

# The myth that low Japanese wages wrecked the U.S. auto industry

by Richard Katz and Richard Freeman

A myth has captured Detroit, the myth that cheap Japanese cars produced by low-wage Japanese laborers are responsible for the collapse of the U.S. auto industry. Similar myths pervade steel and other sectors. The allegation is that cheap Japanese labor allows Japan to undercut U.S. car costs by \$1,500 for each car produced, thus outselling U.S. makers and putting higher-paid U.S. workers on the street. Under the spell of this myth, the auto firms and the United Auto Workers (UAW) are currently discussing how much to cut workers' wages. General Motors has already accepted a UAW proposal to match worker pay cuts dollar-for-dollar with cuts in the sticker price. Only the amount of the pay cut remains to be determined; the firms are tossing out figures of \$1,000 to \$2,000.

Since in reality Japanese imports have little or nothing to do with the collapse of U.S. auto sales, as we shall show below, fixation on this phony explanation will prevent any action from being taken against the real cause, the high-interest-rate regime imposed by Federal Reserve Chairman Paul Volcker. As a result, no matter how many Japanese cars are kept out of the United States or how much U.S. workers' wages are cut, sales and employment will continue to plummet. Moreover, led by the Autoworkers, Steelworkers, and Teamsters, the American labor force will have accepted absolute cuts in pay for the first time since the 1929-33 depression—and at least in 1929 to 1933, workers had the consolation of falling prices.

A look at some of the basic figures surrounding the

**Figure 1**  
**Costs of an American car**

Year	Sticker price	Total purchase cost*	Interest on finance charges**	Production labor cost***	Interest as % of total	Production labor as % of total
1970 . . . . .	\$3,730	\$ 4,055	\$ 325	\$ 791	8.0%	19.5%
1972 . . . . .	3,800	4,325	515	984	11.9	22.8
1974 . . . . .	4,300	5,085	785	1,084	15.4	21.3
1976 . . . . .	5,400	6,429	1,000	1,227	17.2	21.2
1978 . . . . .	6,476	7,936	1,460	1,625	18.4	20.5
1980 . . . . .	7,676	9,669	1,993	1,775	20.6	18.4
1981 . . . . .	9,020	11,596	2,576	2,022	22.2	17.4

\* includes interest on finance charges

\*\* based on estimated contract price, or sticker price less down payment

\*\*\* based on estimate of 140 hours labor/car, 1970-73; 130 hours labor/car, 1974-79; 120 hours labor/car, 1979-81. Labor hours decreased with size of cars produced.

post-1978 sales collapse exposes the myth: 1) *Japanese imports had nothing to do with the collapse of U.S. sales.* From the 1978 peak of 9.3 million units, U.S. auto production fell to 6 million in 1981, a fall of 3.3 million. Yet, in the same period, total imports—of which Japanese cars comprise 90 percent—rose only 300,000 to 2.3 million. There is no way a 0.3 million rise in imports could have caused a 3.3 million collapse of U.S. domestic sales. Even if every small import had been kept out of the country and if every consumer had instead bought a same size or larger U.S. car (since there were not enough small U.S. cars to meet demand), U.S. domestic sales would still have fallen by at least 1 million units! 2) *U.S. workers' wages did not cause high sticker prices.* The biggest cause of the collapse of sales is the prohibitive sticker price and interest charges on a new car at a time when real incomes are falling in the United States. Workers' wage hikes did not cause these problems. Between 1978 and 1981 auto workers wages per car rose only \$400, *only 11 percent* of the combined effect of a \$2,500 hike in the sticker price and an \$1,100 boost in interest charges. In fact, total interest on buying a car, at \$2,600, is now more than the entire labor cost of the car at \$2,000! Even if auto workers' wages were cut to zero, U.S. sticker prices plus interest would still make a car cost \$9,600! (see Figure 1)

3) *Japanese wages are rising twice as fast as American auto workers' wages; technology, not "low wages" is Japan's competitive edge.* On the books, American auto workers' wages are twice the level in Japan, at \$16.85/hour compared to \$7.78/hour in 1981. This includes not only base pay but also all fringe benefits, e.g. health and insurance plans, sick leave, social security, vacation, and in Japan such things as regular bonuses, company subsidization of housing costs, free meals, and so forth. This

is the difference in the cost to the company. From the worker's standpoint, if Japan's much lower tax rates and lower inflation is taken into account, then the real, spendable take-home pay of the Japanese auto worker is at most \$3-\$5 less than that of his American counterpart, not the \$8-\$9 quoted in all the media.

Certainly U.S. wages are higher—America, fortunately, still provides its citizens with the highest living standard in the world. But take a look at the comparison in growth rates. In 1960, the Japanese auto worker made only 34 cents per hour, one-tenth the wage of his American counterpart. Today, he makes \$7.76/hour, one-half of U.S. wages and his wages have risen twice as fast in the past decade. If such trends continue, by the 1990s Japanese auto workers may be making more than Americans (see Figure 2).

There is also reason to believe American hourly compensation may be vastly overstated. For one thing, only \$11 is base pay, and the value to the worker of some of the fringe benefits are dubious. For example, a great deal of the fringe cost is Supplemental Unemployment Benefits, to be paid by the auto company at the point the worker becomes unemployed. Though the firms may count this "payment" on their books, they have vastly reduced the amount they pay out, and discontinued the service for more than half of all auto workers. Though the firms list pension fund payments on their books, what they actually deposit in real money is only a fraction of what they list. Other examples abound.

The charge that Japan is underselling U.S. prices is simply false. In 1978, the average Japanese car (a smaller car) cost only \$500 less than an American car. In the next two years the difference was down to \$200. And in 1981, according to the U.S. Department of Commerce it cost the consumer \$200 more to buy an import! How can one

**Figure 2**  
**Japanese and American autoworkers compared**  
Total hourly compensation,\*

	Japan	U.S.A.	Yearly growth, Japan**	Yearly growth, U.S.A.**	Japanese as % of U.S.A.
1960 .....	\$0.34	\$3.45	12.9%	5.1%	9.9%
1970 .....	\$1.14	\$5.65	19.0%	10.4%	20.2%
1980 .....	\$7.76	\$16.85			46.1%

Source: Dept. of Labor

\* Hourly compensation includes not only the hourly wage, but also all fringe benefits, such as insurance benefits, sick leave, social security payments, and in Japan regularly programmed bonuses, free meals, company subsidization of workers' housing costs, etc.

No adjustment has been made for inflation; any such adjustment would lessen the differential between U.S. and Japanese real wages.

\*\* Average annual percentage growth of Japanese and U.S. economies per decade.

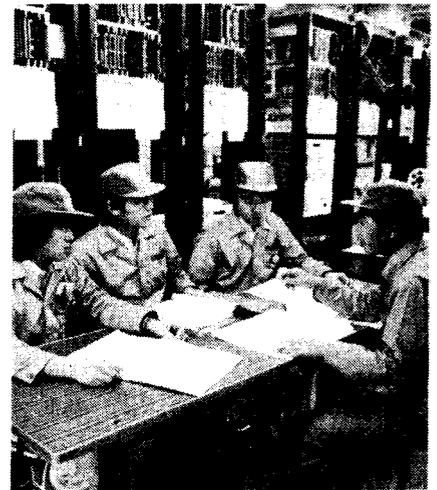


Figure 3

**Growth in hourly compensation per worker**  
(adjusted for inflation)

	1960 = 100		Average annual growth	
	1967	1976	1960-67	1967-76
Japan	140	300	4.9%	8.8%
U.S.	113	122	1.7	0.8

**Gross private fixed investment as a percentage of GNP: 1955-80**  
(adjusted for inflation)

	1955	1960	1965	1970	1973	1975	1980
Japan	11	18	19	27	27	24	25
U.S.	14	14	14	14	15	12	14

**Personal consumption as percentage of Japan's GNP: 1955-80**  
(adjusted for inflation)

	1955	1960	1965	1970	1975	1980
	63%	56	59	53	55	54

**Growth in labor productivity**

	1960 = 100		Average annual growth 1960-78
	1960	1978	
Japan	100	450	8.7%
U.S.	100	164	2.7

**Growth in industrial production**

	1960 = 100		Average annual growth 1960-74
	1960	1974	
Japan	100	426	10.9%
U.S.	100	197	5.0

Sources: United Nations, U.S. Department of Commerce, Japan Ministry of International Trade and Industry

claim "low Japanese wages" are leading Japan to under-sell U.S. prices?

**Japan applies the American System: rising wages**

Even recognizing that Japanese imports did not cause the collapse of U.S. auto sales, it is certainly no secret that Japan has been able to out-produce and out-sell America in industries from steel to auto, and is beginning to challenge the high-technology computer sectors as well.

The secret to Japan's competitive edge is not the myth of low wages, but a policy which used to be known as the American System of economics: rapid

introduction of new technologies, real wage levels rapidly rising, and government assistance to nascent industries. These are the very policies that turned America into an industrial powerhouse. Not surprisingly, the founders of modern Japan of the 1870s learned this system from studying Alexander Hamilton's policies, and with direct guidance from the associates of Abraham Lincoln's economic adviser, Henry Carey.

Far from being a cheap labor, runaway sweatshop—a sort of high-class Hong Kong—Japan made rapidly rising real wages the foundation of its economic miracle. Let us look at the 1955-71 period in particular—before post-1971 sluggish world trade and the 1973 and 1978 oil shocks disrupted the process. A *tripling of real wages* during that period enabled Japanese workers to absorb ever higher technologies and accelerating capital investment. This in turn led to 8 to 10 percent annual productivity increases, and 10 to 12 percent annual production growth rates.

Because productivity made up for wage increases, unit labor costs in Japan for manufacturing did not rise at all during 1955-71! This meant zooming profits, which the industrialists plunged into greater capital investment and further wage increases, not into real estate à la U.S. Steel Corp. Growing profits also allowed the government to cut the tax rate almost every year!

This process created a fascinating change in the structure of the economy. Looking at Figure 3, we see that between 1955 and 1970, personal consumption fell from 64 percent to 53 percent of real GNP, despite the tripling of living standards. Capital investment on the other hand rose from only 11 percent to 27 percent of real GNP. A rising capital-labor ratio, *in the context of rising real wages*, is the hallmark of a healthy economy—and the only reliable source of corporate profits.

After 1971, and even after 1973, the same policy continued in Japan. Overall industrial growth and real wage growth slowed because of the slowdown in world trade. However, after 1971 the emphasis on qualitative living standards became even stronger. Though wages had risen rapidly in 1955-71, the Japanese recognized they were still not high enough. Japan suffered a chronic shortage of skilled labor. In fact today, Japan estimates it still has 800,000 too few skilled laborers for today's demand because its living standard is not high enough, both materially and culturally, to meet growing needs.

Japan's small houses—sometimes lampooned as rabbit hutches—are infamous. Not so famous are the steps Japan has taken to overcome this problem, because some business leaders recognized, "Narrow houses produce narrow minds." Japan went on a house-building binge after 1970. In 1981, despite a 15 percent fall in housing units built from 1980 due to the effects of the Khomeini oil shock, Japan produced more hous-

ing units than the United States—1.2 million to our 1.1 million—with half our population! Just as important, the average size of Japan's houses rose from only half U.S. floor space, to two-thirds. Yet, in the last three years the United States has not only built fewer houses but actually let the average floor space shrink.

Japan's leaders gave equal importance to pushing education in basic science under the slogan that Japan would have to move steadily from basic industries to higher-skilled industries to "knowledge intensive" industries. In 1980, Japan graduated almost twice the number of electrical engineers as the United States: 20,000 as contrasted to 12,500. For years Japan has rapidly increased its engineering graduates while the United States has let this important resource stagnate.

Other items of basic life indicate a rising living standard in Japan while the U.S. standard has been falling: e.g. subways that break down less often, and commuter trains that whisk passengers between cities at 120 miles per hour; rising animal-fish protein consumption while beef consumption in the U.S. has fallen 15 percent since 1978; Mozart rather than just Muzak in department store loudspeakers.

Trade-dependent Japan is, of course, not immune to world events. The Khomeini oil shock caused a 1 percent decline in Japanese real wages in 1980-81—far

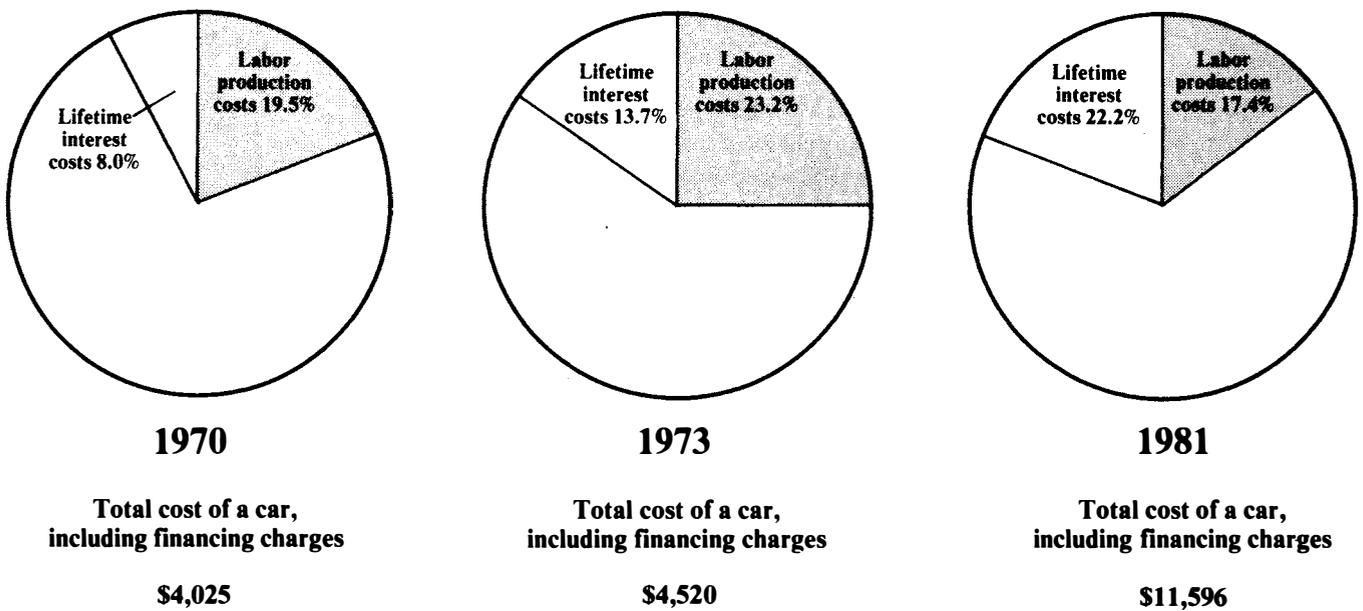
smaller than U.S. declines of nearly 10 percent—but Japan's investment program is now causing a resumption of real-wage increases.

### High wages mean productive workers

Japan's rising real wages—from \$1.14 per hour in 1970 to \$7.76 today in the auto sector—help create its competitive edge. The real secret to Japan's competitive edge in auto is that from 1970 to today, Japan doubled the auto output per employee; in contrast, U.S. labor productivity in auto increased only 30 percent. It now takes Japanese workers only 90 manhours to make a car compared to 120 in the United States. In fact, if the United States just knocked off the extra 30 hours, which at an alleged \$16.85 an hour amount to a saving of \$500 per car, this would make up half the saving GM says it needs to compete against the Japanese. In steel Japanese workers moved from 50 percent of U.S. output per manhour in 1964 to 150 percent in 1980!

Japan accomplished this not through speedup, not through "labor-management techniques" that made workers "feel better," but through rising wages and improved technology. Industrial robots are only the latest innovation in this process. At the Nissan Motor Zama plant, the most advanced in the world, there are 50 robots in service producing 800 units per day with 80

Figure 4  
Total costs of an American car



Source: National Association of Autodealers, Dept. of Labor's Bureau of Labor Statistics

workers on shift, twice the normal levels of output.

In steel, Japan made the leap through use of continuous casting, and newer and bigger furnaces.

American workers, by contrast, simply were not given the benefit of modern technology. U.S. equipment is, on the average, twice as old as that used in Japan. It is not only more dilapidated; it is more backward. The auto industry, despite model renewals, has one of the worst records. In 1975-78, when the average U.S. industry had 30 percent of its tools under ten years old, auto had only 24 percent. A shocking 45 percent of auto tools were over 20 years old! And yet GM insists the problem is low Japanese wages.

Despite the sorry record of comparing the United States to Japan in auto and steel, the reality is that overall, the U.S. worker is still by far the most productive worker in the world! Even with backward, abused equipment, the American worker can still produce an estimated 30 percent more output than his Japanese counterpart, and even greater percentages more than others nation's workers, in the average manufacturing industry. This should not be at all surprising. After all, the American worker still has the highest living standard in the world, both materially and culturally. Give him the proper equipment and he will put the Japanese to shame.

In fact, given the state of auto industry management and equipment, probably the only thing maintaining the U.S. in any competitive position at all is the skill of the average U.S. autoworker. *Any proposal to lower U.S. industrial wages will make the United States even less competitive, just as the Nazis found in 1930s German industry.*

### **The real culprit: Volcker**

If the Japanese worker did not destroy the U.S. auto industry, who did? Let us look at the breakdown of the remaining \$9,600 in U.S. auto costs (price plus financing) after labor costs are removed. In addition to direct \$2,600 in interest charges to the consumer, let us consider the interest paid by the firms and the dealers. The firms have had to massively increase their borrowing in recent years. Though they keep their debt service figures secret, conservative estimates put the cost at \$1,000 per car, plus \$500 per car for the dealer. This does not count the way inflation caused by high interest rates has raised the cost of materials. The total interest of firms, dealers, and consumers amount to approximately \$4,100, almost half of the non-labor costs of buying a car. The labor portion has shrunk drastically while interest has zoomed (see Figure 4). The name of the culprit behind the plunge of U.S. auto production is neither Toshio Tagushi of Toyota nor Joe Jones of Ford. Paul Volcker, the Khomeini of the credit markets, is the name you seek.

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**2:00-5:00 p.m.** The global strategic shift in light of recent East Bloc developments  
**Speaker:** Lyndon H. LaRouche, Jr., Founder, *EIR*

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