GOVERNMENT INTERVENTION VERSUS THE MARKET SYSTEM: THE UNITED STATES-JAPAN AUTOMOBILE TRADE CRISIS OF THE 1980s REVISITED

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Introduction and Background

On December 19, 2008, the American government under the Bush administration, agreed to extend financial assistance to the automobile industry. This was the culmination of months of deliberation in the Congress about the future of the business. In spite of the serious implications of refusing to assist the industry, the mood among the American public was not favorable toward a government bailout. Government financial assistance to the "Big 3," as the three major American automobile companies are called, was in the form of federal loans of $9.4 billion to General Motors (GM) and $4 billion to Chrysler. In addition, GM received a Treasury Department loan of $6 billion, and Ford was granted a line of credit of $9 billion.[1] Only two months earlier, in October 2008, the United States government had provided assistance to the banking industry in the amount of $700 billion under the Troubled Assets Relief Program (TARP). The TARP funds, initially identified for the financial sector, were used for the auto-industry bailout. The restructuring of the industry, which began with President Bush, would continue in 2009 under newly elected President Obama. The bailout action, although patently antithetical to the *laissez faire* tenets of capitalism, was embraced by the highly capitalistic financial and automobile industries.

However, the United States government assistance to the automobile industry in 2008 was by no means a new phenomenon. In the mid-1970s, the first major increases in the price of oil – which were implemented by OPEC (Organization of Oil Exporting Countries) – resulted in an economic downturn that affected the global economy. The resulting decrease in consumer demand for goods and services was manifested

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[1] Jennifer Chamberlain, "The Big Three: Bailout or Bankruptcy?" *Illinois Business Law Journal*, March 7, 2009 (accessed July 18, 2017 https://publish.illinois.edu/illinoisblj/2009/03/07/the-big-three-bailout-or-bankruptcy).

worldwide. The global automobile industry was particularly vulnerable because of the additional factor of increased gasoline prices. In the United States and worldwide, consumer preference for Japanese automobile imports increased due to the fuel-efficiency of Japanese manufactures. The combination of recession and lower demand for American-manufactured automobiles translated into lower sales and profits for the domestic industry. The resulting trade imbalance ignited conflict between the two countries. With Japan experiencing a favorable balance of trade with the United States, both governments intervened in their respective automobile industry. For Japan, government intervention fell under the country's explicit industrial policies that dictated support for industry in the form of trade protection, allocations of foreign exchange, research and development subsidies, loans at below-market interest rates and favorable tax treatment.[2] The United States government, on the other hand, took a more subtle approach, cloaking its intervention under the free trade doctrine implicit in the General Agreement on Tariffs and Trade (GATT). In 1981, after discussions between the American government and Japanese automobile industry representatives, the latter agreed to voluntarily reduce the number of automobiles they exported to the United States. This agreement was made under the Voluntary Export Restraint (VER) program, which, despite being contradictory to the principle of free trade, was considered a legitimate trade policy within GATT.

This study uses a rent-seeking framework to analyze the United States-Japan automobile trade conflict of the 1980s. The central theme of the paper is that decisions made by the governments of the United States and Japan led to the creation of rent-seeking opportunities in their respective automobile industries. In the United States, government intervention created competition between that industry and consumers for the ensuing rents; whereas in Japan, the automobile industry was set to be the sole beneficiary of the rents. The article is organized as follows: the first section traces the development of rent-seeking theory. The form and substance of intervention by the United States and Japanese governments in their respective automobile sector is addressed in the two sections that follow. The overall impact of the voluntary export restraint on economic players in both countries is then analyzed. In the last two sections, liberalization and government intervention are discussed.

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[2] Robert J. Carbaugh, *International Economics* (Cincinnati, OH: South-Western College Publishing, 2000), 217.

The Theory of Rent-Seeking

The sustaining factor of the market system is the price mechanism which works to efficiently allocate resources. It is the function of price to co-ordinate the wants of individuals, rising when goods are scarce, and falling when there is a surplus. The market lies at the core of the capitalist economic system in which the means of production are owned by a small group of individuals, and government intervention is *verboten.* Realistically, at times, the market does fail to perform its allocative function, and it becomes necessary for government to intervene to address this failure. Such government intervention includes restrictions on economic activity, ranging across the spectrum from protection against imports to the promotion of monopoly power.

In a 1954 article, Arnold C. Harberger presented an empirical model to measure the welfare loss to society due to monopoly power. Using a graph of the market system, he calculated these costs as a triangle contiguous to the market demand and supply curves, and aptly named it "Harberger triangle."[3] Gordon Tullock[4] used the Harberger triangle as the basis for calculating costs to society due to tariffs and monopoly, concluding that the losses to society were greater than those falling within the Harberger triangle. He identified these additional costs as the resources necessary to sustain monopoly power or a tariff. In 1974, Anne O. Kreuger[5] investigated the effects of quantitative restrictions on imports imposed by the governments of India and Turkey. She pointed out that these government restrictions created competition for import licenses, and consequently increased total welfare costs. These higher welfare costs, Kreuger found, were because of the combined value of the tariffs and what she termed "rents." Kreuger ascribed the term rents to the benefits to some economic agents from government regulation, and "rent-seeking" to describe the competition among economic agents for these benefits. While credit must be given to Kreuger for coining this term rent-seeking in her 1974 article, Tullock had applied the very theory seven years earlier.

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[3] Arnold C. Harberger "Monopoly and Resource Allocation," *American Economic Review* 44/2 (1954): 77–87.
[4] Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal* 5/3 (1967): 224–232.
[5] Anne O. Kreuger, "The Political Economy of the Rent-Seeking Society," *The American Economic Review* 64/3 (1974): 291–303.

An extensive literature has developed on rent-seeking since the origination of the term. Bhagwati,[6] Appelbaum and Katz,[7] and Wenders[8] are among those who have researched and written extensively on this subject. The theory has since been broadened and applied to other situations besides trade protection and monopoly. For example, Boyce[9] investigated rent seeking in the allocation of natural resource quotas, while Bishop and Liu[10] applied it to the liberalization in China's labor markets. In the interim, rent-seeking has also undergone definitional changes overtime. Since its inception, rent-seeking has been variously defined as: the resource-wasting activities of individuals seeking transfers of wealth through the aegis of the state; the behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus; the pursuit of profits via the use of government coercion; and the expenditure of scarce resources to capture an artificially created transfer.[11] In spite of the many definitions of the term, the core argument sustains – rent-seeking activity results from government intervention in the economy, and though some of the players may benefit from such activities, government intervention in the economy leads to inefficiency.

United States Government Intervention

Until the creation of the World Trade Organization (WTO), GATT was the body that oversaw world trade since the United Nations created a new international monetary system in the post-World War II era. In 1944, representatives from United Nations met at Bretton Woods, New Hampshire, and established the International Monetary Fund (IMF) as well as the

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[6] J. N. Bhagwati, "Directly Unproductive, Profit-seeking (DUP) Activities," *Journal of Political Economy* 90 (1982): 988–1002.
[7] Elie Appelbaum and Eliakim Katz, "Transfer Seeking and Avoidance: On the Full Social Costs of Rent Seeking," *Public Choice* 48/2 (1986): 175–181.
[8] J. T. Wenders, "On Perfect Rent Dissipation," *American Economic Review* 77 (1987): 456–459.
[9] John R. Boyce, "Rent-Seeking in Natural Resource Allocations," *Public Choice* 96 3/4 (1998): 271–294.
[10] John A. Bishop and Haiyong Liu. "Liberalization and Rent-Seeking in China's Labor Market," *Public Choice* 135 3/4 (2008): 151–164.
[11] Steven G. Medema, "Another Look at the Problem of Rent Seeking," *Journal of Economic Issues* 25/4 (1991): 1049–1065.

International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank. The GATT was signed in 1947, with the initial intention of extending the agreement to create a new entity by 1948, to be named the International Trade Organization (ITO). This new body would join the World Bank and the International Monetary Fund as the third Bretton Woods organization. However, this plan did not materialize. Instead, on January 1, 1995, GATT was replaced by the WTO rather than the planned ITO. From its creation in 1947 to its dissolution at the end of 1994, GATT promoted liberal trading principles among member countries. The GATT functioned through a series of meetings known as 'rounds,' at which member countries negotiated and came to agreement on trade concessions. Among the consensuses achieved by GATT were tariff reductions, anti-dumping legislation, and removal of barriers to trade.

The decision of the United States government to encourage the use of voluntary export restraint (VER) as a trade strategy began with the Truman administration in 1952, and continued through the Eisenhower, Kennedy, Johnson, and Nixon administrations. To the United States, the VER was a preferred strategy to the outright imposition of quotas on imports. United States preference for the VER lay in the fact that, although export restraints were contrary to Articles XI and XIII of GATT that prohibited quotas against exports and imports, the VER was self-imposed by the exporting country. It was also bilateral, existing only between the two trading partners. Thus, while the real purpose of the VER was to reduce imports, only the exporting country could implement it, and implementation was on a voluntary basis.[12]

Nominally, the use of the VER was inconsistent with the United States Most Favored Nation (MFN) policy. This trade policy stipulated nondiscrimination in the application of tariff and trade concessions to all other GATT signatories. However, the VER worked in favor of the United States, compared to quotas on foreign goods. In urging exporting countries to use the VER, the United States could maintain its adherence to free trade, while at the same time implementing protectionist policies to reduce imports from other countries. Further, because the VER was voluntary and bilateral, the United States was protected from having quotas imposed on its exports by countries not party to it. Superficially, the VER was a strategy that was

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[12] William McClenahan, "The Growth of Voluntary Export Restraints and American Foreign Economic Policy, 1956–1969," *Business and Economic History* 20 (1991): 180–190.

self-imposed by Japan. In fact, its use was encouraged by the United States government, rendering its implementation contradictory to the free-trade principles of capitalism.

Japanese Government Intervention

The post-World War II era was a period of expansion for the Japanese economy. Japan moved from exporting textiles in the 1950s to being an exporter of major goods such as automobiles, steel, and ships two decades later. In the late-1980s, Japan experienced a rapid increase in asset prices. This period is referred to as the bubble era,[13] and is determined to have been prompted by the sharp appreciation of the Japanese yen, the elevation of stock prices above their real values, and three decades of sustained economic growth that gave Japanese automobile assemblers an advantage over their foreign competitors.

Several factors contributed to the emergence of the Japanese bubble. First, the yen doubled in value against the U.S. dollar, from 1985 to 1993. In 1985, one U.S. dollar was valued at 250 yen; by April 1993, one U.S. dollar exchanged for 113 yen. In effect, Japanese interest rates declined to historically low levels. In 1987, the official Japanese discount rate on bank borrowing was at 2.5 percent, half of what it was in 1985. The combination of currency appreciation and low interest rates translated into high consumption and investment in the Japanese economy.

Second, with easy access to money and increasing asset prices, firms were reluctant to borrow from banks. As asset prices rose, their increase reinforced the value of hidden assets on corporate balance sheets, which elevated stock prices beyond their real value. Corporations shifted their financing from debt to equity by issuing convertible and warrant bonds. Banks shifted their focus from relationship lending to speculating in real estate and the stock market.

Finally, as mentioned earlier, thirty years of sustained economic growth had given the Japanese automobile assemblers a significant advantage over their international competitors. The bubble burst in December 1989 after several increases in the official discount rate in the preceding period by the Bank of Japan. The Japanese stock market crashed

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[13] Chris Lin, *The Japanese Automotive Industry: Recent Developments and Future Competitive Outlook* (Ann Arbor, Michigan: Office for the Study of Automotive Transportation, University of Michigan, May 1994), 38.

in early 1990, and by the spring of 1992, the Nikkei index was at 16,500 after falling from a high of 38,000 in the previous two years.[14]

The 1980s Japanese bubble was a contributing factor, but the Japanese economic model was also critical to the success of the economy. Inherent in the model was an industrial policy that consisted of government control of the economy.[15] The Japanese Ministry of International Trade and Industry (MITI) was instrumental in implementing the country's industrial policy. Its strategies, *inter alia,* consisted of trade protection measures, support to companies in the form of allocations of foreign exchange, research and development subsidies, loans at below-market interest rates, loans that were repaid only if the firm became profitable, favorable tax treatment, and joint government-industry research projects intended to develop promising technologies. The Japanese automobile industry benefitted from the industrial policy, and became the leading global exporter. The intervention of the Japanese government in the economy was within the framework of the East Asian Model, a phenomenon that had ultimately led to the rapid growth of East Asian economies in the post-World War II period. Perhaps, the last word on the intervention of the Japanese government in the economy should be left to the Governor of the Bank of Japan, Yasushi Mieno, who made the following statement at the annual meeting of the World Bank in October 1991:

> Experience in Asia has shown that although development strategies require a healthy respect for market mechanisms, the role of government cannot be forgotten. I would like to see the World Bank and the IMF take the lead in a wide-ranging study that would define the theoretical under-pinnings of this approach and clarify the areas in which it can be successfully applied to other parts of the globe.[16]

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[14] Ibid., 39.

[15] Carbaugh, *International Economics*, 216.

[16] Yasushi Mieno, Reading, World Bank Annual Meeting, *World Bank Press Release* 16, Bangkok, October 1991; cited in C. Johnson, "Comparative Capitalism: The Japanese Difference." *California Management Review* (1993), 51.

The VER in Perspective

Japan was accepted into GATT in 1955, in spite of global resentment due to its role as aggressor in World War II. This was also the period in which the United States government began its use of VERs as a trade strategy. The initial United States-Japan VER was the restriction on Japan's exports of tuna. With Japan's membership in GATT and its rise as a competitive exporter, the United States government continued to promote VERs on Japanese exports of velveteen (1956), cotton textiles (1957), and sewing machines together with a range of other goods (1958). By 1960, under United States trade policy, there were more than 30 products on its Japanese VER list. In 1969, the United States placed Japanese steel on the VER list, while wool, electronic articles and textiles, and a number of other products made the list in 1970.[17]

In October 1973, OPEC implemented the first global increase in the price of oil. This resulted in a global recession, which was further intensified by a greater oil price increase in 1979. The United States, along with the Netherlands, suffered the additional blow of an embargo on oil shipments by the OPEC countries because of their apparent support of Israel. The recession and the increase in the price of gasoline led to a decline in the demand for automobiles worldwide. In the United States, the domestic automobile industry experienced a reduction in sales and profits. At the same time, American consumers were increasing their demand for Japanese automobiles, which were of higher fuel efficiency than those manufactured by American companies. By 1981, the Japanese share of the United States automobile market was 22 percent. In the same year, Chrysler had to be saved from bankruptcy by a subsidized United States government loan.[18]

The American automobile industry lobby called upon the government for protection from Japanese imports. After discussions with U.S. trade representatives, the Japanese announced its decision to implement the VER in May 1981. Under the terms of agreement, Japanese automobile manufacturers would limit exports of automobiles to the United States until 1994. Berry et al[19] report that the reduction in Japanese imports due to the

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[17] McClenahan, "The Growth of Voluntary Export Restraints," 180–190.
[18] Steven Berry, James Levinsohn, and Ariel Pakes. "Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy." *American Economic Review* 89/3 (1999): 400–430.
[19] Ibid.

VER led to an increase in the price of Japanese automobiles. Sales and prices of American cars also increased, as did the profits of their manufacturers.

The Japanese factories did not suffer from the VER. The United States restriction on Japanese exports by way of the VER was on the number of vehicles, not the dollar value of trade. The VER also covered automobiles imported directly from Japan, not those assembled in the United States by Japanese companies. The Japanese manufacturers were able to circumvent the VER by shipping unassembled cars to Taiwan and South Korea for assembly and subsequent shipping to the United States. They also upgraded the quality of their products by introducing new luxury cars such as the Lexus, Acura, and Infiniti, developed by Toyota, Honda and Nissan. The higher prices of these new models reduced the negative effects of the VER, as higher revenues and profits were guaranteed for a lower number of units. However, the most effective strategy used by the Japanese manufacturers was direct investment in automobile plants in the United States. Honda was the first to establish an automobile factory when it opened its plant in Marysville, Ohio, in 1982. By 1990, Nissan, Toyota, Mazda, and Mitsubishi were all manufacturing automobiles in the United States.[20]

The Impact of the VER – Winners and Losers

In the early years, 1981 to 1983, the VER had no impact on the American economy due to the recession. In this period, the United States economy was beset with high interest rates, high unemployment, and low demand for automobiles. The VER had a slight impact in 1984 and 1985, but its effects were felt mainly between 1986 and 1990. This latter period was one of recovery for the U.S. economy. Low interest rates and low gasoline prices led to an increase in the demand for new automobiles. The results of research by Berry et al[21] are that in the period of 1986 to 1990, the price of Japanese cars increased by 14 percent while that of American manufactures increased by 1 percent. The researchers also report that the dollar value of increased profits of United States automobile makers was $2 billion (approximately 8 percent) per year between 1986 and 1990.

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[20] David Benjamin, "Voluntary Export Restraints on Automobiles," *PERC Reports* 17/3 (1999) (accessed May 7, 2017, https://www.perc.org/articles/voluntary-export-restraints-automobiles).

[21] Berry, Levinson, and Pakes, "Evaluating a Trade Policy," 400–430.

In addition, John C. Ries[22] used stock price movements of seven Japanese automakers and sixty-nine of their suppliers to study the effects of the VER on Japanese automakers. He concluded that the VER increased profits of producers of passenger cars, as well as large suppliers and producers of specialized parts and services. Ries also concluded that the profits were the result of restrictions on the number of automobiles the Japanese could export rather than on the dollar value of trade.

If the winners under the VER were the American and Japanese automobile manufacturers, then who were the losers? According to Berry et al, the price increases on domestic and Japanese automobiles equated to a loss to American consumers of $13 billion over the period of the VER, 1981 to 1994. The welfare loss to the United States economy totaled $3 billion.[23] Ries concluded that while Japanese manufacturers benefited, suppliers did not share in the windfall, as the effect of VER on the profits of auto suppliers depended on the price of parts.[24]

In 1985, the United States International Trade Commission published its report on the assessment of the American automobile industry.[25] The project entailed the quantification of the effects of the VER on the automobile industry, and on United States employment and consumers. The VER came into effect in 1981, but the report covered the period 1979 to 1984. Inclusion of the pre-VER years allowed for comparison with the earlier years of the VER, 1981 to 1984. Compared with the pre-VER years, the report concludes that during the period of the VER, prices of both domestic and Japanese automobiles increased, thus raising the cost to American consumers. Profits to domestic producers and the number of jobs in the automobile industry also increased. Data from the International Trade Commission report are replicated in Table 1 below.

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[22] John C. Ries, "Windfall Profits and Vertical Relationships: Who Gained in the Japanese Auto Industry from VERs?" *The Journal of Industrial Economics* 41/3 (1993): 259–276.
[23] Berry, Levinson, Pakes, "Evaluating a Trade Policy," 400–430.
[24] Ries, "Windfall Profits and Vertical Relationships," 259–276.
[25] United States International Trade Commission, *A Review of Recent Developments in the U.S. Automobile Industry Including an Assessment of the Japanese Voluntary Restraint Agreements* (Washington, D.C.: Government Printing Office, 1985).

Table 1. United States Automobile Industry (1979 to 1984)[26]

Item	1979	1980	1981	1982	1983	1984
Auto Production *(thousands of units)*	8,413	6,377	6,253	5,072	5,980	7,400
Imports of Japanese Automobiles (thousands of units)	1,617	1,992	1,911	1,801	1,871	1,970
Avg. Price of Domestic Automobiles Sold in US, 1981-1984 *(US dollars/unit)*	-	-	8,929	9,889	10,505	10,998
Avg. Price of Japanese Automobiles Sold in US, 1980-1984 *(US dollars/unit)*	-	6,709	7,292	7,539	8,317	9,300
Increase in Avg. Price of Japanese Automobiles in US from VER, 1981-1984 *(US dollars/unit)*	-	-	78	170	426	659
Net US Auto Industry Sales* *(millions of US dollars)*	88,413	72,100	80,734	79,495	108,003	131,000**
Net US Auto Industry Profit or (Loss)* *(millions of US dollars)*	(400)	(4,667)	(2,296)	(553)	5,330	10,400**
Employment in US Auto Industry *(number of employees)*	929,214	740,191	723,946	622,885	656,970	720,448**
Additional US Auto Industry Jobs from VER, 1981-1984 *(number of jobs)*	-	-	5,400	9,100	25,600	44,100

*Total for six domestic producers of automobiles in the United States.
**Data are for January to June 1984.

Government Intervention Versus Liberalization – An Observation

In the market system, there is a sense of inevitability that the government will intervene in the economy. As Medema posits, "the issue is not more versus less government (or big versus small government), but rather to whose interests government gives effect."[27] This perspective is evident in the actions of both the Japanese and American governments with respect to the trade conflict that beset the automobile industry in the 1980s. While in Japan various factors such as the reaffirmation of ancient Confucian values, self-sacrifice, and educational reform have been cited as being responsible

[26] Ibid.
[27] Medema, "Another Look at the Problem of Rent Seeking," 1050.

for the growth of the economy in the post-World War II period, a major factor has been intervention in the economy by the Japanese government by way of its industrial policy. In the United States, intervention in the economy has been mainly through fiscal, monetary, and trade policies.

Much has been written about the economic successes and failures of East Asian countries, including Japan and the Asian Tigers (Singapore, South Korea, Hong Kong, and Taiwan) through application of the East Asian model, which sanctioned government intervention in the economy. At the urging of the Japanese government, the World Bank economists conducted research and prepared a report on the East Asian model. The report was published in book form and titled, *The East Asian Miracle.*[28] The conclusions made in this document were disappointing to the Japanese government, as they undermined the idea of an East Asian Model and negated the belief that government intervention had contributed to the success of the East Asian economies. The World Bank, in fact, asserted that the growth of the Japanese economy (and the economies of East Asia) was not because of government intervention, but rather, had been the result of western liberalization policies such as fiscal and market discipline. The typical western view was thus perpetrated, which, in effect, supported the Washington Consensus that advocated globalization and free trade. As if to confirm the World Bank's conclusion, the East Asian economies were devastated by the financial crisis of the 1990s.

In spite of the World Bank view, voices were raised against the rigidity of the Washington Consensus and in support of government intervention in the economy. Joseph Stiglitz argues that the policies of the International Monetary Fund (IMF) contributed to bringing about the East Asian financial crisis, as well as the Argentine economic crisis.[29] In addition, he criticizes the policies of the World Bank, the IMF and the World Trade Organization (WTO), which he claims are based on neoliberal assumptions that are fundamentally unsound. In Stiglitz' own words:

> Behind the free market ideology there is a model, often attributed to Adam Smith, which argues that market

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[28] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993), 259–368.

[29] Joseph Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton and Company, 2003).

> forces–the profit motive–drive the economy to efficient outcomes as if by an invisible hand… Smith's conclusion is correct. It turns out that these conditions are highly restrictive. Indeed, more recent advances in economic theory–ironically occurring precisely during the period of the most relentless pursuit of the Washington Consensus policies–have shown that whenever information is imperfect and markets incomplete… then the invisible hand works most imperfectly. Significantly, there are desirable government interventions which, in principle, can improve upon the efficiency of the market. These restrictions on the conditions under which markets result in efficiency are important… If competition were automatically perfect, there would be no role for antitrust authorities.[30]

Therefore, the view of the neoclassical public choice school is that government intervention in the economy creates rents, economic actors expend resources in the pursuit of these rents, and that such expenditures are wasted from society's perspective. Thus, Stiglitz' observations are in direct contrast with the neoclassical position that strictly prohibits government intervention in the economy.

Summary and Conclusions

This study set out to analyze rent-seeking arising from government intervention in the economy to address the United States-Japan automobile trade conflict of the 1980s. Both governments intervened in an effort to assist their respective automobile sectors. The American government subtly applied pressure on Japanese automobile manufacturers to implement voluntary export restraints (VERs) and reduce their exports to the United States. Under the industrial policy of the Japanese government, the automobile industry benefitted from special treatment that included subsidies, loans and tax concessions.

In the end, the automobile manufacturers in both countries earned high profits from increased prices of their products, while United States consumers paid higher prices for both domestic and Japanese automobiles.

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[30] Ibid, 73.

American consumers were also denied the right to choose the type of vehicle they preferred to purchase. The American economy experienced a welfare loss, but there was a subsequent increase in the number of jobs in the automobile industry because the Japanese established new factories in the United States. However, whether through the VERs or industrial policy, both the American and Japanese governments intervened in the economy, stifling competition and consequently, manipulating the functioning of the price mechanism that is at the core of the market system. The result was the creation of rents, and competition among economic players for these rents. The automobile industries of both countries were the winners gaining profits in the process, as was the American economy, due to the increase in automobile industry jobs. As expected, when rents are present, there must be losers, and this fell on the American consumers through higher prices for automobiles. Yet, three decades after the Japanese VER was implemented, government intervention again became necessary for the continued survival of the American automobile industry.