

NORTH AMERICAN-JAPANESE PRODUCTION COSTS

The international competitiveness of North American producers vis-a-vis their Japanese counterparts and other off-shore suppliers remains the most critical issue. Unless North American producers overcome the present cost disadvantage they will suffer further erosion of their market share and manufacturing base. But assessing comparative costs is a complex task made more difficult by problems of product comparability, degrees of capacity utilization, exchange rate fluctuations and the lack of adequate detailed information. According to many automobile analysts, the Japanese enjoy a landed cost advantage of approximately \$1,500 to \$2,000 per automobile when compared to a North American built automobiles.

Despite major gains in productivity, large fixed cost reductions and more efficient controls over variable costs in recent years North American automobile producers will continue to face a substantial Japanese cost advantage of the above magnitude in the production of small cars. This will limit the ability of North American producers to generate increased small car sales through major price reductions. A recent study⁵ suggests that the differential may have widened rather than narrowed as the Japanese have also been improving their production efficiency. The Japanese production cost advantage has been an

⁵ Joint United States - Japan Automobile Study. University of Michigan, Ann Arbor, Michigan, February 1984 p. 151-52.