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What Is an 'American' Car?

President Obama's recent soundbites suggest an uncompetitive auto industry.

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As Chrysler fell into bankruptcy last week, with GM perhaps close behind, President Barack Obama and other government leaders were dispensing advice to the auto industry. Unfortunately, much of this advice ignores the dynamism of today's global economy.

Start with the following from Mr. Obama last Wednesday: "I'm not an auto engineer. . . . But I know that if the Japanese can design an affordable, well-designed hybrid, then doggone it the American people should be able to do the same."

Actually, doggone it, no. The economic principle of comparative advantage, which explains many of America's gains from globalization, tells us that hard-working Americans are not going to excel at everything. Comparative advantage says each country should concentrate its time and talent on the particular goods and services it is productive at relative to the rest of the world. It should then export those items abroad and in exchange import the goods and services at which other countries are relatively more productive.

Countries cannot have a comparative advantage at everything. That's okay. Tiger Woods is better off spending his time playing golf, not painting his house. Similarly, imports from overseas do not represent failure. They raise standards of living. Do American workers have a comparative advantage in the emerging technology of plug-in hybrids? I don't know. But neither does the president nor anyone else just yet. For America to benefit from globalization, important questions like these need to be left to the market.

Last Thursday, when announcing the bankruptcy of Chrysler, Mr. Obama advised: "If you are considering buying a car, I hope it will be an American car."

What exactly makes a car "American?" Does it mean a car made by a U.S.-headquartered company? If so, then it is important to understand that any future success of the Big Three will depend a lot on their ability to make -- and sell -- cars outside the United States, not in it. A big reason Chrysler has fallen bankrupt is its narrow U.S. focus. It has not boosted revenues by penetrating fast-growing markets such as China, India and Eastern Europe. Nor has it lowered costs by restructuring to access talent and production beyond North America.

On many measures the Big Three today are far less global than the most successful U.S.-headquartered companies. Today about two-thirds of IBM's revenue is earned outside the U.S. And what does it say on the back of every Apple iPod? "Designed by Apple in California, Assembled in China." Chrysler and GM will be stronger if they can become more global, not less so. This should benefit not just their bottom lines but their U.S. workers, too. Much research now shows that expansion abroad by U.S. companies tends to support jobs in America, not destroy them.

Or is an "American" car one made within U.S. borders? If so, then it is important to understand that America today has a robust automobile industry thanks to insourcing. In 2006, foreign-headquartered multinationals engaged in making and wholesaling motor vehicles and parts employed 402,800 Americans -- at an average annual compensation of $63,538 -- 20% above the national average. Amid the Big Three struggles of the past generation, insourcing companies like Toyota, Honda and Mercedes have greatly expanded automobile operations in the U.S. In fiscal year 2008, Toyota assembled 1.66 million motor vehicles in North America with production in seven U.S. states supported by research and development in three more.

Today, insourcing companies strengthen America's economy across all industries. In 2006, they employed more than 5.3 million Americans, conducted $34.3 billion in research and development, invested $160.2 billion in capital, and exported $195.3 billion in goods. If Chrysler partners with Italy's Fiat as the president hopes, it will join the ranks of these insourcing companies.

The broad goal of American economic policy should be to help all companies operating in the U.S. create and maintain good jobs at good wages. Translating this goal into sound public policy means rethinking recent sound bites, however. It means that the U.S. is not going to be great at everything. It means that U.S.-based companies need to be expanding abroad. And it means that some of the best companies in America are foreign-owned insourcing companies.

Chrysler and GM have long been struggling. They are now deeply enmeshed in U.S. politics as well. Government leaders should not make matters worse by handicapping them with antiquated policies that do not make sense in today's dynamic global economy.

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