

WHY DOES MITT HATE PROFIT?

[I posted substantially this post yesterday, but the BlogGods ate it along the way. So I'm reposting.]

Along with the deceitful attack on Italians who make better car company owners than GOP Private Equity types and the Lee Iacocca spin, Mitt has rolled out a radio version of attack on the auto bailout. From Greg Sargent, here's part of the script:

Barack Obama says he saved the auto industry. But for who? Ohio, or China? Under President Obama, GM cut 15,000 American jobs. But they are planning to double the number of cars built in China – which means 15,000 more jobs for China.

And now comes word that Chrysler plans to start making jeeps in – you guessed it – China. What happened to the promises made to autoworkers in Toledo and throughout Ohio – the same hard-working men and women who were told that Obama's auto bailout would help *them*?

The ad continues Mitt's deceptive insinuation that GM and Chrysler aren't also adding jobs in the US, which they are doing.

But it does something else. It takes a decidedly anti-profit stance.

You see, there are two reasons car companies are so gung-ho to enter (or re-enter, in the case of Jeep) the Chinese market. First, because it's growing; when I was working in China, auto people considered the rising Chinese middle class to be 300 million—almost an entire US full of population. And most of them were just aspiring to buy their first car. That's a whole lot of first time car buyers to sell to, as

compared to US consumers, who are driving less and replacing their cars at a slower pace given more durable cars.

The other reason to go to China? Profit margins are bigger there than here. When I was in Shanghai in the mid-2000s, the profit margin on Buick Regals was about \$2,000, as compared to the roughly \$200 profit margin on a similar car here. The margins are closer now (because manufacturing in the US has gotten cheaper and in China has gotten more expensive), but China still offers good profit margins. Selling Buick Regals or Jeeps in China allows GM and Chrysler to accept lower margins on cars here.

By selling high margin cars in China, US companies can be more competitive here, meaning they will be able to expand sales and therefore production here, too.

All this is implicit in Sergio Marchionne's response to Mitt's ignorant rantings.

Together, we are working to establish a global enterprise and previously announced our intent to return Jeep production to China, the world's largest auto market, in order to satisfy local market demand, which would not otherwise be accessible. Chrysler Group is interested in expanding the customer base for our award-winning Jeep vehicles, which can only be done by establishing local production. This will ultimately help bolster the Jeep brand, and solidify the resilience of U.S. jobs.

Marchionne notes 1) you can't sell in China unless you build in China, 2) selling in China makes the Jeep brand stronger, 3) making the Jeep brand (and its profit margins) stronger makes it easier to keep up US production.

Marchionne's implicit point should be where this discussion is heading: free trade hasn't worked out to be fair trade. China—and Japan and

Korea—still protect their markets, meaning if you want to sell there, you’ve got to make cars there.

Mitt has promised to get tough on China. But his series of auto ads have made no mention—not a peep!—of how he’ll reverse this practice and make it possible for Jeep to export cars made in Toledo. Indeed, when Obama launched a trade dispute over auto parts in September, Mitt scoffed at the effort (and ignored Obama’s decent and sustained effort launching trade disputes, one of which pertaining to specialty steel recently won at the WTO).

“The president may think that announcing new trade lawsuits less than two months before the election will distract from his record, but American businesses and workers struggling on an uneven playing field know better,” Mr. Romney said in a speech to the Hispanic Chamber of Commerce in Los Angeles.

Mitt Romney wants to attack American companies for going where profits are. And he’s doing so without discussing why that’s necessary.

That makes him neither a tough guy nor a good businessman.