

# INDUSTRY AT THE CROSSROADS

Edited by  
Robert E. Cole

ミシガン大学日本研究



酒集

MICHIGAN PAPERS IN JAPANESE STUDIES  
No. 7 1982

**INDUSTRY AT THE CROSSROADS**

**edited by**

**Robert E. Cole**

**Center for Japanese Studies  
The University of Michigan**

**1982**

ISBN 0-939512-12-2

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Printed in the United States of America

## Preface

The "mood" of a conference can tell us a great deal about the state of mind pervading an industry. The mood of our first U.S.-Japan Auto Conference in January 1981 could only be described as electric. People wanted to know what our problems were and how we could begin to solve them. Inherent in the latter issue was the question, what could we learn from the Japanese? One left the conference with a sense that there was a call for action, a mandate to address the problems facing the industry.

The mood, about a year later, at our March 1982 U.S.-Japan Auto Conference was far more subdued. While undoubtedly this reflected the stream of statistics confirming the continually depressed state of the industry, we would like to think that another dynamic was operating as well. Whereas the 1981 conference was "electric," a state of mind which flowed from a certain frustration at seemingly overwhelming difficulties and often vague expectations of what we might learn from the Japanese, the 1982 conference was more "workmanlike" in the sense that speakers discussed specifically what progress was being made in addressing problems. This more subdued, pragmatic approach continued throughout and was reinforced by the workshops held the day after the main conference.

Instead of discussing the virtues of the Just-in-Time system in Japan, we addressed the practical problems of introducing such a system in U.S. firms. Instead of railing about the benefits or failings of regulation of the industry, we discussed what we could reasonably expect from regulation. Instead of exhorting the industry to adopt Japanese practices willy-nilly, we focused on some of the limitations of the Japanese model in a range of different areas. Instead of trying to identify some magic key to Japanese success in the automotive industry, we discussed the interrelationships among various factors. At the same time, we continued to explore the basic issues transforming the auto industry worldwide. In this connection, we sought to unravel some of the complexities associated with the internationalization of the auto industry and trade obligations under the GATT.

To be sure, the second conference may not have provided the same excitement as the first one. Yet we believe that more was accomplished in terms of our educational mission.

I would like once again to thank Harold Shapiro, President of the University, for his strong support for our efforts. The Planning Committee was composed of: David E. Cole, Director of the Office for the Study of Automotive Transportation; Susan Lipschutz, Assistant to the President of the University; Donald N. Smith, Director of the Industrial Development Division of the Institute of Science and Technology; Alfred S. Sussman, Dean of the Horace H. Rackham School of Graduate Studies; and myself. We also benefited greatly from the advice of our Advisory Board, composed of: Donald F. Ephlin, Vice President and Director of the National Ford Department, United Auto Workers; David S. Potter, Vice President and Group Executive of Public Affairs Group, General Motors Corporation; Fred G. Secrest, Consultant and former Executive Vice President, Ford Motor Company; and Leonard Woodcock, Adjunct Professor of Political Science, the University of Michigan.

Downs Herold provided invaluable professional guidance in organizing the conference, and Donna Welton, the Conference Coordinator, performed admirably.

Robert E. Cole  
Professor of Sociology  
Project Director, Joint U. S.-Japan Automotive Study  
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## INTRODUCTION

Harold T. Shapiro

On behalf of the Regents, the Executive Officers, and the faculty of the University, it is my great pleasure to welcome you to today's conference. I want to extend a special welcome to the speakers and discussion leaders who will play such a critical role in the conference. The University of Michigan is proud to have started what is now a series of conferences on an important and timely subject. We are proud to have served, at least in part, as a catalyst for focusing discussion on a very important problem, the automotive industry in the United States and Japan.

I am particularly attracted by the nature of the title for this conference, "Industry at the Crossroads." An industrial economy, such as we have had since World War II, is always at the crossroads. One of the characteristics of a market economy is that there are constant tensions. These tensions are not necessarily symptoms of a disease; these tensions are, more often than not, symptoms of the market's discipline as it tries to allocate production to the most efficient producers. So, in the rapidly changing world in which we now find ourselves, industry, and especially modern industry, is always at a crossroads.

In this latter respect industry is analogous to quality higher education. In my Inaugural Address in 1980 I said that, for a very similar reason, quality education is always at a crossroads. The world around us is a dynamic one and if we do not change with it we will be left behind. There is an anecdote which is told about a football coach, Woody Hayes at Ohio State University. They claim that once, when he was a bit aggravated, he told one of the players, "Look, you're either getting better or you're getting worse." And while I would not like to be a football player playing under that exhortation, there is something to it both in the worlds of higher education and of industry. You are either getting better or you are getting worse; you are either leading the pack or falling back. In a dynamic economy, such as we have today, comparative advantage is always changing. There is, and

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should be, therefore, a continuous shifting in the international distribution of production in manufacturing and in other areas.

Why is it appropriate that this issue of the shifting international distribution of production, the changing configuration of industry in various parts of the world, be discussed at a university? It is appropriate for a number of reasons, but I will mention only one. The university, as I see it, has a dual role in society. First of all, it is society's servant. We have to train people in the skills society wants: doctors, lawyers, engineers, accountants, and many others. We perform the function of passing on the accumulated knowledge of our civilization and, in that sense, we also serve as a servant of society. However, there is another important role of the university which places it in a very sensitive relationship to society. It is also our responsibility to serve as society's critic. What does that mean in the context of this conference? It is a university's responsibility to think of alternative visions of the world, and to remind us that the world as we find it today is just one possible case. If we are going to grow, in the broadest sense of that word—not simply economic growth but growth as a civilization—we must consider alternative ways of doing things. Others usually face those alternative visions only in a time of crisis or semicrisis. A university must do this constantly if it is to meet its full responsibilities to society. That is why I am glad that the University of Michigan is serving as host to these conferences and why I thank my colleagues who have put this conference together.

In the industry that will be the focal point of much of your attention, there have been dramatic changes, and it is obviously time for the consideration of alternative visions. It is also time to try to fit whatever solutions we think are appropriate into the broad scope of the world economy. If the world economy is going to be productive and enable mankind as a whole to fulfill its social agenda, we cannot be parochial in our solutions to these problems. If there are important changes and difficult transitions to be made, we must face up to them and deal with them as best we can. It is a challenging time for the automotive industry in the United States and, in particular, for the state of Michigan. Even for the country as a whole, there is much at stake. Nonetheless, I hope that your discussions will be characterized by a sense of participation, not simply in what is going on here in Michigan, not simply in what is going on in the United States, but in what is going on in the world economy. The solutions you derive for these problems will have to take into account your responsibilities to this state and nation and also to a much wider set of humanity. I wish you all the best of luck, and I hope we will see you back at the University of Michigan often.

## OPENING STATEMENT

Paul W. McCracken

That it is appropriate and urgent for a conference on this subject to be taking place in Michigan would seem to be obvious enough. This state and the automotive and associated industries now have the dubious distinction of leading the nation in one economic yardstick—namely, the unemployment rate. And the questions confronting these companies are awesome in their uncertainty and magnitude.

This industry has always been hyper-responsive to cyclical swings in the economy at large, as is clearly indicated by data in Table 1. From the third quarter of 1974 to the first quarter of 1975, for example, output for the economy as a whole (in real terms) declined 3.4 percent, but the auto component of real GNP dropped 28.3 percent. During the first year of the expansion, however, incomes and output nationally (again in real terms) rose 6.7 percent, historically about an average recovery, but the auto component of real GNP rose 55 percent. During the first year of recovery after the 1957-58 recession real GNP rose 8.4 percent and the auto component rose 44.4 percent.

This historical record does carry with it a message of hope. The economy is again today in a recession (an announcement which I make since many of you here today may not be aware of these things). If we are close to another upturn for the economy generally, which would be in line with our historical experience, and if the auto industry's response to improving business conditions were in line with our cyclical history, this industry could then anticipate a sharp improvement in the year or so ahead.

While for this industry the difference between a rising economy generally and a declining one continues to be important, and that in itself should be the harbinger of better things down the road, it also seems clear that the industry is

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confronting adjustments and uncertainties far more fundamental than simply being on the end of the usual cyclical whipcracker. Our problems did not begin in July 1981 when business activity generally turned downward. The fork in the road which this industry has reached is far more basic than surviving yet another recession.

Table 1  
CHANGE IN REAL GNP  
AND IN THE AUTO INDUSTRY COMPONENT OF REAL GNP  
DURING RECESSIONS AND RECOVERIES

<u>Recession</u>	<u>During Decline</u>		<u>First Year of Recovery</u>	
	<u>GNP</u>	<u>Auto</u>	<u>GNP</u>	<u>Auto</u>
1957-58	-3.3%	-26.4%	+6.9%	+24.7%
1960-61	-1.2	-16.0	+6.4	+5.6
1969-70	-1.0	-21.4	+2.8	+32.7
1974-75	-3.4	-28.3	+6.7	+55.0

Source: Basic data from the U. S. Department of Commerce. All percentage figures are computed from data in 1972 prices.

The decade of the 1970s concluded with one of those discontinuities that are rare in economic history—a sudden internationalization of the auto market. With the collapse of Iran an important component of the world's oil supply was interrupted. Our government, through its control of prices that largely denied us access to world supplies in the spot market, concentrated a disproportionate share of the world shortage on the United States—the usual tendency to shoot ourselves in the foot with government management of markets.

The American auto market, which for years had been moving back toward the larger cars in which our industry had specialized, ran to the small-car side of the deck. Our market was no longer a "privileged sanctuary" created by the preference of most (though not all) Americans for cars of a size made largely in the United States. What the American market then seemed to want were cars with which companies outside this country had more experience and immediate capacity than ours here at home.

The magnitude of questions and problems posed for our industry by this sudden, almost discontinuous, internationalization was awesome. Enormous capital outlays were required during a period of hemorrhaging losses. Costs were found to be higher here by a larger margin than could be explained by, for example, the rapidly narrowing differential between per capita incomes generally in Japan and the United States. Precisely the developments forcing companies to

factor internationalization into their thinking—about markets, production, and suppliers—were also producing massive strains and imbalances courting the growing risk of heading the trading world in a protectionist direction (a direction which, once set, is not easily reversed). After deploying capital and management energy on the basis of an international strategy, will companies find themselves impeded by growing trade barriers? With scarce capital resources heavily committed to down-sized cars (forced partly by our mishandling the last oil shortage, and partly by legislative mandate), are buyers, in effect, now going to say: "We've changed our minds and after all prefer larger cars"?

Clearly the industry is at crossroads where managements must make decisions that bet the net worth of their companies on the direction to be taken. By the close of this conference we shall not confidently have answered all the questions, but the questions we are addressing are not trivial.



## NEW DIRECTIONS IN AUTO TRANSPORTATION POLICY

Mark G. Aron

You may wonder why it's appropriate for a railroad lawyer to be talking about Japan and autos. As my biography indicates, however, I spent almost nine years at the Department of Transportation in Washington. Although I did not work for the National Highway Traffic Safety Administration (NHTSA) directly, I was involved with many particular NHTSA activities and with transportation regulation in general. I should indicate before proceeding further that what follow are my personal observations.

Hopefully my distance from the NHTSA process gives me some objectivity, if it is possible to be objective about NHTSA. Today I'd like to discuss the NHTSA experience, especially the safety rules, because it is both important in itself and a case study of how the regulatory process works and perhaps how it doesn't work. My objective is to convince you to approach NHTSA and the regulatory process with less emotionalism and less of a partisan spirit. Because of an emotional overreaction, the present process has been radically politicized, and this direction will cause us all future difficulties.

In looking at almost any regulatory process, there seems to be a lot of myth and legend, and NHTSA is no exception. The NHTSA legend goes something like this.

In the 1960s, Congress, in its great wisdom and after long and arduous review, enacted a statute with a clear and unambiguous mandate for regulation of motor vehicle safety. When that statute was passed, everyone anticipated what regulations would be issued, but Congress thought certain details had to be worked out by the technocrats.

The technocrats . . . or bureaucrats as they would later be called . . . slowly at first, but later with increasing abandon, issued more and more regulations, with

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total disregard for the congressional direction. A classic case of a bureaucracy thwarting the will of Congress. During Republican administrations and during a few sessions of Congress, attempts were made to chastise the bureaucracy and to slow this process, but under the most recent Democratic administration, all attempts at regulatory restraint were abandoned. And to make matters worse . . . and since this is myth . . . a wicked witch from the East, Joan by name, whipped the little munchkins into an utter frenzy of rulemaking.

Ah, but help was on the way, because out of the West came a shining white knight (and I decided to use that term even before I read Senator Packwood's recent remarks) who slew the wicked witch and rified the munchkins. And we all lived happily ever after or something like that.

As in all myths, there are elements of truth, but there are also very significant departures from the truth.

During the 1960s, there was a tremendous outpouring of public sentiment for some action in the auto safety area. Many states acted on their own to enact very tough anti-drunk-driving and speed laws. I grew up in Connecticut and then-Governor Abraham Ribicoff made his early political reputation by instituting a very rigorous anti-speed and drunk-driving campaign. Other states followed.

But there was a call for action on the federal level. Let me quote from one early report to give you a feeling for the tenor of the times:

Death on the nation's highways hit an all-time high (last year) when an estimated 55,500 people died in motor vehicle crashes. . . . If unchecked, motor vehicle crashes will produce at least a quarter million fatalities on our highways in the next four years. . . .

The grim statistics unmistakably highlight that in motor vehicle deaths, the nation faces a destructive problem equal in size and complexity to other social ills such as crime, disease and poverty. . . . Highway injuries exceeded by ten times violent criminal acts combined. . . . Motor vehicle crashes rob society of nearly as many productive working years as heart disease and of more than are lost to cancer and strokes.

Some might anticipate this quotation emanated from Ralph Nader. Actually, it comes from the second annual highway safety report which was submitted by President Richard Nixon. It gives some idea of the impetus for the regulation. These regulations didn't spring without reason from the brain of a mindless clerk in Washington. The public definitely perceived a need. And it is important to understand that support for regulation (and in fact support for later regulatory reform) was bipartisan in nature. If the regulations were excessive, they were more related to the times than to the party.

Congress reacted to this pressure by enacting the National Traffic and Motor Vehicle Safety Act of 1966. Far from giving specific directions to what was to become NHTSA, this act simply stated that the Department of Transportation (DOT) was to establish "appropriate Federal motor vehicle safety standards." They were to be "practicable . . . meet the needs for motor vehicle safety . . . and be stated in objective terms." "Motor vehicle safety" was defined in terms of "unreasonable risk." Except for a few admonitions to "consider" relevant safety data, the act provided little guidance. It did not mention cost-benefit analysis in the text, and it did not pinpoint specific areas for regulation. In fact, although it is a somewhat controversial issue, there were references in the statutory history that indicated that DOT was not to make use of cost-benefit analysis as the sole regulatory determinant. A cost-benefit requirement was considered but then not adopted in the original debate. Many of the earlier administrators at NHTSA and some members of Congress read the statute as requiring NHTSA to issue any regulation that was technologically feasible and advanced safety.

Actually, the NHTSA statute was not that different from other transportation safety statutes. If one compares the Federal Aviation Act, the Hazardous Materials Transportation Act, the various pipeline safety acts, or the Federal Rail Safety Act, one will find, to a fairly similar degree, requirements to issue appropriate or reasonable safety regulations with little or no further guidance.

If one is looking for villains in this process (if there are any villains), one has to be tempted to place at least some of the blame for any excessive regulation on the Congress. It was the Congress which started this process. Later when public opinion shifted, as in the interlock situation, the Congress would rise in righteous indignation and claim the agency had violated Congress's express intentions. But this would be a false claim since rarely did the Congress give any real guidance to the agency except "to do good."

Once the statute was passed, the regulatory process moved with amazing speed and, at least in this initial period, with little controversy. The great bulk of NHTSA safety regulation occurred in the very early days of the program. Again, let us realize that we are talking of rule making during the first few years of the Nixon administration. One of the first moves of that administration was to increase the status of the agency dealing with motor vehicle safety and to make it an agency. Quoting from the Third Annual Report, this elevation in the status of NHTSA was needed "to accelerate highway safety progress and emphasize the national importance of the problem."

As accomplishments, that report listed the issuance of twenty-nine motor vehicle safety standards and the proposal of an additional ninety-five standards. It also bragged that the first fines were levied at vehicle manufacturers for not complying with vehicle safety standards. The goal of this program was "to make breakthroughs in vehicle crash protection and control of abnormal driving behavior."



It is true that many of these regulations were based upon existing GSA standards and existing technology, but one should still not undervalue the immensity of this early program. Reading through the list of regulations and proposals gives some idea as to its breadth: one regulation for transmissions; six regulations dealing with windshields; one for mirrors; seven regulations for brakes; five regulations for tires; two for bumpers; individual regulations for steering, seat belts, exterior protrusions, door latches, fuel tanks, radiator caps, jacks, and odometers. Many of these areas would become controversial. On June 26, 1969, DOT issued an Advanced Notice of Proposed Rulemaking for "an inflatable passive restraint system" to be required on new cars in 1972. The next few years would in fact see the first automatic passive restraint system requirements, an interlock requirement, the truck braking rule (121), early bumper standards, and the first tire-grading system—a heavy rate of activity and all prior to 1976.

Many have seen the period after 1976 as a time when regulation reached a frenzy; but in many respects, except for fuel economy, which was a new mandated activity thrust upon NHTSA, the non-safety bumper rules, and the reinstatement of the passive restraint requirement, little new regulation was instituted. There were some new rules, but many of them were marginal in importance. Several proposals were made just before the close of the Carter administration, but they were more gestures of contempt than serious proposals. In many respects, NHTSA had fulfilled the great bulk of its mission. Some would point to the increase in enforcement after 1976, and depending upon how you analyze it, there was an increase after 1976. But in many respects, the activity of post-1976 was not much greater than the surge of activity in the early 1970s after the initial regulations were issued.

Using the figures from the 1978 Annual Report, in 1970, defect notifications involved less than one million vehicles. In 1971, notifications were directed toward nine million vehicles; and although the pace falls off for 1972 and 1973, between seven and eight million vehicles were recalled. Then the pace further decreases to between two-three million vehicles and rises again to eight-ten million vehicles in 1977 and 1978, figures not that dissimilar from the early 1970s.

I suppose we could discuss the passive restraint issue for the better part of this morning. I don't pretend to be an expert, although as a consumer I did support it. Although the level of real safety regulatory activity did not increase significantly after 1976, there was a decided increase in the level of regulatory rhetoric. It was clear that there existed in the minds of certain of the senior people of NHTSA a "devil type" theory. In other words, the industry was totally unreasonable and worse—it was immoral and evil.

It is one thing to be considered wrong or even unreasonable. It is quite another to be called immoral. Once you say this, you cut off any reasonable discussion and guarantee that the process has to be conducted in the most adversarial fashion.