



Automotive Production Expands – Elsewhere

By Michael D. LaFaive and Kenneth M. Braun

Summary

Michigan's rejection of foreign automakers has helped lead to the state's current economic malaise.

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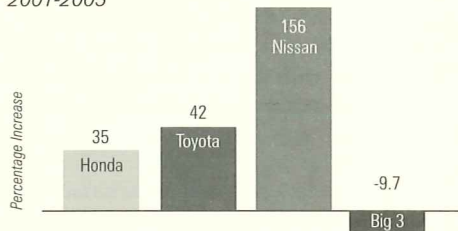
Michigan's economy continues to reel. It was the only state in 2006 to actually experience negative economic growth; it has the highest unemployment rate in the nation at 7.6 percent, and at least one forecast anticipates the loss of up to 51,000 more jobs through 2008. If true, it represents the longest string of year-to-year job losses since the Great Depression.

Based on these numbers, few would expect that the production of cars and trucks from American factories was actually up 4.3 percent from 2001 thru 2005 and that other manufacturing sectors have enjoyed robust growth. So why is the automobile capital of the world stumbling?

One contributing factor is the state's labor climate. For too long, Michigan has nurtured a culture of protectionism and xenophobia that chases away foreign investment, jobs and opportunity. Indeed, the state's long decline may have had its inflection point in a single, violent event: the murder of Vincent Chin by two laid-off Detroit autoworkers 25 years ago last summer. The murder stood as a stark message to outsiders: you (and your investment) are not welcome in Michigan.

A few domestic motor vehicle production statistics published by the Michigan Senate Fiscal Agency are revealing. From 2001 to 2005, U.S. automotive production from the Big Three domestic automakers — those who make up virtually all of Michigan's vehicle production — fell by 9.7 percent. The drop for Michigan was 6.3 percent. So if the mass layoffs and factory closures are unique to the Great Lake State, who is enjoying the car boom?

U.S. Automobile Production
2001-2005



Source: Michigan Senate Fiscal Agency

Foreign automakers operating in the U.S. have been manufacturing automobiles at a blistering pace. Honda's American autoworkers boosted production by 35.3 percent during those five years; Toyota was up nearly 42 percent and has just replaced Ford as the world's number two automaker; and Nissan was up 156.4 percent.

As a whole, the foreign nameplates making cars with American autoworkers increased their annual unit production by nearly 47.6 percent between 2001 and 2005 — an increase of more than 1.3 million vehicles annually.

Toyota, now just shy of being the world's largest automaker, was not making cars in the United States at the time of Vincent Chin's murder. Even three years later, in 1985, Honda, Toyota and Nissan combined were producing only about 2.6 percent of all the vehicles made in America.

The Big Three commanded 94.6 percent of domestic unit production. But that would soon change: The Japanese were looking to build cars in America, and they would decide that the automotive capitol of the world was not a welcoming place for their investment. By 2005, the "Japanese Big Three" would be building more than 22.1 percent of all the vehicles made in America — and still more were being produced by Subaru and numerous non-Asian brands.

Many of the winners in this boom have been southern states with voluntary unionism. Toyota manufacturing plants, for example, are in places such as Alabama, Mississippi, Texas and Kentucky. It is probably not a coincidence that nine of the top 10 states ranked by population growth from July 2006 to July 2007 do not have compulsory unionism laws.

These are powerful economic development tools, but a state need not have a right-to-work statute to attract manufacturers. Honda, one of the earliest Japanese companies to put down the biggest bets on American autoworkers — starting shortly after the Vincent Chin case — decided to do so in Ohio, a unionized state literally in Michigan's back yard. Since then, Honda's Ohio presence has grown to six production facilities making cars, trucks, motorcycles and parts. They have expanded to six other states — including Indiana in 2008 — but still not to Michigan.

Meanwhile, back in Michigan, it still isn't hard to find animosity against foreign cars on the rear bumpers and in the letters to the editor. In the 2006 gubernatorial election, a major theme of the winning candidates' advertising strategy was to denounce her rival for business investments in Asia.

Michigan has carefully built and continues to maintain a culture of decline that is overtly hostile to outsiders and fearful of their competition. The outsiders got the message. The rest of the country is getting the jobs. We are suffering the consequences.

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