industry employment is a direct result of increased production and employment in auto related industries and also a result of the stimulated employment increases in other industries from the overall rise in aggregate output. The economic costs exhibited in this scenario are a 0.2 to 0.4 percent increase in the CPI in 1985 and a 0.3 to 0.7 percent increase in 1990—resulting from assumed increase in auto prices and the induced aggregate demand stimulus to inflation.

POSSIBLE SECONDARY EFFECTS

A number of possible secondary costs could also result from the domestic content legislation that would alter significantly any potential benefits originating from the bill. Many of these are beyond the control of U.S. policymakers and are difficult to weigh without introducing some rather tenuous assumptions. Besides the direct effects posed by prospect of foreign trade retaliation, these could include such secondary indirect macroeconomic effects as:

- Foreign activity—the severe reduction in U.S. demand for foreign autos would depress growth in other nations, in turn depressing foreign demand for U.S. export products;

- Exchange rate appreciation—the quota-induced improvement in the U.S. trade balance would strengthen the value of the U.S. dollar on international exchange rate markets which would hurt the price competitive position of U.S. export and import-competing industries;

- Auto industry efficiency losses—the incentives for increased modernization and efficiency through increased investment by domestic auto manufacturers would diminish with the loss of foreign competition, and additional less efficient auto production would be encouraged, which would not otherwise have taken place; and

- Larger auto industry wage rate increases than otherwise because reduced foreign competition would remove some of the wage discipline evident in recent wage settlements.

Though the exact magnitude of all of these possible outcomes is difficult to assess, each is potentially costly to U.S. output and employment.

CAUTIONARY NOTE

Considerable care must be exercised in evaluating the changes in real output, employment, and inflation that emerge from these model simulations. First, existing macroeconomic models are not well-suited for assessing the economic effects of this kind of proposed policy change. Second, the simulation experiment was performed on only one model. Accordingly, the derived estimates reflect only the structure of that model (including the recommended adjustments by the managers of that model), and do not represent a consensus view of the economics profession. Under the circumstances, the estimates provided here must be viewed as tentative.

APPENDIX A.

Domestic Content Requirements for U.S. Motor Vehicle Sales: An Economic Assessment

Participants in the Auto Task Force have assessed the economic and policy consequences for the motor vehicle sector of domestic content requirements for cars and light trucks sold in the United States as embodied in H.R. 5133. The results of that analysis are discussed below and summarized in Table A. All figures cited here relate to the complete implementation of the schedule of local content requirements in 1985.

Japanese producers are assumed unable to comply even with the least stringent content requirements and therefore to be limited to 100,000 units of exports to the United States per producer. With five major Japanese auto producers and several minor ones, this corresponds to total imports from Japan of about 0.6 million units -- a roughly 65 percent reduction from current levels. The Japanese are also assumed to view this restraint as temporary, removing any incentive that might otherwise arise to shift their own production to the United States. European exports to the United States are, by contrast, assumed to be only weakly affected; they are assumed to retain a constant share (about seven percent) of non-Japanese vehicles sold in the United States. Europeans, thus, are assumed to share proportionately in any sales increase for U.S. producers.

The U.S. auto industry faces unquestionably serious problems, due in large part to the weakness of the economy. The purpose of the proposed domestic content requirements is to revive employment and production in the industry, and to allow the industry to restructure itself along internationally competitive lines. Hence, a major focus of this memorandum is the employment and production gains that might result from the proposed legislation. These gains, however, must be viewed in light of the costs to consumers and the economy that arise from the effective trade restraint implicit in the proposed legislation, and of their implications for economic policy.

I. Effects on Motor Vehicle Industry Employment

A. Short-run Impacts

The domestic content requirement of H.R. 5133 if fully implemented would undoubtedly have some consequences that increase auto-related employment. The amount of that gross increase could vary from 63,000 to 250,000 depending on the strength of the economy and the behavior of U.S. manufacturers. If the economy is sluggish or if manufacturers increase both price and volume, rather than just volume, the gross auto-related employment effect would be closer to the lower end of this range

But other consequences not examined here would tend to reduce auto-related employment. These employment estimates do not account for the loss of jobs in port facilities and vehicle dealerships as a result of the restraint on Japanese autos. Nor do they fully reflect either improvements in labor productivity, which are expected to decrease the labor content of U.S. autos by 1985, or jobs that are filled by transfers from other employment. Thus, net auto-related employment gains may be well below the gross figures presented above.

B. Long-run Considerations

In the long run, domestic content requirements could impair the competitive position of our motor vehicle industry in a variety of ways. First, as long as it is believed that government might provide import protection, the competitive pressure on the domestic industry and unions to improve labor productivity and management practices is reduced. Productivity improvements and wage moderation are critical to this industry, since new investment alone will not be sufficient to reduce U.S. manufacturing costs to levels competitive with the Japanese.

Second, local content requirements would involve the Federal Government deeply in monitoring the auto industry. Regulations to implement the law would be necessary, along with a bureaucracy to enforce it. The past record of Federal efforts in this sphere make it likely that extensive government involvement would hurt rather than help the industry.

Last, the effective trade restraint implied by local-content requirements would create a substantial incentive for Japanese producers to seek aggressively the higher-margin luxury small car markets in meeting the restraint level. These markets are expected to be the mainstay of the U.S. auto industry profits in the future. Thus, the imposition of such requirements could unintentionally undermine the long-run competitive position of U.S. producers in that segment of the market.

II. <u>Public Policy Perspective</u>

A. Short-run Impacts

This legislation would raise average new vehicle prices by between 2 and 13 percent and that alone would increase inflation as measured by the CPI by .1 to .5 percentage points (depending upon assumptions about the strength of the economy and the behavior of U.S. manufacturers).

There are other effects of these price increases on consumers and producers. Higher vehicle prices impose real costs on consumers, who are forced to forgo purchases altogether, or to purchase vehicles different from those they would otherwise have preferred, or to pay higher prices for the vehicles they do buy. These losses to consumers may be at least partially offset, however, by gains to domestic auto producers in the form of higher profits and increased employment. If all consumer losses were matched by producer benefits, the transfer that would thus take place would have no net effect on the domestic economy. But in the present case these "consumer costs" exceed producer gains.

This net real loss to the economy (so-called "deadweight loss") could range from $1 billion to over $5 billion per year (1980 dollars), with the actual figure close to the upper end of this range if the economy were growing strongly and manufacturers raised only prices, not volume. If manufacturers increased price in proportion to volume, this net real loss would be about $3 billion per year.

Another indicator of the cost of protection is the consumer cost of each job created in the industry: the total loss to consumers divided by the number of jobs created. Estimates of the consumer cost per job vary depending primarily on the response of domestic manufacturers. These costs escalate rapidly if there is <u>any</u> price component to the domestic manufacturers' response. A proportional increase in price and volume would yield an annual cost of about $100,000 per job gained -- roughly four times the average salary of auto-related workers.

B. Broader Issues

Broader policy issues are also raised by legislative measures that effectively limit imports. These must be weighed in with the relatively narrow set of economic issues addressed here. Internationally, such measures clearly violate our obligations in the GATT, thereby requiring that we pay compensation for others' lost vehicle exports, or expect retaliation. Domestically, a decision to impose such restraints may be perceived as reflecting the Administration's lack of confidence in the ability of its recovery program to deal with major problem sectors. Moreover, the adoption of these requirements may in itself be viewed as inconsistent with the Administration's economic philosophy: by "bailing out" one industry, it will only encourage other industries to press hard for bailouts of their own. Finally, government support of actions that directly worsen inflation could adversely influence inflationary expectations.

III. Summary

The potential benefits of this form of import protection to the domestic motor vehicle industry and the long-run strength of the U.S. economy are small, whether measured in terms of employment or cash flow generation. The potential costs of such action are large in the near term, whether measured by the added costs to consumers, the adverse impact on inflationary expectations or disruptions to present international trading practices. The potential costs are also large in the long run, whether measured by the competitive, international or domestic policy consequences.

Table A summarizes analytic results for the short-run impact of the proposed domestic content requirements.

Attachment

TABLE A

Summary of Results: Effective Restraint Level of 0.6 Million Japanese Units[1]

	Poor Sales Year (10.5 million Units)	Good Sales Year (15.0 million Units)
Assumed Level of Vehicle Sales Before Restraint (thousands)		
U.S. manufacturers	7,560	10,800
Japanese manufacturers	2,415	3,450
European manufacturers	525	750
Total	10,500	15,000
Scenario I: U.S. manufacturers respond by increasing volume only		
Inc. in U.S. manufacturers sales (thousands of vehicles)	1,028	1,614
Inc. in U.S. manufacturers net cash flow (pretax, $B)	1.07	1.68
Inc. in consumer cost ($B)	2.03	2.54
Inc. in U.S. auto employment (thousands)	160.2	251.6
Inc. in CPI Inflation Rate (points)	0.10	0.08
Annual Consumer Cost per Job Gained ($ thousands)	12.7	10.1
Scenario II: U.S. manufacturers respond by increasing both prices and volume		
Inc. in U.S. manufacturers sales (thousands of vehicles)	403	634
Inc. in U.S. manufacturers net cash flow (pretax, $B)	3.55	5.60
Inc. in consumer cost ($)	6.41	9.15
Inc. in U.S. auto employment (thousands)	62.9	98.8
Inc. in CPI Inflation Rate (points)	0.31	0.31
Annual Consumer Cost per Job Gained ($ thousands)	101.9	92.6

[1] All dollar figures are expressed in 1980 dollars.

Table A Continued

	Poor Sales Year (10.5 million Units)	Good Sales Year (15.0 million Units)
Scenario III: U.S. manufacturers respond by increasing prices only		
Inc. in U.S. manufacturers sales (thousands of cars)	0	0
Inc. in U.S. manufacturers net cash flow (pretax, $B)	4.87	7.65
Inc. in consumer cost ($B)	9.11	13.12
Inc. in U.S. auto employment (thousands)	0	0
Inc. in CPI Inflation Rate (points)	0.45	0.46

APPENDIX B.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—

DOUGLAS A. FRASER, PRESIDENT RAY MAJERUS, SECRETARY-TREASURER

VICE-PRESIDENTS

VEN BIEBER • DON EPHLIN • MARTIN GERBER • ODESSA KOMER • MARC STEPP • ROBERT WHITE • STEPHEN

IN REPLY REFER TO

1757 N STREET, N.W.
WASHINGTON, D.C. 20036
TELEPHONE: (202) 828-8500

July 7, 1982

The Honorable Sam M. Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means
Cannon House Office Building, Room 233
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your communication requesting our analysis of H.R. 5133, the proposed Fair Products in Automotive Products Act.

Enclosed please find two items pertinent to the analysis you have requested to be done by the CBO. First is a fact sheet describing the methods, assumptions, and calculations utilized in the derivation of our jobs estimate. Second is a response sent to Congressman Solarz who asked us to analyze studies done by the Congressional Research Service.

The UAW initially estimated that, if enacted into law as introduced, H.R. 5133 would preserve or create 868,000 jobs for American workers by the mid-1980s. New information leads us to revise our estimate up to 941,000. This figure relates only to jobs in the auto industry and its suppliers, such as parts suppliers, steel companies, tire companies, etc. The total macroeconomic job-creating impact — including employment at non-auto retail and service sector establishments dependent upon the flow of spending associated with a healthy domestic auto industry — would be greater.

Copies of this letter and two attachments are being sent directly to CBO. If members of your staff or the CBO analysts have any questions or need further assistance in this matter, please do not hesitate to contact Sheldon Friedman, Dan Luria or Lee Price at the UAW Research Department, (313) 926-5261.

Sincerely,

Douglas A. Fraser

DAF:dw
D1/opeiu494

cc: Dick Warden

The Auto Domestic Content Bill

This memo explains the method by which the UAW initially estimated that enactment of H.R. 5133 would create or preserve 868,000 jobs in the U.S. auto industry and its supplier industries. However, new information now leads us to revise our estimate upward by 8.4 percent to 941,000. The effect on jobs is simply the additional employment that would result from compliance with the bill compared with what would occur if no government action is taken.

H.R. 5133 sets minimum levels for an auto company's domestic content, measured by its total domestic value-added as a percentage of the total cost of all the cars and trucks it sells in the U.S. Our employment estimate is derived by determining the number of jobs associated with different percentages of overall domestic content. Instead of assuming a specific future market size, we make the conservative assumption that output per worker (productivity) will rise enough to offset any increase in auto industry sales. We further assume that each company will maintain its 1981 market share or, alternatively, that the combined market share of all companies in the 90 percent category will remain at 84.8 percent, those in the 75 percent category will keep 11.1 percent, and the 25 percent category 1.3 percent.

Based on the definition of "common control" included in the bill, we combine sales of GM with Isuzu, those of Nissan (Datsun) with Fuji (Subaru), and those of AMC with Renault. On the other hand, Ford is counted separately from Toyo Kogyo (Mazda) and Chrysler separately from Mitsubishi.

Step 1. We use Bureau of Labor Statistics (BLS) information to determine how many U.S. jobs were directly or indirectly required for the production of cars and trucks in the U.S. last year. In 1981 the motor vehicle and equipment industry (SIC 371) employed[1] 783,900 workers, but we initially used preliminary BLS data indicating 723,200 workers. According to the latest estimate by the BLS, for each job in SIC 371, the industries supplying SIC 371 provided another 2.36 jobs.[2] Thus the suppliers employed some 1,850,000 workers, bringing the total direct and indirect jobs in making cars and trucks in 1981 to 2,634,000.

Step 2. We next estimate the average domestic content for last year (1981). The Big Three held 71.4 percent of the car and truck market with an average content of 95 percent. The remaining companies had a 28.6 percent share and only 10.5 percent domestic content.[3] The weighted average domestic content for all the companies was 70.8 percent.[4]

Step 3. Now we can determine how many jobs would be provided if all the cars and trucks sold here had been entirely made here. Since 2,634,000 jobs accounted for 70.8

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1. The data in BLS, Employment and Earnings, March 1982, p. 48 have been revised upward 8.4 percent to reflect new benchmarks in unpublished computer printouts dated June 15, 1982.
2. "BLS 1979 Employment Requirements Table," October 23, 1981 (unpublished).
3. This assumes AMC/Renault at 80 percent domestic content, VW/Audi/Porsche at 40 percent, and the rest at 0 percent.
4. That is, (.714 x 0.95) + (.286 x 0.105) = .708.

percent of total value-added, then 3,720,000 jobs would have been required to supply the entire market.

Step 4. The number of jobs that would result after full implementation of H.R. 5133 is derived by estimating the ultimate average domestic content for the industry as a whole. The Big Three would maintain their 71.4 percent share and meet the 90 percent content requirement. The remaining companies will attain an average of 72.3 percent content.[5] The weighted average for domestic content overall would then be 85.0 percent.[6] That means that the U.S. would have 3,162,000 direct and indirect auto jobs by the time H.R. 5133 became fully implemented.

Step 5. Without the implementation of H.R. 5133, jobs will continue to fall due to imports of vehicles and parts. We predict that vehicles sold by the Big Three will have a 65 percent market share[7] and that those vehicles will have 85 percent domestic content.[8] Modest investment by Honda and Nissan will bring the domestic content of the remaining 35 percent of vehicles up to 12.8 percent.[9] The overall domestic content will fall to 59.7 percent,[10] equivalent to 2,221,000 jobs.

Step 6. The additional employment from H.R. 5133 of 941,000 represents the difference between the 3,162,000 jobs that would occur if it is implemented and the 2,221,000 that would remain if it is not. This estimate is 8.4 percent higher than our earlier estimate of 868,000 due to the recent revision in BLS data on auto industry employment.

1981 Vehicle Sales (Cars and Trucks) and Shares

Company	1981 Sales (000)	1981 Market Share
GM, incl. 79,000 Isuzu	4,673	43.30%
Ford	2,148	19.91
Chrysler	883	8.18
Big Three	7,704	71.4%
Nissan (Datsun), incl. 152,000 Fuji (Subaru)	736	6.82%
Toyota	714	6.62
Honda	371	3.44
VW, incl. Audi-Porsche	340	3.15
Toyo Kogyo (Mazda)	247	2.29
Renault/AMC	231	2.14
Mitsubishi (handled by Chrysler)	145	1.34
Others (with sales below 100,000)	303	2.81
	3,087	28.6%
Total	10,791	100.0%

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5. This is based on Nissan/Fuji and Toyota at 90 percent; Honda, VW/Audi/Porsche, Toyo Kogyo and Renault/AMC at 75 percent; Mitsubshi at 25 percent; and the rest at 0 percent.
6. That is (.714 x .90) + (.286 x .723) = .85
7. Their share was 80.3 percent in 1978 and 71.4 percent in 1981.
8. This is based on current information about the Big Three's plans to import vehicles and parts. For more on the latter, see Arthur Andersen, "U.S. Automotive Industry in the 1980s: A Domestic and Worldwide Perspective," (1981), pp. 12-13.
9. This assumes Renault/AMC at 50 percent, VW/Audi/Porsche at 40 percent, Honda at 25 percent, Nissan at 7 percent and the rest at 0 percent.
10. That is, (.65 x .85) + (.35 x .128) = .597

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—

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IN REPLY REFER TO

1757 N STREET, N.W.
WASHINGTON, D.C. 20036
TELEPHONE: (202) 828-8500

July 7, 1982

The Honorable Stephen Solarz, Chairman
Subcommittee on Asian and Pacific Affairs
House Committee on Foreign Affairs
Cannon House Office Building, Room 707
Washington, D.C. 20515

Dear Congressman Solarz:

The UAW appreciates this opportunity to comment on the three Congressional Research Service documents on automobile domestic content requirements, Report No. 81-191E of August 20, 1981 (Document I), Issue Brief No. 1B82056 of May 18, 1981 (Document II), and the memo to you of May 28, 1982 (Document III). While these set forth some of the arguments for and against domestic content legislation, on balance the analysis of the issue was disappointing, both in terms of what it contained, and what it left out. The case for H.R. 5133 is much stronger than the CRS documents suggest. H.R. 5133 would lead to foreign auto investment in the U.S.; it would accomplish its employment-creating mission with a net gain to the average American consumer-taxpayer; and this action can be readily justified internationally.

Before beginning our examination of the CRS analyses, we should clarify a fundamental difference in our approaches. On the one hand, the CRS tends to assume that H.R. 5133 will result in lower market shares for foreign manufacturers. We, on the other hand, assume that substantial investment in the U.S. auto industry by those manufacturers would occur.

Employment Gain

CRS Document II estimates that enactment of H.R. 5133 would lead to 425,000 additional auto-related jobs in the U.S. in contrast to the current UAW estimate of 941,000 jobs. Several explanations account for the different results. Most importantly, CRS compares the phased-in bill with 1981, but we compare the state of the industry after the phase-in with what it would be without enactment of the bill. Roughly half of the jobs in our estimate are saved from erosion due to further increases in imported parts and vehicles.

The partisan approach taken in the CRS analysis becomes most apparent in its inconsistent treatment of the U.S. companies' parts outsourcing. Document I (pp.6-7) emphasizes the extent of such outsourcing to buttress an argument that U.S. companies would be hurt by a local content law on the grounds that they need outsourcing to remain competitive. Documents II and III drop this fallacious argument and never

mention the facts of outsourcing given in the first document. In our estimates, increased outsourcing accounts for about a quarter of the jobs at stake.

CRS also cites unnamed "major economic forecasts" which predict that the market share of imports will decline in coming years. We know of no such forecasts and every indication of which we are aware points otherwise. In our estimates, we predict the market share of the Big Three will fall to 65 percent (compared to their 1981 share of 71.4 percent) and that an increased portion of them will be imported. In total we believe that a quarter of the jobs at stake with the bill are those spared from displacement by increased vehicle imports.

Another major discrepancy in assumptions comes in the ratio of jobs to vehicles. CRS Document II asserts, without citation, that the Big Four employ 550,000 persons and that each vehicle company job is backed by 2.2 supplier jobs. He seems to be using old data for production workers alone. As the attached memo explains, the latest data from the Bureau of Labor Statistics indicate that the motor vehicle and equipment industry employed 783,900 workers last year and that suppliers have 2.36 times as many workers. Thus, whereas CRS finds only 1.76 million jobs in producing autos, we find fifty percent more jobs: 2.63 million.

The CRS tries to guess how low-volume foreign producers stand to gain from lower exports by their high-volume counterparts. In effect, it assumes that the consumer who wanted a 100% Japanese-made Toyota rejects a Toyota with 90% U.S. content because he wants the complete "foreign-ness" of a Fiat or a Volvo. The fact that sales of European cars in the U.S. have fallen along with those of domestics as Japanese models' sales and share soared suggests that this is not the case.[1]

Price Effects

There are other assertions in the CRS analysis that are poorly founded. On price effects, for example (p. 7 of Document III), consumers' taste (again) for "foreign-ness" per se means "shortages of imported cars." Prices rise, and quantity demanded falls. However, this analysis relies on research done by the Council of Economic Advisers in early 1980. The CEA concluded at that time that, due to a shortage of capacity for small cars, the U.S.-based companies would be able to pick up "about half" the shortage and raise prices "about 12 percent or $850" for small, and "about $350" for large, cars. But now, more than two years later, with 2.5 million units of excess domestic small car production capacity in place, that conclusion is outdated. There is no longer any likelihood of small car shortages.

Today a small car can be built in Japan at a lower dollar cost than in the U.S., although we reject the "estimate" of a $1,500 landed cost advantage which has become widely accepted more from repetition than solid evidence. There are, however, three very good reasons to believe that any price hikes due to H.R. 5133, whether by foreign- or U.S.-based firms would be quite modest. First, for U.S.-based vehicle and parts producers, increased volume is the best way to simultaneously cut fixed cost per unit and to recapture market share lost since 1978. Second, the situation with regard to

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1. The CRS "Issue Brief" says that Japanese car sales here "remained constant while sales of American cars fell off." The facts: Japanese car sales in the U.S. went up 37.1%, or

U.S. labor costs is promising. Third, the yen can be expected to appreciate substantially by the time the content bill is fully phased in.

Moreover, two recent pieces of evidence indicate that U.S. production of Japanese-designed vehicles will not lead to higher prices on the U.S. firms' vehicles. First, in the year since Japanese export restraints were imposed in April 1981, domestic car list prices have risen only 6.5% — less than in any year since 1973. And that overstates auto price hikes: rebates, subsidized loans, and special free extended warranty programs have held the increase in prices actually paid in the 3-4% range, well below the 6.3% general inflation rate of the period. Second, a price war between imported and recently-introduced domestic small pickup trucks has erupted.

Japan's rising trade surplus and the widening overall U.S. deficit should eventually cause the yen to appreciate relative to the dollar, reducing the U.S.-Japan auto production cost gap. That gap would, we estimate, be all but closed by a return to a more appropriate 180 yen per dollar exchange rate. That would create more pressure for Japanese direct automotive investment here. But the process may take a long time — particularly if current monetarist policies endure — and by then the U.S. auto-centered manufacturing base might well be damaged beyond repair.

Social and Fiscal Benefits

Whatever one concludes about increased prices, they must be compared with the benefits of employing an additional 941,000 workers. After a decade of high unemployment even at cyclical peaks, that kind of job creation must be considered extremely valuable from a social standpoint. The benefits most readily measured in dollar terms are those to the federal budget. The CBO estimates that each one percent of unemployment costs the federal Treasury \$25 billion to \$30 billion in lost revenues and additional expenses. Thus, H.R. 5133 could bring the budget at least \$23.5 billion closer toward balance (\$10.6 billion even with the lower CRS employment estimates). With total sales in the range of 10 to 16 million a year, the deficit reduction would be equivalent to \$1,500 to \$2,500 per car.

The International Context

The CRS discussion of the GATT implications of automobile domestic content regulations fails to take account of the world auto context. Presently, over 30 nations have domestic motor vehicle content requirements, none of which to our knowledge has ever been challenged before a GATT tribunal. Arguments that enactment of content legislation in the U.S. would undercut our government's effort to reduce this kind of requirement in other countries ignores reality: for years the U.S. government has been pursuing that goal without success. Quite the contrary, efforts to negotiate reduction or elimination of other nations' damaging trade policies might well be bolstered by enactment of H.R. 5133.

It would appear unlikely that H.R. 5133 would result in retaliation under the GATT. European auto-producing nations have more restrictive practices themselves. Japanese imports are held to ten percent of the German and British markets, 2.5 percent of the French market, and 0.1 percent of the Italian market. Unless Hondas made in Britain have 50 percent EC content, France and Italy will include them in their tight quota on Japanese autos. The two European manufacturers with U.S. sales in excess of 100,000, VW and Renault, can satisfy the requirements of the bill. Two manufacturers based in Japan, Toyota and Nissan will have the most difficult time in meeting the requirements of the bill. If Japan chooses to bring a GATT complaint, the U.S. could

make a series of counterclaims, much as it did when complaints were filed against the DISC. The more restrictive practices abroad — and Japanese cooperation with them — could then be thoroughly investigated and shown to have necessitated defensive action by the U.S. An acceptable international policy toward the auto industry can be negotiated only when the U.S. shows that it is prepared to counteract the policies of others. As the last major auto producer to take action to assure the viability of its auto industry, the U.S. can hardly be considered to have initiated a "trade war."

In conclusion, the CRS analysis has understated the employment gain from H.R. 5133, overstated the price effect, ignored the social and fiscal benefits, and presented a naive view of the situation internationally.

We appreciate this opportunity to set the record straight. If you have any questions or if we can be of further assistance in this matter, please do not hesitate to contact us.

Sincerely,

Lee Price

Lee Price
Research Associate
Research Department

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