TOPICS

- Background
- The Oil Crisis
- The Fall of the American Automotive Industry
- The Revival of the American Automotive Industry
The BACKGROUND
BACKGROUND OF THE ERA

- Starting in the 1950s, the American highway system was built up under the Eisenhower Administration
  - Under the Federal Highway Act of 1956
- Gas was plentiful and cheap
  - People believed that gasoline and oil reserves would never run out
  - No need for economy cars or environmentally friendly cars
  - Led to development of the auto industry
BACKGROUND OF THE CARS

Before the 1970s, the American auto industry was dominated by muscle cars, built for speed

- Muscle cars were fuel hungry

- Muscle cars were built cheaply and sold cheaply
  - Popular with the buying market since they brought performance to the average man

American auto industry was centered in Detroit

The market dominated by “The Big Three”

- Chrysler
- General Motors
- Ford

1969 Dodge Charger
Before the growth of the Arab oil industry, most Middle Eastern countries exhibited poor socioeconomic conditions for citizens.

Many nations were previously governed by imperial European countries, such as Great Britain and France.

- After WWII, when imperial nations withdrew, Middle Eastern countries were left in a political mess.

Tensions high between Arab nations and Israel.

- Previous Arab-Israeli War only a few years earlier in 1967.

The oil industry brought growing wealth to Arab countries, and their economies and world political power started to grow.

Led to the modernization and development of major cities, such as Dubai, Kuwait City, Tehran, and Riyadh.
Dubai, United Arab Emirates

Tehran, Iran

Kuwait City, Kuwait
The OIL CRISIS
WHAT LED UP TO THE OIL CRISIS?

- Arab-Israeli War (Yom Kippur War):
  - Began on October 6, 1973
  - Arab armies advanced with new technology received from Russia
  - The US, allied with Israel, aided with arms, airlifts, and military equipment

- Aftermath:
  - Israel gained land, demonstrated its military power
  - US targeted by Arab governments for helping Israel
  - Anti-American feelings from populations of the losing nations
WHAT LED UP TO THE OIL CRISIS? (CONT.)

- The US became more dependent on foreign oil
  - American consumption rose while domestic oil production decreased
  - Cars at the time were fuel hungry, and therefore national consumption was high
- Organization of Petroleum Exporting Countries (OPEC) increased oil prices
  - Countries in the Organization of Arab Petroleum Exporting Countries (OAPEC), a subset of OPEC members, were the main exporters of oil in the world
  - Used political and economical leverage to raise the price oil
  - Tried to assert their position in the world
  - Pushed for anti-Israel policies
  - Oil prices increased rapidly

Symbol for the OAPEC
THE OIL EMBARGO OF 1973

- Many nations in the OAPEC were part of the Yom Kippur War
- Representatives from those countries agreed to stop trading oil with the US as “punishment”
- Led to inflated oil prices
- World economy shaken – World oil prices quadrupled
- Changes more severe in the US
  - Price for oil was 7x higher in 1973 than 1972
- Ended in January of 1974
EFFECT ON US ECONOMY

- Due to the dependence on oil in many industries, including the auto industry, and many areas of the US economy were affected

- However, not all areas were negatively affected
  - Oil producing states, such as Alaska and Texas, benefitted from their oil producing and refining industries as the rest of the country depended on domestic oil production
    - This boom only lasted until 1980 when oil prices started to stabilize
  - US aluminum industry grew – As auto manufacturers were trying to make their models more fuel efficient, they started making their cars out of lightweight aluminum
    - This new need for aluminum boosted the aluminum industry to new profit levels
Patterns in Domestic vs. Imported Oil

US oil production peaked in 1970, and started a slow decline after that. At the same time, as American industry grew, the need for oil grew, too. Therefore, to meet this demand, the US started relying on imported oil. Imports peaked around 1977, the same time as American roads were full of large, fuel consuming cars. This spike in imports fell around 1980, as Americans switched to driving fuel efficient import cars.
EFFECT ON THE US AUTO INDUSTRY

- US automakers suffered greatly
- Since American automakers were not focused on building fuel efficient cars, when the oil embargo happened and gas prices spiked, no one wanted to buy a large, fuel hungry car
- Few people could afford to spend increasing amounts of money on gas
- Led to a shift to import cars

The 1978 Lincoln Continental only
Got 7 miles per gallon
The

FALL OF THE AMERICAN AUTOMOTIVE INDUSTRY
In the late 1960s, President Nixon set many new regulations on cars sold in America

- Needed to have a smaller impact on the environment
- Needed to have better safety features
- Needed to pass new government safety tests

Auto manufacturers needed to research more safety features to be able to pass the many specific safety tests from the government
SHIFT TO JAPANESE IMPORT CARS

- Unlike most American cars, Japanese cars delivered reliability and good fuel economy at affordable prices.
- On average, Japanese cars were smaller than American models and therefore were more economical.
- Since Japan had no oil of its own, and relied on imports, the Japanese automakers were used to making fuel efficient cars, since on average the price of gas was higher there.
- Japanese companies started building production plants in the US to increase their profit margin.
- A “Japanese Big Three” grew:
  - Toyota
  - Nissan (Datsun)
  - Honda

[Image of Toyota Corolla]
THE VOLUNTARY RESTRAINT ACT OF 1981

- Limited the amount of Japanese cars that could be imported into the US in an attempt to revive American auto manufacturers.
- The US government believed that the American automakers could thrive on the opportunity, given that they had less competition.
  - US auto manufacturers responded with their versions of small Japanese cars, like the Ford Pinto, Chevrolet Vega, and AMC Gremlin (Comic Book Guy’s car).
- Japanese automakers’ profits dropped due to lower US sales.
JAPANESE RESPONSE

- To save money, Japanese automakers started not only assembling their cars on US soil, but producing parts here as well.

- Many automakers known for making cheap, economical cars introduced their fuel saving technologies into newly created luxury brands:
  - Toyota started Lexus
  - Nissan (Datsun) started Infiniti
  - Honda started Acura

- By selling the same amount of cars, but at a higher price due to increased luxury and technological advancements, Japanese auto manufacturers were able to increase their profit margin.
Before the 1970s, the Big Three were unrivaled as the major auto manufacturers in the American market

- There was no competition to push American automakers into innovating
- Research was low, as well as the amount of new technology coming out on cars

However, as Japanese imports infiltrated the American market, domestic automakers needed to unveil new technologies to be able to compete with the imports
Unlike American automakers, Japanese car companies responded better to competition

- Japanese auto companies innovated, and tried to make their cars better than their competition

As the auto market fell, American companies tried everything to save a few dollars on the manufacturing of each vehicle

- Many safety features were faulty, yet were placed on cars despite their problems, or were just left out entirely
- American cars were made with cheap materials, and therefore rusted easily
  - Led to low reliability
- Companies advertised technologies that either weren’t present or did not work correctly
  - Lawsuits followed, and companies suffered one legal problem after another
The REVIVAL OF THE AMERICAN AUTOMOTIVE INDUSTRY
AMERICAN INVESTMENTS IN JAPAN

- Wanting to take part in Japanese success, the Big Three invested and bought smaller Japanese companies
  - Chrysler: Mitsubishi Motors
  - Ford: Mazda
  - General Motors: Isuzu and Suzuki, partnered with Toyota and produced cars under the name Nummi
- Profits started growing for the Big Three as they expanded their reach beyond the American market

Mitsubishi Galant
AMERICAN INVESTMENTS IN EUROPE

- By investing in European brands, the Big Three were able to increase profits even more
  - Chrysler: Lamborghini, showed interest in Maserati
  - General Motors: Started the Saturn brand to take cheap European cars and make them more luxurious for a higher profit margin
  - Ford: Jaguar and Aston Martin
- The Big Three also grew in presence in European markets – Led to higher sales

1986 Aston Martin V8 Vantage
NEW AMERICAN CAR STYLES

- In the years after the recession, American automakers were able to innovate and grow their company through advances in technology and marketing.
- Minivans became popular in the 1980s as Chrysler was looking for a way to expand their lineup.
  - Ended up with the Dodge Caravan and the Plymouth Voyager.
- SUV Boom: The Sport Utility Vehicle (SUV), which had previously been unpopular in the 1970s due to low fuel economy, started to become popular in the 1980s.
  - Allowed for cheap production costs for the manufacturers, and had a huge profit margin of around $7,000 - 10,000 per vehicle sold.
- “K-Car”: Started by Chrysler to expand their lineup, but use the same cheap, easy to develop, chassis.
  - Were fuel efficient, could carry many people for its size, and were affordable.
  - Were an instant hit in the American market.
LEGACY

- Redistribution of wealth to oil producing nations
  - Gave them outsized geopolitical power
  - Left simmering Arab-American political tensions
- Drove Americans to buy smaller, more fuel efficient cars
  - First, those manufactured by the Japanese, which enabled Japan to thrive for many years
  - Then, those manufactured by US companies, which helped drive Japan into its current economic depression
- American automakers dominate many of the world’s markets and continue the trend of researching and developing new technologies to be able to compete with auto manufacturers in other countries
Drove innovation in US manufacturing

- US auto manufacturers brought out new technology:
  - Disc Brakes
  - Fuel Injection
  - Electronic Engine Control Units
  - Electronic Ignition
  - Front Wheel Drive
  - Unibody Frame

- New car styles
  - SUV
  - K-Car
  - Minivan
KEY QUESTIONS

- What led up to the oil crisis?
- How did the oil crisis affect the US and world economy, specifically the auto industry?
- Why was the US greatly affected by the rise in oil prices?
- Why did import cars become popular in America?
- What steps led to the revival of the auto industry?
BIBLIOGRAPHY
