHLOSSBERG. Yes; fringe benefits and statutory costs, and not wage rates. I don't want you to think that our people take home $18 an hour.

Senator CHAFEE. I appreciate that. It is the total, including fringe benefits and social security, the costs to hire a worker.

Mr. SCHLOSSBERG. Let me say that we lived in an industry where the UAW went to the bargaining table year after year, after year, and said: "We will practice wage restraint, if you will reflect that in the price of the products we sell." If you will take into account the story of the automobile industry in a 20- to 30-year period, you will find it a profitable one, especially for management and stockholder.

They said: "That is none of your business. You cannot bargain these kinds of items at the bargaining table. You must bargain only wages and working conditions."

We lived in an industry where our executives were paid in excess, in some cases, of $1 million a year for one person. We lived in an industry in which stockholders reaped huge, huge benefits. It was a very successful industry over the years. Other industries, textile and other industries, did not show that kind of a rate of return either to stockholders or to management people, and so on.

Now the UAW is realistic. If the benefits are there in times of prosperity, we are willing to practice some kind of wage restraints, if we can have profit sharing. If we can share in good times, we are willing to share in some kind of austerity. But we are not going to come in and say that while automobile executives belong to country clubs, and are taken care of in other ways, our people are going to lower their living standards voluntarily when it may not, indeed, be reflected in the price.

As I say, we have paid our price. Whether we pay it in lower wages, or in laid-off people, we have paid our price for the trouble this industry is in. We have paid our price in very real terms, in a lot of suffering in this industry.

We are not interested in confrontation either with the industry, or the consumer, or anything. We want to make a better-quality car. We figure the consumer, for the price he is paying for this car, is entitled to the highest quality, and we want to make it at the lowest rate we can. But we are Americans, Senator, and want to live decently. We don't want to lower our wage rate and our standard of living without some kind of quid pro quo from this society.

Senator CHAFEE. You are saying that in order to protect your people who are earning 60 percent more than the people I represent, that my people are going to have to pay more for a vehicle in order to protect your people who are earning considerably more than the people that I represent. Now, is that fair?

Mr. SCHLOSSBERG. No; when you state it that way, it is certainly not fair, and it is not what I am suggesting. I am suggesting that we have to look at the industry about which we are talking.

In Germany, the automobile workers in Germany, Senator Chafee, earn the same return. Their labor costs are the same as the United States. In Sweden, they are a little bit more, I believe. In Japan, they are about one-third less, but they are on the rise.

I don't believe that we have to lower our standard of living because we are in an industry that should be able to pay a decent standard of living. We want to bring the other industries up, and not to penalize our people because other industries have not been able to meet what we call decent wages.

No other automobile industry in the world pays the price for labor that some of the depressed industries do. As I said, we are equal with the West Germans. The Japanese are on the rise all the time, and they have something our people do not have, lifetime employment.

Senator CHAFEE. The result is that you are not able to compete. The American automobile industry is not able to compete for a variety of factors—lack of adequate capital investment, wage rates, productivity, high interest, a whole series of things. I am not blaming it entirely on the wages. I don't want that impression to be made here.

Mr. SCHLOSSBERG. A lot of the troubles of the American automobile industry were caused by Government policies, some of which were very benign. The building of a highway system which lends itself to large cars. The artificial low pricing of gasoline. The rise of the automobile. The national policy in this country encouraged this industry to do what it did.

We are willing to do our part, Senator. We are willing to do our part, and we will show wage restraint as is necessary. We will try to compete head to head with automobile workers in all the countries in the world, unless you are talking about competing with coolie labor.

Senator CHAFEE. Your own testimony indicated that that was not true.

Mr. SCHLOSSBERG. No.

Senator CHAFEE. Let me ask you another question. How is your absenteeism rate problem in your plants now?

Mr. SCHLOSSBERG. It is improving. That is a problem, and a problem, which the union has stepped up to, and met in a responsible way, I believe. We have embarked on programs with all of the automobile manufacturers whereby weekend absenteeism—that is a day surrounding a weekend, Monday and Friday—is very seriously dealt with. We treat the problem very seriously.

At Chrysler, for instance, I understand that absenteeism is down to a bare minimum. Of course, people understand how serious it is there. But they understand it, too, in Ford and General Motors.

We believe that quality and sustained, uninterrupted production are terribly important. By the way, in Japan, one reason we think that they have such a great success is because the workers are consulted there about the design of a plant, the location of a plant, the product that is manufactured, the pricing. There are many things that go into it.

One reason that the Japanese are able to sell a car cheaper than we sell them in this country is because they are content to make less profit, and in the long run operate on a different basis. But you cannot take wholesale the features of the Japanese economy, which is a very unique, insular economy, energy starved, and a central planning economy, and move that to this country lock, stock, and barrel.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Given the fact that import penetration appears to be increasing, and subsequent industry changes—including the deteriorating financial condition of the manufacturers—have you considered filing a petition for reconsideration of the ITC decision?

Mr. SCHLOSSBERG. I don't believe we have, Senator.

Senator MATSUNAGA. You have not?

Mr. SCHLOSSBERG. The reason I would say that is that it is clear from the decision of the ITC, in which two found injuries under section 201, and Commissioner Calhoun found serious injury, but not a sole enough cause under section 201. The technical language of the statute was not met sufficiently for him to do it.

The make up of that Commission has not changed. Chairman Alberger also found some injury due to imports, but not sufficient to do anything about it. Commissioner Stern obviously found that our problems were somewhere else. These are the same three people, and we feel that it would be a waste of Government funds, and union funds, and the time of administrative people combined, to go back at this moment on a 201 petition.

If we had evidence of dumping, which we don't have at this moment, or some other practice that the Commission could help us in, we might go back there.

We are here, though, today, asking the Congress to send a message to the Executive that we would like to have negotiations on this issue, and we would like to see the Congress also pass some content legislation to require, as many countries do, that some parts of vehicles imported into this country, that some share be constructed in this country.

Senator MATSUNAGA. You heard the testimony of Ambassador Hormats to the effect that this is being done.

Mr. SCHLOSSBERG. He is even more optimistic than I am, Senator, about how fast this is being done. We do have a Nissan truck plant that is coming on in a small way in Tennessee, a light truck plant. We have some evidence of a Honda automobile assembly plant in Marysville, Ohio. That is all.

As to whether Toyota or Nissan will make any major investment in this market is entirely problematical. They have had study committees, and visiting groups here. I have seen pictures of them posing with Senators and Governors, and mayors. But they are very smart people these automobile manufacturers, and I don't look for them to come in immediately, certainly not while the interest rates are like they are.

Volkswagen, on the other hand, has been very successful here. I hear the quality question frequently. We hear from the president of Volkswagen American that our workers in Pennsylvania produce a better Volkswagen than is produced in Germany.

About 85 percent, I believe, of the Volkswagens now sold in this country are made in the United States. They have recently gotten a new facility in the Detroit area, and they have a place in Texas, one in West Virginia, and they seem to be doing quite well here.

Senator MATSUNAGA. I raise the question of petitioning for reconsideration because the Members of the Congress who voted against the resolution requesting the President to negotiate a quota with the Japanese were guided by the ITC decision. There were many editorial comments, as you know, that followed the same view.

Mr. SCHLOSSBERG. I think the issue is quite different, but one thing that Ambassador Hormats said here today which seems to me to call for action by the Congress is the fact that the Japanese automobile manufacturer—I am not talking now about MITI or the Government, but the manufacturers who are now calling the tune, have decided to go for this overproduction, and feel they are out of the woods. There is nothing more to worry about because the ITC did not find the technical requirements of the statute had been met on the escape clause.

We are asking for two things. We are asking for the imposition of some kind of quota laws to get an investment where the market is being exploited, and we are asking also to encourage the Executive to begin serious, head-to-head, hard negotiations with the Japanese to try to give us a temporary respite.

Senator MATSUNAGA. I am inclined to feel that the drastic increase in imports and the deteriorating financial position of the domestic auto industry might lead ITC to reconsider its decision once reconsideration is sought.

Mr. SCHLOSSBERG. You may be right, Senator.

Senator MATSUNAGA. I have one other question to ask, if the chairman would permit, relative to the trade adjustment assistance paid to auto workers. In fiscal year 1980, I understand that payments amounted to $1.4 billion. Do you have any estimate as to what this program will cost the taxpayers in 1981?

Mr. SCHLOSSBERG. We don't have an estimate. There was quite a large usage of the trade adjustment moneys by automobile workers. I don't know the exact figure. I am not sure it is that high. I think that this may have been the total payments, which included steel, rubber, and other industries.

In the case of the automobile industry, we feel that more improvements are needed in the trade adjustment, and not less.

Senator MATSUNAGA. I have been handed figures which show that the estimated payments to unemployed workers would amount to a sum between $2.6 and $3.6 billion in fiscal year 1981.

Mr. SCHLOSSBERG. I believe that is accurate, Senator.

Senator MATSUNAGA. This means that the sooner we get the domestic automobile industry in sound financial condition, the more we will save the American taxpayer.

Mr. SCHLOSSBERG. You are absolutely right.

Senator MATSUNAGA. Trade adjustment assistance payments are over and above unemployment compensation, I believe.

Mr. SCHLOSSBERG. You are completely right, Senator. I agree with that, and I thank you for that.

Senator MATSUNAGA. Thank you.

Senator DANFORTH. Senator Dole.

Senator DOLE. I have read a number of things that the Government should do. I think that it is the reason for these hearings, to try to find out in which areas we can be of assistance, keeping in mind that we don't have any money. The thrust of the new administration will be to reduce spending, and not to expand it.

In fact, I asked Mr. Regan, the Treasury Secretary-designate, at the close of his confirmation hearing, if he could give us any hints about any new spending programs that might be coming down the line. He was surprised, and could not think of any. This is what we are up against, not that there is not a desire to do something, whether it is scrappage bounty or something else.

You do understand the general economic situation?

Mr. SCHLOSSBERG. I do understand the economic conditions, and I am sympathetic to the general economic picture. But I believe that the tax losses alone on the profits of this country—I heard a story the other day, Senator. A fellow stopped at a gas station in Detroit, and he said: "How is business?" The fellow said: "Not bad." He said: "I am doing better than Ford, General Motors, and Chrysler." This gives you an idea of how bad things are in this country.

I think that our misery radiates and costs the economy a lot. Maybe a bounty, or a scrappage, or something might have social effects and economic effects that will make it worthwhile. But I do understand the economic crunch you are talking about.

Senator DOLE. The same with tax credits for energy-efficient automobiles, that would be a revenue loss. It would widen the gap somewhere. Another suggestion, of course, some import restraint. That has been widely discussed.

These hearings are the result of a debate on the Senate floor in the late hours of the last session between Senator Danforth, Senator Riegel, and others. We are trying to find some way to address the problem.

Mr. SCHLOSSBERG. We are deeply grateful to you for your interest and concern.

Senator DOLE. I know there are things going on. This may not be within the proper scope of your statement, but in addition to what Government should be doing, is there any thought about what labor and management should be doing?

Mr. SCHLOSSBERG. Yes; right now we are in the throes of negotiations. My president is not here today because he is engaged with Chrysler. The UAW is never going to be responsible for standing back and not doing its share on anything, whether it has to do with the war effort or the success of the economy. It is not going to commit foolhardiness for its members, but it is going to do everything it can to protect its members.

We have always tried to make progress with the community, but not at the expense of the community. This has always been a UAW catchword and byline. We are sensitive to it. I would say that these companies have shown their seriousness by the way they are tackling quality with the union.

We are all tackling not only quality and absenteeism, and all the other human problems that we have in dealing with large work forces, but we are working on these problems on the shop floor, at the middle level, and at the international level, in any way we can.

We are also aware that these companies are committing huge resources, perhaps more than any other industry in the history of the United States, or maybe in the history of the world industry, to retool and redesign this industry as fast as possible.

It is a capital-intensive industry, and it costs huge amounts of money to take poundage out of cars, and to remodel them. When you down size a car, you also run into not only time expenditures and costs connected with the work right there, but a terrible backlog in the machine tool industry, which is affected.

The mere fact that they have made these major commitments and are willing to take these kinds of losses, and while they are losing this kind of money decide to restyle their industry, so that you are presented with a newborn industry, with an infant industry that is trying to make America great again. We need your help.

Senator DOLE. I understand you did comment briefly on the just released report by the Department of Transportation.

Mr. SCHLOSSBERG. Yes, sir.

Senator DOLE. But you have not had a chance to review it.

Mr. SCHLOSSBERG. We have not had a chance to study it, but it looks like a most responsible report, and a report that calls for some equality of sacrifice from everybody concerned, and also for some real remedial action on the part of Government and others.

Senator DOLE. As I indicated earlier, the Secretary indicated that he favored some form of import restraints and that the Government should commit to helping the industry. He gives a number of examples. Labor should agree to new wage restraints designed to close the differential with Japan. Management would compensate labor for these restraints through profit sharing, or some other incentives, which are not named.

Is that a basis for at least some discussion?

Mr. SCHLOSSBERG. It is a basis. I said earlier, when you were not here, Senator, that if we are asked to share austerity, we want also to share prosperity. We feel that one of the successes in Japan, which can be brought over here, is consultation with workers and their representatives about such things as plant design, product mix, pricing, plant location, sourcing, the introduction of new technology, and all of these things. We want to be consulted on all of these things.

If we can have a share, a real share in the decisionmaking, and a share in future profits, we are willing to step up our responsibility in terms of rationing austerity.

Senator DOLE. Aren't there things that perhaps the incoming President, President Reagan, might do that would fall short of any agreement. In other words, leadership, persuasion, discussions with the Japanese leaders, that might help alleviate some of the problems that the industry has, without getting into this thicket of whether or not there ought to be some voluntary restraint agreement.

Mr. SCHLOSSBERG. Senator, we have asked the incoming President to call an auto summit. We think that it is very important. We believe that it would be educational for him and some of his advisers. It would certainly give us a chance to explain—the automobile companies, the union, and the various regulatory and economic people that have to do with this industry—the problems. We think that this would be a great help.

We want to talk about the seriousness of our condition, and what kind of action we can take as partners—Government, industry and labor, together—to solve this very bothersome problem.

We want leadership from the President, both internationally and domestically, on this problem. But I do think, to be very fair, Senator, that we have been around this mulberry bush so many times, we know that tea parties with the Japanese diplomats and high-level conversations between heads of state are not likely to produce any results in this area. I am not optimistic about that.

Senator DOLE. It is a new day.

Mr. SCHLOSSBERG. Even so, maybe my optimism should be greater, but it is not. I have seen a lot of people come back and say, these are very reasonable people. They are reasonable people from their own point of view. But it is not likely that in the face of a European economic community that every day is making it more difficult to import a Japanese car into, in the face of Third World countries that are more and more building content laws, and building barriers against these cars—there is only one place to send them, and that is right here.

Senator DOLE. You say that this approach may not be effective, but it would seem to me that if there is an opportunity, it will be very early on in the new administration, if it is to have any impact at all. We cannot wait for 6 months or 1 year.

Mr. SCHLOSSBERG. We are desperate, and we would like to see action as soon as possible. We are really looking to President Reagan to give us leadership, both on the international and domestic front, on this problem, because we think that it is one of the most severe problems he is going to have. We really look to him for help.

Senator DOLE. I know when a group of us met with Mr. Fraser in Detroit—there were comments that if Republicans were meeting with organized labor leaders, there had to be a problem with each—no one realized that we would be on this side of this table, but we knew you would be out there.

We do have an obligation to be constructive, and certainly that is our intent.

Mr. SCHLOSSBERG. Thank you, Senator.

Senator DANFORTH. Mr. Schlossberg, the UAW has made some specific proposals with respect to both restrictions on imports, and with respect to some tax measures—a tax credit for the purchase of a new car and for scrapping an old car.

Would you submit for the record your estimates for each of these proposals with respect to the effect on the number of jobs that would be created or saved, the cost of the proposal to the taxpayer, and the cost of the proposal to the consumer with respect to the increased price for automobiles, which of course would apply to the import restrictions.

Mr. SCHLOSSBERG. Yes; we will be happy to do that to the best of our ability, Mr. Chairman. Thank you for the opportunity to do so.

[Answers to questions asked by Senator Danforth follow:]

UAW Responses to Danforth

In our January 14, 1981 testimony, we made five proposals that would immediately help the U.S. auto industry and its workers. We have now been asked to quantify the effects of each of the five on employment, the federal budget, and consumer costs.

The central proposal we have made is for a temporary Orderly Marketing Agreement (OMA) to insure that U.S. auto makers have the time to make a major transition. Without that time, Japanese imports will take an ever bigger share of our market, insuring even more job loss. Thus, the jobs created by an OMA should be thought of as permanent, if the domestic producers can regain their lost customers. Enactment of local content requirements can ensure that these jobs created under the OMA will persist beyond its life. Those created by our other five proposals are purely flows, job-years that exist only during the time that the particular government programs are in effect.

Finally, we must introduce our calculations with a basic set of assumptions. They are:

a. 1978 represents a healthy auto market. In that year, 9.30 million domestic cars and 2.00 million imports — 1.36 million of them from Japan — were sold. SIC 371 employed 977,100 workers.

b. 1980 represents a sick auto market: 6.58 million domestic sales plus 2.40 million imports — 1.91 million from Japan.

c. Without import relief, the Japanese will increase their share from 1980's 21.3 percent to 24 percent in 1981, consistent with Chase Econometrics' forecast of a 29.2 percent overall import share.

UAW Proposals

1. **Import Relief**

We contrast a 24 percent Japanese share with 1978's 12.0 percent. The difference is 12 percent of a healthy year's 11.3 million sales, or 1.356 million Japanese imports.

A. **Job Creation** (Stock)

1.356 million is 12.0 percent of 11.3 million, and so would correspond to 12 percent of 977,100 SIC jobs. That comes to 117,000 jobs. Adding to that the 2.3 non-auto jobs that BLS says go with each auto job brings the total to 387,000 U.S. jobs.

B. **Federal Budget Impact**

The Treasury's loss would be the 2.9 percent duty on the 1.356 million Japanese cars that are imported. At an average landed price of $7,000 per car, the loss comes to $275 million.

But the gain includes:

(i) U.S. tax receipts on the $18,000 average annual earnings of 387,000 workers. At a 15 percent average tax rate, that comes to $1,046 million.

(ii) U.S. unemployment insurance costs for an average of 19.5 weeks of $120 weekly payments for the 387,000 workers. That's $905 million.

(iii) Assuming 25 percent eligibility, TRA savings amount to 0.25 times 387,000 times $270 per week times 52 weeks, or $1,358 million.

(iv) Food stamps and general relief program savings are about $90 million.

(v) The tax turnaround for a 1978-type year vs. a 1980-type year comes to about $5.5 billion in corporate income tax receipts. Since 1.356 million sales would make up 50 percent of the 2.73 million unit difference between 1978's domestic sales of 9.307 million and 1980's 6.578 million, the turnaround amounts to 0.5 times $5.5 billion, or $2,750 million.

Hence, the net federal budget impact of an OMA reducing Japanese imports by 1.356 million units is estimated to be a gain of $5.88 billion.

C. **Consumer Impacts**

According to the House Trade Subcommittee,* holding out 1.356 million Japanese vehicles will lead to a 5 percent, or $350, increase in the price charged for the 1.36 million Japanese cars that could still be sold under a 1978-level OMA. That would cost consumers $476 million.

Recent events in the auto market suggest strongly that domestic producers will not raise prices in response to the OMA:

(i) Much of the adjustment in prices to achieve profitability at a sales mix with more small cars has already occurred.

(ii) Recent small car price cuts suggest that domestic manufacturers are primarily interested in regaining sales volume and market share.

(iii) Much of the recent run-up in domestic car prices reflects high unit costs due to low capacity utilization. Higher sales would cut unit costs, allowing margins to be rebuilt without extra price hikes.

(iv) The government could insure this outcome by making price restraint a quid pro quo for either the OMA or any investment subsidy (see below).

* Record of Subcommittee proceedings of March 18, 1980.

2. **Reduced Interest Rates**

A policy of lower borrowing costs could help release the pent-up car demand that must exist after more than two years of declining total sales. While no reliable estimates of the short-term interest cost elasticity of new car demand — by dealers or buyers — exist, it is obvious that reduced interest rates would rejuvenate domestic sales, employment, and budget receipts. It was, after all, the run-up in interest rates that aborted the auto market's attempts at recovery in both mid- and late 1980. If an OMA is in place to ensure domestic producers all or most of the growth in demand, the impact of reduced rates would be substantially greater.

3. **Auto Tax Credit**

We assume a credit of $500 per trade-up under our proposal.

A. **Job Creation** (Flow)

$500 is about 7 percent of the current price of U.S. high-mpg new cars. At a consensus short-term price elasticity of demand of 1.0, this would increase sales by 7 percent. Seven percent of a market of 11.3 million units is 791,000 units. Following the method used in 1.A. above, that would result in 225,000 jobs.

B. **Federal Budget Impact**

Following the method used in 1.B. above, the net budget gain is the cost of the credit — $500 times 791,000, or $395 million — offset by the gain to the Treasury from taxes, U.I., etc. of $3.56 billion. The net gain is thus $3.17 billion.

C. Consumers would benefit by $500 times 791,000 cars, or by $395 million.

4. **Scrappage Bounty**

We assume a $600 million, 3-year federal program to induce 2 million scraps, over 3 years, at $300 paid to each scrap.

A. **Job Creation** (Flow)

Following the method used in 1.A. above, and since one-third of 2.0 million is 5.9 percent of an 11.3 million car market, we calculate an annual job flow gain of:

0.059 x 3.3 x 977,100
or 190,000 jobs.

B. **Federal Budget Impact**

The cost to the Treasury would be $200 million per year. But the gain, following the method used in 1.B. above, would amount to $3.00 billion.

Hence, the net gain to the Treasury would be $2.80 billion.

C. **Consumer Impact**

The consumer gain would consist of two components: fuel savings and the difference between the $300 bounty and the market value of their 10 years or older car.

(i) If the average move up in the car market were from a 12 mpg car to a 16 mpg car, at 10,000 annual miles per car and gasoline at $1.40 per gallon, consumers would save (over 3 years):

$$2{,}000{,}000 \times \$1.40 \left[\frac{10{,}000}{12} - \frac{10{,}000}{16} \right]$$

or $583.3 million. Each year, the saving would be $194 million.

(ii) Based on the current used car prices for cars 10, 11, and 12 years old, we estimate that the average difference between the $300 bounty and the market price is approximately $80.

Hence, the consumers gain about $160 million over 3 years, or an annual benefit of $53 million.

The total consumer gain per year comes to $247 million.

5. **Targeted 10-20 Percent Investment Tax Credit**

This is difficult to quantify precisely in its impact on jobs, the budget, and consumers. Without the funds to modernize equipment, the complete destruction of the U.S. auto industry could occur.

A., C. Hence we will not quantify job or consumer benefits, though they must be substantial. We would note, finally, that failure to modernize U.S. facilities will entail huge U.S. job losses, as ever more investment will be transferred out of this country.

B. **Federal Budget Impact**

Approximately $27 billion of the industry's projected 1981-85 capital spending of $78 billion will go toward U.S. equipment projects meeting our proposed criteria. A 10 percent credit would cost the Treasury $2.7 billion over five years, or $540 million per year. That figure should be doubled for a 20 percent credit. As said above, this credit could be made conditional on product price restraint.

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Senator DANFORTH. With respect to trade adjustment assistance, as you pointed out in the answer to Senator Matsunaga's questions, the costs have been going up very rapidly in the past, and may continue to go up in the future.

The estimates are that some 200,000 jobs will be lost due to structural changes in the automobile industry. Some feel that the trade adjustment assistance program right now is a little bit off target. It amounts to further unemployment compensation, rather than true trade adjustment assistance.

The argument has been made that the trade adjustment assistance program should have a second look, to find out whether or not it could be better used to retrain people for other job opportunities, relocate them in other jobs, as opposed to just simply a continuation over a limited period of time of what amounts to unemployment compensation.

Assuming that we are not going to be developing new programs to go on top of old programs, with yet more revenue loss, would you comment on that idea?

Mr. SCHLOSSBERG. Trade adjustment assistance was always a quid pro quo. The UAW has always been one of the great free trading labor organizations of the world. We have always testified in favor of free trade. Every time we have done so, we have said that there must be some provision in the law so that those who are injured by the trade, which benefits our whole society, should not pay the whole cost.

That is the origin of this kind of assistance for communities, for industries, and for workers. It has not been sufficient. We favor the Vanik amendment, which would extend beyond the directly competitive product, to the parts of the product that are affected just as seriously as the product.

Of course, there has been a neglect of relocation and retraining, and all of these other things, which are equally important with moneys that are paid to a worker to subsist on a real level. But I would be less than honest, Senator, if I told you we could increase relocation and training, and all these things we think are so desperately needed, as a part of this program, without a revenue loss to the U.S. Government. I don't know of any other way to do it.

Senator DANFORTH. Assuming x dollars to be spent for the trade adjustment assistance program, would you favor a restructuring of the trade adjustment assistance program so that relatively more of those finite dollars would be spent on retraining and relocation, as opposed to simply a check on top of unemployment compensation.

Mr. SCHLOSSBERG. It is always difficult to split up misery. It is difficult and it is hard to split up misery. We would want to study that very carefully, because the primary suffering is economic.

Senator DANFORTH. The point is that some of these 200,000 people are simply not going to be back in the automobile industry, whether it is 2 years, or 5 years, or 10 years, or 20 years down the road. They simply are not going to be back in the automobile industry. That is the information that I have been told. Therefore, it might be better to try to move them into something else, rather than just to provide an extension of unemployment compensation.

Mr. SCHLOSSBERG. If I were absolutely convinced that a worker had no future whatsoever in the automobile industry, and there was no possibility of his returning to that industry, I would, of course, think that the primary obligation of this society would be to retrain for some other useful occupation.

Senator DANFORTH. Is there any doubt about that?

Mr. SCHLOSSBERG. There is some doubt in my mind about the number, and about whether that number cannot be handled over the years with attrition and retirements, and so on. I am just not at all sure of that. I am also not sure that we can't have a viable industry, where the rate of unemployment in this industry will fall. It will be fall.

There are very pessimistic predictions as to how many cars we will sell in this country, but those predictions are based not only on imports and the general economic conditions, but on things like interest rates, and other things. It is just too difficult to say.

Senator DANFORTH. But your view would be that the United Autoworkers would oppose this.

Mr. SCHLOSSBERG. I am not saying that. I agree with the philosophy that it is better to teach a man to fish than to give him a fish. I agree with that philosophy, and I believe the UAW would agree with that philosophy.

I am not sure, however, that we would agree that there is sufficient expertise in this particular area to do this kind of massive retraining at the cost it would be that would be better than the cushion for the worker who is immediately affected. I am just not sure of that, and I would want to study it.

Senator DANFORTH. Thank you.

Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

With all the discounts and rebates that we hear about, which Chrysler and Ford are offering, are these companies making any money each time they sell a car?

Mr. SCHLOSSBERG. I don't believe they are making any money because they need bigger volume to do it, Senator.

Senator MATSUNAGA. These companies are then losing money every time they sell a car, is that correct?

Mr. SCHLOSSBERG. That is right, they are losing money.

Senator MATSUNAGA. I am reminded of a neighborhood grocer who tried to compete with a new supermarket in the neighborhood, and lowered his prices below cost to keep his old customers, and at this point he even drew new customers. When a friend asked him, "Well, how's business?" He said, "Business is so good, I am going bankrupt." If sales of domestic cars weren't depressed, this anecdote might describe the situation.

Mr. SCHLOSSBERG. One of the problems you have is that the dealers are in such bad shape, and the interest rates are so high, that they do not carry a sufficient inventory. They would try to make in margin what they could not make in volume.

If a dealer figures that instead of making $100 and selling five cars, I would rather sell two and make $250 a piece on them, that impacts very seriously and adversely on the automobile manufacturers as I am sure you understand.

Senator MATSUNAGA. One point on retraining. I don't think auto workers need to retrain for work in other industries, if the auto companies act to anticipate future technology. For example, I believe, the industry must develop an electric motor vehicle. If American car makers fail to develop and utilize advance technology they are going to find themselves again trailing the European countries and Japan.

The domestic industry might embark on full development of the aluminum air battery, for example. According to researchers, the aluminum air battery will run an electric car for a range of 250 or even 350 miles per charge, at the same power and speed as the internal combustion engine. Unless our domestic industry commercializes such advanced technology soon, it will be trailing the other nations again.

Mr. SCHLOSSBERG. I agree that we have got to continue to look for new ways to make better products, better quality, keeping with the finite resources that we have to deal with on this Earth.

You are dealing with very sophisticated industries. General Motors, Ford, and Chrysler, and American Motors, despite their current difficulties, have shown entrepreneurial genius over the years, and I would hope they would come up with some of the dramatic developments you have suggested.

Senator MATSUNAGA. Thank you very much.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Schlossberg, you have asked us to approve a restriction on imports for a limited period of time to assist the U.S. auto industry.

There is a considerable body of evidence that shows restricting the auto imports would not be of major help to you. The real problem is the interest rates, which you have touched on which are not going to be affected by the restrictions on the imports.

The imported car sales in 1980 were 2.5 million units. In 1978 there were 2 million units. During the same period, domestic car sales went from 9.3 million to 6.5 million, about a 3 million drop. It is obvious that the increase in import sales of 500,000 has not been responsible for that incredible drop. As a matter of fact, the import sales have remained relatively constant. They have gained a greater portion of the market.

Mr. SCHLOSSBERG. That is correct.

Senator CHAFEE. When you cite in your testimony that auto imports have gone from 18 percent to 26 percent, it is true. But that is not due to increased numbers of imports; it is due to a total decrease in the total market. Is that not correct?

Mr. SCHLOSSBERG. There is a general malaise in the retail market. The conditions of doing business are that we have the terrible expense of high interest rates, and that malaise, and all the other problems that we have in our economy. If there is a smaller share of the pie, and your share grows——

Senator CHAFEE. Or remains constant.

Mr. SCHLOSSBERG. It may remain constant in actual terms, even though it has not even done that. If your share grows in the realistic conditions of the market, you are gaining on your competitors, and that is really what we are saying has happened.

I would not pretend for a moment, Senator, and our statement makes it absolutely clear, that even if you could get some kind of agreement with the Japanese for a modest reduction of the exploitation of this market, as every other country has done, whether it is under the table, over the table, that it would solve our problem. We still would have to solve the problem of interest rates that are out of keeping with reality in this country, and in this industry. We still would need investment capital and an end to recession.

We still have to solve the problems of inflation, unemployment, and the general malaise, we admit that, but that would be a valuable first step, we believe.

Senator CHAFEE. Perhaps so. The Congressional Budget Office calculated that a 20-percent drop in imports would cost consumers over $4 billion, while bringing back only 9 percent of the laid off workers in the production lines. This would mean a cost to the U.S. consumer of about $245,000 per job.

As indicated by my remarks here, I am not in favor of placing restrictions on imports. I think there is a series of things we must do in this country. We must make it easier for the automobile manufacturers through the tax code to modernize their equipment and machinery.

I think there are one-time things that we could do, for instance, such as permitting the automobile manufacturers to bring back profits from abroad tax free on condition that those would be invested in plant and equipment here to make them more competitive.

I think the suggestions regarding the Government's heavy hand on the industry have to be considered very carefully. In addition, the United Automobile Workers have a serious stake in this issue, obviously, and have to make some concessions.

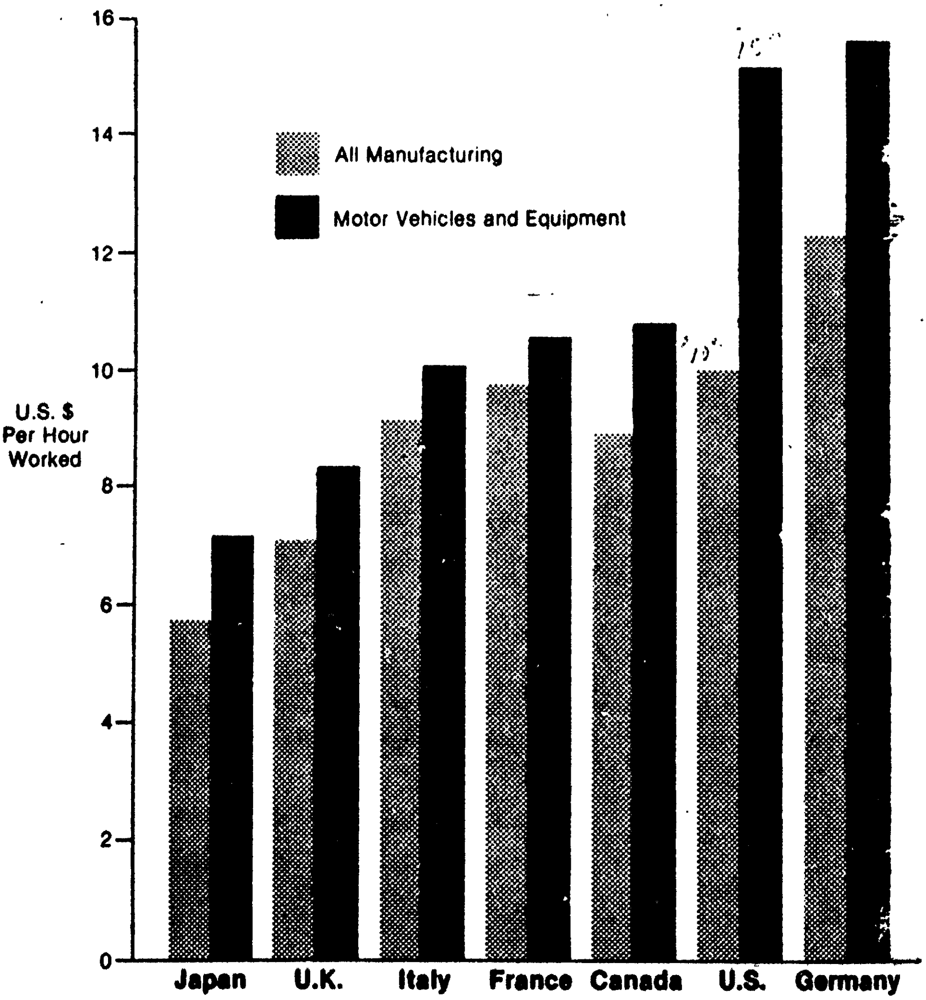
I would like to submit for the record the average worker compensation in 1980. This chart compares all manufacturing wage rates with wage rates of those involved in motor vehicles and equipment manufacture. It shows, as you indicated in your testimony, there is a disparity. There is a greater amount paid for automobile associated workers in all the automobile producing countries, whether it is Japan, the United Kingdom, Italy, Germany, wherever it is. But the disparity is greater in the United States than in any other country.

I don't think that it is going to be enough for the United Automobile Workers in this situation to say they are going to show restraint. They must go even further than that.

I submit this material for the record, Mr. Chairman.

[The chart referred to follows:]

Average Production Worker Compensation, Mid-Year 1980: All Manufacturing and Motor Vehicles and Equipment



Source: Bureau of Labor Statistics,
Office of Productivity and Technology, November 1980.

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Mr. SCHLOSSBERG. We would be interested in studying that.

Senator CHAFEE. The source is the Bureau of Labor Statistics, the Office of Productivity and Technology, November 1980.

Thank you very much, Mr. Chairman, and Mr. Schlossberg. I appreciated hearing your testimony.

Mr. SCHLOSSBERG. Thank you, Senator.

[The prepared statement of Mr. Fraser follows:]

**STATEMENT OF
DOUGLAS A. FRASER, PRESIDENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW
ON THE DOMESTIC AUTOMOBILE INDUSTRY
before the
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE**

January 14, 1981

My name is Douglas A. Fraser, President of the International Union, UAW. It is a privilege to appear before this Subcommittee on behalf of the 1.3 million members of the UAW.

First, I would like to take this opportunity to thank Senator Danforth for calling these hearings promptly. We in the UAW could not agree more that time is of the essence. The last thing the auto industry and its workers need is a further lengthy period spent studying the problems presently plaguing the industry. What is required are prompt actions. Such actions may not eliminate all the damage done to the industry, but they can minimize the extent of the permanent damage to the industry and its workers.

Auto Has Long Been a Bulwark of the U.S. Economy

The auto industry is easily one of the most important in the U.S. economy. In a good year, the auto industry, its suppliers and its dealers employ about 1.5 million people. On average, every job in auto creates between two and three additional jobs in steel, rubber, glass, textiles and other industries. To give you some idea of the ties, it has been estimated that the automobile industry directly uses 20 to 25 percent of all the steel consumed in the United States, more than 50 percent of the malleable iron produced here, 33 percent of the zinc, 17 percent of the aluminum, 13 percent of the copper and nearly 60 percent of the synthetic rubber.

The significance of automobile production to the U.S. economy goes far beyond its direct and indirect employment contribution. The industry has a long, impressive record of excellent productivity growth. Over the last 20 years, auto workers' productivity has increased at a 3.5 percent annual rate, far outdistancing productivity growth in the entire private economy and in the overall manufacturing sector. These substantial increases in yearly output per worker came on top of already high levels of absolute productivity and technical knowhow. While it's difficult to obtain hard data for every country, all the evidence we have seen shows that the U.S. automotive industry continues to be the most productive in the world.

The Devastated State of the U.S. Auto Industry

But for nearly two years now, the U.S. automobile industry has been in wretched condition. Plummeting sales, dealer bankruptcies, plant closings, shift eliminations and tragic levels of unemployment all reflect its disastrous situation.

The plant closings and production cutbacks at Ford, Chrysler and GM are well known to those who follow the daily news: Ford's Mahwah, N.J. plant closed with a loss of 4,000 jobs; Pico Rivera, California closed — 2,000 jobs; Michigan Casting's announced closing — 5,000 jobs. Chrysler's Fostoria, Ohio plant — 1,300 jobs, Hamtramck Assembly — 5,000 jobs; Fenton, Missouri — 2,200 jobs. GM's Lordstown, Ohio and Southgate, California plants — down until April, idling 8,000 workers. The full list would fill pages. Including suppliers, nearly 125 automotive facilities closed their doors in 1980.

Reductions in the number of scheduled shifts at Ford plants in Wixom, Michigan and St. Louis, Missouri plants; Chrysler's plants in Trenton, Michigan and Twinsburg, Ohio; and GM plants in Norwood, Ohio and Baltimore, Maryland have added still more thousands to the ranks of the unemployed. And that's just a sample.

Among the major auto manufacturers, indefinite layoffs have hovered around the 200,000 mark for more than a year. Temporary layoffs have been swinging wildly up and down as the industry attempts to make adjustments to a market constantly fluctuating between bad and terrible.

Unemployment in parts supplier companies is staggering. Nearly 50 percent of the workers we represent at Eaton Corporation are laid off. Nearly one-quarter of our membership at Eltra Corporation, and more than one-quarter of our members at Dana Corporation are also laid off. Fifty percent of the McQuay-Norris workers in that company's St. Louis plant are without jobs; in fact, half of the members we represent in that company are on the street.

The economic damage done to workers who have lost their jobs due to the current problems of the auto industry are readily perceived. But the non-economic, personal consequences of unemployment are sometimes less obvious. The work of Dr. Harvey Brenner has made clear that unemployment is closely associated with physical and mental illness. Dr. Brenner has found that each one percent increase in joblessness in the national economy is associated with the following health consequences: 38,886 deaths; 20,240 cardiovascular failures; 494 cases of death from cirrhosis of the liver as a result of alcoholism; and 920 suicides. Consider what this means. There are today some 825,000 U.S. workers out of jobs directly or indirectly due to the crisis in auto; following Brenner, about 32,000 persons will die because of that.

Every state in which the auto industry has significant operations is experiencing substantial total unemployment. There are 524,000 unemployed in Michigan, 425,000 in Ohio, 493,000 in Illinois, 549,000 in New York, 400,000 in Pennsylvania and 162,000 in Missouri. In every case, auto-related unemployment accounts for much of the total.

The auto manufacturers are incurring unprecedented losses. Big Three losses on North American operations are expected to exceed $5 billion for 1980. Chrysler is in danger of bankruptcy, and a number of parts suppliers are in serious difficulty.

These losses could not have come at a worse time for the industry, which needs unprecedented resources to continue the retooling program for the new lines of more fuel-efficient vehicles on which the future of the industry depends. The magnitude of the losses has already caused several of the companies to cut back on planned capital expenditures. If the torrent of red ink continues into 1981, the industry's $80 billion restructuring program will be threatened.

There is no reason for optimism in the near term. Even perennial optimists in the industry predict only a small increase in 1981 sales over the depressed 1980 figures, and even that recovery is not expected until fall. Even assuming no further increase in the import share, we estimate that such a weak recovery will increase auto employment by at most 50,000 or so. This means that the bulk of the Big Four and supplier firm workers who have lost their jobs face the bleak prospect of continued long term suffering. Virtually all of these workers have already exhausted statutory benefits or will exhaust them long before they are recalled. In Michigan alone, 214,000 persons exhausted their extended benefits in 1980, and Michigan Employment Security Commission officials report that exhaustions are now running at the rate of 20,000 per month.

In 1980 the beleaguered U.S. auto makers suffered their worst sales year since 1961. In contrast, the imports continued to raise their share of the wide open U.S. market. During 1980, imports gobbled up a record 27 percent of the U.S. market, a full 5 percentage points above the 22 percent share they captured in 1979, and sharply higher than the 18 percent they took in 1978. The surge in imports from Japan more than accounted for the total 1979-80 increase. During 1980, the Japanese share of the U.S. car market skyrocketed to an unprecedented 21.3 percent, compared to 16.6 percent in 1979 and 12.2 percent in 1978.

In light trucks, the situation was about the same. Soaring imports (all but one percent from Japan) captured 19.4 percent of the U.S. light truck market during 1980, versus 13 percent in 1979 and just 8 percent in 1978.

The outlook is for even greater Japanese penetration in 1981 unless something is done. The Japanese auto industry continues its relentless expansion. Overall vehicle production in 1980 totaled 11.3 million and for the first time exceeded U.S. motor vehicle production which amounted to only 8.1 million. By 1982 Japanese capacity is predicted to rise to an incredible 13 million units. Confronted with flagging domestic sales, Japanese producers will undoubtedly continue their longstanding practice of exporting virtually all these additional vehicles. The probability that the European Community will take some action early this year to further limit Japanese imports into those nations makes it all the more likely that Japan will try to ship an even greater number of vehicles to the U.S. in 1981. The U.S. cannot afford to be the lone sitting duck target for Japan's aggressive auto export efforts. Strong government—to-government action is clearly required.

Actions Needed Now

Import Relief

The most important immediate action needed is to obtain temporary import relief. Such relief, in our view, should take the form of an orderly marketing agreement with the Japanese. Some have said that such action should not be taken in view of the International Trade Commission's recent decision. Let me say a few words about that.

First, two of the five commissioners voted in favor of some form of relief. We were shocked and dismayed at the reasoning employed by the three commissioners who voted against temporary relief, especially since four of the five commissioners made it abundantly clear that imports were in fact causing injury. While two of them (Commissioners Moore and Bedell) felt that we easily met the "substantial cause" requirements of the 201 statute, the other three did not see it that way.

However, in a postscript to his analysis of the case, Commissioner Calhoun made it quite clear that imports were indeed playing a major role in the current difficulties in the U.S. market. He called them " a significant thorn in the industry's side," and went on to add that the depressed state of the U.S. auto industry was being "grossly exacerbated by the increase in imports." He expressed his distress that just when the U.S. automotive industry "was experiencing clear and significant troubles, certain foreign automobile manufacturers appreciably expanded their sales in this market." Finally, Calhoun expressed disappointment that, in his view, the overly restrictive language of Section 201 "fail, in this case to protect our auto industry from excesses at the hands of these manufacturers."

I hope you will agree that Congress should not stand idly by and allow the auto industry to go down the tubes because of the inordinate restrictiveness of the escape clause language.

Why Japanese Export Restraint?

Japanese export restraint is needed in the short term to provide the American industry with the breathing space it needs in order to retool and recover from the ills that have afflicted it in the last couple of years. Starting from a sales mix with only 37 percent small cars in 1978, the U.S.-based auto makers are working toward a 1983 model run with 70 percent small cars, two-thirds of them with front wheel drive and city fuel economy exceeding 30 mpg. Continued unbridled expansion of the import share threatens this remarkable five-year transition program.

Opponents of temporary import relief have suggested that restraints would lead to a significant increase in U.S. gasoline consumption. We have estimated that restricting Japanese imports to 1977 levels, for example, would increase U.S. oil use by less than one-tenth of one percent. Apparently it is not widely known, but many of the foreign models sold in the U.S. have lower EPA mileage ratings than many U.S. cars.

Some have expressed the fear that actions to restrict imports from Japan would lead to retaliation. We don't think so. Restraint would not significantly increase the Japanese unemployment rate, which was an enviable 2.0 percent in the fourth quarter of 1980 at a time when the U.S. rate was 7.5 percent. Indeed, a reduction in exports to the U.S. might simply lead to reduced use of overtime work, now running 12-14 hours per week in Japan. The Japanese have shown every willingness to accept restrictions on their exports to other nations without retaliating.

Other Actions

There are several other steps that we ask Congress to consider, steps which would provide immediate aid to the beleaguered auto industry.

First, something must be done about monetary policy. The health of the auto industry depends on the availability of an adequate supply of credit at reasonable rates of interest. The excessive use of monetary policy to fight inflation has made the auto industry's already bad situation even worse. Auto sales had begun to recover in the July-November period as interest rates came down from the peak of May 1980; but the recent rise in short term rates has sent them tumbling back again to the levels of last spring.

While the restructuring of credit and the racheting up of interest rates to prohibitively high levels has decimated the auto industry, it has had little if any effect on the rate of inflation. Indeed, in the long run, tight money sows the seeds of more inflation. By discouraging investment, high interest rates postpone the creation of new productive capacity. And by choking off demand, existing capacity is idled; obviously, that has a devastating effect on current productivity as well as the investment plans which are the basis for future productivity gains.

Second, the government should help stimulate new car sales and promote the replacement of older, less fuel-efficient vehicles. We support a tax credit which would, in effect, reduce the purchase price of a domestically produced new car. To qualify for the tax credit, it would be necessary to trade in a used car which had been owned for a year or more for one whose fuel economy was at least 6 mpg greater. The credit could be a fixed amount — say, $300 or $500 — or it could be related to the mpg differential — say, $50 or $100 per mpg.

One can structure such a credit so that it benefits our industry without violating international trade rules. Congressman Brodhead, for example, has introduced a bill that extends a credit on the purchase of a new car from any company whose corporate average fuel economy rose more than 20 percent between 1975 and 1979.

Third, we call for a scrappage bounty to speed up the retirement of the oldest cars. Besides wasting fuel and dirtying the air, the 23 million cars 10 or more years old keep the used car market depressed, which cuts trade-in values and hence makes new cars more difficult to afford.

The 107 million passenger cars now registered in the U.S. include a substantial and growing number of older, low-mpg autos. In 1970, the average car was 5.55 years old, and only 30 percent were 7 or more years old. Today, the average age is 6.75 years, and 43 percent are 7 years or older.

These older cars are untouched by public policy, except to the extent that allowing fuel prices to rise depresses their trade-in values and hence encourages their continued use. Emissions inspection/maintenance programs, for example, typically exempt cars eight or more years old, judging them to be prohibitively expensive to repair to compliance levels, despite the fact that they may be responsible for an absolute majority of mobile source pollutants.

Simple arithmetic makes it clear that (at 15,000 miles per year) to match the fuel savings of replacing an old 12 mpg car with an 18 mpg one, an 18 mpg car would have to be replaced by one that achieves fully 36 mpg!* Not even counting air quality and safety gains, it seems fair to say that society would be better off putting more of its resources into scrapping the oldest cars and less into worrying about the mileage of new ones, a worry sometimes used to argue against limiting imports.

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* At 18 miles per gallon, it takes 833 gallons to drive 15,000 miles; at 12 miles per gallon it takes 1,250 gallons. Thus the 18 mpg car saves 417 gallons, as compared with the 12 mpg car. To save an additional 417 gallons, i.e. to cut the use to 416 gallons, a 36 mpg car is needed (15,000 divided by 416 = 36).

Based on current used car prices, it is our estimate that, for each $1 billion in "bounty," the U.S. government could induce some three to four million Americans to turn in cars for early scrappage. Most of the people who turn in those scrap cars, of course, would not be able to afford a new car. But they would buy a better used car; and as the process worked its way up through the market, sales of new cars ultimately would be stimulated. Not only would the most fuel-thirsty cars be off the road, but a large part of the cost of such a scrappage program could be offset by the value of the steel scrap and other recyclable materials recovered from the cars turned in. Much if not all of the rest could be offset by the savings in unemployment insurance, welfare and TRA now going to laid-off auto workers and by taxes paid by companies returned to profitability.

Fourth, Congress should consider a number of initiatives to improve the present worker adjustment assistance program. Greater prominence and more budget resources should be committed to nonpayment aspects: employment services, training, job search, and relocation. In particular, the underfunding of these aspects of the program — which has caused a suspension of most non-payment provisions under the program since last spring — should be corrected immediately. According to the Michigan Employment Security Commission, a survey of Chrysler TRA recipients indicated that 78 percent were interested in retraining and 38 percent would be willing to relocate for a job. Unfortunately, the government lacked either the funds or the willingness to develop programs to accomplish this.

A number of other actions should be taken on TRA. The trade-monitoring provisions of the current Act should be implemented to provide an early warning system to sectors of the economy where increased import penetration can be expected. Early certification should be permitted before a plant is closed. Furthermore, health, life, and pension benefit protection should also be available to provide the laid off worker's family with basic economic security.

Finally, one glaring loophole in the program must be corrected. As presently structured, the program now unfairly excludes workers in supplier industries. In virtually all cases in which import injury is found for the finished product, suppliers and component part manufacturers are denied relief because the product of their company, a part, does not directly compete with the imported finished product. As a result, the present program arbitrarily excludes an entire segment of the American work force, even though increased imports caused their unemployment.

Lastly, the auto industry needs special help to raise the enormous amounts of capital it needs to survive in the future. In part, the difficulty of the transition to the new era results from government policies: the failure to protect the industry from unbridled imports, lack of a consistent and comprehensive energy policy, some regulatory mandates as important and desirable as they may be. We hope that now, with the industry's capital needs so great, government will step in and assist in the financing of the transition. We suggest that auto companies and parts suppliers be given an extra 10-20 percent investment tax credit for those investments used to produce cars and light trucks that (1) achieve at least 5 mpg over the current year's average fuel economy requirement, and (2) are produced in existing facilities. Our logic should be plain: auto needs help, but public aid should be rewarded by social gains — in this case, fuel saving and reduced expenses for maintaining victims of plant closings.

<u>Costs of Inaction</u>

Some have argued that it is costly to limit imports and to prop up the domestic industry. We argue that — with high-mileage domestic small cars now available — the cost is not nearly as high as that of <u>not</u> saving the auto sector.

Consider the costs of inaction. First, there are staggering losses in corporate tax revenues at all levels of governments. For example, in 1978, the Big Three paid some $2.5 billion in federal income taxes alone. The Big Three's 1980 losses will make them eligible for some $3 billion in credits and refunds — a swing of over $5 billion in federal tax receipts.

Second, the difference between a healthy and a sick auto industry in government-financed unemployment insurance, welfare, TRA, food stamps, and foregone personal income tax receipts comes to about $6 billion.

Compared to these public sector losses of some $11 billion for a year such as 1980, not to mention the immeasurable cost in human suffering, the cost of our proposals to temporarily limit imported cars and to provide tax credits and scrappage bounties is small.

Local Content Legislation Needed for the Long Term

For the long term, a local content requirement is needed to solve the auto trade problem. Such content legislation should require that, by 1985, all production-compatible vehicles with yearly sales in excess of 200,000 units contain at least 75 percent domestic content. Local content requirements tied to sales volume should be phased in beginning with the 1982 model year.

The UAW believes that each company has an obligation to generate employment in those countries in which it has substantial sales volume. Sales in North America by VW, Toyota, Nissan, and Honda have long since reached a level at which full scale assembly can be efficiently accomplished here. Of these, only VW has significant local content today.*

Substantial local content cannot be implemented overnight. But the timetable carried out by Volkswagen over the last few years can serve as a clear example for others. VW began production in 1978, less than two years after the initial commitment to do so. Now, in addition to its assembly plant in Pennsylvania, it has a stamping plant in West Virginia and a new multi-plant complex in Texas. It is about to open a second assembly plant in Sterling Heights, Michigan. Currently, the North American content of VW Rabbits is approaching 70 percent.

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* Honda has announced it will operate a small car assembly operation in Ohio by 1982, and Nissan has announced production of small trucks in Tennessee within a couple of years.

Domestic content requirements, which are a key ingredient of the automotive policy of many other countries, are already part of two U.S. laws that affect the U.S. auto companies. First, the Corporate Average Fuel Economy (CAFE) requirements of the 1975 Energy Policy and Conservation Act include such a provision. For CAFE standards, models sold in the U.S. with less than 75 percent domestic content must be averaged separately from those with more than 75 percent content. This has served in the past to reduce the incentive for U.S. auto companies to ship more small cars and parts here from their overseas operations, and has brought about faster domestic conversion to production of more fuel-efficient vehicles.

Second, the Automotive Products Trade Act of 1965 also contains a content provision. It permits zero tariffs on vehicles, parts, and materials when at least 50 percent of their value is derived from domestic 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.

A local content law is clearly superior to long term measures which simply limit imports. The competition among the world's auto companies to provide the American consumer with a wide variety of innovative products built with the most efficient technologies available would be retained. The U.S. producers would continue to be pressured by the discipline of the design and engineering innovations of foreign-based manufacturers. Local content requirements would lead to increased investment in our country and a sizable increase in jobs. Such jobs would be not only in motor vehicle assembly, but throughout the many industries which supply the auto industry.

In short, if the industry is given the help it needs in its present period of crisis, all will gain: consumers, workers, shareholders, government. If the needed help is withheld, the industry will suffer permanent damage and the consequences will be felt throughout the economy.

On behalf of the UAW, I want to thank you for the opportunity to share with this Subcommittee our views on major issues facing the automobile industry and our nation.

Senator DANFORTH. The next witness is Adlai Stevenson.

Senator Stevenson, welcome back. It seems like only yesterday. We have your entire statement, which will of course be included in the record in full. If you could summarize your statement, it would be appreciated.

STATEMENT OF ADLAI E. STEVENSON

Mr. STEVENSON. Thank you, Mr. Chairman.

I am delighted to be back. I, of course, appear in my incarnation as a private citizen and attorney, but I am here representing no interest, except the public interest as I see it.

I will submit my statement for your record, and attempt to summarize.

I appear here, Mr. Chairman, and I am very grateful to you for the opportunity, because of the concerns we all share about the condition of this industry. While I was a member of the Senate I spent quite a few years concerned with industrial policy generally, and the condition of certain sectors in particular, including the automobile industry.

The difficulties of that industry should be viewed in the context of an industry undergoing dramatic, worldwide restructuring. As energy costs in the United States rise to world market levels, the distinction between domestic and foreign production fades. Detroit is now faced at home with head-to-head competition from cars designed in Europe and Japan.

These competitive pressures are going to be further exacerbated by the growing demands of developing countries for a share of the motor vehicle market. Brazil is already a net exporter of cars. These trends are giving rise to the "world car"—small, standardized vehicles sourced and assembled all over the world wherever the costs are lowest. GM's new J car will be built in the United States, Germany, Britain, Japan, Brazil, South Africa, Spain, and Australia. The same thing can be said for the Ford Escort.

In a new, fiercely competitive world market, only very large, well financed, multinational companies can survive. About 30 auto companies now compete internationally. By the late 1980's there may be as few as 10 companies or consortia.

These trends have direct and inescapable consequences for domestic auto employment. The U.S. industry will never again reach the peak registered in 1978, when over 1 million workers were involved in the production of automobiles. Even if domestic sales rebound from current recessionary levels, and show a growth throughout the rest of this decade, U.S. auto employment will shrink.

As auto makers retool, they are building significantly higher productivity into auto plants, and the plants, as I mentioned, are located the world over. These productivity gains come about in part through vastly increased use of advanced manufacturing procedures, and the new generation of sophisticated reprogramable robots.

I am told that a Nissan plant in Japan, which produces a high-quality, fuel-efficient automobile, the Datsun, employs about 87 production line workers to produce 1,300 of those vehicles each day. The U.S. industry cannot meet this competition without moving substantially in the same direction, and in a very few years. This means the loss of hundreds of thousands of jobs in the industry by the end of the decade.

Acknowledgment of these trends and their irreversibility has been conspicuously absent in the United States. We debated a $1.5 billion bailout for Chrysler on the basis of how many jobs could be saved. Resolutions to curb auto imports are supported by the UAW as a means of boosting auto employment. Yet the inescapable fact is that policies geared to short-term job preservation undermine long-term competitiveness.

You mentioned trade adjustment assistance. It is an expensive and ineffective program. Its costs are skyrocketing. It has done very little to promote retraining and relocation, and nothing to retrain and relocate auto workers—of whom some 300,000 have now been certified for TAA benefits.

That program should be changed. The benefits, which added to sub pay and regular unemployment benefits can approximate the full wage of the worker, provide no incentive to seek different employment. Trade adjustment assistance should be conditioned on the retraining and relocation.

Adjustment assistance could also take the form of tax incentives to employers, as in Belgium, for the retraining and the reemployment of structurally unemployed workers. It is a far more efficient system, as I believe the experience in Belgium proves.

Antitrust policy should be reexamined. The European and Japanese firms pool technologies and engage in joint research efforts. We should be doing many of the same things, and at present our companies are effectively prevented from doing so.

A domestic industry structured around two giant, highly competitive companies, with stiff competition from imports may not be undesirable from the standpoint of range of choices offered American consumers at competitive prices and maximal domestic employment. Let's face it, the failure of Chrysler would aid Ford and GM.

These issues have to be faced. The attempt to prop up Chrysler, just because there has always been a Chrysler, is proving futile. The $1.5 billion invested in this effort could have helped smooth a Chrysler reorganization in bankruptcy, enabling companies such as Ford, AMC, or foreign investors to acquire and adapt viable Chrysler assets. It could have been used to assist displaced workers, to begin facilitating the adjustment process which long-term trends in the industry make inevitable.

I mentioned regulatory reform, including the use of tax and other incentives rather than command and control regulatory standards or absolute targets. I also mention in the prepared statement that our automotive technology is as advanced as any in the world, but cooperative research efforts in Europe, and the advanced use of robotics in Japan are presenting Detroit with very stiff challenges.

Although Detroit is investing massively in its conversion to small-car production, it may not be engaged in a long-range strategic effort to leapfrog the competition. Restored competitiveness demands more than parity. It will not be achieved if Detroit contents itself with production plans for 1985 which only endeavor to match the quality and fuel efficiency of 1981 Japanese and German models and the productivity of their assembly plants.

If, Mr. Chairman, the industry is unable to finance strategic investment plans, it should be assisted, but not by trade protection, disguised subsidies, or other indirect and inefficient forms of assistance. Aid to industry should be granted overtly. It should be clearly tied to a viable investment strategy, including plant modernization, industry restructuring, labor agreements, and management changes.

In my opinion, the most equitable and effective means of improving the auto industry's cash flow would be to make investment tax credits refundable. Another approach would be, in lieu of arbitrary fuel-efficiency standards, to offer tax credits for incremental fuel-economy improvements above a base level. This would aid cash flow, provide the industry with additional stimulus for desirable energy conserving improvements, and enhance international competitiveness.

An industrial development bank along the lines I proposed in the last Congress could provide a mechanism for systematic review of industry capital requirements, and deal with the adjustment problems of mature industries, including the automotive industry. It could aid that industry in the cooperative development of prototype fuel-efficient cars, or in technologies for regulatory compliance.

This proposal is available as a means of helping the industry acquire the necessary capital at reasonable interest rates when that capital is not available in the market. But it contrasts markedly with the many other proposals for what I call the bailout machines.

Finally, Mr. Chairman, and I apologize for not having done a better job of condensing, but with your indulgence I would like to add a word about that last debate we had in the Senate, in which Senator Chafee was my ally. I would like to conclude by commenting on the recurrent efforts to make scapegoats of the Japanese, and to blame the U.S. industry's difficulties on auto imports.

Sales of imported cars in 1980 showed almost no increase over the previous year's levels. There is no evidence of a surge in foreign imports. Indeed, recent sales data show Detroit's new models doing very well in head-to-head competition with Japanese small cars.

There is no assurance that a cutback in imports would enhance the auto industry's competitiveness. On the contrary, trade protection reduces the industry's incentive to improve quality, to trim production costs, and to moderate wage increases.

In addition, the price we pay for import protection is very high. The Congressional Budget Office has made some of the calculations which you requested of the UAW witnesses. There are estimates now of what it costs, with varying scenarios, to preserve jobs, and that cost is high.

Import protection for the U.S. auto industry invites a parade of requests for similar protection from other industries. It forces a reshuffling of trade in the world. Increased profits for Detroit only come at the expense of profits for other more efficient U.S. producers and their employees. American agriculture would be one of the principal victims of a protectionist policy.

Finally, Mr. Chairman, I think there is a great deal that can be done to help this industry, but basically we are going to have to learn in this country to do a better job of adjusting to change, instead of resisting it, of recognizing long-term economic imperatives, instead of yielding to the short-term political expediencies. We are going to have to invest for the future, and not the past, resist the temptation to embalm the status quo, and develop a new flexibility in our economy, to enable us to compete.

Instead of protecting ourselves from foreign competition, we are going to have to, through a variety of new measures, I believe, go all out to meet that competition. I know you agree with that basic proposition.

Thank you, sir.

Senator DANFORTH. Thank you, Senator Stevenson. Your comments were very well put and I certainly would agree with your basic proposition. I think the question is, however, what effect will it have not only short term but long term for the American automobile industry to be seriously crippled.

Do we have a short-term emergency which it is in the best interest of the United States to survive. If we have a short-term emergency, can we afford to deal with it with purely long-term solutions. What would be your answer to that?

Mr. STEVENSON. We clearly do have a short-term emergency, and that emergency is spreading from one industry to the next. The short-term expediencies for one industry, quickly become short-term expediencies for another industry, and a prescription over a time for economic disaster.

Our choice is between the British route, or something a little closer to the Japanese route. I think that you have to do both, Mr. Chairman. Invest for the long term, but also offer help for the short term, and there is a great deal that we could be doing to help this industry positively.

We in Government have done a great deal to injure the industry. The cheap fuel policy is one example. I think that probably nothing would help the industry more than the failure of Chrysler, and yet we are subsidizing that geriatric at the expense of Ford, and of General Motors.

We should let the market work where it can, and then move in with the refundable tax credit, for example, the assistance for automobile technology, capital through an industrial development bank if necessary also, the trade adjustment assistance I mentioned, all of these offer help for the short and the long term. But I don't think import protection will help, and it will do a lot of harm to the economy.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator Stevenson, I thought the statement you made was a splendid one. I know you have done a great deal of work on this matter.

Let me ask you a question. I was depressed when you stated that the attempts of our manufacturers to get together on research was unsuccessful. The Justice Department advised them that such action would be contrary to the Sherman Act, the restraint of trade.

What would we have to do to change that? Would we need to enact a specific law here, in your judgment, to permit the collaboration of our major companies, GM and Ford, for example, or Chrysler, to collaborate in research?

Mr. STEVENSON. First, Senator Chafee, our attitude toward antitrust is unique in the world. Ironically, in the name of competition, we frequently allow our antitrust laws to prevent U.S. firms from competing in the world. Other countries are organized for trade, and they do so by centralizing industry.

I think there are things that could be done which would benefit the consumer and improve our ability to compete in this very competitive world, without substantial changes in the basic antitrust laws. A couple of examples come to mind from the last Congress, one of which your chairman deserves the credit for.

We did find a way to amend the Sherman Act in the Trading Co. legislation, and largely as a result of Senator Danforth's efforts. The Webb-Pomerine Act offered a route in the Trading Co. legislation. In another act, the Technology Innovation Act of 1980, we achieved the same results without amending the law, by establishing new procedures. The procedures basically give companies assurance in advance that what they propose to do will not risk violating the antitrust laws and, therefore, prosecution.

With some certainty as to what the law does and does not permit, it is possible to go ahead. Indeed, this question arose during the last administration's effort to develop a cooperative automobile technology program.

The CARP program, which it adopted, and was approved by the Congress, will probably allow its participants immunity from the antitrust laws, not because of any change in the antitrust laws, but because of assurances that they receive before they go into the program. That is one procedural way of skinning the cat.

Senator CHAFEE. We had to do that by statute, though, didn't we?

Mr. STEVENSON. I don't think, and my recollection may be wrong, that we did do it by statute in the CARP case. We did attempt to do it by statute in the Trading Co. case, and in the so-called Stevenson-Wydler Technology Innovation Act.

Senator CHAFEE. Thank you very much. It is good to see you back.

Senator DANFORTH. Thank you.

Mr. STEVENSON. Thank you, gentlemen. It is good to be back.

[The prepared statement of Mr. Stevenson follows:]

PREPARED STATEMENT OF ADLAI E. STEVENSON

Mr. Chairman, I appear before this Distinguished Committee as a private citizen, with no interests to represent, except the public's as it sees it. The Gobal Competitiveness of U.S. Industry—and the Auto Industry in particular—were subjects of considerable interest and effort and some reponsiblity for me when I served in this body. So I am grateful for the chance to appear here and commend you for holding these hearings.

I particularly welcome the comprehensiveness of your approach. Past Congressional efforts to assist the auto industry have dealt with pieces of the problem, with symptoms instead of causes, and have produced, in my judgment, short-sighted, inadequate and ultimately counterproductive responses. Attention has been given to Chrysler's viability, fuel economy standards, safety requirements and trade issues, in turn, but Congress has failed thus far to address these issues in terms of the U.S. industry's long/term global competitiveness.

There is a great temptation to focus exclusively on the unprecedented current difficulties of the industry—with 200,000 laid off workers and corporate losses reaching $4 billion last year. Yet these difficulties must be viewed in the context of an industry undergoing dramatic restructuring worldwide. As energy costs in the U.S. rise to world market levels, the distinction between domestic and foreign production has faded, and Detroit has faced for the first time at home head-to-head competition with cars designed in Europe and Japan. The dramatic expansion of world auto production capacity has created tremendous competition in mature markets—such as the U.S. and Europe. These competitive pressures are further exacerbated by the growing demands of developing countries for a share of the motor vehicle market. Countries in the third world are pressing for "local content" requirements as a condition of allowing foreign car makers to do business within their borders. Many are developing auto export capacity. Brazil is already a net exporter of cars. Argentina, Mexico, South Korea, Israel and South Africa are expected to follow suit.

These trends have given rise to the "World Car", small, standardized vehicles which can be sourced and assembled all over the world, wherever costs are lowest. GM's new J car will be built in the U.S., Germany, Britain, Japan, Brazil, South Africa, Spain and Australia. Ford's Escort is sourced from eleven different countries.

In this fiercely competitive world market, only very large, well-financed, consolidated companies will survive. About thirty auto companies now compete internationally; by the late 1980's there may be as few as ten companies or consortia. Marginal firms throughout the world are being squeezed out of business or into mergers—Peugeot in France, Rootes in England, Chrylser and AMC here. Companies in every country are exploring collaborative research and a wide range of joint production, marketing and sales ventures. Renault, in addition to its stake in AMC, has pooled capital with Peugeot and Volvo to develop and produce a small engine. Nissan is producing with Alfa-Romeo in Italy. VW and Nissan have just announced plans for joint production in Japan.

These trends have direct and inescapable consequences for domestic auto employment. The U.S. industry will never again reach the peak registered in 1978, when over one million workers were involved in the production of automobiles. Although domestic sales are expected to rebound from current recessionary levels and show modest growth throughout the rest of the decade, U.S. auto employment will shrink. As automakers retool, they are building significantly higher productivity into plants, through vastly increased use of advanced manufacturing procedures and the new generation of sophisticated reprogrammable robots.

A prototype of Datsun plant in Japan—built, incidentally, as a model for direct investment in the U.S.—is manned by 67 workers. It produces 1,300 cars per day. The U.S. industry cannot meet this competition without moving substantially in the same direction, and in a very few years. This could mean, in the projections of some analysts, the loss of hundreds of thousands of jobs in the industry by the end of the decade.

Acknowledgment of these trends and their irreversibility has been conspicuously absent in the Congress. We debated a $1.5 billion bailout for Chrysler on the basis of how many jobs could be "saved". Resolutions to curb auto imports are supported by the UAW as a means of boosting auto employment. Yet the inescapable fact is that policies geared to short-term job preservation undermine long-term competitiveness. If U.S. auto makers do not shift to more advanced production and increased efficiency, they will continue to lose market share at home, and will be shut out of the fiercely competitive race for markets abroad.

I believe the Federal Government has a responsibility to acknowledge the long-term employment problem in the auto industry and to develop effective programs to ease the adjustment of workers affected by structural change. Our failure to do so breeds resistance to such change and increased pressures for protection, bailouts, subsidies and other short-term "fixes" with disastrous long-term consequences.

Economic growth and international competitiveness depend on productivity gains which come from the constant allocation of resources from declining to higher productivity industries, or to more efficient firms within an industry. The Government must facilitate, not block, this process of structural change. It must help displaced industrial workers find stable, high wage, long-term employment. It must span the economic diversification of depressed regions, enhancing the growth of new sectors and speeding the restructuring of old ones.

The existing trade adjustment assistance program and federal economic development activities are ineffective and inadequate. The costs of trade adjustment assistance have skyrocketed, but the program has done little to promote retraining and relocation. Instead, the evidence suggests the high level of TAA benefits acts as a disincentive to job seeking. Cash benefits should be conditioned on employment counseling and retraining. Adequate allowances for market relocation should be developed. And greater private sector involvement in retraining should be sought through the use of tax incentives.

Although over 300,000 auto industry workers have been certified for TAA, these workers have not been offered job counseling services or retraining opportunities. No attempts have been made to separate cyclical from structural layoffs in the auto industry and identify workers particularly receptive to alternative employment. Reform of the trade adjustment assistance program along these lines is urgently needed, and is perhaps the single most important thing this Congress could do to assist the auto industry, other basic industries and serve the long term economic interests of the nation.

Second, in my judgment, a major shift in antitrust policy is required. As European and Japanese firms increasingly pool technologies and engage in joint research efforts, U.S. producers cannot hope to remain competitive without greater latitude to do the same. Last year the European community gave enthusiastic approval to a cooperative research program involving six major European companies. Yet when Ford of Europe sought U.S. Justice Department clearance to participate in the program, it was denied. Such a decision will almost certainly undermine Ford's ability to compete in the highly important European market, but it is difficult to see how U.S. consumers, the ostensible objects of Justice Department concern, will benefit.

The Justice Department was similarly reluctant to allow an extremely modest joint research effort among U.S. companies proposed by the administration last year. As ultimately conceived, however, the CARP program was so small as to be of little practical utility—and hardly the equivalent of research support granted the auto industry in other countries.

Many aspects of the Federal Government's traditional approach to the auto industry—such as scrutiny of GM's market share vis-a-vis its domestic competitors—have to be rethought. The auto industry worldwide is undergoing major competitive realignments. Perhaps a domestic industry structured around two giant, highly competitive companies with stiff competition from imports is not undesirable from the standpoint of the range of choices offered American consumers at competitive prices and maximal domestic employment. Let's face it, the failure of Chrysler would aid Ford and GM.

Such issues must be faced. The attempt to prop up Chrysler just because there has always been a Chrysler, will ultimately prove futile. The $1.5 billion invested in this effort could have been far better spent. It could have helped smooth a Chrysler reorganization in bankruptcy, enabling companies such as Ford, AMC or foreign investors to acquire and adapt viable Chrysler assets. It could have been used to assist displaced workers, to begin facilitating the adjustment process which long-term trends in the industry make inevitable.

Auto production is at the core of the American economy, directly or indirectly employing one out of every five American workers. The Federal Government, as well as the industry, bears responsibility for long encouraging consumer demand for large, fuel-thirsty cars. It bears some responsibility for assisting the industry—but not with inflationary trade protection or futile bailouts.

It has a responsibility to ease the adjustment burdens of individual workers. It has a responsibility to minimize regulations and make these as cost-effective as possible. It has a responsibility to provide a climate of regulatory certainty and to work cooperatively with the industry in devising standards.

The use of economic incentives and penalties should be explored as an alternative to "command and control" regulatory standards. Absolute targets give the industry little incentive to try to exceed regulatory requirements. Especially with respect to auto fuel economy, tax credits linked to incremental fuel economy improvements above a base level could serve a number of objectives.

At present, U.S. automotive technology is as advanced as any in the world, but cooperative research efforts in Europe and the advanced use of robotics in Japan are presenting Detroit with stiff challenges. Moreover, competitors such as Volkswagen, forty percent owned by the West German Government, can afford to embark on long-range product developments, such as the highly successful, fuel-efficient Rabbit, which was underwritten by the Government in the early 1970s, at a time when such a car was commercially infeasible.

Although Detroit is investing massively in its conversion to small car production—$80 billion by 1985—I am concerned by indications that the industry is not engaged in a long-range, strategic effort to leap frog the competition. Restored competitiveness demands more than parity. It will not be achieved if Detroit contents itself with production plans for 1985 which only endeavor to match the quality and fuel efficiency of 1981 Japanese and German models and the productivity of their 1981 assembly plants.

If the industry is unable to finance strategic investment plans, I believe it should be assisted, but not by trade protection, disguised subsidies, or other indirect and inefficient forms of assistance. Aid to industry should be granted overtly. It should be clearly tied to a viable investment strategy, including plant modernization, industry restructuring, labor agreements and management changes. The taxpayer has no obligation to provide ailing firms with working capital or to finance overseas investments. If the public is to grant assistance, the public is entitled to industry and labor commitments to productivity improvements and wage restraint.

In my opinion, the most equitable and effective means of improving the auto industry's cash flow would be to make the investment tax credit refundable. This could generate hundreds of millions of dollars for domestic producers currently operating at a loss and specifically would give Ford a boost vis-a-vis GM. Other basic industries in need of modernization and now penalized by a policy which discriminates in favor of industries which are profitable, would also benefit.

In lieu of arbitrary fuel efficiency standards, tax credits should be offered for incremental fuel economy improvements above a base level. This would aid cash flow, provide the industry with additional stimulus for socially desirable energy-conserving improvements and enhance international competitiveness.

Ultimately, the issue is to ensure that federal assistance serves to promote the industry's long term competitiveness, and not simply to shield lethargic corporations and powerful unions from the unpleasant changes required to adapt and compete in a highly competitive world.

In the last Congress I introduced legislation to establish an industrial development bank, to provide a mechanism for systematic review of industry capital requirements and deal with the adjustment problems of mature industries. The legislation is carefully drafted to preclude aid to uncompetitive firms. Assistance is restricted to support for the development of new technologies and innovative production strategies which offer a basis for long term competitiveness. The bank's independent board is given a specific mandate to promote industry restructuring and adjustment. IDB loan guarantees, for example, could be used to help fast-growing "minimills" purchase and retrofit the assets of unprofitable integrated steel plants. It could have helped Ford or AMC acquire and adapt Chrysler's productive assets smoothly. It could aid the U.S. auto industry in the cooperative development of prototype fuel-efficient cars, or in technologies for regulatory compliance. This proposal is available as a means of helping the industry acquire necessary capital at reasonable interest rates when that is not available in the market, but it contrasts markedly with the many proposals for "bailout machines."

Finally, I want to comment on recurrent efforts to make scapegoats of the Japanese and to blame the U.S. industry's difficulties on auto imports. Sales of imported cars in 1980 showed almost no increase over the previous year's levels. There is no evidence of a "surge in foreign imports; indeed, recent sales data show Detroit's new models doing very well in head to head competition with foreign compact and subcompact cars.

The recent recession, high interest rates, high wages, and rapidly escalating new car prices are the real culprits complicating Detroit's big shift to production of the small, fuel-efficient cars that American consumers want.

There is no assurance that a cutback in imports would enhance the U.S. auto industry's competitiveness. Indeed, trade protection would reduce the industry's incentive to improve quality, trim production costs, and moderate wage increases.

Proponents of auto import protection show little comprehension of the complicated interdependence of the U.S., European and Japanese economies. The Japanese must export to finance near total dependence on imported food, oil, and raw materials. Lost auto export revenues would be made up elsewhere, through reduced imports of U.S. agricultural products (Japan is our single largest customer), expansion of other Japanese exports to the U.S., or perhaps most likely, greater competition for our exports in European and other markets. The U.S. export surplus with Europe this year will equal our deficit with Japan. Import protection for the U.S. auto industry would simply force a reshuffling of trade, and any increased profits for Detroit would come at the expense of other, more efficient U.S. producers and their employees.

Our approach to the auto industry bears disturbing resemblance to our policies toward the steel industry—which last September won an election year package of import protection, tax breaks on investment, and regulatory concessions—while unpleasant questions about the roots of the industry's competitive problems, including high wages, weak management, and insufficient R&D, were avoided.

Our steel policy serves to subsidize inefficient producers and penalize the efficient. It also guarantees increased costs and diminished competitiveness in world markets for users of steel, including the already depressed auto industry.

The list of protected and subsidized industries in this country is growing larger, locking the country into an unproductive economic structure, fueling inflation, and building in high levels of unemployment.

The Nation cannot afford to continue this course, subordinating long range economic imperatives to short range political expediencies. More pragmatic nations, such as West Germany and Japan, develop ways to unite the strengths of government and the marketplace. We emulate the British, combining their weaknesses, overregulating some parts of the economy and undersupporting others.

The central problem for the U.S. in the coming years has to do not with "reindustrialization" or revitalization of an aging economic structure, but with restoring flexibility to the economy. The Government must facilitate, not block, structural change. It must help displaced industrial workers find stable, high wage employment—not support them in the futile expectation of returning to the same jobs. It must spur the economic diversification of depressed regions, enhancing the growth of new sectors and speeding the restructuring of old ones.

We must recognize that U.S. industry cannot win against the government supported industries of foreign nations without effective assistance and coherent policies from its own government. It is not enough to get government off the back of industry—or industry on the back of government. Neither laissez-faire nor government planning guarantees resources allocated wisely, or in the magnitudes required to meet the competition from more pragmatic nations.

Our reluctance as a nation to evolve our own pragmatic ways of using government to ease sectoral transitions and promote industrial development leaves us vulnerable to political pressures for protection, ad hoc bailouts, and inefficient, inflationary forms of assistance to industry which constitute short-sighted formulae for long term economic decline. We must resist these pressures to bail out geriatrics, penalizing success, and utilize the great strengths of this country, investing in the future instead of the past.

Senator DANFORTH. The next witness is Rudy Oswald, director, department of economic research, AFL-CIO.

STATEMENT OF RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO

Mr. OSWALD. Thank you, Mr. Chairman.

Accompanying me this morning is Mrs. Elizabeth Jager, an economist in the research department of the AFL-CIO. I ask that my entire testimony be made a part of the record.

We welcome the subcommittee's prompt attention to this issue, which we think is of serious concern to all Americans, and we think that it is one that needs to be urgently undertaken by the Congress.

The automobile industry has, in the broad sense, lost nearly 1 million jobs over the last few years as a result of the economic injury that comes primarily from the impact of imports, but also is affected by such other factors that you have discussed, the energy crunch, high interest rates, and the general economic recession.

Often the discussion has been concentrated on the basic, primary auto industry. Yet the auto industry goes well beyond those few firms, Ford, General Motors, and Chrysler.

During the past 2-year period there has been a loss of 141,000 jobs in the primary metal industry, 36,000 in the automotive stamping industry, 26,000 in tire and innertubes, and the situation continues to worsen for many of these workers. The parts situation is affected as heavily as the primary automobile industry.

The last year, 1980, was the worst year since 1961 for U.S. automakers. Sales plunged 20 percent in 1979, and imports captured a record 27 percent of the U.S. market. In 1980, Japan produced 11 million cars, trucks, and buses, or one-third more than the United States.

The impact is not only in Detroit, but throughout the country, not only in terms of the auto industry, but in terms of the total community. The people who are unemployed are no longer taxpayers. They are now unemployment compensation beneficiaries, and soon they will be welfare recipients. They have lost their job, and often their sense of dignity.

As an example of the impact spreading through the rest of the communities, the State of Michigan recently was forced to furlough 1,800 State employees because of the State's drop of $250 million in revenue. That revenue drop is directly related to the auto problem.

There has been a substantial increase during the last 4 years of car imports. They have risen by 60 percent, from 1.5 million units in 1976 to 2.4 million units in 1980. But even more astounding and shocking is the increase in auto parts which have risen by 122 percent between 1975 and 1979, the most recent year for which data are fully available. During that time period, the increase was from $4.5 billion to $10.1 billion, or an increase of 122 percent in the import of auto parts.

While we believe that dealing with imports is the primary methodology to take care of the short-term serious problems in the auto industry, we are not saying that there is no need for alternative proposals to aid the auto industry. Such measures as accelerated depreciation, easing of governmental regulations, that are specifically pinpointed to the specific targets of that industry and its related branches and not only to the basic three companies are important.

When we talk about limiting imports, we are talking about a policy and program that is followed by most other countries in the world. An interesting factor is that not only are there large limitations in Italy, France, and Great Britain that were described earlier by Mr. Hormats. The appendix to our testimony lists a number of specific limitations and domestic content requirements in various other countries' provisions. So, what we are asking for is in no way unique in terms of the overall world situation.

We have not described the Japanese situation, but they have extensively limited imports through nontariff and other types of arrangements, and have a substantial differential pricing arrangement for the sale of U.S. cars in that country.

We would also like to address the question of trade adjustment assistance. Currently workers in the auto parts industries are frequently denied protection because of the very narrow language that is contained in the trade adjustment regulations in terms of the direct importation of similar products.

This would have been corrected last year with the bill that passed the House, the Vanik bill. We believe that it is essential for that type of bill to be quickly enacted to take care of the many workers who are in the much smaller component parts industries, so that these workers may have adequate protection.

For these reasons, Mr. Chairman, we urge that this subcommittee act swiftly to develop remedial relief for the automobile industries. Specifically, we ask that Congress direct the President to negotiate immediate quotas for the imports of automobiles and auto parts.

Second: That the trade adjustment assistance amendments adopted by the House in the last Congress be immediately adopted.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you very much.

With respect to trade adjustment assistance, do you recall the estimated cost of the Vanik bill? Staff tells me that it is in the nature of $800 million; is that correct?

Mr. OSWALD. I think that is correct, Senator.

We believe that the promise of trade adjustment assistance was made to workers at the time that we negotiated the changes in tariffs. As you know, the MTN was passed in 1979, and provided for substantial reductions of tariffs, about 25 to 30 percent.

What we are spending currently in trade adjustment assistance is only a fraction of the cost of the big increase in imports. But it amounts to less than 2 percent of the total amount of imports that we are bringing in, thus we spend less than 2 percent as a means of providing some sort of alleviation of unemployment that results from imports.

That, we believe, is what was promised in the trade negotiations. It was on that basis that the AFL-CIO did not flatly oppose the tariff reductions that took place. There was the promise that there would be relief in terms of trade adjustment assistance.

Now that it is costing money, we are shocked to hear that many people say that we should not be spending the money. Because imports are causing unemployment as a result of the substantial reductions in tariffs, and the other changes that were made we are surprised that there is an unwillingness to pay the costs.

Senator DANFORTH. Do you think that the trade adjustment assistance money that we are spending now is wisely spent; or do you think that the program should be refocused in order to put greater emphasis on retraining and relocation?

Mr. OSWALD. Senator, it is wisely spent. We would hope that there would be no need for anybody to be receiving trade adjustment assistance. In other words, nobody would be displaced from their job as a result of trade.

We believe that the money that is currently being spent—some 70 percent of lost earnings when somebody is unemployed up to 1 year—is a very short-term help in adjustment. There are provisions for training in the current trade adjustment assistance program, and for relocation.

Senator DANFORTH. Do you think that that is adequate; or do you think that it should be essentially unemployment compensation?

Mr. OSWALD. We believe that there should be retraining and relocation help.

Senator DANFORTH. Do you think that it is adequate in the present trade adjustment assistance program?

Mr. OSWALD. Frankly very little——

Senator DANFORTH. Given the number of dollars that are spent, do you think that they are properly allocated between cash payments to people, and what goes to retraining and relocation?

Mr. OSWALD. Senator, very little has been spent on retraining and relocation. Part of it depends upon the ability to find alternative jobs. There is no promise that there is some millenium by moving an unemployed auto worker to Houston, because there may be a job opportunity there for him.

Senator DANFORTH. I don't want to move him to Houston. But what I am thinking is, do you believe that the program right now is essentially sound. I understand your point with respect to the Vanik bill, and your desire to extend it. I think that that is going to be a little difficult, given the budgetary situation.

Do you think that the program as it now exists is basically correct, or do you think that it should be more of a retraining and relocation program?

Mr. OSWALD. Senator, we have urged them to undertake more retraining and more relocation help than they have. We think that it is important. But with the very high levels of unemployment we don't see that as a panacea either. We don't want to see anybody unemployed for any length of time.

If retraining can get a person off of unemployment earlier, we are all in favor of it. If relocation can help that person find a job, that is fine, but it also means that he may have other problems.

Some of the relocation provisions in the Trade Adjustment Act do not take care of some very substantial losses that many individuals are facing such as the loss of the equity in their home, such as the other equities that they may have built up in a community, that are serious problems. We would like to see that provision possibly maybe broadened and improved.

Perhaps the question that we need to look at, if it is purely a budgetary problem, is to somehow put the costs really on imports, because that is really where the costs come from. If we levied an additional 2-percent charge on imports to pay for trade adjustment assistance that would be a different way of financing the program.

We believe that the trade adjustment program was a promise to workers to say that we will be making these changes in tariffs and nontariff arrangements, but that there be a mitigation of the harm to people who are hurt as a result of those changes.

Senator DANFORTH. Should receipt of trade adjustment assistance for a worker be conditioned on the worker's participation in a retraining program?

Mr. OSWALD. Senator, I think that provides a sort of magic that none of the retraining programs have ever exemplified in this country.

Senator DANFORTH. It is not magic, it is just an effort. Should that be a condition, or should we just be sending him the check?

Mr. OSWALD. Senator, I don't think that it is very realistic to have a retraining program for somebody that is 60 years of age and is maybe 1 year away from retirement. I think we would be spending more money on the retraining and related activities——

Senator DANFORTH. Supposing that we just restrict the retraining condition to people who are, let us say, under the age of 50.

Mr. OSWALD. Senator, I think that assumes that all the skills that the people have are never in demand in our economy in the future. I don't think that that is necessarily true. In many cases, the skills may be transferable, but they are not able in 1 month, 3 months, 6 months, 9 months, to find that other position to use those skills.

Just retraining people necessarily doesn't assure them jobs either. I think that one of our biggest problems on occasion in other training programs was that we theoretically, and this has been true of some of the welfare training programs, create the impression that if you only take this training program, all your unemployment problems will be solved. That is certainly not true.

Senator DANFORTH. I don't know of anybody who would suggest that all of our unemployment problems would be solved. I do think that you would get a reasonable number of people who would suggest that there are in the neighborhood of 200,000 jobs in the automobile industry which will be permanently lost.

These people are never again going to be automobile workers. There should be some effort to find something else for them to do as opposed to just extending for an additional period of time unemployment compensation. Wouldn't that make sense?

Mr. OSWALD. Senator, I don't think that anybody is interested in not working, if they can get a job, and not being retrained, if they have the capability of being retrained.

Senator DANFORTH. I did not suggest that. I am suggesting that the purpose of trade adjustment assistance, I thought, was to help people adjust to changing economic conditions, so that they could move from one industry, which is going to be modernized, where modern equipment is going to be available.

The United Auto Workers testified that they did not advocate a system of featherbedding. They did advocate a system of plant modernization. If that is going to be the case, it may be that the number of people who were once employed by the automobile industry will no longer be employed by the automobile industry.

It is a fact, isn't it, that those who were laid off are those with less seniority, rather than more seniority. So the question is, what do you do with relatively young auto workers who know that industry. Do you send them a check for an extended period of time, which is a substantial portion of what they are making while they are employed in the automobile industry? If so, is that a disincentive to finding other means of employment? Or, should we invest relatively more of our resources in a program to try to equip these people to do something else?

I don't know the answer to that. I am just asking you whether the program, as it now exists, is adequate.

Mr. OSWALD. We support fully your concern with additional training to be done under trade adjustment assistance. We always have.

Trade adjustment assistance in some cases is designed not purely as a retraining, but as a temporary help for people who are hurt by imports, to get over that until they are able to find another job. Many of them do find a new job with the same skills that they have.

It is an adjustment period. That is what the act was designed to do. We would certainly support additional training activities in this area being made available. We have urged the Labor Department to do this. We have urged that more attention be given to relocation, and even experimentation with other means of helping people.

For example, in many private contracts, and in many situations that companies provide for top executives, they pay for loss of equity in homes. What we do say now often to the blue-collar workers, who are not covered by those same arrangements, that they somehow should be able to suffer the loss of the equity in their home.

I am talking about small communities in many cases, or declining communities, where there is no real way to return the equity that they have in that home. Some sort of help in making that relocation is absolutely necessary.

Senator DANFORTH. You support the Riegel resolution.

Mr. OSWALD. On plant closings?

Senator DANFORTH. No; the negotiations with the Japanese.

Mr. OSWALD. Yes, Senator.

Senator DANFORTH. You support the Vanik bill with respect to expansion of trade adjustment assistance to cover secondary employment.

Mr. OSWALD. Let me give you an example, Senator. I think that this affects many of the workers in your own state.

If somebody is building a bumper for Ford Motor Co., he can receive adjustment assistance if higher imports cause the decline in Ford sales. But if that bumper is made by a separate auto parts manufacturer, that same worker is denied benefits now because the thing that is being imported is automobiles and he only makes bumpers, and his company only makes bumpers. We feel that this is a distortion of equity between similarly situated workers.

Senator DANFORTH. I understand your point.

Would this be your total package?

Mr. OSWALD. No.

Senator DANFORTH. What else do you support?

Mr. OSWALD. We have indicated that in terms of tax policies, we would support directly targeted help to the industry. We are not sure that overall general depreciation rates necessarily help this industry as much as maybe some other type of either tax or credit arrangements.

Senator DANFORTH. If you were in the Congress, and were introducing a bill to do what you think should be done for the automobile industry, in addition to the Riegel resolution and the Vanik bill, what else would you put in it?

Mr. OSWALD. Senator, I would deal with them on a concept that was a total concept, but dealing with the situation separately, rather than a single bill. I would have a plan that would include the overall direction. That overall direction, obviously, would include the Riegel which we believe addresses a real emergency that needs to be taken care of, and the Vanik type of trade adjustment improvement.

We believe, as the Congress will be taking up tax legislation, that considerable attention should be given to the money that will be spent in tax relief for business, that it really specifically to those industries that need it the most.

Senator DANFORTH. What I am asking you is what kinds of tax proposals would you put in the bill?

Mr. OSWALD. Senator, the AFL-CIO last summer proposed a reindustrialization program, including a reindustrialization finance operation that, I think, is in keeping with the problems you have raised in terms of budget concerns. It would treat tax expenditures as a budgetary item.

If the Congress decided to spend $5 or $10 billion, or whatever the figure were for tax relief for business, it would then say to this reconstruction finance corporation, "How can that money be best spent for those industries where we are really concerned with their long-term viability, and support for the founding of new firms, in terms of encouraging new industrial commitment in this country?"

We have been very concerned that many of the broad tax proposals that have been discussed in the last Congress are proposed as if they were neutral policies in terms of their impact on the economy. Whereas in actuality they will have substantially different impacts on various industries.

Much of the auto parts industry and much of the steel industry are suffering substantially currently. They will receive no benefits from accelerated depreciation. Yet, these are particular sectors that I think need help. There the help might be better through an investment credit, maybe through a loan guarantee, or some other type of tax support or budgetary support.

We would like to see these tax programs as part of a total industrial policy.

Senator DANFORTH. You don't have any specific tax proposals for the automobile industry?

Mr. OSWALD. I would put it in terms of the total context. We are also trying to say that it is difficult to put a real stop on where the automobile industry ends. The rubber industry, obviously, has a very heavy proportion of the industry. I believe the figure is 60 percent of the output of the rubber industry is sold to the auto industry. The rubber industry has lost 26,000 workers in the past 2 years. It is suffering substantially.

The tax policies should not be geared simply for Ford, General Motors, and Chrysler. If we lose the capability of all the small supplier firms in this country, the Champion Sparkplugs, the Delco, the rest of the parts manufacturers and the rubber——

We have not succeeded in maintaining an auto industry if we just maintain a Ford and a General Motors, and they buy all their parts from abroad and assemble their cars here.

Senator DANFORTH. Let me ask you just one other question, Mr. Oswald.

How long do you think we have to act? How pressing is the emergency?

Mr. OSWALD. The emergency on imports, I think, is a crucial matter. The action to assure the ability to survive over the next few years is one that needs to be acted on quickly.

As for trade adjustment assistance, people obviously are suffering, but I don't think that legislation is as critical in terms of jobs and the long-term viability of the industry as the immediacy of congressional action to give some assurance that the American auto and auto parts firms are not going to be put out of business by foreign imports. That is clearly what is happening currently.

Senator DANFORTH. Thank you very much.

Mr. OSWALD. Thank you, Senator.

[The prepared statement of Mr. Oswald follows:]

PREPARED STATEMENT OF DR. RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

SUMMARY

The auto industry is more than the basic auto manufacturers, but includes jobs in auto parts and supplier industries. Nearly two million jobs have been affected by the domestic downturn in the auto industry that has been buffeted primarily by imports, but also by high interest rates, the energy crisis, and the general economic recession.

Imports of cars have risen by 60 percent between 1976 and 1980, and imports of auto parts have soared by 122 percent between 1975 and 1979.

Import relief is an essential part of a package of remedies, since imports have been a principal cause of this injury to the nation. Tax relief needs to be targeted to the auto and auto supply industry. The safeguarding of the auto industry through domestic content requirements seems to be a good proposal.

Trade Adjustment Assistance currently fails to adequately cover workers in the auto parts industry who become unemployed by auto imports.

We believe that there should be more, not less money, made available to assure the people who are hurt by trade that some alleviation of their import caused unemployment will be available.

The AFL-CIO has viewed adjustment assistance not as the answer to import problems, but as a necessary integral part of overall trade policy. We believe that the auto experience has demonstrated that the program is helpful, but that it should not be the only avenue of help to those who are injured by floods of imports.

For these reasons, Mr. Chairman, this Subcommittee should act swiftly to develop remedial relief for the automobile industry. Specifically, the AFL-CIO asks that the Congress direct the President to negotiate immediate import quotas for the importation of automobiles and of auto parts, and secondly, that the trade adjustment assistance amendments adopted by the House in the last Congress be immediately adopted.

STATEMENT

The AFL-CIO welcomes this Subcommittee's concern about the increasingly serious national problems facing the United States because of the loss of production and jobs in the automobile and auto parts industries. We are pleased that these hearings have been scheduled by you at the outset of the 97th Congress. Obviously the plight of the automobile and auto parts industries are in urgent need of redress. This national industry has a nationwide impact on jobs, the nation's overall economic health and on the survival of many cities and towns.

While much attention is focused on the basic big three automakers, and the UAW as the union representing most of their employees, AFL-CIO unions represent the majority of workers in the broad automobile industry. Two out the every three jobs in the industry have been held by workers who make machinery, steel, aluminum, glass, electronics, rubber, plastics, and other products which are assembled into automobiles. In addition to these production jobs, AFL-CIO unions represent many thousands of workers employed in auto-related services.

The estimated number of auto industry jobs affected by the impact of auto imports as well as other causes of economic injury to this industry such as high interest rates, general economic recession, etc., reached more than one million in 1980.

Between October 1978 and October 1980, employment in the industrial sector classified as Motor Vehicles and Equipment (SIC 371) fell by 289,000. During that same two-year period, 141,000 jobs disappeared in the primary metal industry (SIC 33), 100,000 at car dealerships (SIC 551), 36,000 in the automatic stamping industry (SIC 3465), and 26,000 in the tires and inner tube industry (SIC 301). Many additional workers lost their jobs in various industrial groups that supply the auto industry, but whose job loss is not separately identifiable from the general employment data.

Last year was the worst since 1961 for U.S. automakers, as sales plunged by 20 percent from 1979 while imports captured a record 27 percent of the U.S. market. In 1980, Japan produced about 11 million cars, trucks and buses, or about one-third more than the U.S.

The impact is not limited to Detroit, but extends to all regions of the country. The auto job crisis affects unemployed auto workers as well as the total community in which they once lived and worked. Many are no longer taxpayers, but now are unemployment compensation beneficiaries and soon welfare recipients. They have lost their jobs and often their sense of dignity.

But the impact also spreads to the rest of the community, as exemplified in the State of Michigan which was forced to furlough 1,800 state employees because of the state's drop of $250 million in revenues. This revenue drop is directly related to the auto crisis.

This then is a national problem, not just an auto problem or a problem for "Detroit" alone. It deserves the kind of national attention this subcommittee is now devoting to this issue.

The need for import relief is still a top priority in our view. This is because trade relief is an essential part of a package of remedies. Imports have been a principal cause of this injury to the nation. They are, of course, not the only cause. But the fact that other causes exist and need remedial action does not mean that imports, the major cause, should be ignored. To do nothing about the trade issue will have a far more serious impact on the total industry and the nation than many current discussions of the problem imply. Despite its technically negative ruling in November, the International Trade Commission recognized that imports are an important problem. As President Douglas Fraser of the United Auto Workers has pointed out, four or five Commissioners either felt that the injury was "substantially" caused by imports within the technical meaning of the statute or that the injury was serious enough so that remedial action was needed.

Car imports rose 60 percent in the last four years from $1.5 million in 1976 to 2.4 million in 1980. But even more explosive has been the imports of automotive parts, including engines, bodies and chassis, and other automotive products. These auto parts imports have risen by 122 percent between 1975 and 1979, the most recent year for which data are available. In 1975, $4.5 billion of auto components were imported, but by 1979, that figure had risen to $10.01 billion. The U.S. suffered a trade deficit of $1.3 billion in automotive parts in 1979, compared to a $1.6 billion surplus in 1975. There is no effective assurance of curbing this sudden surge of imports—either absolutely or relatively—unless import remedies are made available.

Alternative proposals to aid the auto industry such as accelerated depreciation, easing of governmental regulations, etc., will not be effective in changing the present danger to the auto industry that is posed by the current surge of imports. Import relief and other trade measures must be a prime safety valve.

Domestic business tax policy needs to be more than a general change in depreciation rates. A targeted business tax approach is essential. It should deal with more than the "basic" auto industry and should help the components or parts production sector of the industry as well. A tax advantage for the "basic" auto industry, that is, the car producers, would not necessarily even touch the production of components that are essential to the existence of a U.S. auto industry.

The entire structure of auto production in the United States, including the production of parts and components, is a vital consideration for the nation's future. While the "basic" auto industry understandably receives major attention, the producers of auto electronic and electrical equipment, steel, aluminum, and various other components of an automobile will ultimately determine whether the U.S. has a viable automobile industry. A diversified auto industry (not only assembly, but also producing parts) is essential for the nation's industrial well-being. U.S. trade and tax law must recognize this fact.

Most of the world effectively recognizes the importance of building or maintaining an automobile industry. Unlike the U.S., many nations have either in law, policy or practice,—or in all three combined—effective means of assuring the production and/or export of increasingly large proportions of auto equipment. Thus, however, many Americans may seek a free market for the various versions of the world car, the fact is that most nations are making sure that they have a viable automobile industry, and that includes parts production.

The fact is that many nations try to promote auto production—not only in the sense of benefiting their national economy—but also to benefit their national producers. They have in law or fact more restrictive import barriers, both tariff and non-tariff, on imports of cars and parts than those in the U.S. The U.S. has virtually no tariff on cars—less than 3 percent—and increasingly provides for zero or lower tariffs on parts through administrative action. Other nations have requirements for production within their borders of all or certain percentage of the parts of cars to be sold within their borders. Moreover, many nations have a variety of domestic content requirements, export subsidies and tax incentives to assure the progress of their national producers. (See Appendix A for details.)

U.S. auto producers have expanded abroad to meet the demands of other countries for their auto industry. For example, General Motors has announced that it will expand abroad—in Japan most recently—for its version of the world car to be produced everywhere with component production determined by national regulations. The unspoken statement by General Motors—and Ford, which is also expanding abroad—is that the regulations of foreign countries include requirements or practices to produce components abroad.

Ford currently has plants in England, Germany, Spain, Ireland, and the Netherlands. Its new subcompact, the Escort, is being assembled in Britain and Germany. General Motors is readying its subcompact "J car" for introduction in the U.S. next spring and in Europe in 1982. GM is spending $8 billion overseas on such projects as an assembly plant in Spain and a transmission plant in Austria.

The result of these foreign actions is that the U.S. will not have a viable base for producing a car with all of its components. This nation will lose its viable base for an industry which is necessary for normal transportation needs, not to speak of national emergency needs.

The United States has been having a national debate about even "saving" one of its important national producers. I refer, of course, to the Chrysler Corporation. Let me state here that the AFL-CIO believes it is essential to the U.S. to help Chrysler meet its current short-term financial crisis. We believe such action is necessary to have a competitive, healthy U.S. auto industry. If Chrysler is allowed to go under, there is no reason that Ford will not be next.

While other nations—often with the help or the apparent acquiescence of the U.S. government and international agencies—insist upon and, in fact, develop domestic producing auto companies within their own limited markets, the United States hesitates even to maintain one of the few remaining U.S.-based automobile corporations. This, despite the fact that the United States is a nation with a vast market for motor vehicles—varying between 8 and 11 million.

In short, Mr. Chairman, other nations seem to be pursuing different goals and playing by their own rules. The U.S. is failing to establish effective domestic regulations. This failure precludes U.S. maintenance of and progress in an auto industry and in the increasingly important future of technology in the U.S.

The AFL-CIO believes that U.S. law, policy and practice should preclude such a result.

We basically agree with the proposal of the UAW for a local content law that would require domestic cars and high volume import models to contain a high percentage of domestic production. A local content requirement will create jobs not only in the basic auto industry but also in the other supplier industries such as steel, glass, rubber, textile, etc.

TRADE ADJUSTMENT ASSISTANCE

The AFL-CIO welcomes the Subcommittee's interest in information on the adjustment assistance program. This program eased some of the suffering of hundreds of thousands of workers unemployed because of the importation of cars. Perhaps close to half a million workers have received this relief since the auto import crisis started. But it is also clear that the program has failed to provide help to many workers who have not been able to collect one dime. The reason was merely that they did not work directly for one of the major auto producers. The current trade adjustment assistance legislation narrowly excludes aid for those workers who make components or who provide related services. There is a resultant unfairness in the coverage now provided. This should be remedied as soon as possible.

The House of Representatives recognized some of these problems and passed a bill last session to correct them. This bill was an attempt to correct some obvious injustices in the law and to begin to provide what the workers were told the Congress had enacted—relief for those injured by imports.

Some important changes would allow workers in firms supplying parts and services essential to the production of import impacted products to become eligible for assistance. At present, these workers who lose their jobs are without recourse. This means that workers who make tires, steel, rubber, machinery, carbon black aluminum, glass etc., may often not qualify for trade adjustment assistance related to the surge in imports of foreign cars. The House Ways and Means Committee report on H.R. 1543 last year stated the problem as follows:

"The term 'like or directly competitive' article in the certification criteria is a narrow concept that imported finished articles are not like or directly competitive with domestic component parts thereof. The term 'like or directly competitive' (and the term 'article') have resulted in certifications being denied to workers employed in producing component parts or providing services, unless such production or service is supplied by a subdivision of a vertically integrated firm whose workers have been certified or unless imports of the particular component have increased and the certification criteria been met.

"For example, under existing law, the workers in a firm which supplies shoe heels to a shoe factory, or the worker in a firm which supplies car bumpers to an automobile manufacturer, cannot be certified, notwithstanding increased imports of shoes or automobiles, because shoe heels are not 'like or directly competitive' with shoes, or car bumpers with automobiles. Yet, if the shoe heels or the car bumpers are manufactured by the shoe manufacturer or the auto manufacturer, in a subsidiary, an affiliate, or an 'appropriate subdivision' of the firm, the workers can be certified."

Obviously, this should be corrected at once.

The AFL-CIO believes that the cost of adjustment assistance has been minimal. About $4 billion expended to aid workers adversely affected by imports in excess of $200 billion in 1980 means that the U.S. spent only 2 percent of the total import bill on adjustment.

We believe that there should be more, not less money, made available to assure the people who are hurt by trade that some alleviation of their import caused unemployment will be available.

The AFL-CIO has viewed adjustment assistance not as the answer to import problems, but as a necessary integral part of overall trade policy. We believe that the auto experience has demonstrated that the program is helpful, but that it should not be the only avenue of help to those who are injured by floods of imports.

For these reasons, Mr. Chairman, we urge that this Subcommittee act swiftly to develop remedial relief for the autombile industry. Specifically, we ask that the Congress direct the President to negotiate immediate import quotas for the importation of automobiles, and of auto parts, and secondly, that the trade adjustment assistance amendments adopted by the House in the last Congress be immediately adopted.

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Appendix A

SELECTED NATIONAL TRADE REGULATIONS*
and
PENETRATION OF MARKETS BY AUTO IMPORTS FROM JAPAN

Country	1979 car industry sales (thousands)	1979 Japanese car import Market share (percent)	Protection of domestic car industry
Brazil	830	(1)	95 percent local content or 185-205 percent duty
Mexico	268	(1)	50 percent local content
Venezuela	94	(1)	51 percent local content or 120 percent duty
South Africa	213	(1)	66 percent local content or 95 percent duty
Spain	588	(1)	63 percent local content and import quota of about $500,000 in car value per country
Italy	1,329	(1)	11 percent duty[2] and bilateral import quota restricting Japanese imports to 2,000 cars a year
Argentina	196	1.2%	96 percent local content or 95 percent duty
France	1,976	2.2%	11 percent duty[2] and informal limit on Japanese car share to 3 percent or less
Germany	2,567	5.7%	11 percent duty[2]
Canada	1,005	8.2%	14 percent duty
United Kingdom	1,716	10.8%	11 percent duty and agreement with Japanese to restrict car market share to 10-11 percent or less
Australia	458	15.2%	85 percent local content or 58 percent duty (quota limits import share to 20 percent of market).
United States	10,510	16.6%	3 percent duty

(1) Less than 0.1 percent
2 Effective rate is about 14 percent because of c.i.f. basis (f.o.b. cost plus insurance and freight) and value-added taxes

*Most auto producing nations have national laws or practices which effectively assure production of parts within their borders. This list does not include all of the regulations and other legal provisions which assure domestic production.

(continued)

Appendix A (continued)

LOCAL CONTENT LAWS REGARDING AUTO TRADE

Algeria, 25-40 percent depending on model
Argentina, 90 percent for cars, 85-95 percent commercial vehicles
Australia, 85 percent with a variety of small percent decreases in special cases
Bolivia, considering 80 percent
Brazil, 85-100 percent depending on model
Chile, 15-30 percent plus stiff tariffs, depending on model
Columbia, 30-45 percent depending on model
Egypt, announced goal of 100 percent
India, 40-45 percent, goal is 100 percent
Indonesia, 25 percent
Kenya, 45 percent (100 percent of the engine)
Malaysia, 8 percent cars, 17 percent commercial vehicles
Mexico, 70 percent cars, 80 percent trucks
New Zealand, 30-40 percent depending on model
Nigeria, 15 percent
Pakistan, depends on model, must use pistons, tires from local producers
Peru, 30 percent
Philippines, 62.5 percent cars, 30-60 percent commercial vehicles
Portugal, 25 percent
Singapore, 13 percent
South Africa, 66 percent of weight for cars
South Korea, 100 percent goal, not enforced
Spain, 50 percent
Taiwan, 60 percent cars, 32-46 percent trucks
Thailand, 40 percent
Tunisia, 20-26 percent cars, 40-44 percent trucks
Turkey, 80 percent cars, 65 percent trucks
Uruguay, 20-25 percent cars, 5 commercial vehicles
Venezuela, 70-75 percent depending on model
Yugoslavia, 50 percent

Source: USTR, Loc Law Library, House Ways and Means Committee, MVMA
Congressional Record - Senate, June 28, 1980 Page S8834

Senator DANFORTH. The committee will stand in recess until 9:30 tomorrow morning.

[Whereupon, at 1 p.m., the subcommittee recessed, to reconvene at 9:30 a.m., Thursday, January 15, 1980.]

THE PROBLEMS OF THE U.S. AUTOMOBILE INDUSTRY

THURSDAY, JANUARY 15, 1981

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to notice, in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (chairman of the subcommittee) presiding.

Present: Senators Danforth and Chafee.

Senator DANFORTH. We have today a long list of witnesses. For that reason I would appreciate it if the witnesses would do their best to stay within the time limit. The full statements of course will be put into the record, so there is no need to be concerned that all of your thoughts won't be considered. However, I think what would be helpful if you would concentrate on the question of what you want the Government to do.

Assuming that we are not just going to do nothing, assuming that we are not simply going to let the situation work its way out, what is your recommendation? What steps do you think Government should take, over how long a period, and, if you know, what would be the cost-benefit analysis of your proposal? That is, what would be the effect on the industry of various ideas on what we could do to help you and what would be the cost with respect to the revenue loss, to the budgetary consequences, to the economy by way of possible adverse effects of what you are proposing?

Dr. David N. Potter, representing General Motors has not yet arrived because of the snow. Therefore we will begin with Mr. Will Scott of Ford Motor Co.

STATEMENT OF WILL SCOTT, VICE PRESIDENT, GOVERNMENT AFFAIRS, FORD MOTOR CO., ACCOMPANIED BY DAVID McCAMMON, VICE PRESIDENT, CORPORATE STRATEGY AND ANALYSIS

Mr. SCOTT. Good morning, Mr. Chairman. I am Will Scott, vice president of Government Affairs. With me is David McCammon, vice president in charge of our Corporate Strategy Analysis activity of our company.

I want to first thank you, Mr. Chairman, for the speed with which you have convened a discussion on the automotive issue. We do appreciate that. We have filed a statement and I will make a brief oral summary of that statement at this time.

From yesterday's hearing it appeared clear that the committee was most interested in answers to three questions: the seriousness of the auto industry's problem and, in your words, whether we are dealing here with an emergency. Second, specific proposals for getting the industry back on its feet; and lastly, assessment of the financial and employment impact of these proposals.

It is very clear of course that the industry's problems are very urgent. I will just mention a few points. We still have 185,000 unemployed people on a permanent layoff status among the companies. Some 2,100 dealerships have closed; 140 supplier plants have closed. The year ended with the import cars at record high penetration, a 26½ percent share versus 15 percent in the mid-seventies, while U.S. production hit a 19-year low.

This led to record industry losses, Ford, General Motors, and Chrysler each recording pretax losses of more than $1.5 billion in the first months of the year. As you may have seen this morning, in the first 10-day period in January, domestic car sales are down 20 percent from the year-ago level.

As producers we obviously understand the challenge before us. There are many things we must do and are doing. We must assure that our products are competitive in quality, design, product choice, features, and cost with those produced throughout the world. The facts are, however, that it will take probably until 1985 to complete the aggressive product and plant conversion all of us have underway. There are of course things that only Government can do, or largely can do, and I would like to discuss three recommendations in this area.

First, we believe U.S. trade policy should be made consistent with our national goals and the ground rules for auto trade throughout the world. We urge the new administration to promptly initiate talks with Japan aimed at achieving a period of temporary restraint while U.S. producers complete their transition. We hope that the question of authority was resolved by the December Department of Justice letter. If questions of authority are not resolved in the eyes of the new administration, we will then urge this subcommittee to take the lead in completing the unfinished business on the resolution which is now S.J. Res. 5, which we of course continue to support. Over the longer run and if the Japanese are to continue to be major factors in this market, we do believe that the Japanese should be encouraged to make major investments in this country and should produce here to provide jobs for American workers and a market for American suppliers.

Second, we believe regulatory policy should be revised to foster cooperation rather than confrontation between industry and Government in achieving our national goals. There are a substantial number of auto regulations that can—and we believe should—be revised administratively. Other will require the attention of Congress.

We will be pleased to submit a list of these for the committee record. On balance none of these will significantly compromise the societal goals that we all have been working toward.

[The list follows:]

REGULATORY REASSESSMENT RECOMMENDATIONS

Set forth below is a list of regulatory issues which Ford believes should be promptly reviewed and revised. It must be emphasized that this list is not all inclusive. Rather, the items listed are those with respect to which Ford has already identified modifications that provide significant relief in the near term, without compromising important societal objectives. Attached are summary descriptions of each of these issues.

1. 1984 Clean Air Act High Altitude Emission Requirements.
2. Passenger Car CO Emission Standard.
3. Passenger Car HC and NOx Emission Standards.
4. 1984 Heavy Duty Truck Exhaust Emission Regulation.
5. 1984 Light Duty Truck Exhaust Emission Regulation.
6. Cost and Complexity of Certification.
7. Medium and Heavy Truck Noise Emission Regulation.
8. Emission Performance Warranty.
9. 1985 Light Duty Truck Oxides of Nitrogen (NOx) Emission Standards.
10. Diesel Exhaust Particulate Requirements.
11. Lead Time for Promulgation of Regulations/Standards.
12. 1982-1983 Interim High Altitude Regulations.
13. FMVSS 208—Occupant Crash Protection.
14. Part 581—Bumper Standard.
15. Car and Truck Post—1985 CAFE Standards.
16. Control of Chlorofluorocarbons (CFCs) Vehicle Air Conditioning (A/C), Foam Products and Electronic Parts Solvent.
17. Standard 128—Fields of Direct View.

1981 CLEAN AIR HIGH ALTITUDE EMISSION REQUIREMENTS

Description

The Clean Air Act requires that by 1984 all cars be capable of meeting emissions standards at all altitudes. EPA has indicated it will expand this requirement to light trucks as well.

Problem

Though the final regulations have not been promulgated, the implications of this requirement are onerous and conflict with national objectives to improve fuel economy. The sale of vehicles at high altitude represents only 3 to 4 percent of the U.S. market, yet all vehicles sold must be capable of meeting high altitude emissions standards. In addition to the need for costly mechanical or electronic altitude compensation on all vehicles, some vehicles may also require numerically higher axle ratios. In order to improve fuel economy, we generally try to use as numerically low an axle ratio as possible. We estimate that the fuel economy penalty associated with the higher axle ratios required to meet the 1984 standards at altitude will amount to up to 2 miles per gallon on some of our highest fuel economy vehicles.

Recommended actions

The 1984 and beyond model year rules should be eliminated and the regulations already established for the 1982 model year should be continued. A provision should also be added in these new rules to allow the sale at high altitude of vehicles exempted from compliance with the unique emission standards if they can meet the current California high altitude compliance criteria.

Timing

Coincident with Congressional review of the Clean Air Act.

Rationale

Because high altitude sales account for only 3-4 percent of the U.S. market, we believe that the means can be found for controlling the emissions for the 3-4 percent of the vehicle population sold at altitude without imposing cost and fuel economy penalties on the balance of vehicles sold outside high altitude areas. Exempted vehicles should be allowed to be offered for sale at high altitude (under the California component compliance criteria) because they are characteristically the most fuel efficient products offered by a manufacturer.

PASSENGER CAR CO EMISSION STANDARD

Description

The Clean Air Act, currently requires that 1981 and subsequent model year passenger vehicles comply with a Carbon Monoxide (CO) exhaust emission standard which represents a 90 percent reduction from baseline (1970 model year) vehicles. Recognizing potential difficulties in achieving this requirement and that public health and welfare may not require achievement of this level, the Act further provides for the granting of waivers of the 90 percent reduction level of 3.4 grams per mile (gpm) CO standard of up 7.0 gpm for the 1981 and 1982 model years.

Problem

Attempts by Ford and others to comply with the 3.4 gpm CO standard have often resulted in failure, fuel economy and/or driveability degradations, and/or added costs. Further, Ford and many others have questioned the air quality need for a 3.4 gpm CO standard. Both the State of California and the National Academy of Sciences have expressed this view. Alternate standards of 7.0 or 9.0 gpm have been suggested, which offer the potential for reduced cost and possible fuel economy and driveability improvements.

Recommended action

Relax the CO standard to a level of at least 7.0 gpm based on ambient air quality needs.

Timing

Relief needed by the end of the 1981 calendar year to support the 1983 model year.

Rationale

Numerous manufacturers and the State of California have determined that a 3.4 gpm CO standard is not necessary for the attainment of ambient air quality levels. Additionally, the National Academy of Sciences has questioned the need for a 3.4 gpm CO standard.

PASSENGER CAR HC AND NO_x EMISSION STANDARDS

Description

The Clean Air Act requires that Hydrocarbon (HC) exhaust emissions from 1981 and subsequent model year passenger vehicles not exceed a level representing a 90 percent reduction from baseline (1970 model year) vehicles; and that Oxides of Nitrogen (NO_x) not exceed 1.0 gram per vehicle mile (gpm).

Problem

HC emission standards were instituted because certain species of HC react with other chemicals and compounds in the atmosphere to form harmful pollutants. Early state-of-the-art measurement techniques and relatively low levels of non-reactive HC species in automobile exhaust made it more practical to measure Total Hydrocarbons (THC) present in automotive exhaust. Current emission control hardware, such as catalytic converters, preferentially treat reactive hydrocarbons, leaving a higher percentage of non-reactive HC in the discharged exhaust. Having to count harmless non-reactive HC species, such as Methane, while demonstrating compliance with the HC standard, typically results in increased costs and degraded fuel economy, driveability and Nitrogen Oxide control.

Revising the Federal passenger car standard from the current 1.0 gpm NO_x level to a 1.5 gpm NO_x standard would permit manufacturers to produce vehicles with good driveability, reduced cost hardware and a 3 to 5 percent fuel economy improvement. As part of the hardware cost reduction, three-way catalysts, which contain Rhodium, could be deleted. Rhodium, with a current market value of approximately $900 per Troy ounce, is principally obtained from unstable sources in Russia and South Africa. The U.S. auto industry's consumption of Rhodium in 1982-83 is estimated to be 100,000 to 137,000 Troy ounces per year.

Recommended action

Adopt the California Non-Methane HC 90 percent reduction standard of 0.39 grams per mile (gpm) in lieu of Federal 0.41 gpm Total HC standard and the 1977-79 California NO_x standard of 1.5 gpm in lieu of the Federal 1.0 gpm standard.

Timing

As soon as possible.

Rationale

Hydrocarbons are controlled because of their reactive behavior; only reactive Hydrocarbons need to be included in the HC standards. Non-reactive Hydrocarbons, such as Methane, that can now be easily measured and are present in sufficient quantities in automobile exhaust to warrant exclusion, ought not be regulated. Methane from stationary sources is not controlled and the State of California likewise does not require control of Methane from motor vehicles.

Adoption of the 1977-79 California 1.5 gpm NO_x standard will not have a deleterious effect on air quality. The latest EPA study on air quality indicates that only two urban areas outside of California (Chicago and marginally in Denver) exceed the NO_2 air quality standard. Since the nation is nearly in compliance with the NO_2

standard, a Federal 1.5 gpm passenger NO_x standard for new cars will provide attainment.

1984 HEAVY DUTY TRUCK EXHAUST EMISSION REGULATIONS

Description

On January 21, 1980 the EPA promulgated 1984 and Subsequent Model Year Heavy Duty Truck (HDT) Exhaust Emission Regulations. The requirements of the regulations consist of four separate elements: (1) more stringent HC and CO emission standards (90 percent reductions from a 1969 base year as required in the 1977 Amendments to the Clean Air Act); (2) an increase in certification durability requirements and associated emission control system warranty; (3) significantly more stringent assembly line test requirements; and (4) a new emission test procedure. Specifically, the regulation requires that:

Certification test mileage and emission control warranty periods be extended beyond the current 5 years/50,000 miles. The new longer time period ("useful life") is to be defined by the manufacturer based on vehicle retirement or engine rebuild.

Production HDT's meet a 90 percent pass-rate in the Selective Enforcement Audit (end-of-line compliance tests) as opposed to the present 60 percent pass-rate for cars and heavy trucks. This essentially means that each and every vehicle must pass.

The new rule imposes an entirely new and yet unproven "transient" test procedure requiring equipment not currently available to most manufacturers.

In addition, on April 30, 1980 EPA issued 1983 model year proposed rules for a 3 gram heavy truck evaporative emission standard and associated vehicle test procedure.

Problem

The provisions for increased durability testing (extended useful life), more stringent assembly line test requirements, and new "transient" test procedure are not required to be established by the Clean Air Act and have been adopted based on EPA's purportedly discretionary authority to set such requirements.

The proposed evaporative standard and procedure requires very expensive test facilities and will increase the initial HDT cost to the consumer without apparent air quality benefits.

These additional regulatory requirements will increase initial HDT cost yet have insignificant air quality benefit.

Recommended action

Ford recommends that the EPA amend the 1984 Heavy Duty Truck Regulation to eliminate the extended useful life durability and warranty requirements, the 90 percent selective enforcement pass-rate requirement, and permit the continued use of the current test procedure. The 90 percent reduction in HC and CO emission requirements can then be established based on the existing test procedure. In addition, Ford recommends that the proposed evaporative standard not be promulgated without an in depth air quality/cost benefits study by the Agency.

Timing

The amendments to the regulation should be put in place during the first half of 1981, in order to give manufacturers adequate lead time.

Rationale

The proposed changes to this regulation would result in significant savings for the industry and consumer.

1984 LIGHT DUTY TRUCK EXHAUST EMISSION REGULATIONS

Description

On September 25, 1980, the EPA promulgated 1984 and Subsequent Model Year Light Duty Truck (LDT) Emission Regulations. The requirements of the regulations consist of three separate elements: (1) more stringent HC and CO emission standards (90 percent reductions from a 1969 base year is required by the Clean Air Act with respect to some of these trucks); (2) an increase in certification durability requirements and associated emission control system warranty; and (3) significantly more stringent assembly line test requirements. Specifically, the regulation requires that:

Certification test mileage and emission control warranty periods be extended beyond the current 5 year/50,000 mile period. This longer mileage period ("useful life") is to be defined by the manufacturer.

Production LDT's meet a 90 percent pass-rate in the Selective Enforcement Audit (end-of-line compliance tests) as opposed to the present 60 percent pass-rate for cars and light trucks. This essentially means that each and every vehicle must pass.

Problem

The provisions for increased durability (extended useful life) and the more stringent assembly line testing are not required to be establishd by the Clean Air Act and have been adopted based on EPA's purportedly discretionary authority to set such requirements. These additional regulatory requirements will increase initial LDT cost yet have insignificant air quality benefit.

Recommended action

Ford recommends that the 1984 Light Duty Truck Regulation be amended by EPA to eliminate the extended useful life durability and warranty requirements, and the 90 percent selective enforcement pass-rate requirement.

Timing

The amendments to the regulation should be put in place during the first half of 1981, in order to give manufacturers adequate industry lead time.

Rationale

The proposed changes to this regulation would result in significant savings for the industry and consumer.

COST AND COMPLEXITY OF CERTIFICATION

Description

The Clean Air Act prohibits sale of new motor vehicles unless a "certificate of conformity" has been obtained from EPA covering these vehicles. A manufacturer can obtain a certificate by successfully completing a very costly and complex test program which includes the operation of many cars for 50,000 miles.

Problem

EPA's certification regulations are complex and very time consuming and extremely expensive. An indication of the complexity of these regulations is the 400 Federal Register pages required for their description. There are unique standards and procedures for every vehicle type (passenger car, light truck, heavy truck, diesel and gasoline fueled engines), and the history of these regulations show that major changes in either the standards or the procedures occurs every year. The effect of this complexity is a lack of continuity and the ability to "carryover" the engineering and test results from one model year to another.

Recommended action

The answer to this problem is not the alternate durability program recently proposed by EPA. The EPA proposal, which involves the use of actual production vehicles, would be at least as costly as the current procedure, and would force markedly less certification lead time when the manufacturers require more to assure the quality, durability and reliability of their products.

Ford recommends a comprehensive review of certification rules be undertaken by EPA with participation by all interested parties, with a view towards developing a set of predictable, continuous and cost effective certification regulations and procedures.

Timing

Resolution should be considered high priority during the 1981 calendar year.

MEDIUM AND HEAVY TRUCK NOISE EMISSION REGULATION

Description

The medium and heavy truck noise emission regulation became effective January 1, 1978 for certain trucks with a GVWR in excess of 10,000 pounds. In this regulation, EPA established noise limits in a three-step process: January 1, 1978—83 dB(A) Limit; January 1, 1983—80 dB(A) Limit; and January 1, 1985—Reserved.

To comply with the noise standards, the regulations require a complicated testing and reporting scheme. Testing must be performed on production vehicles prior to shipment. Further, the testing is performed out-of-doors and is subject to environmental conditions.

Problem

Engineering and compliance costs are the major issue. With the current financial restraints and program priorities, a delay in the 80 dB(A) standard now scheduled to become effective on January 1, 1983, would allow Ford to continue to be competitive with our product offerings. Further, it would provide the needed engineering time to develop a more cost-efficient acoustical quieting system. Ford anticipates that most 1983 models of regulated trucks are unlikely to meet the criteria which EPA has heretofore applied in permitting use of prior year production verification data instead of requiring representative testing of all regulated models. Therefore, a substantial increase in compliance (testing) workload would occur at a time of severe budget constraint and reduced manpower.

Recommended action

The 1983 noise standard of 80 dB(A) should be delayed to January 1, 1985 or until a need is established. EPA has the authority to make this change administratively.

Timing

Action to postpone the rules should be taken early in 1981.

Rationale

The proposed changes to this regulation would result in significant savings for the industry and consumer.

EMISSION PERFORMANCE WARRANTY

Emissions recall criteria

Description

EPA may order a recall if it determines that a "substantial number" (undefined and could vary with model year, manufacturer, or other factors) of a class of vehicles or engines do not conform with applicable regulations although properly maintained and used.

Recommended action

To determine non-conformity, testing should incorporate a valid, representative sample of properly maintained and used vehicles with average emissions from a substantial portion of the sample exceeding the standards.

Remedial action can be either legislative [Section 207(c) rewrite] or administrative and could coincide respectively with revision to the Clean Air Act, or during 1981-82 calendar year.

Rationale

The change is justified because it eliminates the illogical inconsistency of certifying a mean-level, representative prototype, "average vehicle" and then using a different criterion to assess in-use conformity.

Performance warranty [section 207(b)] aftermarket parts self-certification program

Description

Vehicle manufacturers are required to repair or replace such "certified" parts (parts from aftermarket manufacturers that if used, would not cause the vehicle to exceed the applicable emission standards) as necessary to permit a vehicle to pass an EPA-approved inspection test, at no charge to the vehicle owner. Vehicle manufacturers then must collect their reasonable costs for the repair from the replacement part manufacturer.

Problem

Vehicle manufacturers will be unable to collect all of these costs from the part manufacturer due to disputes which involve time, effort and costs. Aftermarket part suppliers and vehicle manufacturers are both opposed to this warranty program.

Recommended action

The regulations should be amended (immediately) to eliminate the requirement that one manufacturer pay for another manufacturer's parts.

Rationale

The EPA regulation makes no sense for the vehicle manufacturer to incur needless costs because of the actions of others, over whom it has no control.

Inspection/maintenance (I/M)

Description

The Clean Air Act requires 28 states, plus portions of the District of Columbia, to implement by 1982 an emissions inspection and maintenance (I/M) program to meet ambient air quality standards. An EPA-approved "short test" will be used in these programs.

Problems

(1) A special procedure is required on certain designed Ford vehicles to obtain accurate I/M short test results.

(2) Current short tests allowed by EPA for I/M do not correlate with the Federal Test Procedure (FTP).

(3) Ford believes that EPA credits (emission reductions and air quality improvements) from I/M programs are excessive.

Recommended action

(1) Streamline EPA procedure to obtain permission for special I/M short tests.

(2) Require short test pass/fail points to catch only gross emitters.

(3) Require examination of EPA-established credits for I/M programs.

Rationale

(1) The current rulemaking for approval of special procedure is time consuming and expensive.

(2) Without proper short test correlation, a significant number of vehicles could pass the FTP and fail the short test.

(3) Higher than actual credits place undue emphasis on I/M than is anticipated for actual air quality benefits.

Production warranty [section 207(a)]

Description

No production warranty regulations exist and manufacturers and the public need to know which parts should be covered. Ford believes the Congressional intent was to cover the emission control system (e.g., catalyst). EPA has published a pamphlet to the general public that emission-related components (e.g., carburetors) are covered and EPA employes indicate orally that anything on the vehicle affecting emissions should be covered.

Problems

(1) Manufacturers' inconsistency based on varying interpretations of EPA direction.

(2) EPA appears to be expanding warranty beyond Congressional intent.

(3) Manufacturers cannot perceive their risk of enforcement because of undefined limits.

(4) EPA never finalized the rules to clarify warranty requirement.

Recommended action

Require EPA rulemaking on production warranty or revise the Act to define the scope of the warranty. The latter is preferred.

Rationale

Vehicle manufacturers and purchasers should receive uniform treatment and be aware of the requirements to honor claims under the warranty. The intent of Congress should be implemented by the Agency.

1985 LIGHT DUTY TRUCK OXIDES OF NITROGEN EMISSION STANDARDS

Description

On January 19, 1981 EPA issued a Notice of Proposed Rulemaking with regard to 1985 light duty truck oxides of nitrogen (NO_x) emission standards. The Clean Air Act requires a 75 percent reduction in NO_x emissions for 6000–8500 GVW light trucks. The EPA expanded this requirement to trucks under 6000 GVW. The NO_x standard being proposed for 1985 is expected to require very expensive three-way catalysts, feedback fuel metering, and advanced electronic engine control systems.

Problem

In September, 1980 EPA finalized the 1984 light duty truck regulations. These regulations require that manufacturers comply with a very stringent (10 percent) AQL for SEA, certify vehicles to their full useful lives, and comply with very stringent maintenance schedules. These added EPA discretionary requirements in combination with this lower NO_x standard for 1985 will force NO_x certification levels significantly below those of passenger car. This proposed NO_x standard will increase initial light duty truck costs and will have at best questionable air quality benefit.

Recommended actions

Ford believes that the proposed standard for 1985 should be postponed at least two years. We continue to believe that the proposed, very stringent NO_x requirements are not justified either from the air quality or the cost effectiveness point of view and ask that the Agency conduct an in depth air quality/cost effectiveness review.

Timing

Relief needed as soon as possible to avoid costly development programs.

Rationale

The present ambient air quality standard for oxides of nitrogen is being met by the majority of air quality regions. Thus, the present 2.3 gpm NO_x standard appears to be adequate to meet air quality needs. We further believe the recommended changes to this proposed regulation would result in significant savings for the industry and consumer. This proposed reduction in the NO_x standard is not mandated by the Clean Air Act. EPA has the discretion to establish less stringent standards.

DIESEL EXHAUST PARTICULATE REQUIREMENTS

Description

In March, 1980, the EPA established final particulate standards for 1982 and subsequent model year diesel vehicles. These are 0.6 gpm for 1982–84 diesel cars and light-duty trucks (<8500# GVW), 0.2 gpm for 1985 diesel cars and 0.26 gpm for 1985 diesel trucks below 8500# GVW. In early 1981, the EPA also plans to issue a Notice of Proposed Rulemaking for particulate regulations covering over 8500# GVW heavy-duty engines.

Problem

Current diesel cars with 1.5 to 2.0 gpm NO_x control calibrations emit from 0.3 to 1.0 gpm particulates depending on the size of engine utilized. However, any attempt to control the NO_x emissions to a 1.0 gpm level causes an increase in particulate emissions. Thus, for larger diesel engines, controlling the particulates to a 0.6 gpm level may be difficult, especially if they are also required to meet a 1.0 gpm NO_x level.

The major problem is the 1985 particulate standards. One of the major difficulties is that of plugging the trap after a few thousand miles of operation. As EPA has noted, it is difficult to "burn-off" the collected exhaust particulates within such a trap system in a timely manner, because diesel engines have inherently lower exhaust temperatures compared to gasoline engines. Manufacturers have publicly expressed great concern about the 0.2 gpm 1985 standard, declaring it nonfeasible.

Recommended action

The 1985 particulate standards for cars and light-duty trucks should be postponed indefinitely until EPA has determined that viable technology can be developed and demonstrated as feasible in mass production vehicles and determines a need for control to that level.

Timing

Decision required by the fall of 1981.

Rationale

There is no established evidence to indicate the need for particulate control at 1985 standard levels. Furthermore, very strict control of particulates may jeopardize manufacturers' attempts to introduce fuel efficient diesel cars and light-duty trucks.

Recommended action

A minimum of 36 months lead time should be provided for all new regulations and amendments (other than technical and clerical) related to emission controls and fuel economy. Advisory Circulars, which can be very useful to both EPA and industry as a means of interpreting requirements, must not be used to impose substantive new requirements.

Timing

A specific lead time provision—say 36 months—should be provided as soon as possible.

Rationale

A 36 month lead time would result in substantial benefits by providing much needed planning and development flexibility in introducing both emission control and fuel economy programs. Such savings are difficult to quantify. We do know, however, that Ford is incurring large investment and cost penalties associated with factors such as: last-minute introduction of marginal, inefficient programs to achieve small improvements in average fuel economy and emissions; forced compression of program development and execution timing; false starts and last-minute cancellation of programs effected by new regulations; and stretched engineering and management resources.

LEAD TIME FOR PROMULGATION OF REGULATIONS/STANDARDS

Descriptions

Presently, the Clean Air Act does not include a general minimum lead time provision applicable to the promulgation of new or revised regulations. The Energy Policy and Conservation Act (EPCA) on the other hand specifies that "standards applicable to a model year . . . shall be prescribed at least 18 months prior to the beginning of such model year." Further, EPCA requires at least 12 months lead time for changes made to the fuel economy testing and calculation procedures.

EPA routinely issues so called Advisory Circulars (AC's) that purport to clarify previous issued regulations. These AC's are issued without prior notice, without opportunity for comment or public hearing, and are binding when published.

Problem

In the absence of a uniform lead time provision, there is always the possibility last-minute changes to rules or new rules will be imposed. For example, EPA has promulgated high altitude standards effective with the 1982 model year; these regulations were not issued until October 8, 1980, approximately four months prior to initial production of Ford's 1982 line (February 2, 1981) and some nine months prior to full 1982 model year production.

Promulgation of these rules at this late date has caused Ford to conduct engine and calibration development efforts on a crash basis. Had adequate lead time been available, engineering effort could have proceeded on an orderly basis so that fuel economy/performance losses and product restrictions could have been largely eliminated.

Similarly, with respect to fuel economy test procedure changes, EPA has issued AC's that go beyond "clarifying" and, in fact, constitute substantive rule-making. Numerous test procedure changes having a detrimental impact on measured fuel economy have been implemented by Advisory Circulars. These changes were effective at issuance of the AC, thus circumventing the Congressional lead time requirements. Ford believes that its 1979 model year fuel economy labeling and advertising programs suffered because of AC's issued immediately prior to the 1979 model year.

1982-83 INTERIM HIGH ALTITUDE REGULATIONS

Description

Regulations require that all cars and light trucks (except for certain exempted vehicles) meet unique emissions standards at high altitude.

Problem

These unusually cumbersone and complex regulations were issued only 9 months prior to the start of traditional 1982 model production and an incredibly short 4 months in the case of our new front wheel drive (FWD) sport coupe models. These regulations are costly and burdensome in light of the fact that only 3-4 percent of new car and truck sales are at high altitude.

Recommended actions

Ford recommends that the effective date be extended to August 1, 1981. This will alleviate the lead time and workload problems associated with the introduction of the FWD sport coupe.

Maximum use should also be made of the altitude test requirements adopted by the State of California. These requirements which permit use of bench tests rather than costly vehicle tests would significantly reduce the burden of this rule. The present rule provides for an increase in the stringency of the requirement for 1983 trucks. The 1982 truck rules should be continued indefinitely.

Timing

In view of the lead time problems and costs involved, expeditious action is required.

Rationale

Significant consumer cost savings can be realized by adoption of the three Ford recommendations and still provide adequate emission reduction at high altitude.

FMVSS 208—OCCUPANT CRASH PROTECTION

Description

Federal Motor Vehicle Safety Standard (FMVSS) 208 issued by the Department of Transportation (DOT), National Highway Traffic Safety Administration (NHTSA), as amended on July 5, 1977, requires the installation of passive restraint protection in the front seat of all passenger cars beginning with full-size cars in model year 1982 and including mid-size cars on model year 1983 and all cars in model year 1984. NHTSA's justification was that too few occupants are using the available active belt systems and that passive restraints will provide automatic protection that will save thousands of lives annually.

Problem

Compliance with this safety standard requires either air cushions or automatic belt systems. Manufacturers have publicly stated that air cushion restraints will cost $500 to $800 per car. Automatic belts are estimated by at least one manufacturer to add approximately $100 per car, or $800 million in total, in an 8 million car year. Both systems could face customer resistance in the marketplace—the air cushion because of its cost and the automatic belt because of obtrusiveness, which in turn could result in usage rates and benefits considerably below NHTSA projections. Further, the order of phase-in places domestic large cars in a non-competitive position versus small imported cars.

Recommended action

The National Highway Traffic Safety Administration should: (1) Initiate a comprehensive reconsideration of the consumer acceptability, practicability and effectiveness of the passive restraint standard, measured in terms of projected safety benefits; (2) defer passive restraint requirements pending reconsideration; and (3) if reinstatement of the standard is warranted after reconsideration, reverse order of application to provide for installation on small cars first and provide appropriate lead-time for development of optimum initial automatic belt system designs.

It is expected that an objective analysis may well lead to the determination that the passive restraint order should be withdrawn in its entirety. In such circumstances, NHTSA should more actively promote the use of existing lap and shoulder belt systems which provide excellent restraint in a broad range of crash situations.

Timing

NHTSA (or Congress) must initiate action immediately in order to avoid the problems and further expenditures associated with the large car programs scheduled for implementation September 1, 1981.

Rationale

A deferment and reassessment of passive restraint requirements would avoid the problems with the upcoming model year and, if warranted, would permit introduction of more refined systems on smaller cars, at or ahead of the original schedule for those vehicles.

PART 581—BUMPER STANDARD

Description

Part 581 "Bumper Standard"—currently requires 5 mph front and rear impact and 3 mph corner impact capability including stringent damage limits of $\frac{3}{8}$" and $\frac{3}{4}$" dent to bumper and no damage to any other part of a passenger car as a result of the impact.

Problem

The NHTSA's conclusion that bumpers designed to meet 5 mph impacts are cost beneficial to the consumer is widely disputed.

These unsubstantiated bumper requirements add weight and cost, and reduce fuel economy.

Recommended action

Reduce the bumper test impact speed requirement to 2.5 mph front and rear and 1.5 mph on the corners; restore the damage criteria to the 1979 level (Phase I).

Timing

Administrative action to reduce the bumper impact speeds and performance criteria should be accomplished as soon as possible thus allowing bumper designs to be changed. It is possible that some bumper modifications could be accomplished in the 1982 models. Alternatively, legislative action could be taken.

Rationale

The substantive purpose of the bumper standard is not safety, but to reduce damageability costs. Some studies have shown that 5 mph bumper designs cost consumers more than they save in repair costs. The recommended action would permit use of less costly lightweight bumpers that would offer potential for fuel economy improvements.

CAR AND TRUCK POST-1985 CAFE STANDARDS

Description

Present schedule of standards demand annual CAFE increases for cars and light trucks each model year through 1985 (1983-85 truck standards scheduled for issue in December, 1980). Beyond 1985, DOT (NHTSA) is expected to continue issuing ever-increasing annual CAFE standards, based on what it deems is the "maximum feasible" level achievable for each year.

Problem

Although it is clear, in view of energy price and supply realities, that auto fuel economy will remain a dominant issue in the market, Ford strongly opposes another period of escalating year-over-year standards as exist under the current schedule of standards. In fact, continued imposition of mandated year-over-year mpg improvements would be wasteful and counterproductive, forcing manufacturers to commit resources to gain fractions of an mpg in the short term in order to meet standards, rather than apply those resources in an orderly way toward achieving real and substantial gains over time. Also, the CAFE approach results in diminishing benefits in terms of saving fuel as the standards increase; further it is inequitable for different manufacturers (it primarily favors imports).

Recommended action

Ford believes that the present approach of annual CAFE standards should be abandoned for post-1985 cars and trucks, because of the demonstrated, inherent problems of the CAFE-approach to improving fuel economy. Although fuel economy improvements beyond 1985 levels will undoubtedly be needed, it is very unclear now as to what that level should be. Also, the best method of achieving the needed level of further improvement is unclear, whether it should be by a voluntary program, or solely by market demand and higher fuel prices, or by some form of a regulatory approach. In view of these uncertainties, and the fact that an immediate answer is not needed regarding the amount and type of post-1985 fuel economy improvement, the most prudent course of action now is to carefully study these important issues in order to develop the best overall approach for the Nation. In any case, however, the CAFE concept should be abandoned in the future because of its proven problems.

Timing

A new concept is needed not later than 1982, to allow adequate planning lead time for post-1985 models.

Rationale

A thorough study of the future needs for vehicle fuel savings and for a better means of realizing these savings is the appropriate course of action at this time because, first, of the uncertainty of the issues involved, second, the importance to the Nation of having the right approach on this major issue, and third, there is no immediate need for an answer on post-1985 requirements.

CONTROL OF CHLOROFLUOROCARBONS (CFC'S) FOR VEHICLE AIR CONDITIONING (A/C) FOAM PRODUCTS AND ELECTRONIC PARTS SOLVENT

Description

In March, 1978, EPA promulgated Phase One Regulations limiting usage of CFCs in aerosol cans and in certain other uses. In theory, atmospheric ozone is depleted by chlorine released by CFCs reaching the upper atmosphere, thus allowing excessive ultra violet radiation through to earth.

Problem

Studies by the National Academy of Sciences (NAS) and the National Aeronautics and Space Administration (NASA) tend to confirm the above theory, but their modeling is suspect. A number of scientists in the USA and elsewhere in the world do not agree with EPA's adopted conclusions. Due to Phase One Regulations and voluntary actions by industry, CFC production has been reduced by 10.5 percent since 1977. EPA issued an Advance Notice of Proposed Rulemaking in October, 1980, and intends to propose Phase Two Regulations in Spring, 1981. EPA may propose: (a) a production cap on CFCs based on 1977 usage—"no growth" policy, or (b) issuing permits for a limited amount of CFCs, either gratis or by auction, or (c) adopting a "wait-and-see" approach.

Recommended action

As substitute materials such as R-134a for A/C units cannot be manufactured on production scale for 6-7 years, we recommend a modifed "wait-and-see" approach, with voluntary action to reduce CFC leakage, charging, etc. We also recommended *no* interim material requirement (e.g. R-22) due to major costly redesign needed for A/C units now using R-12. R-134a would probably require minor redesign.

Timing

No action required—continue current studies under "wait-and-see" approach.

Rationale

There are no satisfactory substitutes for certain foam products and electronic parts cleaning solvents. Further scientific study may show no need for CFC control at all.

STANDARD 128—FIELDS OF DIRECT VIEW

Description

A new standard issued January 2, 1981 applies to passenger cars to be effective September 1, 1984. This standard specifies maximum permissible obstructions in the forward 180 degree driver view and certain rear fields of view (over-the-shoulder direct visibility). The standard as issued is more comprehensive and more stringent than recently issued European standards.

Problem

Ford has supported the establishment of a Federal Standard to ensure that the vehicle design would meet adequate fields of view. It is believed that this standard goes beyond those appropriate for a minimum standard meeting the need for motor vehicle safety and unduly compromises our ability to make aerodynamic design improvements. Additionally, timing of the standard is not in phase with the industry changeover to smaller cars and will add significant unwarranted investment to change vehicles in the last years of life.

Recommended action

Withdraw the standard or amend its requirements to align (harmonize) with the existing European regulation on fields of direct view. In addition, a delay of one year in the effective date would forestall costly redesign of a number of our vehicles.

Timing

Effective date: September 1, 1984. Recommended date: September 1, 1985. Administrative action: Immediate.

Rationale

Safety need has not been demonstrated. The Agency acknowledges that generally the current vehicles meet the standard's requirements and only slight modifications would be needed to conform all vehicles. The slight modifications, however, are extremely costly and compromise non-safety aspects of vehicle design. With the industry moving to smaller cars the prospect of harmonization with European requirements in most desirable.

Mr. SCOTT. Third, we believe a tax structure that is conducive to achieving national economic goals, particularly capital formation and a strong industrial base, is needed. We favor support of the adoption of a simplified depreciation system featuring much shorter periods for asset write-offs. As Ms. Keller emphasized yesterday, these changes will impact differently among the auto companies, and Ford in a loss position today will not benefit on a cash flow basis in the near term.

Therefore, far more important to us is that the investment tax credit be made refundable. This would assure that the credit has the stimulative effect that was intended by Congress.

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Last, I would like to try to quantify as well as I can here today these recommendations in these three areas from our perspective. First, the refundable investment tax credits would improve Ford's cash flow by considerably over $100 million a year over the next several years. Second, we believe our regulatory suggestions—and the list is not yet complete—would save our customers about $1 billion a year by 1985.

In the trade restraint area we believe that the restraints we urge would improve Ford's cash flow by some $300 to $600 million a year. We believe it would increase employment in the auto industry by up to 75,000 persons with additional increases of perhaps another 125,000 throughout the rest of the industry, including suppliers. Last, we believe that this would have a negligible or very little effect on the average American consumer because any price increases that might be posted on the imports would be offset by reduced taxation for trade adjustment assistance and other stabilization programs.

Obviously there is no one single solution to the industry's problems. We need initiatives in all these areas; and it is difficult, however, to imagine that there will be any prompt and meaningful recovery of the industry without some kind of temporary import restraints. All of the other areas promise in the longer term to create a more competitive environment for the industry.

Temporary import restraint, however, will lead to immediate increases in sales of domestic products that are vital if we are going to restore jobs and generate the cash necessary for completing the conversion to which we are already committed and which is well underway.

So in summary I say we face major challenges. We think we know what we have to do. We are optimistic. We are hopeful that the industry and its workers with the new administration and the Congress can make early progress in getting this industry back on its feet.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you.

Some persons have suggested tax incentives rather than capital formation. You have expressed support for a refundable tax credit. Others have suggested tax incentives which stimulate demand for automobiles. For example, a tax credit for people who purchase cars, and a credit for scrapping older, less fuel efficient cars. I suppose the list could be expanded. Would those suggestions be helpful as far as you are concerned or would you prefer that any sort of tax package concentrate on capital investment?

Mr. SCOTT. Certainly programs that would stimulate the retail markets through rebates or tax credits or whatever, would be helpful and we would look with interest to it. We do support that. We have not been out in the forefront on that because we don't think that rebate programs, as helpful as they can be, will attack the core problem that we are addressing here today about the longer term concern of the industry.

We did indicate to Congressman Brodhead when he introduced his proposal last year that we would be supportive any way we could. We recognize these are costly programs. While we are certainly not against them we have not put them high on our priority list, believing that the other actions would be preferable.

Senator DANFORTH. So, if we had a choice between two approaches you would prefer the investment credit route?

Mr. SCOTT. Driven to the wall on a choice we would like both and we would like anything that would help us. I believe however that what we have indicated is more in our interest.

Senator DANFORTH. I would appreciate it if you could furnish us with your regulatory list and your analysis of what the savings would be with various changes in the regulatory system. Do you have in mind one or two items that would be particularly helpful?

Mr. SCOTT. Yes. The regulatory changes are largely administrative now. Some, however, will require legislative action. The impact on customers is large and the impact on the company in saving some investment is also meaningful. We are particularly interested in the EPA area—in the 1984 heavy truck, 1984 light truck regulatory areas where we believe that the regulations call for excessive tightening of standards. These are procedural changes which we think will not be particularly conducive to improving the quality of the air, but which introduce enormous costs to us that we think can be properly avoided. Those particular items we think would save our customers at least $200 million a year—unnecessary types of expenditures. We are very concerned in the interim about the passive restraint situation. We believe that something must be done promptly to bring some order to a regulatory area that is in chaos since Congress did adjourn without taking action in that area.

We have concern about high altitude emissions. We are very concerned that the 1984 law which requires that all cars meet emissions standards at all altitudes introduces a penalty on some 97 percent of the cars in order that the 3 percent of the cars that are sold at altitude will meet them. We think there are far more practical ways of meeting altitude requirements without penalizing, in cost and fuel economy those cars that will be sold at sea level. There are other regulations where we are asking that reconsideration be given to whether or not the levels of emission requirements, such as these presently waived could not be adjusted permanently. This would be very important to customers.

Senator DANFORTH. How long would it take you to provide us with your comprehensive list together with some estimate of the savings?

Mr. SCOTT. We can get something to the committee certainly by tomorrow. The list continues to expand, this is being looked at carefully by all areas. We have concentrated here on vehicle regulations. There are other regulations of interest to us that impact stationary activities, OSHA, and so forth.

Senator DANFORTH. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Scott, did you have an opportunity to review the testimony that Senator Stevenson submitted yesterday?

Mr. SCOTT. Yes. I was present yesterday when the Senator spoke.

Senator CHAFEE. What are your reflections on the point he made concerning the loosening of the antitrust laws so that the American auto companies could cooperate more on research and development matters? Have you done anything along those lines? He referred to a policy which has been in effect, called the—CARP.

Mr. SCOTT. CARP.

Senator CHAFEE. Yes. Could you explain that?

Mr. SCOTT. Yes. CARP is an acronym for cooperative automotive research program which the Office of the President's Science Advisor has been working on with the industry attempting to reach an agreement that would achieve exactly what Senator Stevenson was talking about—that is, an opportunity to look at the future more on a cooperative basis among the various technical groups in the industry to address basic research programs where there is not a proprietary or competitive interest involvement in the kind of work.

This program has not been launched. We have supported it. It does offer, as I understand it, an opportunity that we have felt we have not been able to take advantage of before in sharing technical information with some of our competitors or seeing that it is achieved on a more efficient basis. It is something that will cost us money at the very time that we are a little bit short of money. However, we do support the principle.

Now with regard to the basic issue of lessening antitrust concerns, yes, we think that would be helpful. But I must be honest in saying I do not think it is going to lead to enormous cooperative activity. We visualize most of this will be basic research that will be conducted at university level and in our forward advance activities.

We come across antitrust problems all the time. We met with Secretary Goldschmidt twice; the heads of the auto companies met with him trying to establish the Automotive Industry Committee. Both meetings were frustrated by the fact that we could not, in the opinion of some of the attorneys present, even proceed to identify what some of the industry's problems were without being in some questionable status about antitrust.

Senator CHAFEE. You have a Congress now that is very sympathetic to your problems. You indicated in your own testimony the votes that were taken on highly controversial matters such as restraints on imports. Those votes were very strong. But when you get to a matter such as relaxation of the antitrust laws so that the industry can get together and thus become more competitive with foreign producers, I think you will find a Congress even more sympathetic.

Where is the ball? Who is going to come forward with such suggestions as relaxation of the antitrust laws so that you can engage in some of these activities you have discussed?

Mr. SCOTT. Secretary Goldschmidt, in the report he sent to the President Tuesday, raised this issue and asked that the new administration give consideration to that as one of his proposals. Perhaps that will be the avenue.

Senator CHAFEE. Nothing happens around here unless people push. If you don't care, and I am not saying you don't, but if the industry does not come around and and make their position known, the attitude is that if you don't care enough to come around, then not much is going to happen.

I would suggest that if you think that you can make savings by some changes in the antitrust laws, then tell us. But if you wait for the administration to take action, I cannot predict much will happen very quickly.

Mr. SCOTT. We have serious problems that go beyond being attracted by any financial savings that can be achieved by antitrust that I can visualize. It is a frustrating matter for us at times. I do not think that relaxing antitrust rules in our industry will lead to our ability to reduce investment enormously or lead to such lower cost that they would be translated into lower prices for our products.

Obviously we would like to be able to operate more efficiently. We would like to eliminate some of the restraints, some of the frustrations of trying to conduct our business and that would be the product. But it is not on our top priority list.

Senator CHAFEE. All I am saying is that if you don't press it, I can't envision much happening.

What do you mean in your testimony, Mr. Scott, when you say that you would like a new U.S. trade policy regarding autos. You must recognize the realities of trade. Are you asking for talks on the reduction of imports? You indicated in your testimony that it would be temporary. Temporary for how long? What specifically would you like us to do?

Mr. SCOTT. We went to the International Trade Commission and asked for action to be taken to restrain Japanese imports over a 5-year period, a rate of restraint that declined in the 4th and 5th years. We asked for a major reduction in Japanese shipments to our market. We were looking at that time, and still are, at Japanese shipments here in the area of, say, 2 million units a year. That is larger than the market for cars in any other country in the world except the United States and Japan.

We were seeking to have that cut back to a level of approximately 1 million units a year, not a prohibition or ban but to cut them back to about what would be 10 percent or so. It would be about 10 percent of our market, which is about the level that the Japanese penetration is in the total European market today. That is what we were seeking at the ITC.

Senator CHAFEE. That would make the products more expensive for the U.S. consumer. U.S. consumers are buying foreign cars either because they think they are better or they are cheaper. Isn't that correct?

Mr. SCOTT. Not necessarily cheaper. I think there has been a general perception that the Japanese products have better fuel economy, cost less money, and are better cars. That may have been the case largely several years ago when we were getting 13 and 14 miles a gallon. That is certainly not the case now but the momentum that has built among the Japanese products in this country is so great that I think the perception still does control.

Senator CHAFEE. I have never looked on the auto industry as bashful when it comes to using advertising to put its point across. If you say your cars are just as good, are you suggesting that the public is bamboozled in some way in buying Honda Accords, for example, that get 40 miles on the highway?

Mr. SCOTT. Versus 44 for the Escort? No, I don't denigrate the Japanese cars. The Japanese build fine cars. So do we.

Senator CHAFEE. I agree. I own a Horizon. I voted against the Chrysler loan guarantee and promptly bought the Horizon to show my confidence in the company. If everybody in the country would do that or if everybody in the Senate would do that, it would be of some help, and the loan may not have been asked for.

I am troubled by what you are suggesting here. You are suggesting that in order to protect your workers, who are the highest paid in the country, that the people I represent, who are paid about 40 to 60 percent of what workers you represent get paid, should be forced to pay a higher price for your product. Now is that fair?

Mr. SCOTT. Let me respond by saying that obviously if Japanese cars are restricted in this country there will be some upward pressure on the price of those cars. Yesterday someone said here, "Oh, if cars are cut back, and a dealer has only 20 to sell instead of 25, he will raise his prices." I don't necessarily agree with that because probably half of the foreign cars sold in this country are sold in dealerships that are dualed with U.S. producers. There are always swings up and down in volume by this car line and that car line. Something is hot this year and not so hot next year. I don't think that is an axiom. We do accept the fact that the upward pressure on prices could lead to price increases on the Japanese cars.

I don't think that these price increases are going to do this country in because there will be some savings if that occurs. I am talking now in terms of the people who go back to work making more American cars and will no longer be recipients of TRA payments. We think in the program we indicated to ITC that some 75,000 workers could come back on the auto company rolls as a result of the restraints and that another 125,000 workers would be employed, reemployed, in the supplier industries with the ripple effects on the economy.

Senator CHAFEE. Those figures are quite different from what the Congressional Budget Office came up with.

Mr. SCOTT. Quite so. Mr. McCammon is prepared to discuss with you our views of the Congressional Budget Office study, the results of which we do not agree with whatsoever. We would appreciate an opportunity to state the reasons why.

Mr. MCCAMMON. The Congressional Budget Office based their conclusions on the thought that domestic small cars were in limited supply. That was a very important assumption that they made, that there were not enough domestic small cars to pick up the reduction in imports. As a result of that assumption they assumed that there would not be much employment effect on the U.S. auto manufacturers if they didn't have the capacity they would not increase employment. They also assumed as a result of that that the domestic auto manufacturers might as well increase their price if they didn't have any additional capacity anyway.

The capacity numbers are very easy to get. There is capacity for 5½ million domestic small cars and the demand is 3½ million. There are 2 million units of excess capacity for domestic small cars in the market today. Mr. Scott indicated that our proposal to the ITC was that Japanese imports be reduced from 2 million to 1 million. That is only 50 percent of the domestic capacity. So, the CBO made the assumption that there was not enough capacity, therefore there would not be any employment effect, therefore we would raise our prices.

We say those are both wrong. There is plenty of capacity in the domestic market to absorb any reduction in imports. There is not any reason that we would necessarily raise our prices. Our desire is to sell cars. We are suggesting that the way to help this industry is to help us in a volume sense. That helps in all respects.

Senator CHAFEE. We appreciate that.

Fine, thank you, Mr. Scott. The chairman has reminded me that there are a host of witnesses yet to be heard.

Senator DANFORTH. Are you selling all the fuel efficient cars you can make?

Mr. SCOTT. Yes. We are operating overtime on our new Lynx and Escort right now at a point in time when I believe some of our competitors are shut down.

Senator CHAFEE. I thought this gentleman just testified you have the capacity to produce more?

Mr. SCOTT. With the Escort and Lynx, the new front-wheel drive cars, we are operating at capacity. We actually have down time, I believe, this week in some of the plants making other small cars. What I am saying is that we have had a very strong response to our all-new Escort and Lynx but the other small cars have not moved as well. In fact, this is true right now in the industry. I understand VW is down for an extended period following the holidays. K-car plants have cut back.

Senator DANFORTH. Why can't you sell all the small cars you can make?

Mr. SCOTT. Well, the entire market has been severely disrupted of course by consumer concern over interest rates. There have been price movements that continue, I think, to frighten the market. As costs have increased we have made price moves but we have not even recovered all of the increases. We have incurred these things together have put us into what we call sort of a second slump here in the market when we thought we were coming out of things earlier in the fall.

Senator DANFORTH. What is the loan rejection rate for purchasers of Fords?

Mr. SCOTT. I don't know. I can find out. I know we have shifted to far more internal financing because the loan rejection rate was rising.

Senator DANFORTH. Could you submit that for the record?

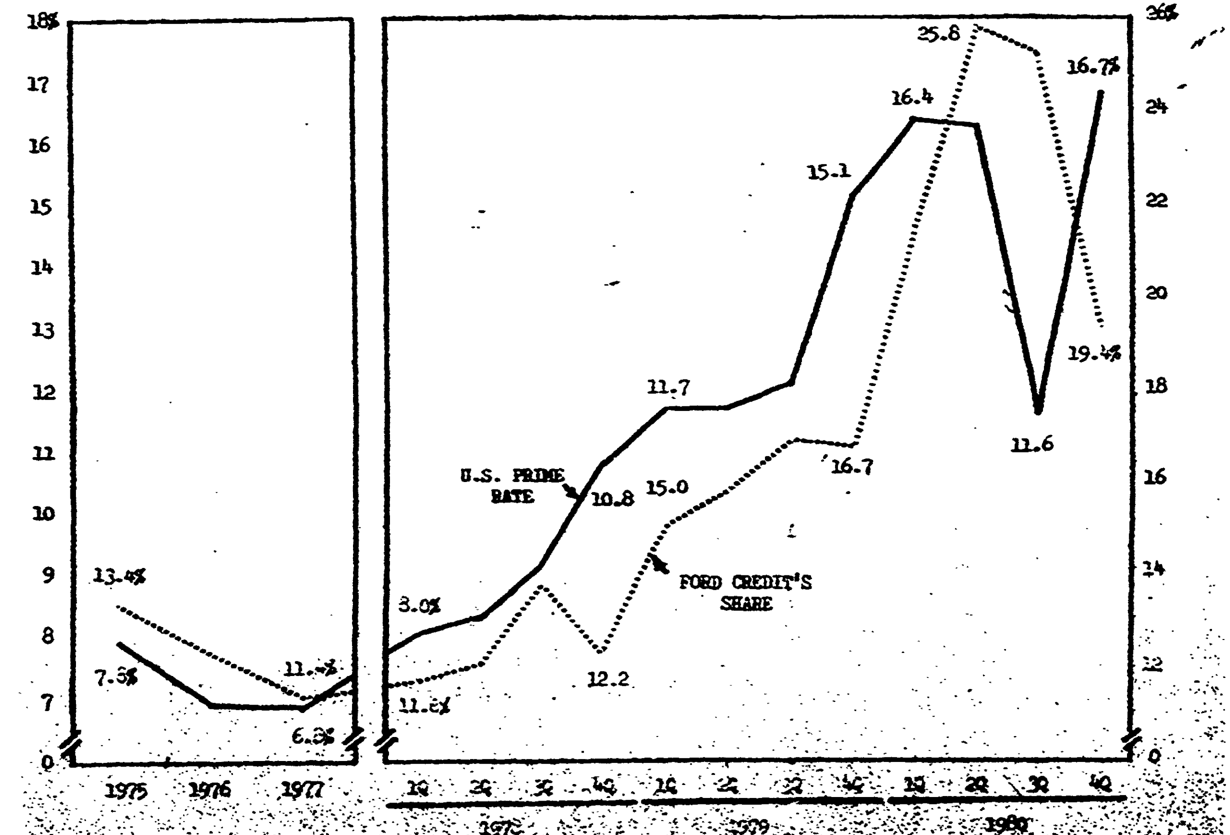
Mr. SCOTT. Yes.

[The material supplied for the record follows:]

CHART II.—*Customer contract rejection rate Ford Motor Credit Co.*

	Percent
December 1980:	
New car/light truck	18
Total retail	22
Total 1980:	
New car/light truck	20
Total retail	24
Total 1979:	
New car/light truck	21
Total retail	24

FORD CREDIT COMPANY'S SHARE OF RETAIL CREDIT BUSINESS FOR FORD PRODUCTS SOLD IN THE U.S. 1975-1980



This chart reflects the % of the retail credit business Ford Motor Credit Company holds on all installment sales contracts written for customers of Ford Motor Company vehicles.

Senator DANFORTH. Thank you very much.
[The prepared statement of Mr. Scott follows:]

PREPARED STATEMENT OF WILL SCOTT

Mr. Chairman, we welcome the consideration of auto industry problems so early on the agenda of the 97th Congress. These problems are serious indeed: Some 2,100 domestic dealerships have closed their doors; some 140 domestic supplier plants have closed as well; auto unemployment remains at unacceptable levels—185,000 auto production workers are on permanent layoff status; and import levels for 1980 were a record high—a 26.5 percent share versus 15 percent in the mid-1970's.

These adversities were not, of course, caused by imports alone. The recession, abruptly increased gasoline costs, soaring interest rates and inflation, the near-collapse of the truck market and the abruptness of the shift to smaller cars all took their toll. And these factors converged in the midst of the largest peacetime conversion in history as we faced unprecedented spending requirements on a highly compressed timetable. The bottom line is that all U.S. producers are operating at a loss—with Ford, GM and Chrysler each losing $1.5 billion before taxes in the first 9 months of 1980.

And the challenges ahead remain tough. It looked as if we were beginning to turn around last fall with the successful introduction of some highly competitive new domestic cars but now the entire industry is wallowing in a second slump.

A lot more is at stake than the health of auto companies alone. Autos account for one out of twelve U.S. manufacturing jobs, a quarter of U.S. steel production and over half of U.S. rubber production. This industry is such a vital part of the U.S. economy, it should be clear that we can't have a healthy U.S. economy without a healthy U.S. auto industry.

Other nations around the world obviously view their auto industries as vital resources. In fact, autos have become a worldwide commodity, with developing nations seeking to join the rest of the world as producers as well as consumers. This has two implications for the United States.

First, U.S. producers must assure that their products are competitive in quality, design, product choice, features and cost with those produced elsewhere in the world. Second, the United States must assure that its automotive regulatory, tax and trade policies take into account actions already taken by most other sovereign nations to foster their domestic industries.

To have a strong auto industry, it is not necessary for the United States to ban all automotive imports nor, on the other hand need the domestic auto industry become a ward of the government. What is necessary is an industry that is competitive and profitable. That means one that can be a major supplier of jobs throughout the economy and strong enough to provide the industrial base necessary for national security and to undergird the United States' world leadership position.

The following are key needs to return the auto industry to good health:

1. U.S. trade policy should be made consistent with our national goals and the ground rules for auto trade throughout the world. We must recognize the realities of world trade where nations use their auto industries to promote national goals such as generating employment, industrial development and foreign exchange earnings. The present imbalance in U.S./Japan auto trade calls for a temporary period of restraint until domestic producers can complete the conversion of their products and plants. Temporary restraint will not, of course solve all of the international competitive problems but it will give us time to work out a U.S. industrial policy that will put our auto industry on equal footing with the rest of the world.

In December we urged the Congress to approve a resolution specifically authorizing the President to negotiate on auto imports. We made this request for two reasons: (1) to send a strong signal quickly to Japan—following the ITC decision—that Congress is indeed concerned about the U.S. jobs and production Japanese imports are displacing; and (2) to clear up antitrust concerns raised by the Carter Administration.

Although we were disappointed that there was no final Congressional action on this resolution, the overwhelming approval by the House and the 65–12 positive "straw vote" on the resolution in the Senate should have sent the right message to Japan. Following adjournment, the Department of Justice issued a letter stating its view that U.S. officials face no antitrust liabilities in negotiating on auto imports.

Although the new Administration is just beginning to formulate its policies, we have been assured that they are seriously considering the auto import issue. We hope, of course, that they will agree the authority is clear and proceed immediately to initiate talks with the Japanese government. If questions of authority are not resolved promptly, however, we will then urge this subcommittee to take the lead in completing the unfinished business on the resolution, which we continue to support.

2. Regulatory policy should be revised to foster cooperation—rather than confrontation—between industry and government in achieving national goals. Wherever possible, national goals should be met through market approaches. The right incentives to the competitive system will work faster and more efficiently than any regulatory approach. Fuel economy regulation certainly falls into this category. As long as gasoline prices are artificially kept low, the market—after responding to the embargo—reverted to its historic preference for larger cars and larger engines. But when gasoline prices began to reflect the true state of our energy situation, the market responded by putting fuel economy at the top of its buying priorities. Unfortunately, it took an unforeseen crisis following Iran for this to occur.

If it appears that national goals are not likely to be achieved in the marketplace and that some uniform requirements are necessary, we need a new approach. Today's adversarial regulatory system has led to some unnecessarily disruptive and costly administrative actions. For example, new heavy truck emission standards were promulgated in conjunction with both a requirement for costly new testing equipment and a set of new enforcement procedures that actually increased the stringency of the standards beyond the 90 percent required by law. Ford has identified a number of regulatory changes that will have negligible impacts on the policy goals, yet save substantial consumer dollars and industry investment. We hope the new Administration will act promptly on these recommendations.

There are other recommendations that will require Congressional attention. For example, the Clean Air Act imposes high altitude rules in 1984 that will severely compromise 97 percent of the U.S. fleet for the benefit of the 3 percent sold at altitude. We are convinced that high altitude air quality goals can be met without fuel economy penalties—while still assuring product availability throughout the country. We urge the Congress to seriously consider this and other overly stringent requirements as this law comes up for reauthorization this year. Also, we urge the Congress to vigorously exercise its oversight responsibilities with respect to all regulatory standards.

And certainly we should rethink the entire process of rulemaking to utilize cooperative industry/government efforts to define the problems better, and identify and estimate the costs of alternate approaches so we can arrive at the most sensible solutions. This would be in marked contrast to the past adversarial relationship, where industry is often not even consulted before proposals are published.

3. A tax structure that is conducive to achieving national economic goals, particularly capital formation and a strong industrial base. Inflation has made present tax regulations and related methods of capital cost recovery obsolete. Depreciation allowances are based on the historical cost of assets, and as a result, corporate taxable income is not adjusted for inflation, making after-tax profits and cash insufficient to provide for asset replacement. This situation could be substantially alleviated by adopting a simplified depreciation system featuring much shorter periods for asset write-offs.

There is also a need to improve the effectiveness of the investment tax credit, which is designed to promote productivity through increased capital investment. The problem here is that in many industries—including autos, steel, mining, airlines and railroads—losses prevent the investment tax credit from having the stimulative impact on capital investment intended by Congress. If Congress wants to achieve this goal, serious consideration must be given to making the investment tax credit refundable. This would help American companies across the industrial spectrum continue to make the capital investments the nation needs to assure product competitiveness and future jobs.

There's no one solution to the industry's problems; we need initiatives in all of the areas I've mentioned. But it's most difficult to imagine prompt, meaningful recovery for the industry without temporary import restraint. All of the other areas promise, in the longer term, a more competitive future for the industry. Temporary import restraint, however, will lead to immediate increases in sales of domestic products that are vital if we are to restore jobs and generate the cash flow necessary for completing the industry's conversion.

We face a lot of challenges in the coming months but we are also optimistic and hopeful that the industry, in concert with the new Administration and the 97th Congress, can make early progress in getting this industry back on its feet. A healthy auto industry holds the key to a revitalized economy.

Senator DANFORTH. The next witness is Mr. Pierre Gagnier from Chrysler.

STATEMENT OF PIERRE H. GAGNIER, FINANCIAL LIAISON EXECUTIVE, CHRYSLER CORP.

Mr. GAGNIER. I appreciate this opportunity to meet with the committee.

The problems facing Chrylser have been well publicized. There is no need to recite them again.

I would like to digress a moment for the information of the committee. We do have some fast-breaking news with respect to Chrysler and the Loan Guarantee Board. Last evening the company and the Loan Guarantee Board reached agreement for the basis of a revised application for loan guarantees which involve significant concessions from labor. The UAW concessions are expected to be about $622 million with significant concessions from lenders the result of which will be over time that $1 billion of the company's debt will disappear from the balance sheet through the exchange of debt for preferred stock and by the payment of 30 cents on the dollar to satisfy the balance of the debt owing the banks.

Supplier concessions are also involved. The company is committing itself to take all possible steps to obtain new capital infusion through merger or other combinations and we will be reporting to the Loan Board periodically on our progress. The result of this is that the company's revised application will be presented to the Loan Board Friday and if everything is in order it is expected that the Loan Board will act affirmatively and report their findings to the Congress and the 15-day soak period, as we call it, will begin on Friday with an eye toward a $400 million takedown in about 15 days provided, of course, that the company and its constituents are able to achieve final agreements and satisfy the conditions of the Loan Board action taken yesterday.

The point I want to make today is that our problems are far from unique. The entire domestic automobile industry is in serious trouble—all of the companies, their dealers, and their suppliers. We have just finished our worst sales year in nearly 20 years. Even so, the auto manufacturers have had to spend at more than double traditional levels to engineer, tool for production, and bring to market a whole new fleet of cars and trucks.

As a result, it appears that Ford, General Motors, and Chrysler will lose as much as $8 billion before taxes on their North American automotive operations this year. About 1,600 dealerships were forced out of business last year—and with interest rates at 20 percent, more are in jeopardy. There are more than 250,000 people out of work, and that's costing the Federal Government more than $2 billion in Trade Readjustment Act assistance alone.

Chrysler is taking drastic steps to correct the problems that are under our control and the results are beginning to show. But there's just so much that one company can do in the face of the industry's worst economic crisis since the Great Depression. We need Government action to deal with the fundamental economic problems that are beyond our control.

Earlier this week our chairman, Lee Iacocca, sent Chrysler's suggestions for solving the auto crisis to all members of the 97th Congress and to the key people on President-elect Reagan's transition team. We proposed a three-point program we call the National

Automotive Recovery Act. I would like to submit for the record a copy of Mr. Iacocca's letter and our plan.

The National Automotive Recovery Act would help bring the level of imports to more traditional levels. It would make it easier for people to buy new cars. And it would relieve the burden of excessive safety and environmental regulations.

Let me describe our proposals.

First, a program to limit imports. The foreign manufacturers, especially the Japanese, have exploited the sudden increased market demand for fuel economy. The imports are now taking about 27 percent of our market—nearly double the traditional share of 15 to 20 percent.

We propose a gentlemen's agreement with the Japanese to stop for 2 years the shipment of imports to this country that are built on overtime. The agreement would reduce imports by about 500,000 units a year. It would give the American companies the time they need to complete the conversion to their new fuel-efficient cars and trucks. It would not cause the layoff of a single Japanese worker, and it would not cause a trade war with Japan.

Second, a program to improve sales. The Congress can stimulate sales by providing a $1,500 personal investment tax credit to anyone who purchases a new American-built car with the trade in of a pre-1976 model. We believe the proposed tax credit will lead to the purchase of 1 million or more fuel-efficient, new-model cars and save more than 300 million gallons of gasoline in 1 year.

Third, a moratorium on regulations. We propose that the Federal Government freeze all environmental and safety regulations at their current levels for 2 years. This moratorium would maintain the industry's progress toward cleaner air and greater safety. And it would allow the manufacturers to devote their full resources to improving the fuel economy of their cars and trucks.

This three-point program will help solve the auto industry's immediate problem. It will help put 250,000 people back to work. It will cut billions out of the automotive trade deficit. It will increase Government income tax revenues and social security payments by about $2.5 billion. It will reduce transfer payments by about $2 billion. And it will help restore the vitality of the country's biggest industry. The program lasts for only 24 months—but that's all the time we need to finish the job of converting the American automobile industry to new products and new technologies.

We will be glad to work with the committee and your staff to clarify any of these ideas. I will be glad to answer any questions you have.

[The supplemental Chrysler material supplied for the record follows:]

CHRYSLER CORP.,
Detroit, Mich., January 12, 1981.

There is a growing awareness that the problems in the automobile industry go far beyond Chrysler Corporation. More than 250,000 auto workers are out of work. The federal government is spending more than $2 billion on Trade Readjustment Act assistance to unemployed auto workers. The three American auto manufacturers will lose more than $8 billion before taxes for 1980 on their North American car and truck business. The industry's small businesses, especially its car and truck dealers, are fighting for their lives. Interest rates are at an all-time high. Sales are at their lowest point in 20 years. More than 1,600 dealerships have gone out of business in the past year. More are in jeopardy.

Chrysler Corporation has taken drastic steps to ride out the automotive depression and to return to profitability, even in this depressed market. But to restore a seriously damaged domestic industry to health requires more than the effort of one company. We need a coordinated program to deal with fundamental economic problems beyond our control.

A year ago I proposed to the Carter Administration a comprehensive program to deal with the problems facing the industry. During the campaign, I also presented the program to President-elect Reagan and his staff. In addition, I have presented it to several members of Congress and the media, and I have discussed it in several speeches.

It was a good program when it was first proposed. As events have developed, it is even more critical now. Under our proposal, which we call the National Automotive Recovery Act, the government would:

(1) Negotiate a two-year agreement with the Japanese to stop shipping vehicles into this country that are built on overtime.

(2) Provide a $1,500 personal tax credit for the purchase of a new American-built car when a pre-1976 car is traded in.

(3) Freeze all environmental and safety regulations at current levels for two years.

The program has been well-received whenever I have presented it. It would increase the sale of American-built cars by one million units, save more than 300 million gallons of gasoline a year, put 250,000 Americans back to work, reduce the automotive balance of payments deficit, and provide the time and funds the industry needs as it converts to more fuel efficient cars and trucks. As people come back to work, the costs of the tax credit proposal would be offset by increases of approximately $2.5 billion in social security and income tax receipts, and by decreases of more than $2.0 billion in transfer payments to unemployed auto workers.

A white paper describing these proposals is attached. I hope that you and your staffs will consider them carefully. We need quick Congressional action on the National Automotive Recovery Act before there is permanent damage to the nation's largest industry, and a permanent loss of hundreds of thousands of jobs.

Some people are afraid this program unfairly favors the automobile industry, even though it clearly benefits the national economy. To those people, I would suggest that any industry which can promise the restoration of 250,000 jobs and the saving of 300 million gallons of fuel be given the same kind of assistance.

Please let me know if I can provide you any further information.

Sincerely,

LEE IACOCCA,
Chairman of the Board.

Enclosure.

NATIONAL AUTOMOTIVE RECOVERY ACT

Chrysler Corporation has proposed a National Automotive Recovery Act to stimulate car and truck sales, create jobs, and restore the American automobile industry to a position of strength.

AGREEMENT ON IMPORTS

Negotiate a gentlemen's agreement with the Japanese to stop for two years the shipment of imports into the U.S. that are built on overtime. The agreement would not cause a single layoff in Japan, and it would not create a tariff war. It would give the U.S. industry temporary relief while it converts its plants to the production of an entire fleet of smaller, fuel-efficient automobiles, and gets its employees back to work.

PERSONAL TAX CREDIT

Provide a $1,500 personal investment tax credit for the purchase of any new American-built car when a pre-1976 car is traded in. The tax credit would save 300 million gallons of gasoline in one year, increase sales of American-built cars by one million units, and put 250,000 American workers back on the job.

MORATORIUM ON REGULATIONS

Freeze all environmental and safety regulations at their current levels for two years. This temporary moratorium would maintain the industry's progress toward cleaner air and greater safety, and at the same time it would permit the manufacturers to devote their full resources to improving the fuel economy of their cars and trucks.

Detailed information about each proposal appears on the following pages.

I. VOLUNTARY ELIMINATION OF IMPORTS PRODUCED ON OVERTIME

Proposal

Negotiate an agreement with the Japanese automobile manufacturers to stop shipments to the U.S. of vehicles produced on overtime. The agreement would take effect immediately and continue for 2 years.

Objective

Prevent serious long-term structural damage to the U.S. automobile industry and its dealer network.

Background

In just seven years the U.S. market share for imports went from 15.2 percent to 27.0 percent.

The rapid increase in imports is solely attributable to a dramatic increase in Japanese export production. Japanese imports, chiefly those of Toyota and Nissan Motors, have grown from a 6.8 percent share of the U.S. market in 1974 to a 21 percent share in early 1980, an increase of 300 percent in seven years. Today, 8 out of 10 imported cars are Japanese.

The Japanese industry, helped by its government through protective tariffs, quotas, and selective taxes, expanded capacity during the 1960s and early 1970s to serve chiefly its domestic market. In 1965, there was only one car for every 45 persons in Japan. By 1975 there was one car for every 7 persons. Since then, as domestic demand has levelled off, capacity has been shifted to export production. The Japanese have found such a ready export market—principally in the U.S.—that in 1979 they produced 1.1 million units on overtime. Overtime production may now be at or near the 1.4 million unit per year level. In the meantime, thousands of U.S. auto workers have been laid off, and states and the federal government are paying billions of dollars in unemployment compensation and TRA benefits.

Other countries have taken steps to limit Japanese penetration. For example, France has by informal agreements limited Japan's market share to under 3 percent. Britain has successfully maintained an 11 percent limit. In Canada, which imposes a 14 percent tariff on imported cars, Japanese penetration has reached only half the level it is at in the U.S. In countries such as Brazil, which have prohibitive tariffs, Japanese penetration is essentially zero.

The United States has not reached any agreement with the Japanese to reduce imports. However, in the last session of Congress, several members proposed import restrictions. The House of Representatives also approved a resolution urging the President to start negotiations with the Japanese. In December, the Justice Department issued an opinion that the President has the legal authority to negotiate an agreement restricting imports.

Projected results

Since over 40 percent of Japan's exported vehicles are shipped to the U.S., this action would reduce imports by 500,000 to 600,000 units a year (1.4 million × 40%), thereby preventing serious permanent erosion in dealer networks, market shares, and customer loyalties.

II. $1,500 PERSONAL INVESTMENT TAX CREDIT FOR THE PURCHASE OF FUEL EFFICIENT EQUIPMENT

Proposal

Give a $1,500 tax credit for the purchase of a new North-American produced car with the trade-in of a pre-1976 car. Program would last six months with the possibility of renewal for an additional six months.

Objectives

Provide consumers with the means to purchase newer, more fuel-efficient cars; increase automobile sales, employment, and fuel-savings; reduce auto emissions.

Background

There are approximately 40 million pre-1976 model automobiles on the road today with an average fuel economy of 12.9 miles per gallon. By contrast, the average 1980 model car achieves 21.4 miles per gallon—an improvement of 56 percent. (These calculations were made in 1980. With the increased average fuel economy of 1981 models, fuel savings should be greater.)

The problem is that many owners of older cars do not have the financial means to make a down payment on a new car. The amount of the proposed tax credit approximates the typical down payment required on a new model car.

There are ample precedents for this type of tax credit. The national goal of reducing our dependence on imported oil has led to a variety of tax credits and other incentives for energy conservation. The tax credit Chrysler is proposing will further the goal of energy conservation, at the same time it helps the automobile industry through a difficult transition period, and helps to re-employ thousands of American workers.

Projected results

The proposed tax credit will lead to the purchase of one million or more new-model cars, saving more than 300 million gallons of gasoline a year, and putting about 250,000 American workers back on the job.

Cost of program

On an annual basis, the total cost of the program would be about $6 billion. However, this would be offset by the increase in employment the program will produce. Each one million units sold produces up to 250,000 jobs or more in auto and supplier industries. This would increase income and social security tax receipts by $1.5 billion. Corporate taxes would increase by $1.1 billion, while decreased transfer payments to unemployed auto workers would save $2.0 billion. The offsets that total $4.6 billion reduce the total annual cost of the program to less than $2.0 billion.

III. TWO-YEAR MORATORIUM ON VEHICLE REGULATIONS

Proposal

Freeze all existing environmental and safety standards and test procedures, excluding passenger car fuel economy requirements, for two years; defer for two years the effective date of new standards, excluding passenger car fuel economy standards; and establish uniform nation-wide emissions standards.

Objectives

Reduce costs of new cars to consumers and reduce operating costs; enable the automotive companies to devote greater resources to improving fuel economy; and free scarce manpower and capital for other uses.

Background

In the past two months, the Federal government has taken two important actions to relieve the burden of excessive regulation on the automobile industry and the consumer. First, EPA granted the automobile manufacturers a waiver that increased allowable carbon monoxide emissions from 3.4 grams per mile to 7.0 gpm for some 1982 engines. Second, NHTSA established reasonable fuel economy standards for light duty trucks that will help conserve energy without unnecessary economic hardship on the truck manufacturers or their customers.

In addition to the two-year moratorium, we need the same kind of realistic approach to regulation in these seven areas of major concern:

Passive restraints

We believe that the passive restraint standard, if allowed to stand, will be a worse failure than the interlock. There are only two known restraints which can be used to comply with the standard—passive (self-applying) belts and air bags. Passive belts are unpopular, and are certain to antagonize a large percentage of car buyers and passengers. Air bags are unproven, and they will add $600 to $800 to the price of a new car. In addition, the cost of replacing the air bag will be 2½ times the initial cost.

We believe that neither passive belts nor air bags will be accepted by the public and that the Congress will be forced to override this standard, just as it did the interlock standard. But this will happen only after passive restraint cars have been on the market for some time and the huge investment in the restraint has already been made. A cancelled standard will mean that car buyers must pay the full cost of developing and tooling, but receive nothing for their money.

Emission standards for 1984 and later light duty and heavy duty trucks

We recommend that EPA reconsider the light duty truck emissions regulations. They should re-calculate the levels of the standard from a corrected baseline, and they should not change the present test procedure (including its SEA quality audit level). There should also be comparable revisions in the proposed heavy duty regulations, and the effective date should be postponed.

As proposed, these emission standards are so stringent that they clearly go beyond the intent of Congress and beyond the levels necessary to protect public health. In reality, they would do little to improve air quality. Instead, they would increase light duty and heavy duty truck prices by about $300 and $750 respectively, and decrease the fuel efficiency of these vehicles.

High altitude passenger car emissions standards for 1982–83

These proposed standards are not required by law. They will have no significant effect on air quality at higher altitudes. There will be no noticeable effect on the Denver "Brown Cloud." This standard would, however, increase the cost of Chrysler Corporation cars sold at high altitudes from $100 to $200.

Pedestrian and side impact protection

NHTSA is proposing these regulations, which will increase cost and fuel consumption, before it has established that they will do much good. For example, NHTSA's research contractor on pedestrian protection reports that the proposed pedestrian protection standard has no correlation with reduced injuries. The side impact proposal suffers from a similar lack of experimental verification. Although the benefits are questionable, there is no doubt that these standards would increase cost, add weight, and reduce fuel economy.

Bumpers

Two and one-half mph bumpers rather than the current 5 mph requirement, would lower repair costs and new car prices, and through reduced weight, improve fuel economy.

Heavy duty truck (over 8500 lb GVWR) evaporative emission regulation—1984 model year

EPA has proposed an unduly complex heavy-duty (HD) truck evaporative emissions certification procedure patterned after their existing standard for light duty trucks, effective with the 1984 model year. HD evaporative emission certification would be substantially complicated by the proposed evaporative requirements. California has successfully controlled HD evaporative emissions since 1973 by a procedure that allows certification of the evaporative control system by "design" i.e., by projecting light duty vehicle system design data to establish heavy duty truck compliance.

Ambient air quality standard for ozone

The ozone air quality standard of 0.12 ppm with only one allowable excursion per year is far more stringent than necessary to protect public health. Most of the problems this creates, including state inspection/maintenance programs, excessive industry hydrocarbon controls, and construction bans can be solved by increasing the standard to .20 ppm or allowing five excursions per year. Consumers would save billions of dollars by curtailment of inspection/maintenance programs alone and industry would save a large portion of the $15 billion cost of retrofitting paint ovens and industrial operations with HC emission controls.

Senator DANFORTH. Thank you very much.

One suggestion that has been made is that if it takes 2 years for the U.S. automobile industry to catch up with the Japanese, by the end of that 2 years the Japanese will have leapfrogged us. They will be producing automobiles much more fuel efficient than we will be producing at the end of 2 years and we will be in the same situation again. Do you agree with that?

Mr. GAGNIER. No, I do not. Certainly the Japanese are worthy competitors and they are outstanding. I believe the excessive flow of imports into this temporary void in the marketplace, because clearly the American companies are late with the more fuel-efficient automobiles, is an enormous problem for the industry while they are trying to make this recovery and catch up. I would not suggest or guarantee that the American industry will be caught up and, product for product, have the technology and the precise fuel efficiencies of the Japanese; but we will be a lot further ahead from both a marketing standpoint and product standpoint than we are today.

Senator DANFORTH. Is Chrysler now selling all the fuel-efficient cars it can make?

Mr. GAGNIER. As we sit here we are not.

Senator DANFORTH. Why not?

Mr. GAGNIER. I think we are dealing with a very soft market. Cars generally are not selling. Obviously Chrysler is a bit unique because of the enormous amount of publicity we have received as to whether we are viable, whether we are going to stay in business. With that appearing in the newspapers each morning it is easy to understand that many customers might well be waiting on the sidelines before they make a purchase decision to see if Chrylser is still going to be around.

Senator DANFORTH. If Congress were to enact some sort of tax assistance of one kind or another for the automobile industry, I take it your preference would be for a consumption stimulative tax cut, as in your $1,500 credit for the purchase of an automobile as opposed to a refundable investment tax credit or some mechanism to supply more cash.

Mr. GAGNIER. Certainly we support the refundable tax credit and some other mechanisms that can be built into the tax laws that would assist companies whose profit is marginal or nonexistent, those who would not benefit by changes in the depreciation schedules. In setting priorities we feel that the highest priority is to get the market moving and to stimulate sales. This is a very short-term solution and one obviously that is not going to solve all the problems. So there should be a longer term view taken of the more fundamental changes in the tax law that would be appropriate to both our industry and others who need more capital formation.

Senator DANFORTH. Finally, what is Chrylser's loan rejection rate?

Mr. GAGNIER. I do not know, Senator. Unlike Ford, unfortunately, our captive finance company is unable to acquire a high volume of retail contracts because they have limited financial resources from which to draw. So, while the Ford loan rejection caused their finance company to have higher participation in the acquisition of retail contracts, in our case I am afraid we would just lose the business because we are unable to step in with our own finance company and fill the void.

I can submit tomorrow for the record, Mr. Chairman, our loan rejection rate data.

Senator DANFORTH. I would appreciate it if you would.

[The material to be submitted for the record follows:]

STATEMENT WITH RESPECT TO SENATOR DANFORTH'S INQUIRY AS TO CHRYSLER'S EXPERIENCE IN THE DENIAL OF RETAIL FINANCING FOR REASONS OTHER THAN THE CREDIT WORTHINESS TO PROSPECTIVE PURCHASERS OF MOTOR VEHICLES

Chrysler is not able to gather from its 3,800 dealers reliable data that would be responsive to the inquiry. However, the recent experience of our finance company does provide some indication of a substantial reduction in the amount of retail credit being made available to our purchasers from conventional (i.e., non-captive) sources. Our finance company is now acquiring retail installment contracts in volume substantially in excess of normal levels. We estimate that currently between 30 and 40 percent of our finance company's retail volume is a direct result of the reduction in credit being made available by conventional sources. While to date our finance company has not had to ration the amount of resources made available for retail credit, a continuation of the present trend could soon require such rationing. Even in an atmosphere of very high interest rates few lenders will explicity deny credit for a car purchase for fear of alienating a good customer/depositor. The more likely technique is to shorten the term of the installment contract being offered (e.g., 30-month maximum instead of 48 months), putting the montly payments beyond the customer's reach.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. No questions, Mr. Chairman.

Senator DANFORTH. Thank you.

The next witness is Dr. David Potter from General Motors.

STATEMENT OF DAVID S. POTTER, VICE PRESIDENT, PUBLIC AFFAIRS GROUP, GENERAL MOTORS CORP.

Mr. POTTER. Thank you, Mr. Chairman and Senators.

I am David S. Potter, vice president and group executive in charge of public affairs at General Motors. I will summarize my statement and request that it be printed in its entirety in the record.

We believe the U.S. auto industry is in its most financially vulnerable period in several decades. This situation has developed as a result of convergence of several factors. In this period of economic decline, sales volumes have been drastically reduced while far-reaching product and facilities investment programs which cannot be deferred are underway.

General Motors believes very strongly in a market solution of the problems of the auto industry. There is however a problem solving role for the Government to play in the regulatory and energy areas. While there are no cures or quick fixes for either our broad national problems or for the more narrower ones applicable to the industry, immediate and bold action is essential to get us on the right path.

President-elect Reagan has called for a temporary moratorium on all future auto regulations and a review of current regulations. We strongly endorse that call. The regulations most important to us are those which impact our productivity or our ability to compete in the marketplace with our offshore competition. Equally important is the need to put on hold a number of regulations that have been promulgated but are not yet in effect. These include, among others, the current passive restraints standard which will give foreign cars a major competitive advantage by requiring us to include these restraints on our full-size cars 2 years before they would be required on the bulk of foreign imports.

A list of these regulations has been widely circulated around Washington. I would be happy to provide you with a copy of that list if you do not now have one.

Senator DANFORTH. I think that would be helpful.

Mr. POTTER. Senator, we circulated all Senators offices 2 months ago. I will make sure another copy gets placed in your office.

I want to emphasize the fact that we do not advocate turning the clock back on public policy where there are demonstrable health and safety needs. This does not mean however there should not be a review of the rules in these areas to determine whether in fact they are warranted from a health and safety standpoint. In the broader areas of concern we believe that no real progress will be made in our industry or any other sector of the economy without a program to deal effectively with the root causes of inflation. While we agree that responsible monetary policy is critical to controlling inflation, it cannot carry the entire burden. We urgently need a better balance of monetary and fiscal policies.

Government spending must be curtailed, relieving the inordinate pressure on monetary policy. The fiscal excesses reflected in the deficits in the Federal budget and off-budget items did much to complicate the task of the Federal Reserve in controlling the money supply.

In this environment interest rates soared to unprecedented levels near the end of last year. They have subsequently descended from their recent peaks but rates are still at unusual high levels that will restrain economic activity, particularly in industries such as autos and housing that are very sensitive to movements in interest rates.

We agree that a significant tax cut should be made retroactive to January 1 and we believe it must provide substantial incentives for capital formation. We are committed to a $40 billion investment program through 1984. The kind of tax policy adopted in 1981 will be an important factor in our ability to meet our investment schedules which in turn are essential to our competitiveness here and abroad.

Another major Government-related problem has been as a result of existing energy policy. The gas lines which caused such a drastic shift in the car market were in our opinion in great measure caused by misallocation of fuel in the Department of Energy allocation algorithms. We strongly support immediate decontrol of energy prices and an end to allocation and other Government interferences in the energy field.

Turning now to our product programs let me emphasize that over the next several years every GM passenger car line currently available will be redesigned or replaced by more fuel efficient models. Funding these programs will present a significant challenge. The required expenditures worldwide for GM exceeded $7 billion in 1980 and they will average $8 billion annually over the 1980 to 1984 period, well above the previous record of $5.4 billion which we spent in 1979. Other domestic manufacturers are also undergoing massive plant modernization and product programs so that investment for the domestic industry may approach $80 billion between 1980 and 1984.

On the question of import relief, as stated earlier General Motors has traditionally supported and continues to support a policy of liberal trade. However we are on record as stating that the U.S. Government must take the initiative in persuading the Japanese Government to protect its own self-interests by acting voluntarily to adopt more prudent trade practices with the United States.

I do not perceive that we in GM are very far apart from our domestic competition in our objectives. If I understand what they are saying, they also believe there should be voluntary action as a result of discussions between the United States and the Japanese Government. We believe this would avoid a move to formal protectionist measures which would be harmful to all our interests, particularly in the long run.

Our problems are indeed serious but we are optimistic. The new administration has made a commitment to changes in regulatory energy and economic policy necessary to create the environment necessary for the private sector to make its maximum contribution to the Nation's progress.

Thank you.

Senator DANFORTH. Thank you very much.

Did General Motors support the Riegle resolution?

Mr. POTTER. Yes, we did.

Senator DANFORTH. Will you continue to support it?

Mr. POTTER. Yes, we would, Senator. It has been our view in urging this action on the U.S. Government to seek some voluntary arrangement with the Japanese Government. It had been our internal view that the legal positions were quite clear that that could be accomplished. However, I think it would be very favorable to clear the air, make certain that there are no legal inhibitions to such an action. So we on that basis have supported the bill.

Senator DANFORTH. With respect to tax measures. Ford has testified that it would like a refundable investment credit. As I understand it that would not be helpful to General Motors. Would you support or oppose the refundable tax credit for the automobile industry?

Mr. POTTER. On the issue of tax credits, the energy tax credit and so on, these should be in the nature of incentives. At this point we would not oppose such a refundable feature to that portion, to the investment tax credits which would act as incentives.

For the investment, investment tax credits which in a sense are incentives for the investment, we would certainly not oppose a refundable feature to those.

Senator DANFORTH. Any investment credit, I suppose, is an incentive for investment. So if the investment credit were made refundable for the automobile industry, you would not oppose it?

Mr. POTTER. That is correct.

Senator DANFORTH. You do not feel strongly one way or another about it?

Mr. POTTER. We would certainly not oppose it.

Senator DANFORTH. Chrysler has the view, and the same is true of the United Auto Workers, that a purchase stimulative tax credit would be more helpful. How would General Motors feel about that?

Mr. POTTER. We have not done a through analysis of the cost-benefit ratio to the average U.S. citizen of the various measures. At this point I would rather not come down on that kind of incentive innovation but certainly the ones that produces greater productivity in the country, the investment tax credit for increased productivity or energy savings, are clear in our minds. The others are not so clear.

I would rather not come out on either side of that one until we have investigated it.

Senator DANFORTH. In your view, how long is the present situation in the U.S. automobile industry going to continue? Do you see a light at the end of the tunnel and, if so, how long will it be?

Mr. POTTER. We will complete our second round or revising, redoing our product some time in 1984. It is obviously more critical in the coming year, less critical in the following year and certainly somewhere in the third year I would expect that we will have done our job. In the process we are making our plants as efficient as present technology will allow us.

I think that there is a great incentive now on the part of industry to work with Government and with labor to see if we can't achieve maximum productivity. All of that should be accomplished in the next 2- to 3-year time period. That I think is our critical period. Beyond that I think the chips should fall where they may. Two or three years is what we need to get through and we should fix our problem in that length of time.

Senator DANFORTH. To what extent do you think the present problems of the automoble industry are caused by governmental policy?

Mr. POTTER. My obvious short-form answer is rather considerable. I think that the energy policy that did not signal the American people as to what was going on in the energy field is perhaps the No. 1 to point out.

Senator CHAFEE. You mean keeping the controlled price on oil?

Mr. POTTER. Yes, Senator. There is a chart in the DOT report which is very graphic in demonstrating the real price effects. Worldwide we noticed a rather slow trend that was accommodatable within our production schedules in other nations in response to increasing fuel prices. It was a very rapid transition that I think caught everyone in 1979 in the early spring.

But further the gas lines, there are two mental difficulties, I think, in buying a larger car today. One is just the plain economic answer, that is, gas prices will be going up, it will cost more to drive a car, hence I should have a fuel economical car.

The second issue has to do with availability. Regardless of one's ability to purchase, if there is an interruption in supply and rationing, then one wants to have the kind of vehicle that will get the most miles for the gallons that will be allotted. There are two separate driving forces and both of those I believe can be laid directly at Federal Government policies.

Senator CHAFEE. Mr. Chairman, I would like to point out that Mr. Potter served with great distinction in the U.S. Government as Assistant Secretary of the Navy, then Under Secretary of the Navy and acquitted himself with glory in those positions.

Mr. Potter, I was not quite sure what you meant on the last page when you said: "The new administration has made a commitment to changes in energy policy." We have now deregulated the price of gasoline except for the final deregulation that takes place some time this year and I can't see that the price is going to go up much more.

What changes are there left in energy?

Mr. POTTER. There are some in the stationary energy area, Senator, those that deal with natural gas and so on that also should be addressed. There are some residuals. There is one other area that has great concern for us and that is the formulation of a national energy policy that takes into account the interruption problem, the crisis problem, how does one address that and get positioned for some interruption that occurs 1, 2, 3, years from now?

In some of the speeches there has been recongnition that that problem too must be addressed, that deregulation serves for the steady state situation when the economics are balanced. But it still does not offer the necessary Government apparatus for a real crisis management case.

Senator CHAFEE. I don't think the chairman asked this question of you as he did the others. Are you selling all your subcompact cars now?

Mr. POTTER. No, we are not. We have a large supply of Chevettes, in fact are taking that plant down for a week. We are now ceasing our overtime on our X cars.

Senator CHAFEE. You are cutting back on overtime?

Mr. POTTER. On the X cars. Our supply situation on X cars is somewhere between 60 and 80 days as a function of name plate. The Chevettes are over 100 days' supply, which is an extreme supply.

Senator CHAFEE. What is the theory? If you restrict the Japanese imports, then people will buy your Chevettes? Apparently they prefer to buy Toyotas or Hondas now than they would Chevettes. Is that correct?

Mr. POTTER. I think we are all down. There is a very depressed market attributable to many factors but in any event there is an extremely depressed market. During this interval I think it is so that there will be some increase in our sales vis-a-vis others. We would expect under conditions like this that if there were any import restrictions that the domestic manufacturers would share probably about equally in whatever the increased domestic sales were.

At the time that our position was most important during the ITC hearings we were in a position of selling all of our units at that time. There was clearly no advantage to General Motors in advocating this voluntary restraint. But we had then and have now a very real concern that unless it is addressed in that fashion there is a good chance it will be addressed more formally and if in a formal fashion it is addressed it is a lot harder to undo. It does not have the flexibility that one would like to have.

Senator CHAFEE. By formal you mean some formal restraint on the imports through an act of Congress?

Mr. POTTER. Yes; that the incentive for that will be building if unemployment maintains its present levels in the Midwest. There will be a great pressure to do that. I think voluntary arrangements that have flexibility and don't have long-term continuity are the things that are required here.

Senator CHAFEE. Mr. Potter, one of the things which has come out of all this as far as this one citizen goes is kind of a traumatic shock as regards what has happened in an industry that seems so powerful, strong, so innovative, that brought to it the finest industrial minds, creative minds that we have in the United States, that had the financial rewards, that represented the essence of the free enterprise system. Yet somehow these industrial leaders were all caught short.

We are now asked to restrict imports. I wonder, is that adequate? Reassure me in some way that at GM in some grand tower there is someone quite brilliant who is thinking about the future that Mr. Stevenson talked about yesterday. For example, we seem to have been outdone by the Japanese in the use of robots on their production lines. They came up with an engine that meets the environmental emission standards and we didn't. They came up with all sorts of simple, small additions, for example, a place to put your coins on the dash board, when you are going through the toll gates. We don't have that feature in many of our cars.

What has gone wrong? Have we gotten soft? Tell me?

Mr. POTTER. Let me take those in inverse order.

Senator CHAFEE. Any way you want.

Mr. POTTER. First with respect to technical innovation, one, they are creative, competent people. There is no reason to expect that we will have a monopoly on technical innovation. I would expect that they will innovate in proportion to their number of engineers and their volume, and they have.

You are right about the coin container on the front of the car. I think we all recognize the value of that. They have had some very substantive innovations.

Their use of robots has been excellent. That is an idea of which I think you probably recognize the history. We put them in our Lordstown plant 10 years ago. At that time they were not as reliable as they are today. The Japanese have done a marvelous job of increasing reliability and integrating them into their production process. We must do that yet even though this country was the inventor of it.

On the other hand there are some technical innovations that are in our product that are not in Japanese products. For instance our all-electronic control systems for this year's cars, all our gas cars have it. We are using that as one of our means of checking out cars at ends of the line. That will be an innovation that will be picked up by other people. So I think, to give them their due, they are a very competent innovative group.

Senator CHAFEE. But they never were meant to be. We were always assured that the Japanese just copied what American genius created.

Mr. POTTER. This is a clear misconception. They are a very capable competitive group. I think that we should expect from time to time to get surprises from them as we will get surprises from Europe. I can also believe though that we surprise them often with our innovations. Our technical innovation record still is excellent.

Senator CHAFEE. Could you address the problem that Senator Stevenson and the chairman mentioned, the so-called leapfrogging; the idea that we will catch up if we are given some breathing space—this idea runs throughout all this testimony—and then in 2 years we will be all right.

But in 2 years, will the Japanese be up to 55 miles a gallon and some other innovations that will leave us wallowing back with a mere 35 miles a gallon and continuing lagging sales?

Mr. POTTER. Let me give you two or three.

One, I think you are going to find in the next year, two or three, that the structural design of U.S. domestic products will prove out, that they will, in the end, turn out to have a better structural integrity and there will be some swing away from many compacts.

Senator CHAFEE. What does "structural integrity" mean?

Mr. POTTER. That means in a crash situation they just plain stand up, and they do. The records are pretty clear, at least in my view.

I will give you another one. When we come out of this thing in 1984 we are going to have a 95-percent front wheel drive fleet. Our foreign competition will not. They have very few front wheel drive cars. They are going to be in the catchup position. I don't envy them the task of retooling, redoing all the transmission for front wheel drive cars and turning them the other way. When we come out of this we will have a 95-percent brandnew lineup. So, those are two things that over the next 2 or 3 years are going to become more evident.

Senator CHAFEE. Thank you.

We appreciate those words of consolation and cheer.

[The prepared statement of Dr. Potter follows:]

PREPARED STATEMENT OF DR. DAVID S. POTTER, VICE PRESIDENT, PUBLIC AFFAIRS GROUP, GENERAL MOTORS CORP.

Thank you, Mr. Chairman, I am David S. Potter, Vice President and Group Executive in charge of Public Affairs at General Motors.

We are pleased to have this opportunity to appear before the Senate Subcommittee on International Trade to discuss the problems facing the U.S. automobile industry.

General Motors has traditionally supported a policy of liberal trade because such a policy is in the best interests of the world economies, the United States and the auto industy. We continue to believe in that policy. We further believe that progress in eliminating trade barriers will result in the most efficient allocation of resources to satisfy consumer demands.

We believe very strongly in a market solution to the auto industry's problems. Our major responsibility is to compete successfully in the marketplace and we are pleased to report we have in place the product program which will enable us to do just that. We are committed to making the effort and sacrifice necessary to that success.

There are, however, government-related problems which must be addressed simultaneously. While there are no miracle cures or quick fixes for either our broad national problems or for the more narrow ones applicable to one industry, immediate and bold action is essential to get us on the right path.

General Motors strongly endorses President-elect Reagan's call for "a temporary moratorium on all future auto regulations, and a careful review of current regulations." There are a number of new, costly regulatory proposals now pending and we earnestly hope they will not be rushed prematurely to completion. We strongly believe they should be delayed and subjected to comprehensive review. The regulations most important to us are those which impact our productivity or our ability to compete in the marketplace with our offshore competition.

Equally important is the need to put on hold a number of regulations that have been promulgated but are not yet in effect. These include, among others, the current passive restraint standard which will give foreign cars a major competitive advantage by requiring us to include these restraints on our full-size cars two years before they would be required on the bulk of foreign imports.

We have developed a selective list of these regulations and supplied them to President-elect Reagan's transition team along with a list of regulations already in effect which we believe should be revised, such as the bumper standard. These lists have been widely circulated in Washington, but if you have not seen them I would be pleased to furnish you with copies.

I want to emphasize the fact that we do not advocate turning the clock back on public policy where there are demonstrable health and safety needs. This does not mean, however, that there should not be a review of the rules in these areas to determine whether in fact they are warranted from a health and safety standpoint. We are proud of the progress we have made in effectively removing the new car from the air pollution problem (by eliminating, for example, 96 percent of smog-forming hydrocarbons from pre-control levels) and in making the car safer.

We understand the role of government regulation in those areas where market forces are not as effective as necessary to achieve needed progress. At the same time, we are proud of our programs which have increased the average fuel efficiency of all the cars we make by 92 percent over the 1974 models. Here, however, the marketplace does work, and we urge that government set as an economic deregulation goal, the elimination of motor vehicle fuel economy standards and taxes. With market-based energy policies, these taxes and standards are unnecessary cost burdens; they add paperwork requirements and act as a strait jacket for our future product plans.

These actions in the regulatory area will give immediate help in cost savings to the customer and permit us to divert scarce capital to more productive, job producing investments. They will also help end much of the uncertainty about future requirements which inhibits orderly product decisions. And by helping to relieve the current adversarial relationship between industry and government, they will provide a needed psychological lift and an atmosphere of confidence in the future.

In the areas of broader concern, we believe that no real progress will be made in our industry or any other sector of the economy without a program to deal effectively with the root causes of inflation. Wage and price controls not only do not deal with these causes, they serve to postpone and then worsen the problem.

Monetary and fiscal discipline are indispensable elements of an effective anti-inflation policy. These policies must be applied in concert, however. The considerable volatility in economic behavior to a significant extent underlies the erratic performance of interest rates during the past year. However, it is also apparent that the fiscal excesses which are reflected in the deficits in the federal budget and in off-budget items did much to complicate the task of the Federal Reserve in controlling the money supply. In this environment, interest rates soared to unprecedented levels near the end of last year. They have subsequently descended from their recent peaks but rates are still at unusually high levels that will restrain economic activity, particularly in industries—such as autos and housing—that are very sensitive to movements in interest rates.

Improved performance for the economy as a whole and the auto industry depends not only on balanced monetary and fiscal policies. Those policies must be implemented in an environment that is conducive to investment. As Chairman Volcker indicated in recent testimony before a House Banking subcommittee: "There is a strong case for tax reductions in terms of productivity" as long as the government does not "flinch from" making offsetting budget reductions to hold down the federal deficit. In this context, we strongly agree that a significant tax cut should be made retroactive to January 1, 1981 and we believe it must provide substantial incentives for capital formation. We are committed to a $40 billion investment program through 1984. The kind of tax policies adopted in 1981 will be an important factor in our ability to meet our investment schedules, which in turn are essential to our competitiveness here and abroad.

Another major government-related problem has resulted from existing energy policy. The 1979 gas lines which caused such a drastic shift in the car market were in great measure caused by misallocation of fuel by the Department of Energy. We strongly believe the policy of continued price controls has proven to be a disservice to the country because the controls insulate the public from the real costs of energy. This policy has retarded development of domestic resources and alternative fuels. It has skewed the car market by delaying an orderly evolution to more fuel efficient cars. We strongly support immediate decontrol of energy prices and an end to allocation and other government interferences in the energy field.

I would like to turn now to the specifics of General Motors' product and facility programs which will help us meet the competition.

While the present economic and financial conditions of the industry might dictate a product adaptation process which is evolutionary in nature, the rapid shift in consumer demand which took place in 1979 and 1980 mandates a more costly and revolutionary approach to product planning.

Accordingly, GM product and facility programs, which were already underway before the oil and recession shocks, have been accelerated in order to match the demands arising from these competitive conditions. Upon completion of this adjustment process, we believe the record will show that the domestic auto industry can be fully competitive with the imports in product characteristics and quality. As evidence of this, the Chevrolet Chevette and Citation were the top-selling nameplates in their respective size classes and were the top two in the total industry as well in 1980.

Over the next several years, nearly every GM passenger car line currently available will be redesigned or replaced by more fuel-efficient models. Vehicles will be reduced in size, new power trains will become available, the four-cylinder engine will become the Corporation's predominant power plant and diesel engine availability will increase markedly. In the effort to meet the demand for fuel economy and utility, at the best possible price, virtually our entire car fleet will be converted to front-wheel-drive.

Funding these programs will present a significant financial challenge. In the first phase or GM's product redesign program, from 1974 to 1979, total worldwide investment was more than $20 billion. The required expenditures worldwide for GM exceeded $7.0 billion in 1980 and will average $8.0 billion annually over the 1980–84 period, well above the previous record of $5.4 billion spent in 1979. Other domestic manufacturers are also undergoing massive plant modernization and product programs so that the investment for the domestic industry may approach $80 billion in the 1980–84 period.

The cash flow requirements for these investment programs are occurring during a period of extreme financial pressure on GM and other U.S. manufacturers. The rapid shift in consumer preferences to subcompacts beginning in 1979 and the subsequent weakness in auto demand arising from weak economic activity have forced U.S. producers to implement periodic production cuts over the past two years. Domestic auto production in 1980 was 24 percent below 1979 levels and domestic sales in 1980 totaled about 6.4 million units—in each case the lowest level since 1961.

The effects of lower production volumes—which are essentially equivalent to factory sales—are readily apparent in the aggregate operating results of the four U.S.-based manufacturers. Worldwide factory sales have fallen below four million units in each of the last four quarters. For the first nine months of 1980 these companies incurred losses exceeding $3.5 billion.

The reduced level of operations has led to reductions in employment. Currently, about 180,000 employees are on indefinite layoff, off somewhat from the peak of 250,000 reached last summer following the sales slump precipitated by credit controls. The job losses in related industries have also been significant. As many as 650,000 workers are estimated to have been laid off in automotive component and supplier firms, such as glass, rubber and steel, during the past year. At the same time, employment by Japanese manufacturers has been at record levels, with overtime being utilized extensively in their plants.

The current environment has also had serious implications for the industry's domestic vehicle dealers. Domestic dealers totaled just under 21,000 at the beginning of the 1981 model year, down over 1,600 from the level of the prior year. A continuation of this trend would have severe implications for the domestic industry's ability to regain former delivery levels once the economy begins to fully recover.

Over this time frame, the costs to various levels of government have risen rapidly in terms of unemployment compensation, trade adjustment assistance and lost tax revenues. In short, the turbulence and economic stagnation of the past two years have created what must be regarded as a very serious national problem.

Turning now to the question of import relief, as stated earlier General Motors has traditionally supported, and continues to support, a policy of liberal trade. However, we are on record as stating that the U.S. government must take the initiative in persuading the Japanese government to protect its own self-interest by acting voluntarily to adopt more prudent trade practices with the United States. Such prudence would help head off protectionist sentiments in this country—sentiments which threaten permanent harm to important trade relations between the U.S. and Japan. While vehicle shipments in recent months have only matched the strong year-earlier level, an indication that prudence has not been consistently exercised by the Japanese is evident in the increase of about 20 percent in shipments for the year as a whole.

SUMMARY

In summary, GM believes that the U.S. auto industry is in its most financially vulnerable period in several decades. This situation has developed as a result of the convergence of several factors. The dramatic increase in gasoline prices and fears about availability in early 1979 resulted in a sudden shift in consumer preferences toward smaller vehicles which Japanese manufacturers were particularly well-positioned to satisfy. Subsequently, the decline in the economy has resulted in drastically reduced sales volumes, even for the smaller vehicles which had experienced strong demand in 1979 and early 1980. This protracted weakness in sales has come at a time when far-reaching product and facility investment programs which cannot be deferred are underway. In addition, inflation has kept this industry's costs moving inexorably upward. This has further exacerbated the already difficult task of financing the massive spending programs.

Our problems are indeed serious, but we are optimistic. The new Administration has made a commitment to changes in regulatory, energy and economic policy necessary to create the environment necessary for the private sector to make its maximum contribution to the nation's progress.

Thank you.

Senator DANFORTH. The next witness is Mr. Howard Samuel, president, Industrial Union Department, AFL–CIO.

STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO; CHAIRMAN, COALITION OF AUTOMOTIVE COMPONENT AND SUPPLY WORKERS

Mr. SAMUEL. Mr. Chairman, my name is Howard D. Samuel. I am president of the Industrial Union Department, AFL-CIO. I am here representing the Coalition of Automotive Component and Supply Workers, members of approximately 30 international unions. I will, as the other witnesses, summarize my statement, in the hope that the full statement can be included in the record.

I am not going to repeat what you have heard already, that is, the details of the problems afflicting this industry.

I would like to make just one point, that there are some people who believe that the principal sufferers are those who actually assemble cars, workers in the automobile industry itself. They, of course, have been grievously affected by what has happened to the industry.

I would like to point out to you that of the approximately 1 million people, workers, who have lost their jobs because of what has happened to the industry, some three-quarters of a million or more do not work directly for the automobile companies themselves but make the parts and components that go into the automobile industry, whether it is glass or rubber or textiles, steel, and so forth.

These workers also have been very severely affected by what has happened to the industry. These are the people whom we represent.

In summarizing the statement, I think, first of all, we would agree with some others that the principal cause of the problem of the industry is the vast scale of Japanese imports. Our union joined with UAW last year in urging the International Trade Commission to recommend to the President appropriate temporary relief measures against Japanese auto imports. I must tell you that we were shocked when the majority of the three ITC commissioners rejected that point of view.

We believe in the very foundation of section 201 of the Trade Act to serve as an escape valve to allow our country to maintain a free trade posture. The three-man or three-person majority of the ITC, by ruling against our belief in connection with auto imports, we think did grave damage to the basic foundation of our trade policy by in effect jamming shut the escape valve.

If this is indeed true, that Japanese imports are the principal cause, then obviously the principal way of remedying the situation is by taking appropriate steps of relief against Japanese imports for at least a temporary period.

Throughout the summer our coalition had discussed with the U.S. Trade Representative and other U.S. Government officials the prospect of negotiations with the Japanese Government. It was independent of the ITC proceedings aimed at providing the desperately needed relief from imports. We reviewed the number of cases in the past where the U.S. administration has negotiated voluntary restraint agreements with foreign governments, including a couple of cases where VRA's were negotiated after a negative escape clause finding by the U.S. Tariff Commission, predecessor of the ITC.

Needless to say, as you know, the administration felt they could not move to initiate negotiations with the Japanese at that time. In September our coalition appeared before the Congressional Auto Task Force to support congressional encouragement for administration negotiations and to urge passage of a congressional resolution mandating negotiations toward either having the VRA enforced by the exporting country or orderly marketing agreement to be monitored and enforced by our own customs officials.

After the ITC vote, we testified again and we are now here to urge congressional action to help solve a problem that has not gone away and will not go away without Government initiative.

In the past we have been pleased and somewhat chagrined to read that the Justice Department now believes that the President clearly has the constitutional authority to enter into negotiations with a foreign government seeking import restraints. I quote the Shenefield letter, that "an agreement between their two governments—Japan and the United States—reached as a result of such negotiations would not be an antitrust violation . . . if the foreign government required through its legal process compliance by its national firms."

These are, as I mentioned, the words of Assistant Attorney General John Shenefield in his December 29 letter to Senator Carl Levin of Michigan.

In the first days of 1981 we have been further encouraged by Commerce Secretary-designate Malcolm Baldrige's recommendation that "the incoming President talk to the Japanese and see if we can't work out something so that the industry can get back on its feet."

We understand that now Secretary of Transportation Goldschmidt has presented President Carter with a memorandum underscoring the urgency of giving temporary trade relief from Japanese imports. We hope that the views of the present Justice and Transportation Departments and those of the incoming Secretary of Commerce will herald prompt action to alleviate the present injury.

There are two other areas where I think Government action is indicated: First, as with some of your other witnesses, we believe that we have to do something to relieve the pressure of high interest rates on auto producers, suppliers, dealers, and consumers. The 20-percent or higher prime rate spells continuing disaster for this industry.

If we cannot lower the entire structure of interest rates through the economy, which would make the most sense, then we have to look forward to a selective easing of credit for the auto industry, its suppliers, dealers, and consumers.

Third, we would like to strongly recommend action to amend the trade adjustment assistance law to permit those to benefit who have suffered severely from what has happened in the auto industry. I am referring to workers who are employees of independent suppliers of parts, components and services who, as you know, are now denied TTA benefits, who lose their jobs to increased imports.

In the last Congress, an amendment known as the Vanik bill nearly became law and would have resolved this inequity. We hope that the 97th Congress will pass that law as a matter of high priority.

Thank you.

Senator DANFORTH. Thank you, Mr. Samuel.

I want to ask you about the trade adjustment assistance situation and then turn to Senator Chafee.

The cost of the trade adjustment assistance program has gone up markedly. The estimate on the cost of the Vanik bill is about $800 million. I think it is fair to say that Congress and the new President are going to be looking for ways to restrict Federal spending, especially entitlement programs.

The outlook for just the Vanik bill frankly is not very high right now. I am sure you would agree with that.

Supposing some kind of help could be combined with a restructuring of the trade adjustment assistant program so that it became less of a checkwriting operation and more of a retraining and relocation program, would the AFL-CIO go along with that?

Mr. SAMUEL. Senator, let me comment in this way: The trade adjustment assistance program, when it was rewritten in the 1974 act, was conceived as a sort of emergency treatment. It was assumed that our basic trade policy would be such as to spare us from extreme damage—again I refer to section 201, the escape clause—and that the Trade Adjustment Assistance Act would be an additional emergency measure for those who sort of fell through the cracks, a trade policy that in some particular respects didn't work, resulted in damage to individuals, and we recognize that we owe them an obligation to make them whole when those situations occur.

Now, we find perhaps because of the ITC decision and other Government action that that crack has widened considerably. A million people have been damaged by the failures of our trade policy. Now, suddenly we look at the Trade Adjustment Assistance and say it is so expensive. We have made a worse mistake than we anticipated. Now we are going to remove the possible help that was intended for those who are the victims.

It is a grim irony that the real sufferers of all of this and who have had no responsibility for it are the workers in the plants. I am assured that the changes could be made, in direct response to your question, in the TAA program which could target it more, which could improve the possibility of more people getting retraining and doing a lot of other things which perhaps would reduce the cost, but I am not sure.

I don't think that reducing the cost of TAA is really going to solve our problem. I don't see TAA as a solution to our problem.

It seems to me that the only way to solve this problem is to take the steps to restrain imports, to take the other steps we and other witnesses have recommended to improve the capability of the auto industry to meet its own problems, so that TAA, once again, can become a rather small emergency program, simply to fill in those times, in those industries where problems haven't been met promptly enough or effectively enough.

Senator DANFORTH. Senator Chafee is not here, so let me ask the questions he has been asking, particularly of the UAW.

How can we in good conscience ask people who are paid $6 an hour, in effect, to subsidize people who are paid $17 an hour, or whatever it is? I have to say that when I go back to my State, as I did just last week, and travel around Missouri, which is a large automobile producing State, I get asked the same question everyplace I go. There is a general reluctance on the part of my constituents to try to help the automobile industry in any way, shape or form. They think that the economic system should be allowed to work, and they ask precisely the same question: "Why should we be asked to help them?"

The United Auto Workers answer is that it has been willing to make sacrifices, that the Chrysler agreement that was worked out yesterday does amount to a sacrifice; furthermore, that they do not oppose modernization, retooling, the use of robots, any kind of improvement in productivity in the automobile industry.

How would you address this same line of concern from the standpoint of employees in industries which supply the automobile industry? Do they, too, have a role to play in trying to solve this problem?

Mr. SAMUEL. Let me answer your first question first, if I could, Senator, and then touch on the last one.

As in all polling, formal and informal, as you know, the nature of the question very often determines the nature of the answer.

It seemed to me that if you and I went to working people, including those in industries that are paid far less than those in the automobile industry, and asked them would they like to continue to see a million people unemployed, plants closed down, other kinds of business affected, retail businesses in the vicinity also closed down, community, civic government, State government affected by the loss of tax receipts, my guess is that they would say, "No, we don't want to see this happen. We want to see this industry healthy again."

An unhealthy industry the size of the automobile industry, as you well know, is bad for everybody, whether it is at the top of the economic ladder or bottom. It seems to me if we ask the right questions and provide the right kind of leadership, we could elicit unanimous support for a well programed effort to make the industry healthy again. It is good for all of us.

What can the parts industry do? I really can't answer that. I think the basic problem they face is that they are not the dog but the tail of the dog; they depend on a healthy automobile industry to keep their industries in good shape. That is why I think, quite properly, we are spending our time addressing the problems of the automobile industry. If that industry is once again healthy, then I think we will find good health returning to the glass, rubber, steel, and textile and other industries that surround it.

Senator DANFORTH. Thank you very much.

[The prepared statement of Mr. Samuel follows:]

STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, AND CHAIRMAN, COALITION OF AUTOMOTIVE COMPONENT AND SUPPLY WORKERS

I am here today on behalf of the Coalition of Auto Component and Supply Workers, a coalition of 30 national and international labor unions affiliated with the Industrial Union Department, AFL-CIO, whose members produce parts, components, and supplies for automobiles. We represent hundreds of thousands of workers—to a certain extent within the domestic auto manufacturing firms but largely outside of them—who produce the steel, rubber, fabrics, wiring, electrical equipment, glass, aluminum, and other materials and components that go into finished automobiles and trucks.

The first fact of life for our coalition, its member unions and their workers is that the injury now being suffered, caused primarily by Japanese auto imports, goes far beyond the injury to the automobile manufacturers and their workers. UAW members have been gravely hit, but total auto-related job losses have hit an astounding one million Americans. More than twice as many workers in supplying companies have lost their jobs as have workers directly employed by the big five auto manufacturers. For many of these one million unemployed auto and auto-related workers, their families and their communities, the recession of 1980—without prompt government action—will never end.

I would like to concentrate my testimony, Mr. Chairman, on the causes of this devastating injury and steps that can be taken soon, if not immediately, to remedy that injury. Most of my remarks are directed to international trade problems, which have been the most important cause of these problems, but I also want to review briefly other steps which can be taken in the near future to strengthen the industry and its employment outlook and, in the longer term, to strengthen the foundations of this vital industry's competitive strength.

THE IMPACT OF JAPANESE IMPORTS

There seems little doubt that the most important cause of injury today to the auto and auto-related industries is the vast scale of Japanese imports. Over the next several years these same Japanese imports will pose a clear and present danger to the health of most of the American auto industry and its related firms. Because this causal role of Japanese imports in both present and threatened injury is and has been so crystal clear, our 30 unions joined with the UAW last year in urging the International Trade Commission to recommend to the President appropriate temporary relief measures against Japanese auto imports.

The members of our coalition were shocked that three ITC commissioners—a majority of one—could deny that increased imports were a substantial cause of serious injury to the auto industry. We felt that an overwhelming case had been presented before the Commission demonstrating the preponderant role of increased imports in causing the massive injury suffered by the industry and its one million idled workers.

ESCAPE CLAUSE RELIEF

The very foundation of U.S. trade law in section 201 of the Trade Act—and indeed the very concept of the "escape clause" established by the GATT and U.S. legislation—was gravely undermined by a one-vote majority in the U.S. International Trade Commission on November 10. The theory behind the escape clause is that open and expanding trade can be maintained only if injurious import surges can be stopped by temporary import restraints—to allow the damaged domestic industry the breathing space needed to get back on its feet. Surely the conditions faced by the auto industry in 1980 and now in 1981 match the escape clause requirements envisioned by the authors of the U.S. law and the GATT agreement. Yet we have now been told that this industry does not qualify for escape clause relief, and so the pressure of cumulative injury can only continue to build. This "escape valve" is jammed shut.

But formal escape clause relief under section 201 is not the only means open to our government for providing the needed breathing space to this strategic industry. Throughout the summer our coalition had discussed with USTR and other U.S. government officials the prospect of negotiations with the Japanese government—independent of the then pending USITC proceedings—aimed at providing the desperately needed relief from Japanese imports. We reviewed the number of cases in the past where a U.S. Administration has negotiated "Voluntary Restraint Agreements" (VRA's) with foreign governments, including at least one case where a VRA was negotiated after a negative escape clause finding by the U.S. Tariff Commission, the predecessor of the present ITC. Needless to say, the responsible Administration officials felt they could not move to initiate negotiations with the Japanese at that time; in fact, their stated position was that the President could not negotiate such restraints with the Japanese without creating a dangerous antitrust liability.

In September our coalition appeared before the Congressional Auto Task Force to support congressional encouragement for Administration negotiations with Japan toward a VRA and to urge passage of a congressional resolution mandating negotiations toward either a VRA—enforced by the exporting country—or an Orderly Marketing Agreement (OMA)—to be monitored and enforced by our own Customs officials. After the ITC vote we testified again, and we are here not in the 97th Congress to urge congressional action to help us solve a problem that has not gone away and will not go away without government initiative.

The injury presently suffered by auto-related workers, their firms and their communities continues unabated. And the threat to the future of even the jobs that remain is just as strong as ever. Consider this: Fully 29 percent of auto and auto-related jobs have been lost. One million jobs. Total hours in the parts industries have fallen by over 40 percent. And all the while, Japanese imports have continued to rise, both absolutely and relative to domestic production, until total imports now hold nearly 30 percent of the U.S. market.

ABSENT LEGAL AUTHORITY TO NEGOTIATE WITH JAPAN

In the past two weeks we have been pleased—and, I must say, somewhat chagrined, to put it in polite terms—to read that the Justice Department now believes "that the President clearly has the constitutional authority to enter into negotiations with a foreign government seeking import restraints" and that "an agreement between their two governments (Japan and the United States) reached as a result of such negotiations would not be an antitrust violation . . . if the foreign government required through its legal process compliance by its national firms." These are, of course, the words of Assistant Attorney General John H. Shenefield in his December 29 letter to Senator Carl Levin of Michigan, in response to the Senator's urgent written inquiry. We have argued the same interpretation, in vain, for the past eight months. And we had believed, apparently mistakenly, that this interpretation was not supported by the Administration.

In the first days of 1981 we have been further encouraged by the words of Commerce Secretary-designate Malcolm Baldrige, who said on January 6, "I recommend that the (incoming) President talk to the Japanese and see if we can't work out something so the industry can get back on its feet." And we understand that Secretary of Transportation Neil Goldschmidt has now presented President Carter with a memorandum underscoring the urgency of giving temporary trade relief from Japanese imports so that our auto and parts industries can make a successful transition to the full-spectrum industry of the future, producing smaller, lighter, fuel-efficient automobiles for the U.S. market of the mid-1980's and beyond. We hope that the views of the present Justice and Transportation Departments and those of the incoming Secretary of Commerce will herald prompt action to alleviate the present injury and start the long-term rebuilding of these vital industries.

RELATED ISSUES

While providing import relief is the most significant step that can be taken immediately to get the U.S. auto and supplying industries back on their feet, other measures can also have important effects in the near term.

Interest rates.—Relieving the pressure of high interest rates on auto producers, suppliers, dealers and consumers could make a very big and immediate difference. A 20 percent or higher prime rate coupled with 14 percent credit union car loans spells continuing disaster for this industry. The best solution for these problems would be to lower the entire structure of interest rates throughout the economy. If that cannot be done, then a selective easing of credit for the auto industry, its suppliers, dealers and consumers should be undertaken. For auto consumers, for instance, preferential credit for purchasers of domestic autos could be implemented on a temporary basis, providing lower down payments and interest rates and longer maturities for new car loans.

Trade adjustment assistance.—Trade Adjustment Assistance (TAA), as you know, provides a needed cushion for the kinds of long-duration unemployment suffered over the past year in the auto and parts industries. Continuation of those benefits for those who are now eligible is vital. But it is equally vital to end the discrimination against workers in independent suppliers of parts, components and services who are now denied TAA benefits when they lose their jobs to increased imports of automobiles. In the last Congress the TAA amendments known as the Vanik bill nearly became law, and they would have resolved this inequity. Passage of similar legislation in the 97th Congress should be priority.

Import relief, interest rate relief, and Trade Adjustment Assistance extension are three urgent steps needed to lessen the current damage in the auto and related industries and to lay the foundation for a longer-term recovery of these industries to full competitiveness. We are confident that in the future these industries can build themselves, but in order to do so they must be given the breathing space necessary to accomplish their reconstruction effort. We hope that the work of this Committee and the new Congress will contribute to that goal.

Senator DANFORTH. The next witness is Prof. Lawrence Harbeck, University of Michigan.

STATEMENT OF LAWRENCE HARBECK, RESEARCH SCIENTIST, UNIVERSITY OF MICHIGAN, OFFICE FOR THE STUDY OF AUTOMOTIVE TRANSPORTATION

Mr. HARBECK. I am not a professor. I am a research scientist. I just arrived here today. We had a big meeting at the University of Michigan yesterday on the Japanese automotive industry, at which Secretary Goldschmidt spoke, as well as Senator Riegle and many others.

I am going to have to greatly shorten my testimony, if that is all right.

We believe that the industry is still very strong and competitive, but it is beset by very severe temporary problems that could have quite lasting effects.

I think in discussing the automotive industry in the United States, it is very important to keep the following sequence of events before us:

First, for most of the postwar period the real cost of energy in this country was dropping. Partially as a consequence of this and the way consumers wanted to buy cars, North American cars got very heavy, very large, and very luxurious. In Europe and Japan where cars were not so much of a necessity, gasoline prices were kept high by adding taxes. Also, punitive taxes were placed on weight and horsepower.

Because of higher costs, cars in Europe and Japan were made small and economical. In late 1975 and early 1976, in this country when many of the decisions concerning 1980 model cars were being made, import sales had just suffered a tremendous drop in penetration, from 21.7 percent of the market in March 1975, to 11.6 percent in November of the same year, a decline of almost 50 percent in 8 months. During this same period Government mandated gasoline prices remained essentially unchanged, at less than half of today's level.

Two years ago, just before the Iranian crisis, large domestic passenger cars were selling very well. There was a backlog of customers trying to get V-8's. Small cars, including imports, were piling up on the docks.

In the wake of the fuel shortage and rapidly rising gasoline prices in 1979 and 1980, small-sized U.S. cars and imports suddenly became popular again. The import manufacturers can meet demands for small cars by working overtime in large capacity facilities, which they have had for decades. American vehicle manufacturers, led by many years of big-car demand, based on low fuel prices, had to catch up.

The important thing here is the leadtime problem. It is very important to keep in mind the long leadtime between a management decision and production for the market. My example is the introduction of the GM "X" car just after the Iranian crisis. It looked like a very fast move on the part of General Motors, but the decision to make that car probably had been made in the late fall of 1973 before the OPEC embargo.

There is a tremendous leadtime. That was good luck. Nobody can run a business trying to call the Iranian crisis. You have to follow these leadtimes, which probably take 7 years to turn an entire company around. This is the real problem, the leadtime.

On capital, we don't know exactly what the industry's capital needs are, but we know they are large beyond comprehension and, of course, are creating tremendous financial strain. We think any reasonable action that can be taken to relieve the pressure will help accelerate progress.

One way would be changes in depreciation regulations, provisions to permit a more rapid write-off or investment tax credits for special tools needed to meet Government programs. Perhaps new production facilities obsoleted by market trends could be considered for more rapid write-off.

Inseparable from the automotive industry's capital problems is the overall capital investment situation in the United States. A recent estimate indicates that capital investment as a percentage of GNP is much higher in Japan and in Germany than in this country, and it would indicate those investing areas are more attractive. We would benefit from Government policies that would offer more encouragement to savings and investment.

Major losses of capital investment would hurt the U.S. automobile industry more than they would the automotive industries in other countries, because the U.S. industry is particularly dependent on using capital investment to offset high labor costs.

The only way the United States can be productively competitive is by investing more per worker and per unit of finished product than do its competitors. If foreign competition continues to have lower labor costs and, in addition, is able to employ more capital per worker, U.S. industry will be uncompetitive.

We strongly support current efforts to conduct a complete review of all laws and regulations pertaining to the automotive industry. Perhaps a nongovernmental, independent organization could be established to study conflicting regulatory demand.

Whatever steps the Government takes to assist the U.S. automotive industry, we suggest they be positive. The objective should be to bring all segments of the industry up to the strength of the best and not to tear down the strong.

We should not overlook the plight of the suppliers and dealers. There are almost 40,000 suppliers and a great number of dealers. Their uncertainties are much greater than the uncertainties of the automotive manufacturers who have enough uncertainties as it is. They are on the end of the whip.

We believe that if the U.S. industry achieves its announced product plans, it will be highly competitive both domestically and in export markets in 1985; but it is going to take a tremendous amount of sales to generate the capital to make those goals. We are not certain that technically the industry can reach all of its goals, because their product objectives, particularly for the years beyond 1985, are dependent on technical breakthroughs that have not yet been accomplished.

We see research as a very strong connecting link between objectives and achievement.

The University of Michigan is enthusiastically in favor of the cooperative automotive research program known, inelegantly, as CARP. We believe CARP not only promises great results but also promises rare opportunities to produce a large-scale interdisciplinary program that could substantially advance the Nation's first need—continuing cooperation between industry, labor, Government and the academic community.

We need all the research we can get, as our foreign competitors are certainly doing a lot.

I think I can sum it up by saying that our overall recommendation is for one of cooperation. The U.S. Government's regulatory responsibility may require adversarial relations between Government and industry, but the Government wears more than one hat. The Government is also responsible for providing a legal and regulatory environment that is supportive of U.S. industry and commerce. In this role, there is no place for antagonism and there is a place for correcting current and past mistakes. We believe a lot of the industry's difficulties result from past mistakes by Government.

Thank you.

Senator DANFORTH. Thank you very much.

As I understand it, you think it looks as though we will be over the hump by 1985?

Mr. HARBECK. We will be over the hump. We will be fully competitive. We will probably be ahead of them in most ways if our capital needs, which we estimate at $25 billion a year for 5 years, can be met.

Senator DANFORTH. Therefore, you stress capital investment and if you were in the position of Congress you would address your attention to determining what governmental policies would encourage capital investment?

Mr. HARBECK. And make it possible, yes.

Senator DANFORTH. That would include accelerated depreciation, refundable tax credits?

Mr. HARBECK. Certainly. Maybe advance repayment of losses and all kings of cash flow assistance.

Senator DANFORTH. Then you would address also the question of research and development, the Cooperative Automotive Research Program, any sort of Government activity which would encourage the automobile industry to——

Mr. HARBECK. Encourage them and to support research. There are billions of dollars going out of this country to the Japanese and others that they are spending on research. Their companies are using our money to catch up. It is a leadtime problem. I don't think the U.S. industry has made any gross mistakes. As somebody said earlier, they just got caught short.

Senator DANFORTH. You would also review how Government regulations are affecting the automobile industry?

Mr. HARBECK. Yes. We would urge nothing be done to change the movement toward deregulation of energy; that is probably the biggest problem the automobile industry faces.

Senator DANFORTH. You would support deregulation?

Mr. HARBECK. Yes. That, I think, is maybe the Government's first objective, to make sure it does indeed become deregulated and that the allocation program goes away.

Senator DANFORTH. How about the other regulations such as emission controls?

Mr. HARBECK. There we would think it is very important to review that last 1 percent or last 10 percent where the companies invest billions and unmeasurable amounts of time and effort struggling to get a tiny *x* percent, whatever the residual is.

I don't think that anybody really knows that those are all that necessary. It is a rapidly rising curve of cost to get that final percent.

Senator DANFORTH. Have you made an analysis of the cost of regulation in the automobile industry? Do you have specific proposals to make?

Mr. HARBECK. I do not. I have not made a specific analysis. We have some quotes from one Government source, that 20 percent of all the U.S. automobile industry's capital needs are related to regulation.

Senator DANFORTH. Now, I suppose the most immediate question before us has to do with import restrictions. What would be your feeling on that?

Mr. HARBECK. We believe in free trade. When I say "we," I have to be careful. I do not represent the University of Michigan. One person can hardly represent the University of Michigan. I represent a part of the university, a large part, that believes in free trade. We do not believe at the present time that trade is free; it is highly restricted around the world, everyplace but in this Nation.

If this is hurting us by our being the sole exception, perhaps on some temporary basis something should be done about it.

The auto industry has an impact, a place in the Nation beyond just a few jobs. It represents a lot of jobs, high-paid jobs and a lot of people. It is part of the whole economic structure of the Nation. In a sense, I guess you could say it has a defense role. Do we want to import all of our automobiles, any more than we would want to import our tanks from Russia?

Senator DANFORTH. Do you feel that something like the Riegle amendment would be advisable?

Mr. HARBECK. I am not familiar with it. Senator Riegle spoke with us yesterday and discussed the various points of the amendment. We also heard Secretary Goldschmidt. I don't want to be specific about those details.

Senator DANFORTH. But it is true that our market within the United States is more accessible to other countries than their markets are accessible to us?

Mr. HARBECK. That is true. It is also true, and a point I started to make with my history, that our problem is in this country. Somebody said earlier they thought the economic system should be allowed to work, either you or perhaps Senator Chafee. We think it should be allowed to work. We think we are in trouble today because the economic system was not allowed to work.

When I say "we," I mean the U.S. automotive industry. I think when the U.S. automotive industry is in deep trouble, as it is, everybody in this room is in trouble.

Senator DANFORTH. You are saying governmental policy created the problem of the automobile industry?

Mr. HARBECK. Yes, indeed it did.

Senator DANFORTH. Therefore, for the Government to try to assist in some way at this point would not be unreasonable?

Mr. HARBECK. It would be very reasonable.

Senator DANFORTH. And there is no reason to suggest that the United States should be any more open to the imports than any other country is?

Mr. HARBECK. We have been more open. I don't know what our options are. This is something that Congress, the Government, and the universities should study very carefully in a changing world. The country at one time had over 4,000 different kinds of automobile manufacturers; most of them have disappeared. They were replaced and their workers were put to work by other automobile companies in the United States, but that is changing.

As we begin to compete internationally, can we afford to be quite so open? I think this bears a lot of study. Right now I think there is an error that has been made that could be redressed.

Senator DANFORTH. Let me ask you this: The testimony of representatives of the automobile manufacturers is that we are not now selling all of the fuel-efficient cars that we can make. One of their points is that import restriction will allow the American automobile manufacturers to be able to retool and therefore make small fuel-efficient cars that people will buy. However, people are not buying all the fuel-efficient cars that we can make right now.

Mr. HARBECK. This is temporary. We are in a very bad recession. Sales and production are not much more than half of what they ought to be. We think over the next decade passenger-car sales should run 12 or 13 million units a year, especially at the end of 10 years. We are so far from that now it is pretty hard to judge the market.

It is not a realistic time to be judging the market for other reasons.

Senator DANFORTH. One of the suggestions is that we should provide incentives for the purpose of automobiles, in effect reduce the cost to the purchaser, a tax credit for purchasing a new car, a tax credit for scrapping an older car. Would that encourage people to buy the cars that we are making now?

Mr. HARBECK. To me, it sounds like another layer of regulation, an interference with the marketplace; whereas it would probably be a lot simpler and better to work out some kind of cooperative, informal arrangement with the Japanese, nonstructured, not a congressional act but a face-to-face, man-to-man agreement with them. They would be a lot better off.

If the pressure is taken off at that end, then there are other problems here with recession—interest rates, money and jobs, all those things—but they could then sort themselves out.

If you give people money to buy a car, why not give people money to buy a refrigerator or house? It could get pretty complicated.

Senator DANFORTH. Because the automobile industry is a basic industry for this country and they are in such a desperate condition now?

Mr. HARBECK. That, I would say, is a separate consideration, as you suggest. It does not really address the Japanese import problem.

Senator DANFORTH. That is right. The question is, in getting over the hump would it be helpful to artificially stimulate demand for new domestic automobiles by, in effect, paying people to buy them?

Mr. HARBECK. I have not thought it through, but it sounds like more of an interference than I think we need.

Senator DANFORTH. You would rather have us spend our tax reduction dollars to provide tax relief in the form of accelerated depreciation, investment credit, refundable investment credit?

Mr. HARBECK. Right. Anything you can think of that nature. Many of the foreign countries, Japan for one, have much faster writeoffs than we do.

Senator DANFORTH. That would, in effect, give cash to the automobile manufacturers as opposed to giving cash to the consumers?

Mr. HARBECK. Cash is what they need. Whether or not the consumer buys cars this year, they are going to buy cars next year or the following year or one of these years, and the manufacturers have to have the cash for investment to get ready for them. They would have had the cash right now if the market had not been interrupted 5 years ago.

Senator DANFORTH. Thank you very much.

[The prepared statement of Mr. Harbeck follows:]

PREPARED STATEMENT OF LAWRENCE T. HARBECK, DIRECTOR OF MANAGEMENT PROJECTS, OFFICE FOR THE STUDY OF AUTOMOTIVE TRANSPORTATION, COLLEGE OF ENGINEERING, UNIVERSITY OF MICHIGAN

THE PROBLEMS OF THE U.S. AUTOMOBILE INDUSTRY

Chairman Danforth, and members of the subcommittee, I appreciate the opportunity to discuss the problems of the automotive industry and its present and future role in the domestic and world economy. The industry is still strong and competitive but it is beset by severe temporary problems that could have lasting effects. Therefore, this inquiry is very timely.

In my testimony today I will begin with a brief discussion of the recent history and probable trends in automotive technology and the market. I will then consider industry capital requirements, and the status of the vehicle manufacturers and their suppliers and dealers and will conclude with some remarks on the competitive situation and research needs.

As a faculty member at The University of Michigan, I draw on a long and growing record of cooperation and helpful interaction between the University, government, labor, and the industry. The University of Michigan has contributed to the education of a significant share of the industry's technical and business leaders. Practically every aspect of the automotive transportation system is studied in depth, including both technological and non-technological factors.

We are deeply involved in problem solving and identification and have moved from the ivory towers. Dr. David Cole, our office director, and I have developed and directed an annual automotive industry seminar that is a leading forum for interactive, two-way discussions between the vehicle manufacturers, their suppliers, and representatives of labor and government. The University's primary responsibilities remain those of teaching and research, but there is no conflict between these missions and shirtsleeves participation in the working world.

HISTORY

The automotive industry has made mistakes, of course. But in judging it, it is only fair to keep the following sequence of events before us:

For most of the post WWII period the *real* cost of energy, was dropping.

Partially as a consequence of the declining real cost of gasoline, and resultant consumer perceptions and demand, North American passenger cars became large and heavy.

In Europe and Japan, where cars were not so much of a necessity, gasoline prices were kept high by adding taxes. Also, punitive taxes were placed on weight and horsepower.

Because of higher costs, narrower roads, and shorter distances travelled, cars in Europe and Japan were made small and economical.

Imported cars were not a major factor in the U.S. until the 1970's. But even between 1970 and 1972, while imports sales were edging up from 1.2 million units to 1.5 million, sales of domestic cars increased from 7.2 million units to almost 10.0 million. The increase alone in domestic car sales was almost twice the level of total import sales.

In late 1975 and early 1976, when many of the decisions concerning 1980 model cars were being made, import sales had just suffered a tremendous drop in penetration—from 21.7 percent of the market in March, 1975, to 11.6 percent in November of the same year—a decline of almost 50 percent in only 8 months. During this same period, government mandated gasoline prices remained essentially unchanged at less than half of today's level.

Two years ago, just before the Iran crisis, large domestic passenger cars were selling very well and import sales remained depressed. Dealer inventories of imports were near record highs.

In the wake of fuel shortages and rapidly rising gasoline prices in 1979 and 1980, small sized U.S. cars and imports suddenly became popular again. Import manufacturers could meet added demand for small cars by working overtime in large capacity, small-car facilities. American vehicle manufacturers led by many years of big car demand based on low fuel prices, had to catch up—and it will take time and money to build the facilities to do this.

It is important to keep in mind the long lead time between management decisions and production for the market. Years are required to make a major modification, to produce a new model, or—to produce much larger quantities of an existing model. If outside events suddenly change consumer demand, manufacturers are severely limited in how fast they can act.

Long-lead times are caused by several limiting factors including (1) financing, (2) availability of trained engineers and other personnel and (3) the limited ability of the machine tool industry to supply production equipment. Capital and financing problems are particularly severe today because of unrecoverable investments in huge amounts of existing capital equipment that was designed to produce, in large quantities, vehicles that are now selling in low volume.

CAPITAL REQUIREMENTS

We have seen a wide range of estimates of the capital that will be required by 1985. Our estimate is $25 billion per year from 1979 through 1985. Over the five-year period, this figure would include $75 billion for U.S. motor vehicle manufacturers and $50 billion for their U.S. suppliers. Any present-day estimate can be quickly reduced, of course, if poor vehicle sales or other circumstances make such enormous investments impossible. Any forced decline in capital spending delays the restoration of full competitiveness for U.S. automotive manufacturers.

Perhaps the only certainty about the industry's capital needs is that they are large beyond comprehension and will create immense financial strains. Any reasonable action that can be taken to relieve the pressure will help accelerate progress. Perhaps the best way to help would be immediate changes in depreciation regulations to allow an equally immediate improvement in internally generated cash flow. Related steps could include provisions to permit a more rapid write-off and/or increased investment tax credit for special tools needed for government mandated items and the fast refunding of taxes to companies not in a profit position. New productions facilities obsoleted by recent market trends could be considered for more rapid write-off as well.

Inseparable from the automotive industry's capital problems is the overall capital investment situation in the U.S. Recent estimates indicate that capital investment as a percent of GNP is 20 percent in Japan, 15 percent in Germany, but only 10 percent here. These data would indicate that investing in Japan and Germany is more attractive. We would benefit from government policies that offer more encouragement to savings and investment.

Major losses of capital investment hurt the U.S. automotive industry more than they would automotive industries in other countries because the U.S. industry is particularly dependent on using capital investment to offset high labor costs. The only way the U.S. can be productively competitive is by investing more per worker and per unit of finished product than do its competitors. If foreign competition continues to have lower labor costs and, in addition, is able to employ more capital per worker, U.S. industry will be uncompetitive.

REGULATIONS

Perhaps it is time to evaluate the broad collection of regulations applied to the auto industry in the context of today and a likely tomorrow rather than the past in which these regulations were created.

We strongly support current efforts to conduct a complete review of all laws and regulations pertaining to the automotive industry. Perhaps a non-governmental independent organization should be established to study conflicting regulatory demands.

Whatever steps the government takes to assist the U.S. automotive industry, we suggest that they be positive and undertaken in a spirit of good will. The objective should be to bring all segments of the industry up to the strength of the best, not to tear down the strong.

TECHNICAL TRENDS

Recently, I participated in the design and management of a major survey of technical, marketing, and administrative decision makers in the automotive and supplier industry. We developed a consensus view of the automotive future.

Automotive engines of the future will be predominantly in-line 4-cylinder and V-6 designs. In 1990, 4-cylinder production may be as high at 75 percent.

More exotic engine concepts such as the gas turbine or the stirling engines are not expected in the 1980's.

The front-engine, front-drive concept with the engine located transversely in the vehicle will become the predominant passenger car drive train.

The conversion to new engines and drive trains will be enormously expensive.

Electronics are expected to play an increasingly prominent role.

In general, lightweight materials will come into far greater use in the never ending drive of the automotive designer to maintain the largest possible passenger and load volume while reducing vehicle weight to minimize fuel consumption. The average weight of the U.S. produced car should drop from 3,300 pounds in 1980 to 2,900 pounds in 1985, and finally to 2,500 pounds in 1990. Steel and cast iron use will be reduced significantly. At the same time, plastic in all its various forms and aluminum use will expand dramatically.

The many advances predicted will require additional work on the part of the U.S. automotive industry but these improvements could not occur in the relatively short time frame considered if the industry had not made a major effort in recent years to get these programs—even before the belated recognition by U.S. consumers that energy problems are real.

MARKET TRENDS

The marketing panelists in our survey forecasted a 2 percent annual growth sales growth in automotive sales through 1990. The total U.S. market is expected to be in the range of 11–12 million cars by 1985 and 12.5–13 million units in 1990.

A major change in the distribution of car sizes is anticipated, and in fact, size may cease to be an important distinguishing factor in the market place. The general, overall, marketing trend can be summarized as a modest sales increase of more durable, efficient, and smaller vehicles through the coming decade.

SUPPLIERS AND DEALERS

Conditions are changing so rapidly that uncertainty is greater than ever. We know that complete car and truck lines will be redesigned once, and perhaps two or three times, during the 1980's. Usage of some supplier provided components, such as rear axles and carburetors, will be greatly reduced. Many components and subsystems will be radically altered by new materials, or replaced completely by new technologies.

The uncertainties of the more than 40,000 suppliers and numerous dealers are greater than the manufacturers since they face the uncertainties of the manufacturers since they face the uncertainties of the manufacturers plus the uncertainty of their relationships with the manufacturers.

When sales of domestically produced motor vehicles are poor, many suppliers are hurt even more than the vehicle manufacturers, but when sales pick up again, the suppliers and dealers either recover or are replaced—so the overall infrastructure is not permanently depressed, despite many individual tragedies.

However, it is indeed possible that the relative importance of automobile manufacturing in the U.S. economy will be downgraded for many years, if not permanently, because of long-term damage to the vehicle manufacturers. The impact on the supplier and dealer network could be irreparable.

COMPETITION

If the U.S. automotive industry achieves its announced product plans, it should be highly competitive in both domestic and export markets in 1985.

Whether it will be allowed to compete in foreign markets is, of course, a separate matter. However, if an industry can earn the "right" to compete, surely the U.S. automotive industry has done so.

To the extent that the U.S. government has any control over international trade, it would seem eminently sound business to take steps now, while import sales are strong, to ensure that when U.S. cars become competitive in foreign markets they be allowed to compete. Perhaps an agreement should be reached to the effect that for any car imported into the U.S., the U.S. auto industry should be allowed to export a car to the country of origin of the import, at no greater financial or red-tape disincentive than the U.S. now imposes on imports. The U.S. automotive industry should be allowed to "bank" these rights for use in future years. We might call it the "golden rule" of international trade.

RESEARCH NEEDS

It is not certain that the industry can, technically, meet all of its goals. Many product objectives, particularly for the years beyond 1985, are dependent on technical breakthroughs that have not yet been accomplished. Research is the connecting link between objectives and achievements.

The automotive industry is successfully engaged in a short term program to optimize existing technologies. Emission and efficiency characteristics, weight, ride, handling, etc. are being improved simultaneously. But the limits to this developmental phase have almost been reached. Progress is slowing. Technology to date has run far ahead of a comprehensive understanding of key processes. A broader and deeper research base than now exists is required to carry development successfully into the longer term, to examine alternative engine concepts, and to prepare for substantial vehicle changes.

Because of the urgent need for basic automotive research, The University of Michigan—and here I can speak for the University—is enthusiastically in favor of the cooperative automotive research program, known inelegantly as CARP. We believe CARP not only promises great results, but offers a rare opportunity to create a large-scale interdisciplinary program that could substantially advance continuing cooperation between industry, labor, government and the academic community.

Finally, and probably most important, the U.S. must concentrate resources on research to offset the windfall advantages of our foreign competitors. Consider the contrast at a time when the U.S. automotive industry is forced to lay-off engineers and every other kind of employee, and cannot hire new research experts, and is pouring every dollar it is allowed to retain or can borrow into new capital requirements, foreign competitors are taking billions of dollars out of America to spend on fresh research on both product and manufacturing technology in an attempt to maintain and extend their current advantage.

The U.S. must act now to provide the research support needed to meet tomorrow's problems or the windfall luck of the imports may become permanent.

COOPERATION

Earlier we have made specific proposals to aid the automotive industry in its hour of need but the real key lies in cooperation. The government's regulatory responsibilities may require adversarial relations between government and industry, but the government wears more than one hat, is more than just a regulator. It is also responsible for providing a legal and regulatory environment that is supportive of U.S. industry and commerce. In this role, there is no place for antagonism.

Relative to the size, economic importance, and complexity of the U.S. automotive industry, we have very little time left to set our affairs in order. If industry and government cooperate, we can create our own future and restore prosperous days. If they fail to understand each other, we may all witness the irreversible contraction into faltering mediocrity of the giant U.S. automotive industry. It is time to take some lessons from our foreign competitors on how to cooperate—how to succeed. It is time to work together.

Senator DANFORTH. The next witness is Prof. Lawrence White, New York University School of Business Administration.

STATEMENT OF LAWRENCE J. WHITE, PROFESSOR OF ECONOMICS, NEW YORK UNIVERSITY GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

Mr. WHITE. I am sorry I did not have an opportunity to prepare a written statement for the committee ahead of time. Because I don't have a written statement, I hope you will give me a little bit of latitude to expand on my remarks.

My name is Lawrence J. White. I am a professor of economics at the New York University Graduate School of Business Administration. I am the author of a book on the U.S. automobile industry and a number of articles on the industry and its regulatory experience.

I am pleased to appear before this committee today.

At the beginning, I think it is important to keep in mind that the primary causes of the current distress in the motor vehicle industry are twofold: First, as you just heard, the sharp increase in gasoline prices that took place in mid-1979; and, second, the current soft economy, relatively high inflation, and very high nominal interest rates.

With respect to the sharp increase in fuel prices, this increase switched consumer preferences toward smaller and more fuel-efficient cars. U.S. producers, who had been producing for a market in which gasoline was relatively cheap, had only a limited supply of these models. In 1978 we had an era of 50-cent gasoline. Pickup trucks and vans sold in record numbers. As late as 1978 Ford was having to ration its supply of V-8 engines to its dealers. The market wanted more large-engine vehicles than Ford could supply because of the fuel economy standards.

In early 1979, inventories of large cars were quite low; inventories of small cars were relatively high. Then, gasoline prices rose rapidly during mid-1979, so that by the summer the inventory picture I just described to you had completely reversed itself.

The U.S. manufacturers could not instantly provide small cars to meet the change in demand. The leadtimes in this industry are long. At a minimum it takes 4 to 5 years and frequently longer to bring a new model to the market. Foreign manufacturers, however, did have small cars which they could ship to this market because gasoline prices in Europe and Japan have been much higher than in this country and because these countries have also had horsepower and weight taxes which have discouraged production of large cars and encouraged the production and sale of small cars.

So, consumers in those countries traditionally demanded smaller cars. The producers in those countries provided them. In this respect, then, the claim that one frequently hears that the U.S. motor vehicle manufacturers have not been building the vehicles that the American consumer wants is simply not a complete statement.

The industry was building vehicles for a cheap gasoline market. It did hedge its bets to some extent with some small vehicles: The Chevette, Pinto, Omni, Horizon, and GM's plans at the time to bring out the X car.

When gasoline prices rose rapidly in 1979, the U.S. companies could not be expected to change their product mix completely overnight. Perhaps, standing here in 1981 with the benefit of 20–20 hindsight, one might say that the companies should have anticipated the fact that gasoline prices would rise sharply in mid-1979. Perhaps they should have hedged their bets further.

It is very easy to say this today. I don't remember very many people saying it back in 1975 and 1976 when the crucial decisions had to be made. Also, if Congress in 1973 and 1974 had adopted more sensible policies on energy prices—policies which would have allowed petroleum product prices in this country to rise to world market levels and perhaps even an additional tax to discourage consumers' consumption—then we would not have had the sharp impact which we felt in 1979. There was clearly going to be some increase in petroleum prices, regardless of what energy policies were followed, but the shock would have been less if we had had prices at or above world market levels instead of rather trying to keep prices artificially low.

This problem of the switching of consumers toward smaller, more fuel-efficient vehicles has been compounded by the generally soft economy, high rates of inflation, and high nominal rates of interest. Consumers have been deferring their purchases of cars generally; and, as you know, in 1980 the domestic industry built and sold fewer vehicles than it has since 1961.

Again, because the fixed costs are high in this industry and leadtimes are long, the industry cannot adjust instantaneously to a situation of depressed demand situation. Consequently, the companies have all run substantial losses.

I will now turn to the question of regulation. There are three major sets of regulations that have affected the motor vehicle industry: Fuel economy standards for autos and light trucks, pollution control requirements for all vehicles, and safety requirements for all vehicles.

Fuel economy standards: At the moment, fuel economy standards for automobiles are not binding on the companies. By that I mean that the high price of gasoline has led the market to demand a mix of automobiles that has an average fuel economy performance that exceeds the standards. In that sense, then, the standards are not currently applicable and are not likely to be applicable through 1985.

Senator DANFORTH. Through 1985?

Mr. WHITE. Yes. The schedule that is currently in the law and has been established by NHTSA runs through 1985.

Senator DANFORTH. Does that mean that the fuel efficiency standards are innocuous?

Mr. WHITE. At the moment, yes. Two years ago they certainly were not. At that time it appeared that the standards were going to force the companies to do a number of things that the market would not otherwise have demanded.

Now it appears that the standards are simply not important.

Senator DANFORTH. So there is no cost in the fuel efficiency regulations?

Mr. WHITE. At the moment, no. It is the market that is driving all those investments. It is the market that wants fuel efficient vehicles, the fuel economy standards are not currently forcing the issue. I don't have a good sense of whether this is also true for the light truck fuel economy standards. Consequently, I would argue that, at least for the moment, the fuel economy standards can be largely ignored in terms of the regulatory burden on the industry. If the price of gasoline fell, either absolutely or in relative terms in the next few years, it is possible that consumers would start demanding larger cars again and fuel economy standards might start to bite again; but for the moment it does not appear that they are really biting.

Emission control: For the second category of regulation, pollution control, quite the opposite is true. The emissions control requirements are binding; they are affecting the industry substantially. This is especially true of tighter standards that are required for the 1980 and 1981 model years. There have been some exemptions granted from the 1981 standards but nevertheless they are quite severely binding on the industry.

Further, the regulatory schedule shows that pollution control requirements for trucks will be getting tighter in 1984, diesel automobiles will have tight requirements in 1985, and diesel trucks will have them in 1986.

Safety: Safety regulations also have a substantial current impact, and the passive-restraint requirements which are currently scheduled to begin on large cars in 1982 will have a further impact.

Now, it is important to remember that these regulatory requirements do not come for free; they require extra investment in research and development, engineering, and equipment production itself. They require extra hardware. And this extra investment and extra hardware eventually translates into extra cost and extra price being attached to a vehicle. Also, there are some modest fuel economy penalties that accompany the pollution control requirements and the safety requirements.

It is difficult to determine the exact costs of these regulations. First, one has to decide which of these regulations are truly binding, which of them are requiring the manufacturers to do things that they would not do in the absence of the regulation. For example, as I just pointed out, the fuel economy standards are probably not binding, and one would not want to be talking about the regulatory costs of the fuel economy standards at the moment. Some of the safety standards are probably in that category also. On the other hand, the pollution control requirements are clearly binding; the manufacturers would not provide any of these controls in the absence of Government requirements. Even after you have settled that question, you still have great difficulty in getting exact numbers as to the specific costs of the specific regulations.

My personal guess is that the binding regulations at the moment are costing somewhere between $600 and $1,000 per automobile.

Senator DANFORTH. That is presently; that would be the combination of pollution——

Mr. WHITE [Continuing.] And safety. Somewhere in the range of $600 to $1,000.

Senator DANFORTH. That is on the 1981 cars?

Mr. WHITE. Basically the 1981 cars.

Senator DANFORTH. Have you any projections as to what that will be in the next 3 or 4 years?

Mr. WHITE. The costs are going to go up. There are a couple of things at work here. The costs will go up as the exemptions on the carbon monoxide standards are eliminated. The passive-restraint requirements in 1982 will add somewhere around $70 to $100 per vehicle. If air bags are required, that could add as much as $500 per vehicle. On the other hand, the manufacturers are going to learn over time better ways of achieving these regulatory requirements, and that will reduce those costs.

If all the regulatory requirements were socially worthwhile, we could say, well, that is simply the social cost of building and using motor vehicles and that is just the social price we should pay. However, in my opinion and that of many other economists who have looked at this question, much of this regulation is excessive. By that I mean that the costs of compliance with the regulations exceed the social benefits.

I think this is especially clear for the pollution control requirements for cars and trucks that are mandated by the Clean Air Act. They are too stringent. The small amounts of emissions reductions that are achieved by the 1980 and 1981 tire requirements are simply not worth the large extra costs of meeting those requirements.

Let me be very clear about this. Pollution is an externality; it is a spillover. Costs are being imposed on others besides the individual undertaking the activity. The driver is imposing costs on others by polluting. We would not want to see emissions totally uncontrolled. But there are limits. There has to be a balancing. One has to find the point at which the marginal costs of control are equal to the marginal benefits of that control. I think we have gone way past that point in the Clean Air Act's automotive and truck requirements.

As for safety, we have mostly been trying to save people from themselves. We are requiring them to buy safety equipment that they would not voluntarily buy, that they do not find worthwhile, and that they do not use.

Lap and shoulder belts are a perfect example of this. We require people to buy them. Less than a quarter of those who have been forced to buy them actually use them. The passive-restraint requirement that begins in 1982 is going to take this process even one step further. We are going to require them to buy yet more expensive devices, and we are going to require them to use those devices regardless of whether they want to or not. I believe this society and this Government and this Congress have to ask themselves how far we want to go in protecting people from themselves.

The regulatory costs imposed on cars, in total, come to somewhere between $600 to $1,000 per car. I would estimate that perhaps $300 or $400 of that total is excessive; again, I mean excessive in the sense that the requirements will not pass a social cost/benefit test. Most of that excessive cost is in the pollution control area.

I want to emphasize these are rough guesses but I think they are in the right ballpark.

What difference does this make for the industry? If the excess costs are $400 per car, this means that cars are going to be carrying an extra price tag of roughly $400 per vehicle. Also, I might add, these extra pollution requirements bear more heavily on the domestic manufacturers than foreign manufacturers because, as a rough cut, the smaller the car, the smaller is the engine, the less pollution it emits, and the easier it is to control to any given grams-per-mile standard. That is a rough cut, but I think it is a correct generalization. Foreign manufacturers produce smaller cars; it is easier for them to achieve any given grams-per-mile standard.

We have an extra $400 per car that is being imposed by what I would call excessive regulation. This is roughly 5 percent of the retail price of a car. Most of the studies of car demand provide estimates of the price elasticity of demand—the percentage by which a demand is reduced by a price increase—of about minus 1; that is, 1-percent increase in demand.

Thus, this 5-percent increase in the retail price is probably leading to a roughly 5-percent decrease in volume below that which would otherwise occur. This is a reduction of about 300,000 to 400,000 domestic units sold. This obviously means decreases in employment and decreases in company overhead revenues and profit of the rough magnitude of $2 billion to $3 billion per year. There are also these kinds of effects in trucks, though somewhat smaller.

Let me again emphasize that these are rough estimates, but I think they are good ones.

Let me reemphasize my two major points: First, the major problem of the industry has been due to a switch of buying patterns brought on by the sharp rising price of gas and the soft national economy. But excessive regulation certainly is not helping things and has further compounded the industry's problems.

Again, I want to emphasize that some of this regulation is socially worthwhile. We don't want to be throwing the baby out with the bathwater. But the Clean Air Act's pollution control requirements are too stringent. They are requiring costs in excess of social benefits; and the requirements, in my opinion, go too far in protecting people from themselves.

So what should be done? First, I believe the Clean Air Act, pollution control requirements for motor vehicles, should be revised downward.

Second, safety requirements should be cut back; the passive restraint requirements for 1982 probably should be rescinded; and air bag requirements should certainly be avoided.

Third, fuel economy standards should not be revived or revised upward. The proper way to motivate industry to build fuel-efficient vehicles is to motivate consumers to demand them. The best way to do that is to raise the price of gasoline and not try to keep it below world levels. We should levy a Federal excise tax on gasoline to bring it to a price that is above world market levels. This would discourage excessive driving, encourage motorists to maintain cars better, and induce them to buy more fuel-efficient cars. This is the proper way to deal with fuel economy problems, and we should not have a revived program of fuel economy standards.

Finally, we should avoid import controls. Protectionism is the wrong way for this country to go. The U.S. economy, if it is to be productive, must adapt to change and not resist it. Import controls are costly to the economy and once imposed even for temporary purposes have a tendency to persist. Import controls would be a very serious mistake in U.S. economic policy.

Thank you.

Senator DANFORTH. I would like to find out how you would do if you had a prepared text.

Let me ask you this: Have you made a detailed analysis as to which regulations you feel are justified and which are not? That is, have you fine-tuned your analysis?

Mr. WHITE. There is little question in my mind that the carbon monoxide and hydrocarbon standards are too stringent.

Senator DANFORTH. If you were to draft the statutes, what should they be?

Mr. WHITE. I think I would certainly roll it back to the pre-1980 standards, the standards we had in effect in 1979, which are 1.5 grams per mile hydrocarbons and 15 grams per mile carbon monoxide. Whether one wants to roll back further than that, I am not sure. That is a fuzzy area in my mind. There is no question in my mind that the tightening of the standards we had in effect in 1979 to the ones we have in 1981 simply will not pass a social cost/benefit test.

Senator DANFORTH. Do other governments help their automobile producers meet our standards?

Mr. WHITE. I simply don't know.

Senator DANFORTH. One of the arguments is "So what" if all these standards affect our competitors just as they affect us.

Mr. WHITE. There is more to it than just "so what." Imposing equally silly regulations on everybody is simply not sensible economic policy. If we are requiring too much in the way of resources to be devoted to cars that do not provide any social gain, that is simply not good economic policy. We are paying too much for our cars and not getting enough back in social value.

The third major pollution requirement is on nitrogen oxides. Here I am not sure. My instincts are that that also is too stringent and also ought to be loosened. The only thing that makes me hesitate in this case is that nitrogen oxide may be contributing to acid rain and I, personally, don't have a good handle on how serious a problem acid rain is and what contribution automotive oxides are making to it. That is the only thing that makes me hesitate.

Those are the three major pollutants. Certainly, for carbon monoxide and hydrocarbons, the standards ought to be relaxed somewhat.

The fourth major requirement coming down the pike is particulate standards for diesel vehicles. The 1982 standards for diesel automobiles seem reasonable. The 1985 standards are probably not feasible and probably not worth it. So, again, I would argue that the 1985 standards ought to be revised. I haven't seen the 1986 truck standards in detail, so I don't have a good feel for them.

Senator DANFORTH. You said that these standards are probably more onerous on American automobile producers than on foreign automobile producers, for the reason that they are producing a greater proportion of smaller cars?

Mr. WHITE. As a first cut, a smaller car emits less. You are going to have to reduce emissions by smaller percentage from this lower starting level to meet any absolute grams-per-mile standard.

Senator DANFORTH. Is there a differential impact between American automobile manufacturers and foreign manufacturers?

Mr. WHITE. This has frequently been claimed. I have yet to see any hard evidence on this point one way or the other. I simply don't know the answer. It could well be the case that there is differential impact according to size, but it might not be the case.

All I have seen is a lot of rhetoric and a lot of hypothesizing, with wonderful hypothetic examples, but I have yet to see hard evidence one way or another. I know there are few places where it is clear. In the testing procedures that a vehicle has to go through for EPA, it does appear——

Senator DANFORTH. The more dire the straits the automobile manufacturer is in, the harder it is to come up with whatever capital is necessary to invest in safety and pollution control?

Mr. WHITE. Certainly; but that is a dire straits effect, not a size effect. As far as size is concerned, I simply do not know the answer.

Again, let me emphasize if the regulations were worthwhile, we could well say, that is the price we pay for having a socially responsible vehicle. But to the extent that the regulations are not worthwhile, then that is an extra problem.

Senator DANFORTH. Thank you very much.

Mr. Charles Drury, chairman of the board and president, Hayes-Albion Corp., representing AMICUS—Automotive Materials Industry Council of the United States, accompanied by Mr. Paul Cullen, counsel.

STATEMENT OF CHARLES E. DRURY, CHAIRMAN OF THE BOARD AND PRESIDENT, HAYES-ALBION CORP., REPRESENTING THE AUTOMOTIVE MATERIALS INDUSTRY COUNCIL OF THE UNITED STATES, AMICUS, ACCOMPANIED BY W. FREDERICK MEYER, VICE PRESIDENT, PUBLIC RELATIONS, ARVIN INDUSTRIES, INC., COLUMBUS, IND.; WALTER F. BROWN, VICE PRESIDENT, AUTOMOTIVE DIVISION WORLDWIDE, UNIROYAL, INC., MIDDLEBURY, CONN.; DR. DONALD BARNETT, ECONOMIST, AMERICAN IRON AND STEEL INSTITUTE, WASHINGTON, D.C.; AND PAUL D. CULLEN, COUNSEL, COLLIER, SHANNON, RILL & SCOTT, CHARTERED, WASHINGTON, D.C.

Mr. DRURY. My name is Chuck Drury. I am chairman of the board and president of Hayes-Albion Corp.

With me today is Dr. Barnett, on my left, economist with the American Iron and Steel Institute; Fred Meyer, vice president of Arvin Industries; Paul D. Cullen, legal counsel; and Walter Brown, vice president of Uniroyal Corp.

Hayes-Albion Corp. is headquartered in Jackson, Mich. We have 15 small plants in seven States, with 70 percent of our sales going to the automotive industry.

I appear today on behalf of the organization known as AMICUS, the Automotive Materials Industry Council of the United States.

AMICUS is a coalition of producers of materials and parts that are essential to the manufacture of automobiles. In 5 short minutes it is difficult for me to discuss all of our problems and the magnitude of our problems, but I would like to leave three major facts with your committee and the Congress:

First, the size of the business, the number of employees, the dollars of sales and the dollars of investment of our group; second, the severity of the problem of our group; and, third, the market constraints of the majority of the companies in our group.

In regard to size, there are a few major companies, some medium-sized companies, many small companies and many very, very small companies. The Department of Transportation estimates there are 40,000 such companies located in many small towns throughout the United States. We employ approximately three times the number of employees that the OEM manufacturers employ.

Our capital investment is equal to or greater than theirs. Our sales are estimated to be $70 billion annually.

Finally, we have a broad base of capabilities that are very important to the national security of our country.

In regard to the severity of our problem, when our customers have to make major design changes, we have to make adjustments. We have three alternatives. We can either refacilitize, retool, make major capital investments, and some of this 1 or 2 years in advance of the new model; or, second, we can facilitize and retool for new products and go to a different market; and, third, we can go out of business, close the plant, which many are doing today.

Those pursuing No. 1, refacilitizing and retooling for the new product for the automobile industry, are encountering severe losses today due to the market conditions, economic conditions, imports and, of course, the high cost of money.

I might add that we have many of our fixed costs in place but no volume to run through those facilities.

Second, of course, if we go to the second altenative, which is to new markets, it is very difficult today because the general economy is depressed.

Third, if many of us continue to close our doors, there is going to be a tremendous erosion of the domestic manufacturing base which will weaken the defense mobilization capability of our country.

In regard to market constraints—and I think this is very important and it has not been mentioned before—this problem is big and it is unique to many of us in this group.

First, we are bordered on the north and south by trade agreements and local-content laws. Second, the world car concept precludes small companies from exporting to other countries. Many of us don't have foreign manufacturing facilities. We cannot have an exchange of operations. And, third, without local-content laws in the United States our market shrinks. It is a one-way street.

Foreign countries are sourcing more and more of these components, subassemblies or parts from outside the United States.

In closing, our written testimony suggests three broad remedial considerations. You said earlier this is what you wanted to hear, but I wanted to get those three facts across to you.

Our three-pronged attack is, first, steps must be taken to stimulate sales of current-model automobiles. Automobile dealers are in a precarious financial condition because of depressed sales.

The other things that concerns me, not necessarily the group I represent today, is the fact the import dealers are really getting entrenched and getting a reputation that is going to be very difficult for us to overcome as we rebuild our strength in the marketplace. Sales of current-model automobiles can be stimulated through a variety of measures, including creation of tax credits for those who purchase new automobiles, bounties on retirement of older vehicles and voluntary reduction in auto imports brought about by the activities contemplated in Senate Joint Resolution 5 and House Joint Resolution 5.

Sales of current-model cars and retirement of older vehicles will have the added benefit of improving fuel consumption for automobiles in the U.S. fleet.

Second, assistance should be provided to enable both manufacturers of automobiles and their suppliers to meet the enormous capital demands of the current downsizing program.

Tooling for the next generation of smaller vehicles is the most massive, abrupt, and technically demanding program faced by our automotive industry. Those huge capital demands on the industry's productive base require several years of planned utilization and amortization of existing tools and equipment in order to recover present investment for subsequent reinvestment in this downsizing effort.

In drafting tax relief for the automotive industry, this committee must be aware that "what is good for the goose isn't necessarily good for the gander." Tax measures which assist the auto manufacturers may not provide the same benefit for their suppliers.

In such cases alternative forms of tax relief tailored to the specific needs of each segment of the automotive industry must be provided.

AMICUS recommends that this committee give serious consideration to the following elements of tax relief:

First, more rapid depreciation of current plant and equipment in order to prepare for future investment requirements.

Mr. DRURY. More rapid depreciation.

Senator DANFORTH. You mean generally, for industry as a whole?

Mr. DRURY. Right. But, second, and this is a new one, an extension of the net operating loss carryback period from 3 to 6 years. For instance, in our company we have been on this project for the past 5 years and we have operating losses. We are losing out of the opportunity of carrying back the taxes that we paid previously.

Third, extension of the investment tax credit carryback from 3 to 6 years.

Fourth, creation of special and immediate refundable investment tax credit for equipment used in the automobile industry.

Then, the third prong of the attack, we must address the problem which is peculiar to automotive suppliers.

Thank you.

Senator DANFORTH. Is "automotive suppliers" a limited enough term to be definable?

Mr. DRURY. There are very few people in the United States that are not in some way an automotive supplier.

Senator DANFORTH. If we had a refundable tax credit for all industry it would be considerably more expensive than if it were just for the automobile industry?

Mr. DRURY. Yes.

Senator DANFORTH. The same is true with the loss carryback?

Mr. DRURY. That is right. The problem that many of us are in right now in the supplier part of this group is that we needed some of that tax credit years back.

Senator DANFORTH. You have made a very good point. Can you define automotive suppliers in such a way as to not extend a refundable credit or loss carryback to every industry in the country?

Mr. DRURY. Yes. I was with General Motors for 21 years. We used to put out a booklet, I think, that said "our 25,000 suppliers and us" and today it must be 50,000. The Department of Transportation says 40,000. It can be defined very easily.

Senator DANFORTH. Would it include the entire steel industry, rubber industry, the textile industry?

Mr. DRURY. Not the entire. Those people who are inolved in certain types of product; for instance, there are many foundries in the United States but there are only a few of us that are tremendously affected, iron casting foundries, by what is happening in the automotive industry.

Senator DANFORTH. The Japanese Government has indicated that it will submit to the Diet in February legislation to eliminate tariffs on automobile parts by April. What effect, if any, would that have on your industry?

Mr. DRURY. It would be impossible for us to produce parts in the United States and send them to Japan, because they have some other funny things, apparently, they put on it. It is not necessarily the fact that our wage rates are that much higher but certainly we have not had the money to invest in some productivity improvement that they may have had.

We would almost have to be on their shores to compete within their country.

Senator DANFORTH. So the answer is none?

Mr. DRURY. None.

Senator DANFORTH. If we were to impose restrictions on imports of Japanese cars, or if we were to negotiate such import restrictions, what effect would that have on your industry?

Mr. DRURY. I can speak for Hayes-Albion. Last year it would have increased our sales—let me give you the basis first. If we go back to the level of about 1.5 million imports compared to 2.5 million imports, it would have increased our sales about $15 million and taken us from a severe loss to a breakeven. So it is very important.

Senator DANFORTH. Import restrictions on automobiles?

Mr. DRURY. Right. The serious thing that is happening, as I mentioned, the world car concept, for instance, Volkswagen will have its engines made in Mexico. Our company particularly wanted that engine to be produced in the United States so that we could furnish the castings for it, but because of trade restrictions, because of problems between us and Mexico, in doing that type of business the incentive was for Volkswagen to put the plant in Mexico and we can't ship parts to Mexico.

Normally, the foundries in Mexico will produce those castings, so our market is shrinking over beyond what is happening in the economy. This has not been addressed by this committee in prior testimony.

Senator DANFORTH. The Ways and Means Committee of the House has requested the International Trade Commission to monitor the whole question of trade in automobiles themselves. Either the Finance Committee or the Ways and Means Committee could make the same request with respect to automotive parts under section 332 of the Tariff Act of 1930.

I will ask the Finance Committee to make that request of the ITC with respect to the parts.

Mr. DRURY. We have had some meetings that were set up by the Department of Commerce with groups from Japan. It was very obvious to the number of companies meeting with them that we just didn't have any grounds for participation.

We have attempted to convince them that we could put wheels on, castings, windshield wipers on. We could do a lot for local content by adding these to their imports when they land in the United States; but we were not making much progress there.

Senator DANFORTH. You are not making progress there?

Mr. DRURY. No; we are not.

As soon as we see a new model enter the country, we try to get in contact with someone to get involved. Of course, we get turned off pretty fast in many cases.

Senator DANFORTH. Thank you very much.

Mr. DRURY. You are welcome.

[The prepared statement of Mr. Drury follows:]

PREPARED STATEMENT OF CHARLES E. DRURY, REPRESENTING THE AUTOMOTIVE MATERIALS INDUSTRY COUNCIL OF THE UNITED STATES

SUMMARY

AMICUS, the Automotive Materials Industry Council of the United States, represents the largest segment of the automotive industry. In terms of employment, investment and geographic scope, the suppliers of parts, components and basic materials essential to automobile production dwarf the final assembly and distribution segments of the industry. Yet analysts and policymakers have heretofore concentrated on "Detroit" or the "Big 4" in their evaluation and proposals for recovery.

Suppliers and manufacturers face the same crisis: the need to raise massive amounts of investment capital necessary to retool for the next generation of small, fuel-efficient cars during a period of plummeting sales and profits. A comprehensive program for recovery must be initiated now to assist each segment of the automotive industry—manufacturers, suppliers, and dealers—in the massive reindustrialization of the automotive industry. Only a combination of measures including stimulation of current automobile sales, reduction in automobile imports and creation of investment incentives tailored to meet the needs of each segment of the industry will be effective. Otherwise, thousands of jobs, an enormous productive capacity, and the future industrial strength of the United States are in peril.

STATEMENT

Mr. Chairman and members of the committee, my name is Charles E. Drury. I am Chairman of the Board and President of Hayes-Albion Corporation, an automotive supplier headquartered in Jackson, Michigan. I appear today on behalf of an organization known as "AMICUS," the Automotive Materials Industry Council of the United States. AMICUS is a coalition of producers of materials, parts and components essential to the manufacture of automobiles. Although the position of automotive suppliers is often overlooked because of the prominence and visibility of the so-called "Big 4" automobile manufacturers, automotive suppliers comprise the largest segment of the U.S. automotive industry. The supplier segment of the automotive industry is massive in terms of employment, investment, and geographic scope. When one examines the crises facing the automotive industry today, the plight of the "Big 4" manufacturers represents only the tip of the iceberg.

There are at least three distinct segments of the domestic automotive industry: automotive manufacturers, parts and materials suppliers, and automobile dealers. It is critical that the remedies chosen to deal with the present crisis be tailored to meet the specific needs of each segment of this vast industry.

The automotive industry is the keystone of the industrial structure of the United States. Secretary of Transportation Neal Goldschmidt emphasized this fundamental nature of the industry in an October, 1980 speech to the Cleveland Engineering Society:

"The automobile industry sits at the center of our manufacturing. Surrounding it is a seamless web of supporting industries—steel, rubber, aluminum, iron, electronics, glass—the industries which comprise our country's industrial clout.

"It exerts an almost incalculable influence on the economic course of this country . . . ."

The "seamless web of supporting industries" described by Secretary Goldschmidt is the vast supplier network represented by AMICUS. Chrysler Corporation estimates that it, alone, has 18,000 suppliers located in every state of the union. In addition, Ford Motor Company lists 1,300 primary suppliers located in 37 states. The U.S. Department of Transportation estimates that there are 40,000 U.S. suppliers participating in a market valued at $70 billion per year. In sheer numbers and geographic diversity, the manufacturing base represented by the supplier segment of the automotive industry is larger and more diverse than that represented by the "Big 4."

The scope and breadth of the supplier segment is reflected by several indices. For every worker employed in the manufacture of automobiles, 3.3 workers produce basic materials and components destined for incorporation into an automobile. More than 4 million workers depend directly on the automobile for their employment. The 175,000 unemployed auto workers referred to in the Committee's press release announcing these hearings are joined by 577,000 other workers who are not employed because of the present crisis.

These workers are located in the multitude of industries which participate in the supplier segment of the automotive industry. The automobile has been termed the most complex consumer product ever manufactured. That complexity is reflected by the variety of articles, and consequently the many different industries, involved in automobile production. For example, the automobile industry uses 20 to 25 percent of all the steel consumed in the United States, more than 50 percent of the malleable iron, 33 percent of the zinc, 17 percent of the aluminum, 13 percent of the copper, 25 percent of the glass, 20 percent of the machine tools, and nearly 60 percent of the synthetic rubber. Moreover, at least 11 industries can be said to be primarily dependent upon the consumption of the automobile industry. Those industries range from carburetor producers, to electrical equipment manufacturers, to the manufacturers of fabricated textile products and public building furniture (automobile seats). Present capital investment in the supplier segment is at least equal to, and probably more than, the investment at the final stage of production. In sum, nearly every basic industry in the United States is engaged to some degree in the production of goods ultimately incorporated into an automobile.

All of these varying industries must adjust to the major design changes planned by the automobile manufacturers for the next generation of automobiles. The massive retooling and redesign effort of the major automobile manufacturers is paralleled by an identical program in the supplier industries. For example, the shift from rear wheel to front wheel drive has been characterized as a basic change in philosophy that only happens once very 20 years. Similarly, emphasis on fuel-efficiency will force manufacturers and suppliers to use lighter-weight materials. Not only will production processes have to be altered to accommodate the new materials, but sources for these materials also will have to be discovered. Some of the alloys to be incorporated in automobiles have never been produced in mass quantities, particularly in the amounts required for automobile production. As a consequence, suppliers and manufacturers will be forced to rely on uncertain supplies and prices until the capacity to produce these metals in the necessary quantities is in place. Overall, the fundamental design changes to be implemented during the next few years will entail significant adjustment by both suppliers and manufacturers in the automotive industry.

A listing of the systems and/or structures that will be affected by just one of these fundamental changes illustrates the inevitable impact on suppliers. For example, the new front wheel drive design (which will predominate in future model years) engenders the following component and materials changes: (1) new transmission system; (2) increased use of fuel injection systems; (3) smaller components; (4) new chassis components or "subframe"; (5) new rear and front suspension systems; (6) new steering system; and (7) elimination of the drive shaft and rear drive axle.

Whenever a new system is emplaced, of course, an old system is completely eliminated. The manufacturer of that system, therefore, must either retool to satisfy the new requirements or lose that portion of its business.

The capital requirements necessary for the adjustment in plant and equipment will be massive. As noted above, this reinvestment will occur in a multitude of industries comprising the supplier segment of the automotive industry. Indeed, Secretary Goldschmidt estimated that investment levels will reach $80 billion, an amount equal to the planned expenditures of the final assemblers of automobiles. Because of the obvious requirement to produce parts and materials before you produce a finished product, the capital investment of automotive suppliers in new plant and equipment normally precedes the capital investment by the auto manufacturers by at least a year and in many cases two years.

Yet, these capital requirements must be incurred at a time of plummeting sales and profits. Just as the suppliers must share the cost of redesign with the automobile manufacturers, both must suffer the impact of poor sales and reduced income because of imports, credit availability, and recession. As a direct result of imports alone, AMICUS has calculated that suppliers have lost more than $5.7 billion in revenues. Approximately 85 plants have been closed and hundreds of thousands of workers have been placed on temporary or indefinite layoff, often in small communities dependent upon one or two employers for the health of the local economy. Indeed, Hayes-Albion has two plants that employ 29 percent and 42 percent of their respective local labor forces. We have been forced by the increasingly severe conditions, however, to reduce our employment in those facilities by 65 percent and 47 percent. The impact of these reductions hurt not only Hayes-Albion employees, but also local retail sales and service industries, the local tax base—in short, the economic vitality of the entire community. These conditions promise only to worsen during the short term.

Members of AMICUS have provided additional data on their specific problems as well. My own company, Hayes-Albion Corporation, has invested nearly $60 million in plant and equipment over the past five years. Despite this relatively massive effort for a corporation of its size and resources, Hayes-Albion lost $2.927 million during the 1980 fiscal year. Capacity utilization is less than 30 percent, and unemployment has reached as high as 65 percent in some of our automobile-related plants. Because of depressed sales, we have insufficient production upon which to amortize capital equipment put in place to produce parts for current model automobiles.

Other members of AMICUS report similar dilemmas. One has invested $21.5 million for the modernization and upgrading of its plant facilities and capital equipment during 1979 and 1980. Yet since 1976 employment has dropped 22 percent and income has fallen 30 percent in real dollars in facilities dedicated to the production of parts and components for automobiles. Another member's automobile-related plants have capacity utilization ratios as low as 63 percent and profitability drops, ranging from 60 percent to loss positions in several plants. These examples are typical of suppliers throughout the industry.

The illustrations just depicted point to several fundamental obstacles confronting the supplier segment of the automotive industry. All face the conundrum confronting the automobile manufacturers: insufficient production to amortize existing capital equipment; and massive capital requirements for the tools to make parts for the next generation of automobiles at a time of drastic declines in profitability. Moreover, because suppliers' expenditures predate those of the manufacturers by one or two years, under present tax law, suppliers cannot fuel further investment through investment tax credits or the like because many have no present profits to tax. Suppliers have carried over credits because we have had no occasion to use them. The tax laws therefore provide little assistance for further investment.

Many suppliers are capital-intensive and are therefore experiencing the spiraling effect of decreasing volume on their cost structure. In order to reduce costs and attain profits (which in turn permit reinvestment), capacity utilization must be sustained at a high level. The drop in automobile sales and production, however, has resulted in low capacity utilization in the supplier segment. Thus, the nature of the production process ironically prevents suppliers from realizing the level of output necessary to profitability and future investment.

Most importantly, many suppliers are small- or medium-size corporations. We lack extensive financial resources of the major manufacturers. Size not only hinders the supplier's ability to generate internally the massive amounts of capital required but also impedes any efforts to raise funds in private capital markets. Suppliers, accordingly, often need more assistance in capital formation than the major automobile manufacturers.

The current plight of the supplier segment of the automotive industry is clearly desperate. Caught between huge capital requirements and plummeting profits, suppliers face a bleak future. Without assistance, the largest segment of the automotive industry—in terms of the number of firms, invested capital, employment, and geographic diversity—will deteriorate beyond recovery.

Congress, therefore, must not limit its consideration to the more visible and publicized automobile manufacturers. Any legislative program of recovery must be comprehensive and tailored to the needs of each segment of the industry. No single amendment to the Internal Revenue Code, or other legislative enactment, will suffice. Only a combination of actions which stimulates current sales, creates tax incentives to encourage capital formation, and provides relief from burdensome regulation will permit this essential industry to survive the present crisis.

AMICUS endorses a three-pronged attack on the crisis now facing the automotive industry.

First, steps must be taken to stimulate sales of current model automobiles. The vital network of auto dealers is in precarious financial condition because of depressed sales. Since the fourth quarter of 1979, approximately 2,300 domestic dealerships have closed because of the present crisis. For every dealership which is lost, the ability to market the automobiles of the future is diminished. Moreover, depressed sales prevent both the automobile manufacturers and suppliers from amortizing their investment in tooling for current models against current production and sales.

Sales of current model automobiles can be stimulated through a variety of measures including the creation of tax credits for those who purchase new automobiles, bounties on the retirement of older vehicles, and the voluntary reduction in auto imports brought about by the activities contemplated in S.J. Res. 5 and H.J. Res. 5. Sales of current model cars and the retirement of older vehicles will have the added benefit of improving the average fuel consumption for automobiles in the U.S. fleet.

Second, assistance should be provided to enable both manufacturers of automobiles and their suppliers to meet the enormous capital demands of the current downsizing program. Tooling for the next generation of smaller vehicles is the most massive, abrupt and technically demanding program faced by our automotive industry. These huge capital demands on the industry's productive base requires several years of planned utilization and amortization of existing tools and equipment in order to recover present for subsequent reinvestment in this downsizing effort.

In drafting tax relief for the automotive industry, this Committee must be aware that "what's good for the goose isn't necessarily good for the gander." Tax measures which assist the auto manufacturers may not provide the same benefit for their suppliers. In such cases alternative forms of tax relief tailored to the specific needs of each segment of the automotive industry must be provided. AMICUS recommends that this Committee give serious consideration to the following elements of tax relief:

(1) More rapid depreciation of current plant and equipment in order to prepare for future investment requirements.

(2) Extension of the net operating loss carry back period from three to six years.

(3) Extension of the investment tax credit carry back from three to six years.

(4) Creation of a special and immediately refundable investment tax credit for equipment used in the automotive industry.

The third prong of attack must address a problem which is peculiar to automotive parts suppliers. The members of AMICUS are deeply concerned about the long-term prospects for U.S. parts suppliers. Many countries of the world have erected trade barriers, typically local content requirements, which prevent free trade in automotive parts and equipment. By contrast, there is practically unlimited access to the U.S. market in these products. Under these circumstances, the largest segment of the domestic automotive industry is placed at a critical disadvantage as major international manufacturers develop the so-called "world car."

The U.S. International Trade Commission should be directed to monitor trade on automotive parts and equipment, published detailed statistics and evaluate for possible future action the non-tariff barriers to trade on these products erected by our trading partners of these products.

The complexity of the problems faced by the automotive industry reflects the structure of the industry itself. In order to solve those problems, the automotive industry should be separated into its individual segments. When this is done, it becomes abundantly clear that the automotive industry is not "Detroit," nor is it only the "Big 4" automobile manufacturers. On the contrary, the largest segment of the automotive industry is comprised of thousands of small- and medium-sized companies located in thousands of small communities in virtually every state in the nation. When "Detroit" receives a cut, these companies bleed. When the "Big 4" catch a cold, their suppliers get pneumonia. The industry's health is far too important to the economic vitality of this nation to ignore this problem or address it with palliatives. A comprehensive program of relief which takes into consideration the specific needs of each segment of the automotive industry is urgently needed.

The members of AMICUS support the philosophy set forth in the January 11, 1981 letter of Secretary of Transportation Neil Goldschmidt to President Carter. On our part we do not believe that the nation's self-interest and the national security will be well served if our industrial base is allowed to shrink permanently. We cannot allow basic manufacturing jobs to disappear and the skills be lost. The trend of purchasing an ever increasing share of manufactured goods from abroad while we export raw materials and services must be reversed. The members of the domestic automotive industry are committed to their own survival. We need the assistance of our government if we are to succeed. We hope that the 79th Congress and the incoming Reagan administration will subscribe to the position of Secretary Goldschmidt that "our government must commit that it will be no less supportive of our industry than are the governments of our competitors."

Mr. Chairman, thank you for the opportunity of presenting these views.

Senator DANFORTH. The next witness is Mr. Robert McElwaine, representing the American International Automobile Dealers Association, AIADA.

STATEMENT OF ROBERT McELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION—AIADA—ACCOMPANIED BY EDWARD G. CONNELLY, CHAIRMAN, AND BART S. FISHER, COUNSEL, BOGGS & BLOW

Mr. MCELWAINE. Mr. Chairman, thank you for your patience and your very obvious objectivity.

This is Chairman Connelly of our association, and Dr. Fisher, our counsel.

Our written testimony points out that the domestic industry's problems stem largely from decades of neglect of capital investment requirements leading to an industry that in the past couple of years became virtually noncompetitive in terms of technology, product, and productivity.

The solution to the industry's problems can be found in the acquisition of needed capital for investment and in the certainty that this investment will be made in the United States.

Our written testimony offers a laundry list of suggestions on how the Federal Government can act to bring about these needed capital investment accomplishments. I hope there will be questions on these suggestions at the end of the testimony.

I would like in testimony to dwell on perhaps the things that have been said here in this room in the last 2 days. I think no more damaging indictment of past practices in the U.S. automobile industry has yet been offered than that which was given here yesterday by the representative of the United Auto Workers in response to a question from the committee as to why the UAW had persisted in getting ever higher wage contracts from an industry to the point that the American worker in the automobile industry was receiving wages at least one-third to one-half higher than workers in all other industries in this country, responded to the effect that this was an industry that was paying one executive $1.2 million a year, that this was an industry that was paying its shareholders dividends far in excess of the average being paid by other industries and that in effect it was only fair that the union get its share too.

From 1975 to 1979, The U.S. automobile industry earned net profits of almost $20 billion. Now they are in desperate trouble because they misspent the money.

In addition to the practices described by the United Auto Workers here yesterday, and instead of giving America the most advanced automobile industry in the world, they built new, efficient, modern automobile factories in Brazil, Argentina, Korea, South Africa, Taiwan, Spain, France, Wales, and Mexico; and these Governments outdid themselves in offering quick-buck incentives to locate these jobmaking factories in their lands.

Now these manufacturers are being forced to make up four decades worth of capital, in effect, in a few years in order to make up for their past profligacy and they have come to their Federal Government asking that you please take away these pesky imported automobiles so that they will have the ability to raise the prices on their new, modern, fuel-efficient cars to a point where they can recoup in a short period of time this very heavy demand on capital investment that they have.

We just heard the Ford Motor Co. say that restraints on imported automobiles would result in additional profits of $600 million a year to the Ford Motor Co. That means a net profit of $300 per car increase by the Ford Motor Co., which would be asking the consumer to pay virtually double that for each new car sold in the United States.

I think this is an unfair burden, Mr. Chairman, on the consumer, to ask him to supply the needed capital that these companies have squandered in the past. We think there are more efficient ways of bringing such capital acquisition about and in guaranteeing its investment in this country, and we have outlined such proposals in our written testimony.

There is considerable evidence, Mr. Chairman, to support the theory that the shocking prices that were posted on the new, domestic, small cars this year were predicated on a favorable finding by the International Trade Commission for the Ford and UAW position. Certainly since that decision was handed down, domestic companies have cut their prices considerably on these automobiles through a variety of subterfuges that mask what is actually a very sharp price reduction in those cars. I would like to dwell on some of the other misconceptions that have been stated in this room, Mr. Chairman, if I can.

We have heard a great deal about the surge in imports and the temendous increase in imported sales. Mr. Chairman, as Senator Stevenson pointed out yesterday, imported automobile sales in 1980 were virtually unchanged from 1979. The total increase amounted to 68,000 units. General Motors sells that many cars every 5 days. Even more significantly during the same period, domestic car sales declined by 1.7 million units.

Now, imports picked up only 4 percent of that sales loss; 96 percent of the loss in sales of domestic automobiles in the past year has been due to factors other than imports. Yet with almost no exception every representative of the domestic automobile manufacturers who has come in here in the last 2 days has said that the

No. 1 solution to their problem is to cut back on these imported automobiles.

We question why there is this concentration on an effect that has taken only 4 percent of their sales loss. There are obviously other areas that need consideration, and I think capital investment is the primary one.

One last point in closing: We have also heard here, Mr. Chairman, several suggestions that what really is needed is a gentlemen's agreement between the United States and Japan that the Japanese will reduce the shipments of automobiles to their dealers.

Mr. Chairman, I think the Sherman antitrust law pretty well establishes that such gentlemen's agreements are actually criminal conspiracies in restraint of trade. We have made the point before, and I will reiterate it here, that absent a finding of injury by the International Trade Commission or legistative action by the Japanese Diet any such under-the-table agreement to apportion the U.S. automobile market and to restrict shipment to dealers will be regarded by our association as a conspiracy in restraint of trade, and we would seek redress.

Thank you, Mr. Chairman.

Senator DANFORTH. Yesterday, Ambassador Hormats testified as to his concerns about the plans of the Japanese automobile industry for the future. He stated that he believed that as a result of the action of the International Trade Commission the feeling on the part of automobile manufacturers in Japan was that they were off the hook, and he believed that they were going to expand capacity and expand exports to the United States.

Do you have any knowledge of any plans of the Japanese on increasing capacity and expanding its exports?

Mr. MCELWAINE. Mr. Chairman, I read the same Department of Transportation paper that Mr. Hormats read, which said that there would be a 20-percent increase in capacity of the Japanese manufacturers. I have been to Japan, as has Mr. Connelly, and we have met with these Japanese manufacturers, as Mr. Hormats has.

One, I found no substantiation in the Department of Transportation study for this projected huge increase in capacity.

Two, such a huge increase is denied by the Japanese manufacturers.

Three, the dealers with whom we work on a daily basis see no such increase in sales.

I would like Mr. Connelly to comment on that. Mr. Connelly is a dealer in Japanese, European, and domestic automobiles. I am sure he can enlighten you some on that.

According to the Japanese manufacturers, the changes that they are making to improve productivity and to improve their technology, and change their design have been regarded in many cases as increases in capacity where they were not. The only increase in capacity that they have targeted for the next 2 years is to supply the big three U.S. manufacturers who have ordered engines and transaxles from these Japanese manufacturers, and they have no plans for capacity increase according to the testimony that we have received from them.

Mr. Connelly, would you comment on the dealer body and the sales, any increase in sales?

Mr. CONNELLY. Mr. Chairman, I had an opportunity to testify on this very question before the ITC hearings recently. The comment that I made at that particular time was that automobile dealers are the ones who sell the cars, not the manufacturers. Certainly, we have to have, as dealers, a tremendous amount of leadtime to handle any great avalanche of cars such as Ambassador Hormats mentioned yesterday.

We have absolutely no indication that such an event is going to happen. As a matter of fact, I might just say as a small car dealer, imported car dealer for over 20 years, one of the reasons that we have been successful and one of the reasons that I think we pride ourselves on what we do is that we have had the backup of service, parts availability, all the things that go along with good car merchandising, the followup programs, certainly all these things that have been taken into consideration by the buying public, and I think that they recognize us for it.

Certainly, all this would be a loss if we were suddenly to handle the number of cars that are being suggested right now for us.

One of the most delightful things I have done recently is attend the groundbreaking ceremony in Marysville, Ohio, of the new Honda production plant. However, again, while this is major, the number of cars coming out of that plant is hardly a major number. Yet this is just again a vast undertaking. It is the beginning in the United States.

So, really looking at this whole problem as a dealer along with my fellow dealers as a whole, needless to say we are very, very interested in building in the United States. We represent thousands of dealers and as such I can just not see this problem.

Senator DANFORTH. The interest rates paid by dealers are having a very severe effect on them. It is my understanding that a large number of automobile dealers cannot keep their heads above water right now, that there is a serious problem in floor plan financing, that one of the results of this is that your inventories are much lower than they would ordinarily be, that this applies not only to dealers of domestic automobiles but to dealers of imports as well, and that the lack of large inventories has, itself, had a depressing effect on the automobile market.

Do you have any comment on this?

Mr. MCELWAINE. I would like to ask Mr. Connelly to comment on that, Mr. Chairman, since he is a dealer and is intimately familiar with the situation.

Mr. CONNELLY. I think there is no doubt that the floor plan interest, which is 20 percent, and the average dealer in the United States would probably pay from one-half to 1 to 2 percent over the prime rate for floor planning, there is no doubt this is tied in directly with our business not only because of the fantastic cost of keeping an adequate supply of cars but also just the idea that the buying public is very sophisticated today. They want to see a huge supply, a huge inventory.

We always find when we sell from a larger inventory we sell more cars. There is no question about the fact that the inventories are being held down today, that in many cases dealers are having to refuse orders of cars that they really philosophically believe they would like to have on their lot, and that they would be willing to pay a reasonable cost for.

Because of this fantastic interest problem, there are many, many people in our industry who think this is probably our single greatest problem today. Of course, although there is no direct tie-in between the prime rate, such as we pay for floor plan and the consumer cost for financing, there very definitely is a tie-in between the two.

I believe today probably across the United States somewhere between 16 and 18 percent would be the going rate. Then very, very often banks are very reluctant to even take deals at that particular price. So it affects the domestics, it affects the imports. It is a very, very definite problem.

We have had an opportunity to talk to the Secretary of the Treasury about it on a number of occasions. He agrees with us. What will be done, I am not sure, but it certainly is going to have to be one of our points to emphasize all year.

Senator LONG. Do you have any suggestions?

Mr. CONNELLY. I basically don't believe in artificial remedies. I basically believe in the marketplace, and the marketplace will take care of the situation. That is why I am so against protectionism. I have lived with this kind of problem, the problem that you are dealing with right now, for 20 years, when we had the Bug, the Volkswagen. When it was brought in in the late 1950's, Detroit looked at it; Detroit had a warning for so many years. The American public went out and they came in the marketplace and they told us what they wanted.

That is why I am a small-car dealer. Now we are up to the fact that the American consumer is probably buying 2 million of these kinds of cars a year. We really think that when the domestic manufacturer gets back on his feet, when they are able to again have the type of cars all the way across—and here is where the interest can come in, the interest rate situation—they will buy.

We will have a percent of the market. We think that is good. We think that is excellent. Just as I don't believe in protectionism, I am not all for saying let us get rid of the Federal Reserve System, which no one seems to understand, or let's give a special tax credit to our particular industry, or let us say for automobile dealers now there should be a Federal law saying that the interest rate can't go over 10 percent. It is up and it is very, very high right now. It is coming down and I think it will come down, and I think the forces in the marketplace will take care of it, which is again why I am so happy to have an opportunity to appear before you, to appear before this committee today.

It again gives us an opportunity. We talk to customers every single day. We know what they want. All customers don't want imported cars; all customers don't want domestic cars; but they want fuel efficiency. They want small cars. Detroit has been told that so often.

We don't think that protectionism should be around today; therefore, in answer to your specific qestion, I think the marketplace will take care of that.

Senator DANFORTH. Assuming that it were applied to imported cars that you sell as well as to domestic cars, would a tax credit of, say, $1,500, as Chrysler proposed, for people who buy new cars, or a credit for scrapping old cars, have an effect on your car sales?

Mr. CONNELLY. I think we would probably go along with the industry. I don't know whether it would have a tremendous effect. I think that anything that would lessen our sales surely would have an effect on us, but, I think, probably what would happen is that it would raise the price of our cars. I don't think there is much question about that.

If there were some kind of national scrapping law, which I don't think is what the American people want, surely there would be more of a demand. People will be out in the marketplace; they will buy automobiles. There is no question about that. I think right now they feel, regardless of the pricing of the car, that, generally speaking—and there are a tremendous number of giveaways, rebates, one thing or another in our business—that the price of the car is not going to go down. There is too much steel, glass, one thing or another.

Basically it is going to go up. Again with this interest rate system they have seen that go way up and way down. Anything to do with the interest rate, anything to do with tax rebates, might temporarily stir up the business. But I don't know; I don't think in the long term it will make an awful lot of difference.

Mr. MCELWAINE. I might comment that the bonus for scrapping older fuel-inefficient automobiles was an idea first proposed by AIADA in 1973 at the time of the first energy shock. The idea at that time was for a Federal Government bonus of $500 proposed at the time—and it probably would have to be higher now—for scrapping of cars 10 years old or older, on presentation of a guaranteed certificate of destruction of that particular automobile, to be applied toward a down payment on a modern, fuel-efficient car.

This would be accompanied by similar rebates given by the manufacturer and the dealer and accompanied by a low-cost federally guaranteed automobile loan program.

The basic idea was to break the large, old car trap that many lower income families get trapped into. The best car that they can afford to buy in many cases is a large, fuel-inefficient, older automobile. They are trapped into using that old, large car.

This would help many families get out of that and get into a more efficient car that would cost them less money to operate. I think the idea still has merit and is worth consideration.

Senator DANFORTH. Thank you very much.

Mr. MCELWAINE. Thank you.

[The prepared statement of Mr. McElwaine follows:]

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

SUMMARY

I. Problems of the U.S. automotive industry stem primarily from the decline in economic activity, high interest rates, high gasoline costs, and the sudden shift in consumer preferences to small, fuel-efficient vehicles. These problems are not the result of import competition, as the U.S. International Trade Commission determined.

II. The U.S. automotive industry did not adequately anticipate the demand for more fuel-efficient vehicles. U.S. manufacturers must now finance a massive conversion effort within a very short period, during which their cash flow is greatly reduced.

Import restrictions would not address this problem. Instead, they would produce additional problems:

1. They would cost more jobs in the U.S. imported automobile industry than they would save for domestic autoworkers.
2. They would cost more than $245,000 for every job saved.
3. They would undermine the authority of the USITC and the credibility of the adminstrative procedures that the Congress has carefully constructed.
4. They would subject the Congress to greatly increased day-to-day political pressures from particular U.S. industries.
5. They would undermine efforts of U.S. trade policymakers to secure more open and fair administrative procedures by our trading partners. In addition, they would very likely violate U.S. international obligations under the GATT.

III. Instead, the Committee should provide direct assistance to the industry through the tax system, and should increase assistance for unemployed autoworkers. The Committee should also help to reduce the regulatory burdens on the automotive industry. Specifically, the AIADA proposes:

A. A special refundable investment tax credit of 10 percent for investments by automotive manufacturers in new plant and equipment, and in research and development, within the United States.
B. Alternatively, extension of the 10 percent energy tax credit to investments by automotive manufacturers in energy-related capital equipment. This credit should also be refundable.
C. Faster depreciation for investments in new plant and equipment.
D. A temporary moratorium on Federal income taxes for foreign earnings repatriated by U.S. automobile manufacturers.
E. Reduction of regulatory burdens on U.S. automobile manufacturers.
F. Direct assistance to unemployed automotive workers.

INTRODUCTION

Mr. Chairman, my name is Robert M. McElwaine, I am President of the American International Automobile Dealers Association ("AIADA"). With me is Edward G. Connelly, AIADA's Chairman of the Board, and a dealer of imported cars in Cincinnati, Ohio; and our counsel, Bart S. Fisher of the law firm of Patton, Boggs & Blow. We appreciate the opportunity to present our views to this Subcommittee on a matter that is vital to the future—indeed, to the economic survival—of our members: the problems of our nation's automobile industry. We consider ourselves to be an integral part of that industry.

AIADA represents 4,500 American small businessmen who, with their 140,000 employees, sell and service imported automobiles. Our annual payroll of well over $2 billion is exceeded only by those of the ten largest industrial corporations in the United States. Our assets in this country total more than $8.6 billion. We pay more than $607 million in taxes annually. In short, we constitute a significant American industry that contributes importantly to the economy of our nation.

As dealers, we are the businessmen closest to the market place. We know from first-hand experience why the American automobile industry is currently in a troubled condition. We have observed that condition develop. We have been adversely affected by some of the same factors that are plaguing domestic manufacturers today: the recession, high interest rates, tight credit and increased automobile prices.

Fortunately for us, we were spared the full effects of the other major cause of domestic producers' current problems: their inability to supply the American consumer with small, modern, fuel-efficient cars. We had such cars available when demand for them dramatically increased in 1979. Domestic producers are now bringing such cars on line at a rapid pace. However, today's severely depressed overall automobile market is preventing them from capitalizing on the opportunities that these new products present. That depressed market is detrimentally affecting our sales as well.

Mr. Chairman, the symptoms of the current depressed state of the American automobile industry are obvious to all of us. Overall sales of cars are down. Production is down. Domestic producers are losing money on their American operations. And, most unfortunately, almost 190,000 domestic autoworkers are currently unemployed.

These are the symptoms. They are well known. What are needed, and what this Subcommittee is primarly interested in, are possible solutions. However, the feasibility and advisability of any proposals for relief depend upon whether they address the malady underlying these symtoms. Hence, it is crucial to identify the root causes of the automobile industry's present problems.

EVOLUTION OF THE PRESENT SITUATION

Mr. Chairman, the current problems of the American automobile industry are due partly to factors of producers' own making and partly to factors beyond their control. Beyond their control are the current low level of aggregate economic activity and the high cost and reduced availability of credit. These two factors have combined seriously to depress short-term demand for new cars. Virtually every observer of the automobile industry, including automobile industry executives, union leaders and outside analysts, attributes the industry's current short-term problems in large part to these factors.

Other outside pressures of a longer-term nature have also had adverse effects on the domestic industry. These pressures include (i) the recent large increases in the cost of gasoline; (ii) increased governmental regulation in the areas of fuel economy, emissions control and safety; and (iii) the sudden shift in consumer preferences away from large automobiles toward small, modern, fuel-efficient cars.

Despite the cumulative effect of these extrinsic factors, American automobile producers would not be in as troubled a condition as they are today had they themselves not made some serious errors of judgment during the 1970s. Domestic producers sought to maximize their short-term profits by concentrating on the production and sale of large automobiles which returned larger profits than did smaller cars. In the process, they postponed making the investments necessary to develop and market modern, high-quality, fuel-efficient small cars. We should note that General Motors ("GM") was more far-sighted on this score than were Ford and Chrysler. Not coincidentally, GM is performing relatively better today than are Ford and Chrysler.

In 1974–75, following the Arab oil embargo, it became clear that American consumers were becoming interested in cars that were smaller and far more fuel-efficient than those America had been producing. Although domestic manufacturers began to plan for future production of such cars, they nonetheless contined overwhelmingly to produce large automobiles.

At the same time, they recognized that the demand for good small cars was growing. However, rather than provide consumers with quality American-made small cars, American manufacturers did two other things. First, they turned out cheap, poorly-designed small cars that were miniature versions of their larger designs. And second, they began to import quality small cars built by their overseas affiliates. GM imported the Opel from Germany, and later imported another car, also called the Opel, from Isuzu Motors of Japan. Ford imported the Fiesta from Germany, and Chrysler imported the Arrow, Colt, Challenger and Sapporo from Mitsubishi of Japan. Ford and Chrysler continue to import these foreign-made cars even today. Significantly, Ford considered, and rejected, the idea of manufacturing the Fiesta in this country. Thus, the 70,000 Fiestas that Ford sold in 1980 were all imported from Germany.

As I said, American producers did begin to formulate long-term plans for small-car production. However, they planned for a slow, gradual and orderly transition into the world of high-quality, newly-designed fuel-efficient cars. For example, while GM began to downsize its larger cars in early 1976, both Ford and Chrysler decided not to engage in such a program until 1979. Indeed, they saw GM's downsizing decision as a prime opportunity for them to increase their shares of the large-car market.

In 1976–77, consumer demand shifted back to large cars as Federal gasoline price controls stabilized fuel costs. Domestic producers achieved record profits on their sales of large cars. Consequently, they saw no reason to accelerate their plan to introduce newly-designed smaller cars only gradually or to make significant additional investments on the research and development of such cars. Instead, they increased their production of larger cars. For example, in 1977, American manufacturers' output consisted of 60 percent intermediate and large cars and 40 percent compact and subcompact models. Two years later, in 1979, they produced 61 percent intermediate and large cars and 39 percent compacts and subcompacts. In fact, as late as 1979, they were concerned primarily with ways to increase their output of larger cars even further!

All of this changed in the spring of 1979. Fuel costs skyrocketed as a result of the Iranian Revolution, OPEC oil price increases and Federal decontrol of gasoline prices. Automobile consumers suddenly lost interest in large gas-guzzling automobiles. Sales of such cars plummeted. Demand for small, fuel-efficient cars increased abruptly and dramatically.

American manufacturers found themselves wholly unprepared for this change in consumer preferences. Their limited output of small cars sold out quickly. Yet they could hardly begin to satisfy the demand for small cars. Consequently, sales of small imported cars increased substantially in 1979. The American automobile market is still feeling the effects of the events of 1979. Added to the problems caused by the economic decline of 1980, these events have spelled trouble for the entire American automobile industry.

Mr. Chairman, this account of the evolution of the American automobile industry's current condition leads to one important conclusion. Had the domestic automobile producers made a serious commitment to develop and produce quality small cars in 1973–74, the problems that they encountered in 1979–80, and which they still face, would have been far less serious.

Domestic automakers have been abruptly awakened to the necessity of producing modern fuel-efficient cars on an accelerated basis. They are, at long last, making the kind of capital investments in this country that they avoided for too long. However, they must now make up for years of complacency and lost opportunity by squeezing at least a decade's worth of investment into a few short years. As a result, they are, not surprisingly, finding their cash flows constrained.

Yet only two short years ago, American automakers were earning substantial profits. According to statistics compiled by the United States International Trade Commission ("USITC") in its recently-concluded investigation into this industry, domestic producers earned net operating profits of almost $19 billion between 1975 and 1979. These producers used relatively little of this $19 billion to modernize their American production facilities or to create new designs and engineering innovations. Instead, they invested heavily in new, modern factories in such other countries as Spain, Wales, Germany, Korea, South Africa, Brazil, Argentina and Mexico.

In addition, they paid very high dividends to their stockholders, very high salaries to their executives and the highest wages in all of American industry to their employees. What financial and human resources they did invest in the United States were devoted primarily to complying with ever-increasing government regulations. Of course, the government fuel economy regulations have proven to be an enormous blessing in disguise. Had these regulations not been in force, domestic manufacturers would have been even less equipped to deal with the crisis of 1979 than they were. Nonetheless, the fact remains that American automobile manufacturers failed significantly to update and modernize either their American facilities or their designs.

THE CURRENT PROBLEM

Mr. Chairman, the single major problem facing American auto manufacturers today is how to finance the massive reconversion effort that they have at last been forced to begin. They have estimated that their capital needs in the next five years will total about $50 billion worldwide. A recent report prepared by Fraser/Associates indicates that at least $16.6 billion of this amount is targeted for investment outside of the United States. One way by which to revitalize our domestic industry is to induce automakers to invest more of that $50 billion here in the United States rather than to export a large portion of it abroad.

A significant part of the losses that domestic manufacturers have recently experienced is directly attributable to the large capital outlays that they have had to make. Adding to that problem is the fact that their cash flows have been seriously curtailed by the depressed overall state of the automobile market. Because the industry is highly capital-intensive and its fixed costs are high, its profitability is highly dependent upon sales volume. Today, that sales volume is just not present. In 1980, total sales of new cars, domestic and imported, were 1.7 million units, or 16 percent, lower than in 1979. With interest rates at record levels, and new car prices increasing, people are deferring their purchases of new cars of all sorts. Simply put, they are staying out of the market altogether.

Thus, Mr. Chairman, the principal issue that this Subcommittee must address is how to help the industy finance its future production of modern, high-quality, fuel-efficient American-made cars. The basic thrust of any program of assistance must have two prongs. First, it must increase the amount of capital available to producers for investment. And second, it must ensure that producers will invest that capital in the United States. In addition, to the extent that this Subcommittee is able, it should take measures that would encourage American consumers to return to the automobile marketplace.

SUGGESTED PROPOSALS FOR RELIEF

1. Import relief is not the answer

Mr. Chairman. we have a number of proposals that we feel will provide real, tangible and substantial assistance to the American automobile industry. Before explaining those proposals, however, we wish to address one proposal that would be wholly ineffectual, inefficient and unfair to the American consumer. That proposal is to restrict imports of foreign-made cars. Just last week, Senator Riegle introduced

Senate Joint Resolution 5 ("S.J. Res. 5"), which would authorize the President to negotiate limits on automobile and light truck imports into this country. That Resolution has been referred to your full Committee.

For years, domestic automobile interests have been attempting, through various means, to curtail the importation of cars into this country. Invariably, they have based such attempts on the spurious argument that any problems facing American automakers is due to imports. They have repeatedly insisted that if automobile imports are not cut back, the American industry would be destroyed. For example, in 1974, the most recent round of that debate prior to 1980, Leonard Woodcock, then the President of the UAW, testified before your full Committee that unless quantitative restrictions were placed on automobile imports, the American industry would suffer "economic disaster." Congress refused to impose such restrictions. Shortly thereafter, the American industry experienced the most profitable years in its history!

Mr. Chairman the figures for 1980 speak for themselves. Sales of American-made automobiles dropped by 1.74 million units, or 20.9 percent, from 1979 to 1980. Sales of imported cars increased only slightly, by less than 69,000 units, or 2.7 percent, over 1979 levels. Increased imports thus accounted for less than 4 percent of the decline in sales of domestic automobiles. Clearly, factors other than imports are causing the auto industry's current problems.

a. The USITC found that imports are not the problem.

In 1980, domestic auto interests, led by Ford and the UAW, again sought to obtain restrictions on imports. Unlike 1974, however, they could, in 1980, employ an administrative mechanism that had been carefully crafted by this Subcommittee and others. They thus took their case to the USITC under Section 201 of the Trade Act of 1974. They were given the opportunity to prove what they had been contending for years: that imported cars are the primary cause of the domestic industry's problems.

The USITC conducted perhaps the most thorough and exhaustive investigation into the automobile industry that has ever been made. That investigation lasted more than four months. The public hearing alone consumed 40 hours, as 26 different parties, most with multiple witnesses, testified before the Commission. The testimony of Ford and the UAW alone consumed nearly one-third of the hearing time. All witnesses were subject to intensive questioning by the Commission and to full cross-examination by other parties. In addition, almost every party presented extensive pre-hearing and post-hearing briefs to the Commission.

Mr. Chairman, as this Subcommittee is aware, on November 10, 1980, the USITC made its decision: imports are not a substantial cause of injury to the American automobile industry. What have caused the industry's present state, according to that expert body, are (i) the decline in demand for automobiles, brought about by the general decline in overall economic activity and tight credit; and (ii) the shift in demand from large automobiles to small, fuel-efficient cars, coupled with domestic producers' inability to satisfy that new demand. Thus, the USITC, the agency established by the Congress to advise it on trade matters, determined that other causes than imports lie at the root of the domestic industry's problems.

More important perhaps, than the USITC's determinations concerning the past are its findings as to the future. At the heart of the USITC's decision was the determination that import restraints will do little or nothing to help the domestic industry. As Chairman Bill Alberger stated: "The problem which auto producers confront . . . cannot be solved by import relief." The Commissioners noted that large numbers of potential new car buyers are staying out of the market altogether because of the high cost and the reduced availability of credit. Commissioner Paula Stern concluded that "[t]ight credit is the most pervasive problem preventing recovery in demand." Restricting imports would have absolutely no effect on these factors.

The most important determination made by the USITC, for purposes of this hearing, was its conclusion concerning the effect that import restrictions would have on the domestic industry's future. The Commission found that import relief will not aid the automobile producers' recovery: "The transformation of the industry will take place in the absence of any import relief and would not be speeded by relief. . . . The record shows that all investment plans for domestic production are independent of import relief." Import relief would provide American automakers with little, if any, additional capital with which to finance reconversion.

Furthermore, the Commissioners conclusively found that import restraints will not increase domestic automobile employment significantly. Chairman Alberger concluded that even with increased auto demand "and substantially reduced imports, employment in these industries would still not return to previous levels." Commissioner Stern determined that even drastic import relief would return less than 17 percent of the currently unemployed autoworkers to their jobs. She stated that increased productivity brought about by technological innovations and improved production techniques will cause at least 100,000 jobs in the automobile producing sector to be irrevocably lost by 1985. In addition, Fraser/Associates estimates that domestic producers' investments abroad will result in an additional 70,000 or more lost American jobs. Curtailing imports would return not one of these workers to the assembly line.

Figures that we submitted to the USITC, based upon an economic analysis performed by Dr. Charles Pearson of the Johns Hopkins School of Advanced International Studies, demonstrated that the relief requested by Ford and the UAW from the USITC would produce only 14,000 auto sector jobs. Each such job would cost consumers and taxpayers at least $245,000 per year in higher automobile prices and other economic and social costs! At the same time, over 40,000 American jobs in the imported automobile industry would be sacrificed. The wisdom of restraining imports under such circumstances must be doubted.

USITC Commissioner Stern summed up the effect that import restrictions would have on the domestic auto industry's recovery as follows:

"The industry is suffering from problems that will continue as long as the credit situation remains tight and recovery is delayed. But this threat of continued injury is not related in any substantial fashion to imports. Import relief may generate a perverse influence on the ability of the United States to attract foreign producers to establish new domestic facilities. It will hurt most if not all U.S. producers' ability to carry out their present expansion plans. And it will not provide jobs of a permanent nature in the industry. Relief directed at one of the symptoms rather than at the cause of the problems may eliminate the exciting possibility the U.S. industry now has to again become the world's auto leader."

b. The USITC's decision should not be circumvented

As this Subcommittee knows, the USITC made its decision under the "escape clause" provisions of the Trade Act of 1974. Those provisions, in one form or another, have been a part of this country's trade law since the 1930's. A major purpose of the escape clause legislation is to channel requests by domestic industries for import protection away from the Congress and into a fair, objective administrative process involving a thorough investigation of the facts, public hearings and written decisions. This process has thus far been successful in relieving the Congress from continued political pressures to protect particular powerful industries.

Measures designed to restrict automobile imports, such as the proposal embodied in S.J. Res. 5, would seriously undermine the purposes and functions of the Section 201 process. They would constitute a clear signal to American industries in competitive difficulty that their salvation lies with the Congress instead of with the administrative procedures that the Congress has carefully created over the years.

Until now, in fact, the Congress has jealously protected the position of the USITC as an independent agency, responsive both to the President and to the Congress but under the direct control of neither. The proposed Resolution would virtually destroy the authority and the independence of the USITC by announcing, in effect, that the Congress will override the Commission's decisions whenever those decisions—which are based upon criteria established by the Congress—turn out to be unpopular. Indeed, S.J. Res. 5 specifies that its provisions cannot be invoked unless the domestic industry has "exhausted available remedies under Section 201 of the Trade Act of 1974." This condition clearly indicates that the Resolution is specifically designed to undermine the decisions of the USITC.

S.J. Res. 5 would have serious adverse consequences for this country's trade policy. It would substantially undermine one of the major achievements of our trade negotiators in the Tokyo Round trade negotiations: the winning of commitments by other governments to employ the same type of open, careful and fair administrative procedures that we employ before imposing limitations upon imports. In addition, S.J. Res. 5 would almost certainly violate our nation's obligations under the General Agreement on Tariffs and Trade ("GATT"). Article XIX of the GATT does permit excape clause import limitations in certain circumstances in which imports "cause or threaten serious injury to domestic producers." However, throughout the 33 years of the GATT's operation, the United States has implemented this principle by requiring that petitioners follow well-defined procedures and obtain an affirmative determination from the USITC. Not only would S.J. Res. 5 circumvent those procedures, it would only be effective where those established procedures had been used and had resulted in a finding that there was no adequate ground for import relief. An international dispute-settlement panel asked to rule on the issue would very likely regard any action taken to restrict imports pursuant to S.J. Res. 5 as lacking a sufficient finding, under our own procedures, of serious injury or threat thereof. Such a determination would come at the very time when the United States is trying to strengthen the provisions of Article XIX of the GATT with respect to open and public justification of trade restrictive actions by other nations.

Aside from the adverse trade policy implications of S.J. Res. 5, any action taken to restrict vehicle imports pursuant to that Resolution would, absent an affirmative injury determination by the USITC or a formal imposition of export limitations by the foreign government involved, violate the intent and policy of this nation's antitrust laws. If imports are restricted in this manner, we will take whatever steps are necessary, including court action, to eliminate such a restraint of trade. In this context, we would point out that the recent well-publicized letter from Associate Attorney General Shenefield to your colleague, Senator Levin, expresses only his prediction as to how a court may rule on the potential antitrust liability of United States executive branch officials. It does not suggest that other involved parties would be free from liability on an antitrust claim. We would pursue our legal remedies against all those involved in such an illegal restraint of trade.

Mr. Chairman, import restrictions will not help our domestic industry. Moreover, they are fraught with legal and foreign policy complications. Your former colleague, Senator Adlai Stevenson, framed the task facing this Subcommittee most cogently: "It would be wiser for the United States to help industry beat foreign competition than to protect it from such competition." It is to proposals that would help the domestic industry compete that we will now turn.

2. Tax-based investment incentives can relieve many of the industry's problems

The primary causes of the current depression in short-term automobile demand—high interest rates, tight credit and general economic stagnation—no doubt will be addressed in other contexts by the Congress and by the new Administration. We will not, therefore, propose specific solutions to those problems. Nonetheless, there are two other areas in which immediate help can be given to the automobile industry. These areas are (i) tax relief and (ii) regulatory relief. Since tax policy falls more directly within the jurisdiction of this Committee, we will direct most of our suggestions to that area.

A. *Refundable tax credit.*—Mr. Chairman, AIADA supports the provision of a refundable tax credit of 10 percent for new investments made within the United States by any automobile manufacturer in the following activities:

(i) Acquisition or construction of new plant and equipment, or modernization of existing plant and equipment, particularly plant and equipment needed to increase automobile fuel-efficiency and/or safety; and

(ii) Research and development activities, particularly research and development aimed at increasing automobile fuel-efficiency and/or safety.

This new tax credit would be in addition to the existing general investment tax credit of 10 percent. It would be refundable, i.e., payable in cash, to the extent that companies made qualifying investments but did not have tax liability against which to set off the credit.

Such a refundable tax credit would provide additional funds and incentives for profitable companies to invest here at home. More importantly, the credit would provide a source of cash and an incentive for companies that are not currently earning profits to keep up in the productivity race by maintaining an efficient capital base. The Committee may wish to consider making this credit available, at least for machinery, when new equipment is ordered rather than when it is placed in service. This would provide additional relief during the costly start-up phase.

B. *Extension of energy tax credit.*—If such a broad refundable tax credit proposal is unacceptable, then Congress may wish to extend the 10 percent energy tax credit, which is now applicable only to investment in energy conservation and alternative energy equipment, to equipment used to produce fuel-efficient automobiles. Such an energy tax credit—which also would supplement the already-existing 10 percent investment tax credit—would provide an additional incentive for the production of fuel-efficient vehicles. This new energy investment tax credit should be refundable in order to provide manufacturers who have little or no profit, and, hence, little or no tax liability, with additional funds with which to make the necessary investments in retooling.

Both of these tax credit programs could be limited in time. In addition, they could be structured so that credits would be recouped by the Government, e.g., by reducing credits in profitable years, by reducing the ability to carry forward losses or by some other means.

C. *Accelerated depreciation.*—Mr. Chairman, AIADA supports the granting of accelerated depreciation allowances to automobile manufacturers for new plant and equipment installed within the United States. This proposal could be implemented in conjunction with the "10-5-3" proposals currently under discussion in other contexts. Such a revision of our tax laws would do much to improve the competitive position of the domestic industry. In a submission last year to the Subcommittee on

Trade of the House Ways and Means Committee, representatives of American automobile manufacturers commented on the importance of tax assistance in the early period of an investment program. They noted the advantages that Japanese companies have in this area:

"The Japanese law continues to provide auto companies with an extraordinary additional first year write-off of 25 percent of the cost of machinery and equipment. When combined with normal depreciation, this allows companies such as Toyota to write off as much as 45 percent of the cost of machinery and equipment in the first year of use. Under the U.S. tax system, [U.S. automakers are] generally limited to writing off about 11 percent of the cost of such fixed assets in the first year, plus the investment tax credit of 10 percent."

Similar assistance would aid American producers enormously.

D. *Moratorium on repatriated earnings.*—Mr. Chairman, automobile producers need stronger incentives to invest here at home funds that are availble to them already from their earnings overseas. Thus, AIADA proposes a moratorium of at least one year on the imposition of Federal income taxes upon repatriated earnings of overseas subsidiaries of automobile manufacturers located in the United States. This measure would create a direct incentive to bring home large pools of funds that, at present, are frequently used to create jobs abroad rather than at home. The incentive would be greater, of course, with respect to funds earned in countries with low corporate tax rates. The earnings of American automobile companies in such countries are sufficient both to maintain their presence there and to provide a considerable source of capital for domestic production.

We would hope, Mr. Chairman, that if these proposals were implemented, automobile manufacturers would pass the benefits directly through to consumers in the form of lower prices. Such a price reduction would help release the pent-up demand that has accumulated during this period of extremely high interest rates. We have concluded, however, that there is no feasible way to mandate such a pass-through. Nonetheless, even in its absence, we support these proposals because the industry will benefit greatly from the increased capital that they would provide.

Thus, our proposals directly address the most pressing need of the American automobile industry: the need to generate sufficient capital to survive the current economic slump, to make the rapid transition to production of more fuel-efficient automobiles and to maintain the capital base that enables the industy to be competitive.

All of our proposals are non-discriminatory. Their benefits would apply to foreign companies manufacturing automobiles or conducting research in the United States as well as to American manufacturers' operations in this country. As a result, the proposals would not present any problems either under the GATT (which does not, in any event, directly address such investment incentives) or under United States commercial treaties. Moreover, the proposals would create incentives for foreign companies to invest in job-creating facilities in the United States.

Our proposals need not be confined to the automobile industry. Targeted tax relief of the type that we are proposing could be made available for other industries that are experiencing difficulties, or for all of American industry, as part of an effort toward overall reindustrialization, if the Congress sees fit. We have limited our proposals to the automobile industry only because that industry is the subject of these hearings.

You will readily see, Mr. Chairman, that our proposals are addressed to the supply side. We have not made proposals on the demand side, i.e., proposals intended to stimulate consumer demand directly, for two reasons. First, the granting of rebates and the implementation of other measures to stimulate demand for automobiles is primarily a matter for the automobile companies. Our proposals, by increasing funds available to the automobile companies, will make it easier for them to lower prices and to take other actions to stimulate consumer demand. We do not believe that it is appropriate for the Government to grant direct rebates or other tax advantages to automobile consumers.

Second, even if such action were appropriate, we do not see any feasible means by which the Government can stimulate new car demand directly. On the one hand, if rebates or consumer tax credits were granted for the purchase of American and foreign-made cars alike, the Congress would, in effect, be subsidizing the purchase of foreign automobiles. We do not believe that such a proposal is politically realistic. On the other hand, the granting of rebates or consumer tax credits exclusively for the purchase of American-made automobiles would constitute a rather clear violation of our nation's international obligations under the "national treatment" principles of the GATT and commercial treaties. Primarily for these reasons, we have concentrated our proposals on the supply side.

3. Some regulatory relief is required

A final broad area in which the Federal Government can assist the automobile industry is that of regulation. We believe that a majority of the Congress is committed to paring Federal regulations that are not justified by reasoned cost-benefit analyses. The victories of President-elect Reagan and of many new and returning members of Congress were attributable in part to their advocacy of a balanced approach to regulation.

Several recent studies show that there is considerable room for cutting back particular existing or planned rules without substantially retreating from the overall goals of regulation. For example, the recently-issued report of President-elect Reagan's Task Force on Transportation suggests that the tremendous cost of many safety standards and recalls ordered by the National Highway Traffic Safety Administration ("NHTSA") may not be justified by their benefits. In fact, the Task Force concluded that NHTSA may have come so far down the curve of diminishing returns for its efforts that its task should be considered completed. Many questions have been raised about specific NHTSA rules, e.g., the five-miles-per-hour bumper standard and the requirement for air bags or other passive restraints.

Estimates vary as to the amounts that a reduction in regulations can save the American automobile industry. The Office of Management and Budget ("OMB") has estimated that the industry will have to spend about $1.9 billion over the next five years to comply with current and planned health and safety regulations. OMB Director-designate David Stockman, who is as knowledgeable in this area as anyone, has compiled an informal list of specific rule changes that he estimates could save the industry over $2 billion over the coming years. Although this list is by no means definitive, we would like to submit it for the record:

Proposed rule change	*Estimated cost saving*
Grant model year 1982 carbon monoxide waiver.	$300 million auto industry savings.
Rescind passive restraint standard	$300 to $600 million auto investment savings over 3 years.
Relax 1984 heavy duty truck emission standard.	Minimum savings of $100 million.
Simplify auto emissions certification and testing.	$80 million per year.
Modify ambient air standard for ozone to permit multiple exceedences or higher standard value in conformance with scientific evidence.	$15 to $40 million in reduced compliance costs over next 8 years.
Cancel Environmental Protection Agency ("EPA") fuel additive testing program.	Savings of $90 to $120 million.
Relax proposed light duty truck emission standards for post-1983.	Savings would be a substantial fraction of currently estimated $1.3 billion compliance cost.

The EPA, to its credit, has begun a review of rules that could lead to changes saving the industry $600 million over the next five years. We hope and expect that the appropriate committees of Congress will closely monitor those EPA actions to ensure that the agency is doing as much as it can to eliminate unnecessary and unduly costly regulations.

4. Additional assistance must be provided to unemployed autoworkers

The greatest misfortune of the current slump in the automobile market is the fact that so many autoworkers have been put out of work. AIADA sincerely sympathizes with these workers, Mr. Chairman, and fully supports any proposal that will relieve their plight. The measures that we have proposed will enable some of these workers to regain their auto/related jobs by stimulating activity in that industry.

However, as the USITC, the Congressional Budget Office and others have determined, overall employment in the automobile industry will be substantially reduced in the future because of technological developments, American producers' investments abroad, improved productivity and other structural changes. We propose that measures be enacted to provide for retraining and alternate industry employment programs for these workers. In addition, we support the expansion of current unemployment and adjustment assistance programs to aid unemployed autoworkers during this transitional period.

CONCLUSION

Mr. Chairman, there is no question that the American automobile industry needs assistance in completing its effort to once again become a modern competitive industy. The assistance given it should be aimed at the problem that is hindering that effort: the industry's difficulties in generating sufficient current cash flow to finance its investments. The measures that we have proposed will provide the industry both with capital and with incentives to invest that capital in the United States. Import restrictions will do neither, as the USITC has conclusively found. In our view, this Subcommittee should devote its time and efforts to fashioning relief measures, such as those we have proposed, that will provide material, tangible relief to the industry.

Thank you very much.

Senator DANFORTH. The next witness is Ralph T. Millet, representing the Automobile Importers of America.

STATEMENT OF RALPH MILLET, REPRESENTING THE AUTOMOBILE IMPORTERS ASSOCIATION, ACCOMPANIED BY JOHN REHM

Mr. MILLET. Mr. Chairman, I appreciate very much your invitation to address this committee and I also would like to thank you very much for your very judicious and objective approach to this very serious problem which you are addressing. We would like to offer some positive suggestions as to what might be done to help Detroit and also the import automobile industry which is an industry of 140,000 employees in the United States.

The industry can be most helped by Government through an overall approach directed at creating a healthy business environment, one in which inflation is under control, interest rates are sharply down and the economy grows at a reasonable pace. I would like to reemphasize that the main point of my testimony is that private market forces will and should be allowed to prevail.

The preoccupation with imports has been unjustified, unproductive, and positively harmful. It has been unjustified because imports have not been a significant cause of Detroit's problems; unproductive, because import restrictions would not significantly aid Detroit or put unemployed workers back to work, but would be anticompetitive, inflationary, and energy-wasteful; harmful, because the preoccupation has diverted attention and effort away from the needed analysis of, and attack upon, the structural problems besetting the domestic industry.

We would urge the subcommittee to deliberate carefully before recommending Government intervention in automotive trade. Indeed, we believe that the problems of the automotive sector can best be approached by private initiatives and by letting market forces work—not by Government action directed at this industry alone. If Government must act, we would suggest several specific steps.

We think there should be a proposal adopted for accelerating depreciation. We think Congress should endorse the extension of auto loans to terms of 5 years. We endorse the idea of the American International Automobile Dealers Association that consideration should be given to granting Detroit companies a tax holiday on funds repatriated from their overseas operations. And by all means we would support the specific proposals made by the OMB-Designate, Mr. Stockman, in his paper entitled "Avoiding a GOP Economic Dunkirk," in which he outlines a number of areas for "regulatory ventilation" I believe he calls it—which would certainly be of great benefit to the domestic industry.

In the long run the fate of Detroit and its competitors as well lies in their own hands. We do see two encouraging developments in the area of private initiative that we would like to mention briefly. These are U.S. investment by foreign companies and joint ventures between United States and foreign companies.

Foreign automobile companies have already made a strong start in plant investment in this country. Volkswagen has invested over $1 billion in plants in New Stanton, Pa.—5,200 employees—South Charleston, W. Va.—700 employees—and Fort Worth, Tex.—750 employees.

Honda is investing over $200 million in a plant at Marysville, Ohio—2,000 employees. Nissan is currently building a $300 million plant at Smyrna, Tenn.—2,200 employees. Toyota's Long Beach, Calif., truck bed assembly plant represents an investment of $50 million—500 employees. Mercedes-Benz has invested over $8 million in a truck assembly operation in Hampton, Va.—100 employees. Volvo's operation in Chesapeake, Va., represents a $25 million investment—200 employees.

Joint ventures will lead to a combination of technological expertise and financial resources which should not be hindered by "Balkanizing" the world industry through tariff barriers or restrictions like quotas. They would certainly mean lower prices to consumers, technological innovation and a stronger more competitive world industry.

Obviously Detroit's economic woes stem from the recession, high interest rates, inflation and the shifting consumer preferences for smaller cars. If the Government must act to help Detroit the steps taken should improve the entire economy. In a healthy climate both the domestic and import automobile industries will prosper.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you Mr. Millet.

Senator Chafee has sent four questions which he would like me to address to you. Some of them pretty well cover the questions I had in mind.

Yesterday Mr. Hormats alleged that Japanese manufacturers were increasing their capacity by 20 percent, that the United States is likely to be the target of this increased capacity. Would you care to comment on that?

Mr. MILLET. Yes, I would, Mr. Chairman.

I really know of no plans on the part of the Japanese manufacturers to increase capacity. That statement of Mr. Hormats came, I presume, from Secretary Goldschmidt's report to the President in which he stated Japan was planning an increase of 20 percent. I would remind the committee, however, that increasing capacity does not necessarily mean sales of automobiles. There is a lot of unused capacity in Europe and there is a lot of unused capacity in this country. The increasing capacity in Japan is probably for components such as transaxles, engines, transmissions, and what not, items that are being ordered by domestic companies for production in the United States.

Toygo Kogo, for example, is supplying transaxles. Isuzu is supplying diesel engines. Mitsubishi is supplying engines for Chrysler.

That undoubtedly constitutes much of the extra capacity to which he refers.

Senator DANFORTH. Senator Chafee's second question is Mr. Schlossberg of the UAW said yesterday that we were the only auto-producing country in the world that imposed no restrictions on imports.

Mr. MILLET. I heard Mr. Schlossberg make that statement. I happen to represent a Swedish company. I believe there are no auto restrictons in Sweden—other than tariffs, which exist in nearly all countries in the world—other than Japan, I might add. There are tariffs in the United States. And there are no other restrictions in Germany.

There are restrictions in some other countries, but the fact that those countries have restrictions is no reason for us to impose any sort of economic burden on our consumers.

Senator DANFORTH. Let me embellish on that. Our automobile industry is in a very depressed condition.

Mr. MILLET. I believe it was stated yesterday by Mary Ann Keller that the industry is at midpoint and is turning itself around.

Senator DANFORTH. As I recollect, the hope was that by the last quarter of this year it will have, however, the immediate past and the present have not been very successful. There have been huge losses.

Mr. MILLET. I would agree with that.

Senator DANFORTH. Hundreds of thousands of people are already out of work. Twenty-seven percent of automobile sales in the United States are imported cars. Do you know of any other country in the world that would tolerate a situation where its automobile industry, which is a major industry, is spending a huge amount of money and hundreds of thousands of people are out of work and yet we import 27 percent of our cars?

Mr. MILLET. There are a number of other countries in the world where there is a higher import share of the market.

Senator DANFORTH. Against this kind of background, with a major industry under very serious threat, one of the three automobile producers in this country living literally from hand to mouth, a question as to whether it can meet its payroll, hundreds of thousands of people out of work, the Treasury of the United States coughing up billions of dollars in trade adjustment assistance is 27 percent of the market just fine?

Mr. MILLET. I don't honestly know any country which has a similar situation but your question presupposes that imported cars are a major problem for Detroit.

Senator DANFORTH. I am not asking whether it is a problem or not. All I am saying is that I can't imagine the Japanese tolerating that sort of situation. Can you?

Mr. MILLET. I can't conceive of a situation where that could arise, no.

Senator DANFORTH. You agree with me?

Mr. MILLET. Not completely, no.

Senator DANFORTH. Where do you disagree?

Mr. MILLET. You asked the question whether that could happen in Japan.

Senator DANFORTH. Ambassador Hormats is a man who has been negotiating with the Japanese, doing his best, a person who believes in free trade, and yet his swan song as the Acting Special Trade Representative is that it is like knocking your head against a rock, that we get nowhere, that we go through the exhaustive procedure of trying to negotiate an opportunity to make a sale of telephone equipment. No sales have been made.

We have to exhaustively negotiate for the right to bid for a sale in Japan and at the same time the Japanese have free access to our market. They have 22 percent of the domestic market and the American automobile industry is in desperate shape right now and wondering how it can get through the next few years.

Here is the crown jewel of American industry. What is good for General Motors is good for America; remember when Mr. Wilson said that?

Mr. MILLET. I certainly do.

Senator DANFORTH. The automobile I suppose was invented in this country; was it not?

Mr. MILLET. No; I don't think it was. We were certainly the leaders in producing it however.

Mr. REHM. Let us assume the answer to your question is that Japan would not tolerate a similar situation. I don't know what the answer is, but I am willing to assume you are right, Japan would not. Does that tell us what we should do? Is that instructive? Does that indicate to us what is in the national interest of the United States if the analyses of authoritative, objective groups like ITC, like economists you heard earlier today, like indeed most observers, have concluded that imports have not been a significant part of this problem? If objective analysis yields that result and answer, then what is the relevance of the protectionism or inclination toward protectionist behavior of other countries?

That is the issue we faced repeatedly when I was at STR. Does protectionism, if we deem it to be ill advised by other countries, warrant and justify similar protectionism by this country? That is an issue that you face over and over again in trying to formulate a liberal trade policy.

Senator DANFORTH. One of the arguments against that is that it works both ways and the other side retaliates against us. But the Japanese are impervious to American imports.

Mr. REHM. In this sector.

Mr. MILLET. We have not tried to export cars to Japan.

Senator DANFORTH. The telephone equipment situation is an example, over and over again the Japanese market has remained largely impervious.

Mr. REHM. Again we have to understand what we are doing. Are you now suggesting we restrict imports of Japanese automobiles because they are not letting in enough of our citrus fruit, of our beef?

Senator DANFORTH. I am not suggesting that.

Mr. REHM. What do they do with respect to U.S. coal and soybeans?

Senator DANFORTH. What I am suggesting is that the Japanese markets have never been accessible to the United States.

Mr. REHM. In certain sectors.

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Senator DANFORTH. In certain sectors where they are not absolutely dependent on them. If it is a matter of necessity they will import.

Mr. REHM. Let us assume again you are right——

Senator DANFORTH. If we were an oil exporter they would import from us.

Mr. REHM. I think you are largely right. But where does that get us in terms of the analysis of the present problem and what the Congress and the executive branch and private enterprise should best do in the national interest to wrestle with this problem?

Senator DANFORTH. I think the Congress of the United States should keep our automobile industry alive. I have no doubt we will do whatever is necessary to make certain that happens.

Mr. REHM. Would you not agree, Mr. Chairman, that if—and I am only stating it as a condition—if you and your subcommittee and the Senate Finance Committee should conclude, as we hope and believe you will, that imports have not been a significant part of the problem, then does it not follow as a matter of absolute logic as well as national interest that there is no purpose to be served in restricting imports?

Senator DANFORTH. If we conclude that having 27 percent of a diminished market made up by imports is a matter that is of no significance, I agree with you but I can't imagine any rational person would make that.

Mr. REHM. You are assuming that 27 percent represents for the most part or in whole a substitution for sales of American cars that would otherwise take place? You have to set that as your premise in order to reach your conclusion, and that is not true. It is not true. You heard an economist earlier this morning say that the reason why imports of small fuel-efficient cars rose as they did was because of enormous demand and inadequate supply from Detroit. I suggest to you that is the way world trade should work.

Senator DANFORTH. I am not going to argue any further except to say that we have heard three automobile producers say that they have their small automobiles stacked up.

Mr. REHM. And that is a very, very temporary phenomenon. The Ford Escort, as was advertised on the two football games you may have seen last Sunday, is apparently outselling every model presently sold in this country. The GM X cars until the last month or so have sold enormously well. The fact is that when Detroit wants to make a fuel-efficient modern car it sells very well indeed.

Senator DANFORTH. That is not what I heard this morning.

Mr. REHM. Until the last few months what was the best-selling model in this country of all imports and domestic makes? The Chevette.

Senator DANFORTH. Let me ask you another question. Senator Chafee asks: Is it not true that Japan imposes a commodity tax on larger vehicles which discriminate against U.S. companies selling in Japan?

Mr. MILLET. It is correct they impose a commodity tax. I submit, sir, that the commodity tax is first of all assessed on all cars sold in Japan, wherever they are produced. It also is based on engine displacement, size of vehicle. So basically it is a device in order to try to shift demand to more fuel-efficient cars. I also would like to point out that taxes aimed at this objective are imposed throughout the world, even in local districts in the United States.

Senator DANFORTH. Finally, Senator Chafee asks: We heard testimony yesterday that Japan imposes technical standards amounting to nontariff barriers against the import of vehicles?

Mr. MILLET. I have heard that claim made many times—that there are nontariff trade barriers imposed by Japan. I know that there have been special exemptions granted imported cars insofar as meeting the emission standards which are very stringent in Japan. They had 36 months extra time to meet these.

I understand that they have agreed to send inspectors to production facilities overseas in order to check cars out. I am afraid that that charge is somewhat of a myth used to indicate the difficulty of penetrating the Japanese market. I would like to reemphasize that basically domestic producers in this country have not produced the type of car that can be sold in Japan and they really are not trying to produce a car today to sell in Japan.

Senator DANFORTH. Thank you very much.

Mr. MILLET. Thank you, Mr. Chairman.

[The prepared statement of Mr. Millet follows:]

PREPARED STATEMENT OF RALPH T. MILLET, CHAIRMAN, AUTOMOBILE IMPORTERS OF AMERICA, INC.

SUMMARY

1. The Subcommittee has correctly called for a review of all the factors affecting the domestic automobile industry. The preoccupation with automotive imports has been unjustified, unproductive, and positively harmful.

2. The problems of the domestic automobile industry can best be approached by private initiatives and by letting market forces work.

3. If legislative action is required.

a. The Congress should adopt a proposal for accelerating depreciation.

b. The Congress should endorse the extension of automobile loans to terms of five years.

4. The Executive Branch should relax or rescind a number of safety and emission-control regulations.

5. Two kinds of private initiatives that will significantly assist the domestic automobile industry—and the world industry—are under way and growing:

a. Plant investments in this country by foreign automobile companies.

b. Collaboration between automobile producers in the form of joint ventures, equity investments, and financial assistance.

STATEMENT

Mr. Chairman, members of the Subcommittee, I am Ralph T. Millet, Chairman of the Automobile Importers of America, Inc., and representative for the Swedish company, Saab-Scania. AIA is an association of all major automobile importers in the United States, except Volkswagen and Mercedes-Benz. A list of AIA members is attached.

I appreciate your invitation, Mr. Chairman, to direct our testimony ". . . to all the factors affecting the performance of the auto industry, the causes of its present problems and possible solutions to these problems. . . ." We would like to offer some positive suggestions as to what might be done to help Detroit and also our import automobile industry, an industry in its own right with more than 140,000 employees in the United States.

We applaud the broad approach that this Subcommittee is taking. The most effective actions that the government should take, which would assist the automobile industry, are not costly measures that would be directed at this industry alone. Rather the industry can be most helped by the government through an overall approach directed at creating a healthy business environment—one in which inflation is under control, interest rates are sharply down, and the economy grows at a reasonable pace.

We hope that the new Administration also will take a broad approach and not focus on protectionist measures. The attention of the world will be directed to the first steps taken by the United States in 1981 with regard to this problem.

The preoccupation with imports has been unjustified, unproductive, and positively harmful. It has been unjustified because imports have not been a significant cause of Detroit's problems; unproductive, because import restrictions would not significantly aid Detroit or put unemployed workers back to work, but would be anticompetitive, inflationary, and energy-wasteful; harmful, because the preoccupation has diverted attention and effort away from the needed analysis of, and attack upon, the structural problems besetting the domestic industry.

This was suggested by Senator Chafee during last month's debate on H.J. Res. 598:

"Mr. President, I think it is fine for the automobile industry to blame its problems on imports. But we all know the problems of the automobile industry are far more deep-seated than that, especially with the high rate of interest at the present time."

That imports are not the culprit in this crisis was articulated by Senator Stevenson when he said during the same debate:

"That [the automobile] industry has been the subject of no end of reports and analyses. In addition to the investigation by the International Trade Commission, reports by the Secretary of Transportation, the House Ways and Means Subcommittee on Trade, the Congressional Budget Office, and the Council of Economic Advisors—all conclude that imports are not the source of the U.S. industry's difficulties and that import quotas or tariffs would have negligible effects on employment levels although substantial price increases would follow."

Earlier this month, A. W. Clausen, the President of the Bank of America, and due to become the new President of the World Bank, came out strongly against protectionism:

"If we start protecting markets it will become a lousy world. It's in the interest of the U.S. and the world to maintain open markets and keep them even more open."

We agree. Therefore, we urge the Subcommittee to deliberate carefully before recommending government intervention in automotive trade. Indeed, we believe that the problems of the automotive sector can best be approached by private initiatives and by letting market forces work—not by government action directed at this industry alone. If government must act, we would suggest several specific steps.

GOVERNMENT MEASURES

First, the Congress should adopt a proposal for accelerating depreciation, such as that adopted unanimously by the Senate Finance Committee last September 15. Among other things, this would permit business to depreciate buildings, machinery and equipment, and automobiles and light trucks over shorter periods. Such a proposal would assist the automobile industry as well as others, and the benefits would appear to be commensurate with the costs.

Second, the Congress should endorse the extension of auto loans to terms of five years in order to reduce the consumer's monthly payments and stimulate sales. This would not require new legislation, but Congressional endorsement of the idea would help to effectuate it.

We are aware of other proposals to assist the domestic industry. These include a tax credit for individual consumers purchasing vehicles, a current-year write-off by automobile companies of expenditures mandated by government regulations, and an extended carryback of losses provided by accelerated depreciation against prior year's income. Such proposals, however, tend to raise at least two important questions. First, is it wise to single out one industry for preferential treatment? Second, would the benefits equal the substantial costs involved? We do not presume to have a definitive answer to these questions, but we are concerned about the preferential and costly nature of these proposals.

We endorse the idea of the American International Automobile Dealers Association that consideration be given to granting the Detroit companies a tax holiday on funds repatriated from their vast overseas operations.

In any event, we would support the following specific proposals made by OMB Director-Designate Stockman in his paper entitled "Avoiding a GOP Economic Dunkirk": (1) Grant model year 1982 carbon monoxide waivers; (2) rescind the passive restraints standards; (3) relax the 1984 heavy-duty truck emission standards; (4) simplify the auto emissions certification and testing; (5) modify the ambient air standards for ozone; (6) cancel the EPA fuel additive testing program; and (7) relax the proposed light-duty truck emission standards for post-1980.

U.S. INVESTMENT BY FOREIGN COMPANIES

Government measures of the kind that I have just described may ameliorate—but not solve—the structural problems of the U.S. and foreign manufacturers. In the long run, the fate of Detroit, and of its competitors as well, lies in their own hands. We see two basic kinds of encouraging developments in the area of private initiative—U.S. investments by foreign companies and joint ventures between U.S. and foreign companies.

In addition to their substantial investment and employment in distribution and sales organizations, foreign automobile companies have already made a strong start in plant investment in this country. Volkswagen has invested over $1 billion in plants in New Stanton, Pennsylvania (5,200 employees), South Charleston, West Virginia (700 employees), at Ft. Worth, Texas (750 employees). Honda is investing over $200 million in a plant at Marysville, Ohio (2,000 employees). Nissan is currently building a $300 million plant at Smyrna, Tennessee (2,200 employees). Toyota's Long Beach, California, truck bed assembly plant represents an investment of $50 million (500 employees). Mercedes-Benz has invested over $8 million in a truck assembly operation in Hampton, Virginia (100 employees). Volvo's operation in Chesapeake, Virginia, represents a $25 million investment (200 employees).

Adoption of proposals to accelerate depreciation would be especially effective in promoting this trend toward U.S. investment by overseas automobile manufacturers.

THE WORLD CAR

As noted in the "Automotive News 1979 Market Data Book"—

"What is really happening is that the motor companies are collaborating in various areas of mutual interest and thereby succeed in cutting direct costs as well as gaining economies of scale."

Current joint ventures, equity investments, and financial and technical assistance include VW and Nissan, VW and Volvo, Nissan and Alfa-Romeo, Honda and British Leyland, Ford and Toyo Kogyo, Chrysler and Mitsubishi, Chrysler and Peugeot, General Motors and Isuzu, Renault and American Motors Corporation, Renault and Volvo, Renault and Mack, and Saab and Lancia-Fiat. Also, Toyota and Ford are reportedly discussing a major joint venture. This combination of technological expertise and financial resources should be encouraged and not hindered by "Balkanizing" the world industry through tariff barriers and quotas. It means lower ~~prices~~ to consumers, technological innovation, and a stronger and more competitive world industry. I might add that the Detroit companies have long been the leaders in this movement toward "the world car."

SUMMARY

In summary, we applaud this Subcommittee's taking a broad look at the problem and not allowing itself to be preoccupied with imports. Obviously, Detroit's economic woes stem from the recession, high interest rates, inflation and the shifting consumer preferences. If the government must act to help Detroit, the steps we have suggested should improve the entire economy. In a healthy climate, both the domestic and the import automobile industries will prosper. Increased foreign investment in this country and worldwide collaboration of automobile manufacturing companies will cut costs, advance technology, and gain economies of scale of the benefit of both companies and consumers.

Thank you.

Attachment.

AUTOMOBILE IMPORTERS OF AMERICA, INC.

Members

Alfa Romeo, Inc.
American Honda Motor Co., Inc.
BMW of North America, Inc.
Fiat Motors of North America, Inc.
Isuzu Motors Limited.
Jaguar Rover Triumph, Inc.
Lotus Cars Limited.
Mazda Motors of America, Inc.
Mitsubishi Motors Corporation.
Nissan Motor Corporation.
Peugeot Motors of America, Inc.
Rolls-Royce Motors, Inc.
Saab-Scania of America, Inc.
Subaru of America, Inc.

Toyota Motor Sales, U.S.A., Inc.
Volvo of America Corporation.

Associate members

Bridgestone Tire Company of America, Inc.
Lucas Industries, Inc.
Michelin Tire Corporation.
Pirelli Tire Corporation.
Semperit of America, Inc.
Toyo Tire (U.S.A.) Corporation.
Yokohama Rubber Co., Ltd.

Subscribing members

Chambre Syndicale des Constructeurs d'Automobiles.
De Lorean Motor Company.
Hyundai Motor Co., Ltd.
Japan Automobile Manufacturers Association, Inc.
Recreation Vehicle Industry Association.
Renault USA, Inc.
SATRA Corporation.
Society of Motor Manufacturers and Traders Limited.
U.S. Suzuki Motor Corporation.
Yamaha Motor Corporation, U.S.A.

Senator DANFORTH. That concludes the hearing.

[Whereupon, at 12:45 p.m. the hearing of the subcommittee was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

PREPARED STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall national interest. The total national interest, including constructive concern with the real problems and legitimate needs of individual sectors of the U.S. economy, is the Council's only standard. The Council does not act on behalf of any private interest or community of private interests.)

NEEDED: A STRATEGY

The International Trade Commission has answered the question: Are imports of automobiles a substantial cause or threat of serious injury to the U.S. automobile industry—an important cause no less important than any other cause? The Commission has answered in the negative. But that is not the sum and substance, the alpha and omega, of the question confronting the government with respect to the crisis in the domestic auto industry. As our Council told the ITC in the import-relief hearings, the issue for the government is "what kind of government assistance (to the extent that government assistance is needed at all) is best calculated to foster orderly adjustment of the automobile industry and best serve the total national interest." The vehicle for whatever aid is provided, we said, should be "a balanced, coherent adjustment strategy" addressing the real problems of this major industry.

One of the components of such a strategy should be correction of any statutory or regulatory inequities found to be impeding the industry's adjustment capability. Others should include restructuring of this industry—and industry commitments on product design, pricing, productivity, labor relations, etc.—to ensure that, in the public interest, government assistance (meaning aid at public expense) would be accorded an industry possessing good prospects for viability in the international competitive environment of the late 20th century. The overall framework for such a redevelopment policy should be a coherent, overall transportation strategy designed to provide the nation a transportation system that meets the highest standards of energy conservation, pollution control and fast, economical transportation of people and products. Such a program would, among other benefits, contribute materially to the effort that urgently needs to be made to generate good job opportunities for auto workers whose jobs in automobile production may have been lost to automation or other causes beyond their control.

The White House should have been ready with an auto-industry adjustment strategy regardless of the outcome of the import-relief proceeding before the ITC. President Carter enunicated some disjointed ingredients of an automobile policy last summer. It seemed little more than a political gesture in the campaign for re-election. It quickly became a relic of that quadrennial season. As the Carter administration leaves, and the Reagan administation arrives, there is nothing identifiable as a coherent, auto-industry adjustment policy. The Department of Transportation has just issued a report on the problems of the domestic automobile industry and what to do about them. But, whatever its merits (the recommendation of import control is at least one objectionable proposal), the report is not tantamount to policy. The fact that the government is not ready with a definitive auto policy is but one example of serious, long-standing unpreparedness for dealing quickly and constructively with the growing problems of industrial weakness besetting the American economy in a rapidly changing and increasingly competitive world. There was much that President Carter could have done, and much that President Reagan can do, without new legislation, although some legislative implementation may be necessary.

THE NEXT STEP

President Reagan should hit the ground running on the auto issue—not by sending emissaries to Tokyo to seek restraints on Japanese automobile exports, but by making clear his determination to proceed along the lines outlined above. He should immediately ask the ITC and appropriate executive agencies to update within 30 days their assessment of the auto industry's problems and needs. The industry's importance to the nation's mobilization base should be one facet of this assessment. A coherent redevelopment strategy should follow as quickly as possible. An international free-trade agreement on automobiles and auto parts should be part of this strategy.

The difficulties of such an international initiative would be considerable, perhaps monumental, but some way must be found to raise the sights of all producing countries to the need for all of them to phase out their obstructions to market forces and restructure their automobile industries for optimum viability in a world economy made as open as possible. U.S. policy concerning the automobile industry must address the growing web of automobile import barriers in Western Europe and elsewhere—distortions (with resulting export diversions) that are unfair to the U.S. auto industry struggling for viability in a domestic automobile market protected by nothing more than a negligible import tariff.

Faced with Presidential inertia on the auto crisis, Congress is floundering in its anxiety about what can be done to help the auto industry now that the ITC has rejected the petition for import restriction. The hottest item on the griddle of Congressional consideration of what to do is a widely supported proposal that would authorize (hence pressure) the President to negotiate an "orderly marketing agreement" (OMA) aimed at restricting auto imports from Japan. Such authorization, designed to preclude anti-trust litigation, would tend to disrupt the rationale, indeed damage the integrity, of the import-relief procedures of the trade legislation. It would be a simplistic measure that neglects economic realities in the automobile market and is a far cry from the balanced policy of constructive assistance that is the only suitable form of government aid. As a device intended to help the domestic industry acquire the capital to complete the conversion to fuel-efficient cars, the OMA proposal speculates on substantial substitution of U.S.-made cars for the foreign cars kept out of the U.S. market. This would be a shaky gamble, made even more objectionable by its harmful trade-policy and inflationary implications.

The best, most useful action Congress can take at this late hour for the American auto industry is passage of a resolution asking the President (1) to develop, with deliberate speed, a coherent auto-industry adjustment strategy as part of a coherent transportation-development strategy, and to seek from Congress whatever legislation may be necessary to implement it, and (2) to explore with all auto-producing countries the negotiation of a multilateral free-trade agreement on such products (looking toward an arrangement with as many producing countries as may currently care to participate and denying such free-trade treatment to countries not yet willing to participate).

America, a big country, should think big and act great in handling the ordeal of one of its backbone industries, long a symbol of American eminence, imagination and ingenuity.

SUBARU OF AMERICA, INC.,
Pennsauken, N.J., January 12, 1981.

Hon. JOHN C. DANFORTH,
Chairman, Subcommittee on International Trade,
Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR DANFORTH: In response to your notice of hearings to be held on January 14 and 15, 1981 on issues relating to the domestic automobile industry, and in light of your request that witnesses with a common position or the same general interest consolidate their testimony, we feel there will be a number of witnesses testifying, including AIA, who will present our general interests to the committee. Therefore, Subaru of America does not plan to testify orally, but would like this written statement included in the printed record of the hearing.

Since Subaru of America is a publicly-owned American company marketing Japanese manufactured automobiles, and since we have a very definite interest in possible future legislation, we would like the opportunity to testify in the future when specific legislation dealing with the importation of automobiles is introduced.

Sincerely yours,

HARVEY LAMM, *President.*

PREPARED STATEMENT OF CONSUMERS FOR WORLD TRADE ON ISSUES RELATED TO THE DOMESTIC AUTOMOBILE INDUSTRY AND IMPORT RELIEF

Consumers of World Trade (CWT) is a national, nonprofit, membership organization, established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the market place for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and captial resources. CWT conducts its educational programs to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

Consumers for World Trade strongly opposes any imposition of tariffs or quotas on foreign cars imported into the United States. American consumers would be the principal victims of such protectionist actions.

Next to a home, an automobile is the most costly purchase made by the average American household. In addition, the cost per mile of operating a car has risen steeply and will continue to rise. It is therefore imperative that the consumer be afforded an opportunity to shop, compare, and buy with care an automobile which will meet his needs at the best possible price. Tariffs and/or quotas will deprive the consumer of this opportunity, by narrowing his choice in the market place and artificially increasing the purchase price of the product.

Import restrictions on foreign car would severely penalize the consumer in a number of ways (see attached impact statement). The cost of the imported car will go up in response to a limitation of supply. Soon after, the cost of the domestic car will follow suit, in response to the easing of competition. In addition, the consumer will be paying a higher energy cost and will be deprived of his right to select the car of his choice, be it foreign or American. Thus, there would be an unconscionable inflationary burden on the consumer who would be subject to both a higher selling price and a higher energy price. Low and fixed income consumers, the ones most vulnerable to an already inflated economy, would be, of course, the most adversely affected by such protectionist actions.

CWT also opposes any bilateral negotiations with Japan for voluntary restraints on auto imports for the following reasons: negotiating voluntary restraints or orderly marketing agreements on a product which is not the primary cause for seriously injuring a domestic industry, would be undermining the procedures of the International Trade Commission (ITC) and setting undesirable precedents.

After comprehensive hearings and due deliberation, the ITC determined, by a vote of three to two, that imported automobiles were not the primary cause of serious injury nor posed a threat of injury to the domestic industry. This procedure is part of a long-standing and well-tested system, established by Congress in the Trade Act, to provide an opportunity for U.S. industries to seek redress for injury from foreign imports. The negotiation of voluntary restraints when injury has been found not to exist, would not only undermine the credibility of the ITC and render the process ineffective, but would set a dangerous precedent for the handling of other escape clause cases. It can be expected that an American industry with sufficient political clout would be inclined to by-pass the ITC completely, and go directly to Congress to seek protection from import competition. Congress while promoting competitiveness, will be in reality, destroying it by assuring U.S. industries protection from foreign competition, whether warranted or not.

Senator Bob Dole, Chairman of the Senate Finance Committee, in an exclusive interview with CWT, made the following comment on this issue: "We have established a process in which the International Trade Commission hears 'escape clause' cases. If we now try to bring Congress back into the process (through this resolution) it could, in effect, change the procedures established by the Congress."

CWT was encouraged last December to note that the domestic industry was making progress. It had re-employed 65,000 laid-off workers and had recovered 8 percent of the market from imported cars. In addition, the industry had made a determined effort to meet foreign competition by providing the consumer with a car of its choice and by increasing its productivity. Apparently, this progress was not sufficient to allow certain producers to maintain their performance.

Although CWT recognizes the need for some sort of temporary assistance to those producers who are in danger of failure, we would like to re-emphasize that the easing of competition, either through mandatory or voluntary restrictions, would be a step backward for all concerned. Neither the consumer, faced with an additional economic burden, nor the nation with an inflated economy, nor the domestic industry deprived of the motivation for gaining back its place in the American market, would benefit from such action.

Consumer Impact Data for Trade Restrictions on Imported Automobiles

Federal Trade Commission Report Data

Availability of cars.—Tariff would reduce imports by about 1 million cars. Quota would reduce imports by about 70,000 cars.

Inflationary impact.—Tariff would raise import prices by about $1,160 per car. Quota would raise import prices by about $527 to $838 per car.

Cost to the consumer.—Tariff would cost consumers between $5.6 billion and $6.6 billion. Quota would cost consumers between $2.9 billion and $4.9 billion.

"The cost to consumers would probably outweigh the gross benefit of profits to the producers by at least $1 billion, with the difference going to importers; tariff revenues for the government; increased costs of domestic automakers; and the cost of administering the quotas."

Results of a study by Charles Pearson, economist, John Hopkins School of Advanced International Studies.—Quota would cost consumers $245,000 per year per job restored (includes a calculation of jobs lost in the imported automobile industry). Tariff would cost consumers $395,000 per year per job restored.

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