

Can Americans Produce Good (Japanese) Cars? Evidence from Used Car Auctions

Nicola Lacetera
Case Western Reserve University

Justin Sydnor
Case Western Reserve University

Extended Abstract

The recent crisis of the US automotive industry has been attributed, in part, to the inability of American manufacturers to produce cars of comparable quality to foreign makers, the Japanese in particular. Major limits to the viability of the US auto industry are identified in poor labor relations and relationship with suppliers, as well as in a general “work culture” deemed to be inferior to other countries, most notably, again, Japan. Over the past thirty years, however, a number of Japanese (as well as other foreign) car manufacturers have established assembly plants in the US. This offers the opportunity to analyze the differences among otherwise identical products, as determined by the different location of production. If there are fundamental barriers to producing high quality cars in the American manufacturing environment, we should expect that otherwise identical cars made in the US will be inferior to their counterparts assembled in their “home” country. We examine this hypothesis using a unique dataset of on about 500,000 car transactions at wholesale auctions, where we can identify whether cars of the same make, model, model year and body style, sold at a given auction site out of the 89 sites in our sample, was assembled in the US or in Japan. We are able to observe the sale price of each car, as well as a number of additional measures related to the a car’s quality: whether an arbitration followed the sale of a car, whether a car was reconditioned before being auctioned, and whether the car was sold with an “as is” clause.

Contrary to widely held perception, we find that otherwise identical cars assembled in the US and in Japan do not show any economically significant difference in their sale prices and in any other quality measure, at any age. We conclude that any difference in manufacturing quality between the US and Japan is not to be found in country or location-specific features such as labor and supplier relations, workforce quality, or a “work culture,” but rather in features specific to companies of different countries, such as design and management practices.