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COMMENTARY

Let's Have a Real Debate on Globalization

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Hanover, N.H.

Tonight America's eyes will turn to my hometown of Hanover for the next debate among the Democratic presidential candidates. Given the central role New Hampshire plays in presidential politics, this location makes sense. But I am hoping the conversation is not too local. In particular, I would love to hear a question put to all the candidates about two other places: one 665 driving miles from Hanover -- Detroit -- and the other about 7,500 miles away -- China.

On Monday the United Automobile Workers union went on strike against General Motors. About 73,000 GM employees walked out of more than 80 production facilities in the United States. Many are viewing this strike, and the ongoing struggles of the Big Three more generally, as Exhibit A for how globalization damages America, and for why the U.S. needs new policies to limit our engagement with China, India and the overall global economy.

The struggles of the Big Three workers and other stakeholders are very real. The livelihoods of hundreds of thousands of UAW workers, retirees and their families have been under pressure for many years. But there is a critical, bigger picture that we must not lose sight of: America overall is stronger today because of, not in spite of, the globalization of the U.S. automobile industry.

Start with the Big Three. For decades the competitive pressures of international trade and investment have forced the Big Three to innovate and boost productivity, starting with gains in fuel efficiency after Japanese car imports surged with the oil-price shocks of the 1970s. In 1998 GM averaged about 46 hours to produce a vehicle in North America. By 2005 that was down to just 35 hours. On many dimensions, it is foreign-headquartered companies like Mercedes, Honda and Toyota that establish and push global best practices -- a lead the Big Three have been compelled to pursue and thereby improve performance.

Now look at the U.S. auto industry overall. The argument that America can no longer produce cars because of foreign competition flies in the face of one word: insourcing. In 2005, foreign-headquartered multinationals in motor vehicles and parts employed 334,900 Americans -- at an average annual compensation of $68,125, fully 34% above the private-sector average. Over the decades that the Big Three have struggled with their American operations, foreign auto companies have rapidly established and expanded U.S. production through foreign direct investment.

Broaden the view even more, to all American consumers, who have benefited greatly from the global engagement of the U.S. auto industry. The easiest way to see this is to visit any parking lot. The tally this morning outside my office? Five Big Three vehicles and 10 foreign-company vehicles. At the national level, in 1980 the Big Three had 73% of the U.S. automobile market. In recent months this share has slipped below half.

Thanks to all the competition among the Big Three and foreign companies, consumers have enjoyed massive innovation, new variety -- and lower prices. From 1990 through 2006, the overall U.S. consumer price index rose 53%. The rise in the autos CPI component? Just 13.4%.

Finally, broaden the view to the entire world. In 2005 GM lost $12.9 billion in its global operations in motor vehicles. Which company had the highest market share that year in China, earning $327 million in net income there? GM. The biggest growth opportunities for the Big Three are all outside the U.S. China today is already the world's second-largest passenger-vehicle market. Limiting the ability of the Big Three to expand abroad will only further their overall difficulties back at home.

America's automobile industry is Exhibit A for the aggregate gains generated by the dynamic and interrelated forces of trade, investment and technological change. Global engagement has generated, and has the potential to continue generating, very large gains for the U.S. overall. Living standards are upwards of $1 trillion higher per year in total than they would have been absent decades of trade and investment liberalization. Looking ahead, annual U.S. income could be upwards of $500 billion higher with a move to global free trade and investment in both merchandise and services.

And yet, as the UAW-GM strike demonstrates so starkly, these gains do not flow to every single worker, family and community. This, then, is perhaps the paramount policy challenge facing America today. How can we continue to realize the aggregate gains of globalization and also address its distribution pressures? Concerns about distribution are not best addressed through trade barriers. Barriers are unlikely to stop the competitive pressures. They also impose large economy-wide costs and can trigger barriers abroad.

The preferred course is to complement open borders with a mix of domestic policies to help those that are hurt. But is this what we hear being discussed on the campaign trail? No. It is about fair trade, not free trade. It is about pulling back on previous trade agreements. It is about new laws to hit "currency manipulators" with new trade barriers.

Bring all this back to tonight's presidential debate. My dream question for the candidates would be the following: "Many regard the current UAW-GM strike in Detroit as a wake-up call to stiffen American policies against countries like China. Do you agree with this? How will you craft an American economic policy that both allows greater globalization and also spreads its gains as widely as possible?" If such a question is asked, we all should listen intently to the answers.

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