



COMMENTARY/COMMENTAIRE

The axle, the bridge and the police

*Notes for a talk about NAFTA by Brian Lee Crowley,
Managing Director, Macdonald-Laurier Institute
Council of State Governments Meeting
Seattle, Oct. 22, 2011*

Ladies and gentlemen,

Thank you for the invitation to be here.

Let me begin with what binds us together in the context of NAFTA. Here is the key message I want to leave you with today. If you remember nothing else about what I say, please remember this one thing. WE ARE NOT A TRADING BLOCK AND NAFTA IS NOT ABOUT TRADE.

When you and I think about trade between countries, we think that each country has its own self-contained economy. In that economy, that country's workers make goods and services. Those finished products are then sold to other countries, who make different goods and services in their little self-contained economy. Japan makes cars. France makes wine, and they trade wine for cars.

That is NOT what happens in North America, because what we have here is not three countries and three economies trading finished products with each other. What we have here is a single economy shared by two countries, Canada and the USA (and increasingly a third, Mexico). So NAFTA is not (despite its name) about trade, it is about production. Canadians and Americans do not trade with each other. They make things together and then sell them to each other and the rest of the world. We are a production bloc, not a trading bloc.

Let me make this eminently practical. Look at this rear wheel assembly used in North American auto production.

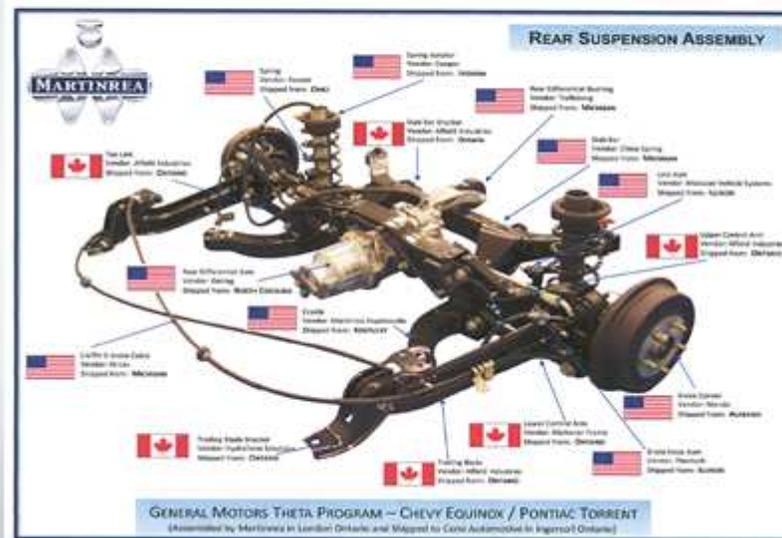
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Not traders but makers

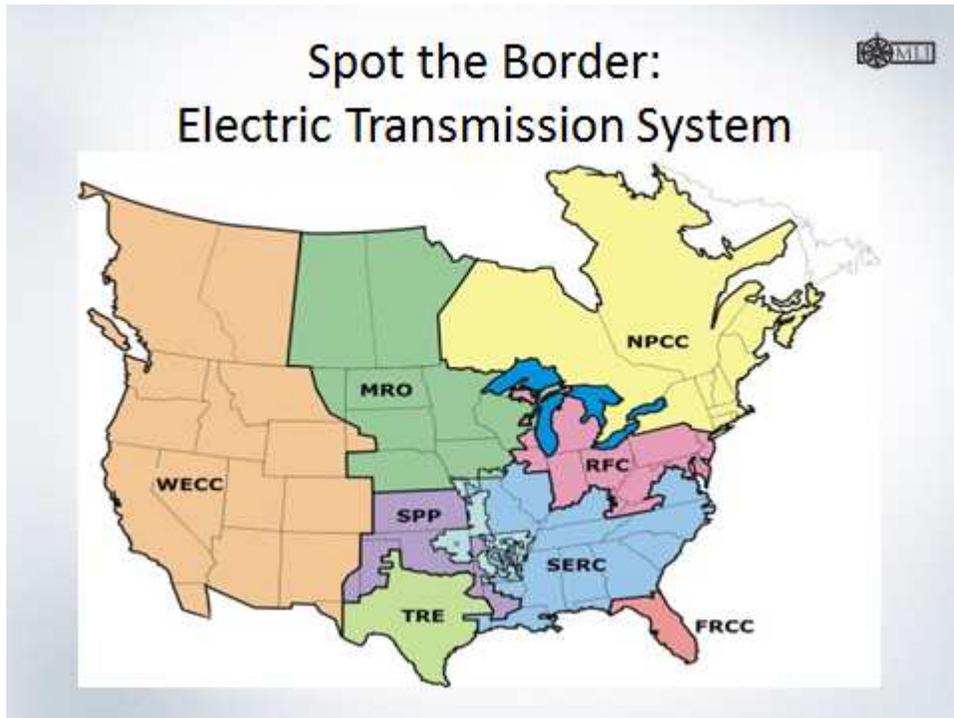


As you can see, every part in this assembly has been flagged to show the country in which it was produced. We cannot say that there is an American or a Canadian auto industry. There is a North American auto industry.

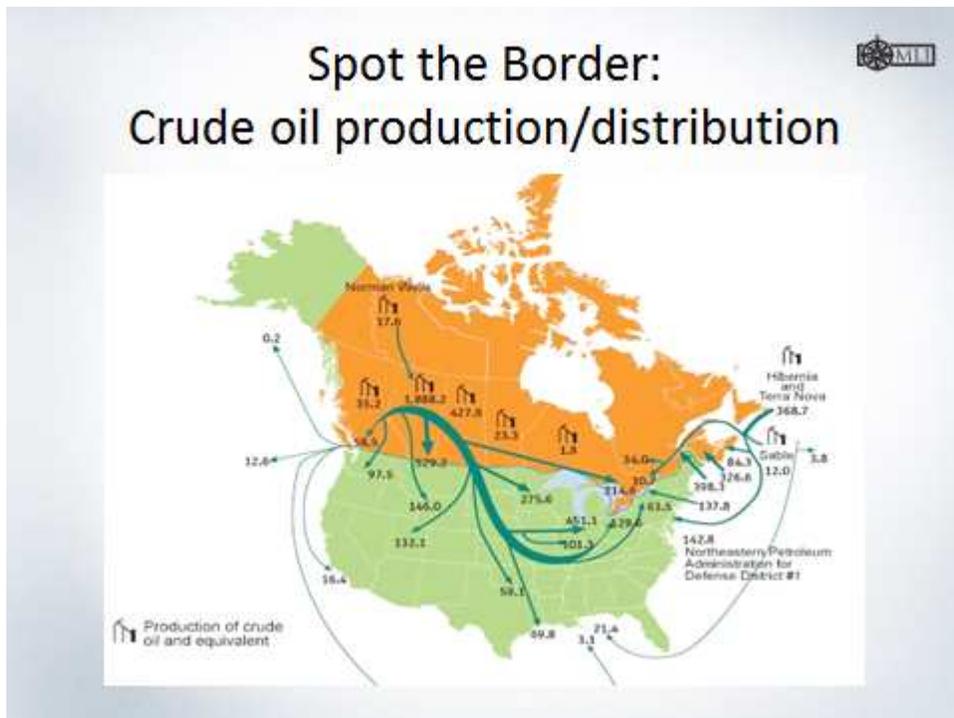
The folly of Buy America, then, is to think that you can help the people who work in the US flagged plants by hurting those who work in the Canadian flagged plants. The point of this image, however, is to establish that we have gone way past that. Canadians and Americans make things together and to hurt one is to hurt the other.

The business community got this long ago. In fact NAFTA did not create economic integration in North America. The business community did that long ago, in response to strategic and economic imperatives. NAFTA was a crude and belated effort to create a political and institutional framework for an economic relationship that had outgrown national institutions. Let me show you what North America looks like from the point of view of business:

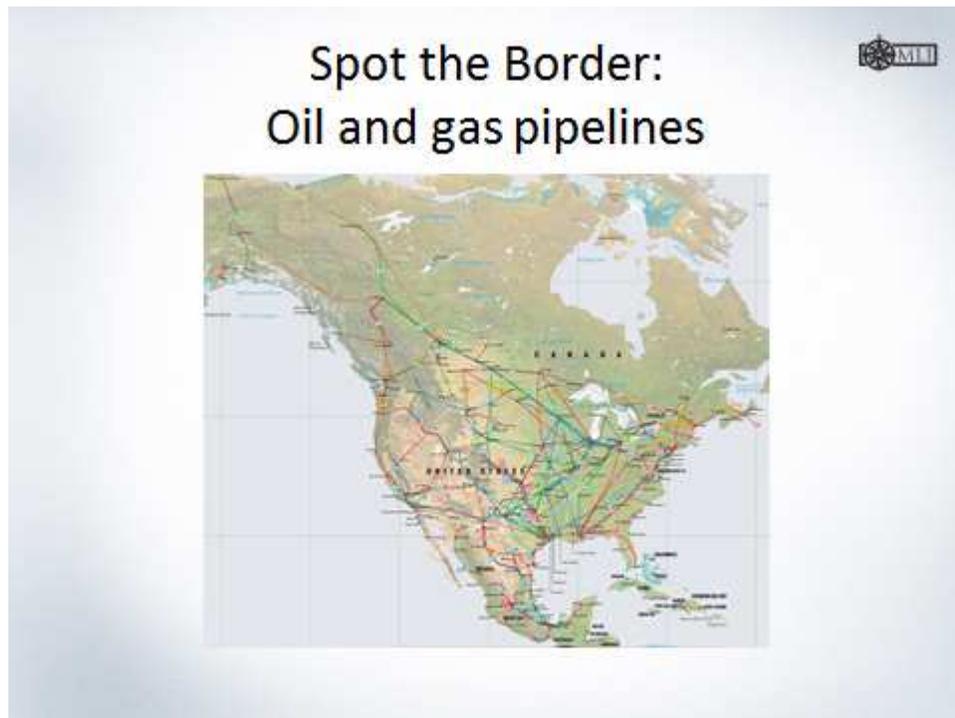
Here's what it looks like from the point of view of electricity:



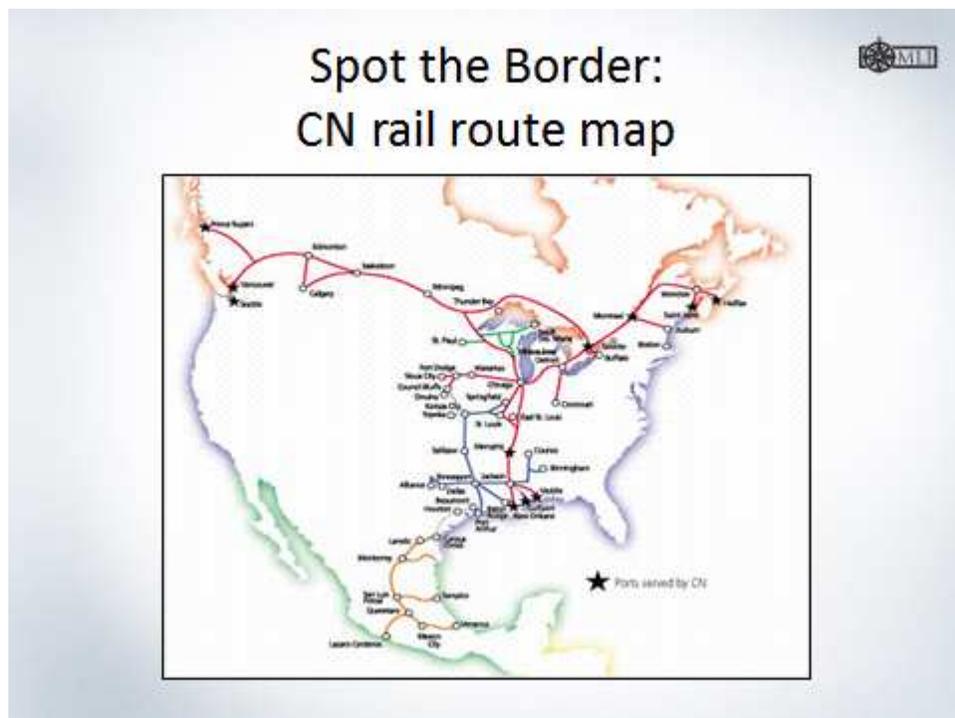
Oil production:



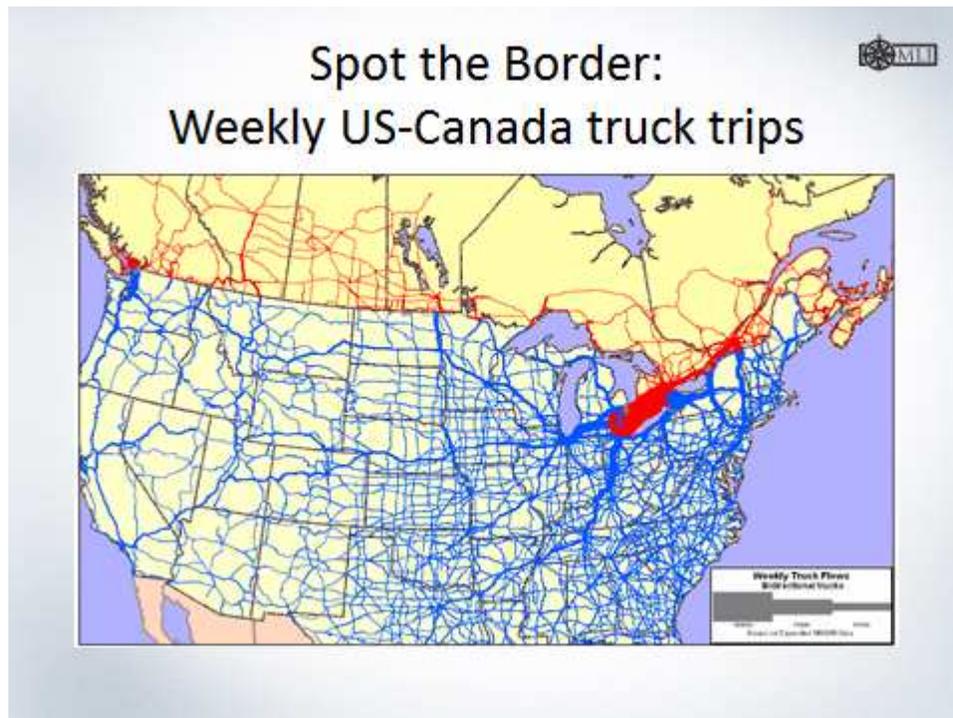
Pipelines:



Rail:



And truck travel:



In each case I defy you to spot the border in the business decisions that have shaped these maps.

But of course that doesn't mean that the border doesn't matter. And this is where state level officials such as yourselves come in, because the future of North American integration, as I have described it, has once again outgrown its political and institutional framework, and is again being impeded chiefly by politics, at both the national and the state levels. Moreover our production bloc's ability to be competitive with China, the Asian Tigers, Europe and others is being harmed thereby. And you have it in your power to make decisions to help or hinder what is to come.

Let me be as practical as possible. Return to the car plant workers represented by the flags on the rear wheel assembly picture early in this document.

In order to put together this assembly, parts had to be brought across the border in different directions and at different stages of production. The car industry says a car produced in North America crosses the border 5 or 6 times in the course of its production. I say this picture suggests that that radically understates the number of times the border is crossed, for you must take account of each part and where it comes from and where it enters the actually manufacturing process.

If, therefore, the border is thick and throws up obstacles to the quick and efficient movement of goods and people, our ability to be efficient producers and therefore prosperous people, is harmed.

And by the way, it is in effect a heavy penalty imposed on domestic production compared to imports. A Japanese car made in Asia and exported to North America enters our territory once and is subject to border controls once and those border controls do not disrupt efficient production because they apply only to finished products. Our own production crosses the border innumerable times. Every inefficient or obstructive contact there is in effect a tax that our international competitors do not pay.

So what *do* we encounter at the border?

We encounter the great conundrum of a single continental economy that bears the burden of three national governments and political systems. The economic footprint and the political footprints of North America do not match. The greatest obstacle to our economic success is our fragmented policies and the next stage in the evolution of NAFTA is to find ways to make them match up as best we can. To do otherwise is to impose inefficiency on ourselves to the benefit of our competitors.

And the place where that inefficiency is most glaring is at the border because that is the place in space where the mismatch of our national and local policies becomes manifest.

A practical example always helps, and I'll give you two: border infrastructure and border security.

To symbolize our border infrastructure problem, let me talk about the Ambassador Bridge, the single greatest artery in the continental production relationship that I've been talking about.

The Ambassador Bridge was built 82 years ago. This is what they were wearing and driving when it opened.

Ambassador Bridge: what they wore and drove -- when it opened



The bridge's owner, Manny Maroun, says it is not congested...



This is what it looks like today, and that picture is pretty eloquent about why it has become a bottleneck, harming workers and communities on both sides of the border.

Yet despite decades of effort, and the offer of Canada to pay a major share (\$550m) of the bridge's cost to the State of Michigan,

progress to build a third crossing to relieve congestion have been agonizingly slow, obstructed in large part by the furious lobbying efforts of the Ambassador Bridge's owner who wants no dilution of his toll earnings. In fact in this morning's National Post (Oct. 22nd, 2011), one could read the following headline: "New Windsor-Detroit bridge rejected by Michigan Senate committee".

I don't mean to pick on Michigan and the Ambassador Bridge. They are simply symbols of an institutional void created by national governments straddling a continental economy. I thought the example was particularly apt for this group of state-level officials because it underlines the extent to which decisions falling under your control and influence are now every bit as powerful in helping or hindering this relationship as anything that Washington does.

Indeed one of the problems with thinking about our relationship as a trade relationship is that it somehow pushes the responsibility for managing that relationship up to distant national governments. Isn't Washington responsible for foreign relations?

Yes, but the whole point of what I am saying is that because of our degree of economic integration our relationship long ago left the rarified atmosphere of foreign relations. The dance of diplomats is far too slow and stately. We are in this together and are building a relationship that is really without precedent in the modern world for its breadth and depth. What comes "after NAFTA" is the effort of imagination to create institutions that can overcome the political divisions that scar our economic efforts while still preserving our national sovereignty.

And because the relationship has reached a level of complexity and integration that defies imagination, decisions that are crucial to its success or failure are now pushed down to the local and regional level. You matter every bit as much as Washington. And your decisions about border infrastructure affect the wellbeing of those workers in Kentucky, North Carolina, Ohio, Indiana, Michigan, Alabama and Illinois who contributed parts to the rear wheel assembly pictured earlier. Thinking this is all Washington's job is an abdication of responsibility.

Of course that does not mean that Washington gets off the hook. On the contrary. But one of the consequences of the mismatch between our economic footprint and our political footprints is that the voices pressing politicians to action are more muted. Politicians respond to voters. When the voters are in another country, but are production partners on whom your own local jobs and success depend, the political system has difficulty functioning effectively.

This too is the next frontier in NAFTA for those in this room. For you must add your voices to the call for our political institutions and decision makers to understand what business understood long ago – that the economic interests of Canada and the US are not merely aligned – they are inextricably intertwined.

Regional cross-border business organizations and state-prov and municipal governments (including those people in this room) must provide a united set of demands to Washington and Ottawa to improve infrastructure and the border's operations.

In my view that means moving as many controls away from the border as possible, use single instead of double reviews crossing the border, collaborate on border infrastructure planning and construction, create a continental security perimeter. End restrictions on cabotage, create a free market in transportation services. That's a full programme and there's lots for you to do in it.

My final point is that Washington is schizophrenic about who can and should run the border. At the moment the cops are in charge. Everybody knows that cops are not subtle, and they think that security trumps everything and that there is no price too high for safety. This is what you get when cops run the border.

This picture to the right is a humorous representation of what you get when cops run the border, legitimate users become entangled in ever more onerous enforcement and surveillance that impedes border efficiency.

The alternative is for people who have a sensible approach to balancing security and prosperity to be put in charge of the border.



There are signs of progress. America has gone through a devastating recession and jobs have been slow to recover. The political consensus is that President Obama got heartily smacked by the electorate in the recent mid-terms for failing to focus on the economy. He is now trying to make up for lost time.

At the February meeting of Obama and Prime Minister Harper in Washington, an announcement was made of negotiations to reduce the impediments to trade at the border. President Obama signed up for this chiefly because he now gets that a congested border is hurting North American prosperity.

President Obama isn't the only one who gets that. In recession-savaged Michigan, governor, Rick Snyder, campaigned aggressively to get that new bridge that I talked about built between Detroit and Windsor on the grounds it would be good for US workers. Not so many years ago then-US Senator for New York, Hilary Clinton, was repeating the old canard that the 9/11 terrorists entered the US from Canada. Today, New York Senator Chuck Schumer demands of senior US border security bureaucrats in Senate committee hearings that they strive for pre-clearance of every truck crossing the Canada-US border.

But In Congressional testimony explaining why he couldn't accommodate border senators' like Shumer's requests for more border openness, Customs and Border Protection Commissioner Alan Bersin, contrasting the situations on the borders with Canada and Mexico, intoned that "in terms of the terrorist threat, it's commonly accepted that the more significant threat" comes from Canada.

Really? In 2009 (a pretty representative year) America apprehended 8370 illegal aliens along the border with Canada. Remember that number includes people nabbed by "border" patrols catching undocumented people hundreds of miles away from Canada, so those apprehensions almost certainly include people who did not enter the US from Canada.

And on the border with Mexico? Would you believe 540,865 illegals were nabbed (down from 1.17 million in 2005, when the economy was better). And of those, 59,000 were from countries other than Mexico, according to Texas Senator John Cornyn. In response to Commissioner Bersin's stunning claim that the Canadian border remained the more significant threat, the good senator went on to point out that many of the 59,000 included people from "some of those countries are state sponsors of terrorism and ... that some organizations that finance organizations in the Middle East that are committed to jihad exist in South America."

Moreover, as we should never forget, not only are Canadians and American in this together in economic terms, we are also in this together in security terms. Integration has some surprising consequences. Consider, for example, that if the Underwear Bomber had succeeded, Northwest Flight 253 would have blown up over a heavily populated corridor running between London and Windsor Ontario.

America has a right to expect that we be vigilant, but then it is also important to remember that it is in our interests to be so. Not only are we hurt economically if we allow our territory to be used for nefarious plots against America, but our own security and safety are also thereby damaged. Instead of seeing us as a potential threat, to be kept at arm's length by a thickening border, far better that we work together in enforcement and intelligence gathering, working together to keep at bay those who would harm what we have so painstakingly built together in North America.

Thank you.



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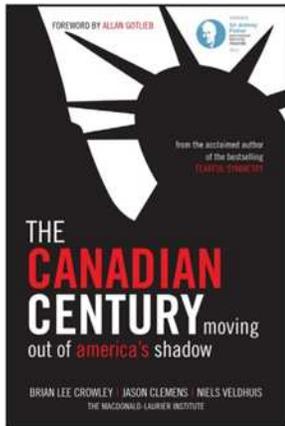
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