The surge of Japanese auto imports into the United States has led to a growing pressure from top industry executives, government officials and legislators for “voluntary” restraints on the part of Japan. Even Roger Smith, the new chairman of General Motors Corp., the one automobile company that had consistently backed free trade in autos, has joined the clamor for voluntary restrictions.

Needless to say, the talk of voluntary restrictions is hypocrisy pure and simple. Japanese exporters are not about to cut their own throats “voluntarily.” They will restrict exports only if their government requires them to do so—whether openly and explicitly or by more subtle means of persuasion. And the Japanese Government will require them to restrict exports only if our government pressures or bribes Japan to do so.

The feature of voluntary restrictions that appeals to the automobile industry is at the same time one of the strongest arguments against the measure: such restrictions can be negotiated by Executive action; and opposition to them can be more easily muzzled and circumvented than opposition to legislated restrictions. In short, voluntary restrictions are a form of taxation without representation.

I use the word “taxation” advisedly. Consider a tariff on Japanese cars—a straight tax. The higher the tax, the more expensive Japanese cars would be, and the fewer the number of cars that would be imported. Suppose the tax were high enough to limit Japanese imports to, say, 1.6 million cars, roughly the number being talked about as the voluntary limit. Such a tax would yield revenue to the government from the imported cars. But it would make domestically produced as well as imported cars more expensive. Faced with less competition, domestic producers would be able to charge higher prices. So the cost to consumers would be greater, and in this case much greater, than the revenue to the government. The difference would be an imposed transfer from purchasers of cars to producers of cars.

Consider now a voluntary restriction of Japanese car exports to precisely the same number of cars. The effect on car prices in the United States would be identical. The maximum price at which 1.6 million Japanese cars can be sold is the same whether those cars have been subject to a tariff or not, and there is no reason why car dealers or Japanese firms should sell them for a lower price. Similarly, the lessened competition for domestic cars depends only on the reduction in the number of cars imported, not on how that reduction is brought about. However, if the reduction is brought about by voluntary restriction instead of a tariff, the U.S. Government would get no revenue. Instead, that same revenue would be garnered by the Japanese—perhaps by the Japanese Government if it cut exports by imposing an export tax, perhaps to the exporters fortunate enough to get export permits, perhaps by the officials in charge of doling out the export permits.
This is by no means a purely hypothetical scenario. For years, for example, the United States and Taiwan have negotiated quotas on garments shipped from Taiwan to the United States: knit shirts, woven shirts, sweaters, pants and dresses, with each type further classified by fiber content (cotton, wool, synthetic fiber). The quotas have become negotiable items and are bought and sold. The U.S. consumer pays a higher price, just as if a tariff had been levied, but the U.S. Government gets no revenue from the phantom tariff, and the consumer is not aware that a tariff has been levied. Instead, the Taiwanese fortunate enough to be assigned quotas receive a windfall gain at the expense of American consumers and of other Taiwanese workers and manufacturers. A scandal, and yet it goes on year after year.

This example shows how dubious is even the one virtue that is claimed for the voluntary restrictions—that they will prove temporary while legislated restrictions, it is said, would turn out to be permanent. As so often, few things are so permanent as the temporary.

I oppose restrictions of any kind, legislated or voluntary. But if there are to be restrictions, let us be honest and open about them, not seek to achieve by subterfuge what an Administration dedicated to promoting free trade and reliance on the market would find it embarrassing to support through legislation.


Compiled by Robert Leeson and Charles Palm as part of their “Collected Works of Milton Friedman” project.

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