Jobs, Jobs and Cars

By PAUL KRUGMAN

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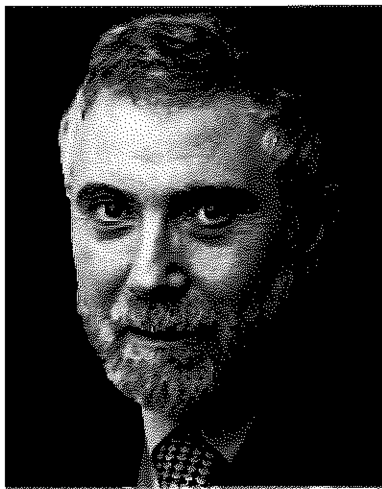
Mitch Daniels, the former Bush budget director who is now Indiana's governor, made the Republicans' reply to President Obama's State of the Union address. His performance was, well, boring. But he did say something thought-provoking — and I mean that in the worst way.



Fred R. Conrad/The New York Times

Paul Krugman

For Mr. Daniels tried to wrap his party in the mantle of the late Steve Jobs, whom he portrayed as a great job creator — which is one thing that Jobs definitely wasn't. And if we ask why Apple has created so few American jobs, we get an insight into what is wrong with the ideology dominating much of our politics.

Mr. Daniels first berated the president for his "constant disparagement of people in business," which happens to be a complete fabrication. Mr. Obama has never done anything of the sort. He went on: "The late Steve Jobs — what a fitting name he had — created more of them than all those stimulus dollars the president borrowed and blew."

Clearly, Mr. Daniels doesn't have much of a future in the humor business. But, more to the point, anyone who reads The New York Times knows that his assertion about job creation was completely false: Apple employs very few people in this country.

A big report in The Times last Sunday laid out the facts. Although Apple is now America's biggest U.S. corporation as measured by market value, it employs only 43,000 people in the

United States, a tenth as many as General Motors employed when it was the largest American firm.

Apple does, however, indirectly employ around 700,000 people in its various suppliers. Unfortunately, almost none of those people are in America.

Why does Apple manufacture abroad, and especially in China? As the article explained, it's not just about low wages. China also derives big advantages from the fact that so much of the supply chain is already there. A former Apple executive explained: "You need a thousand rubber gaskets? That's the factory next door. You need a million screws? That factory is a block away."

This is familiar territory to students of economic geography: the advantages of industrial clusters — in which producers, specialized suppliers, and workers huddle together to their mutual benefit — have been a running theme since the 19th century.

And Chinese manufacturing isn't the only conspicuous example of these advantages in the modern world. Germany remains a highly successful exporter even with workers who cost, on average, $44 an hour — much more than the average cost of American workers. And this success has a lot to do with the support its small and medium-sized companies — the famed Mittelstand — provide to each other via shared suppliers and the maintenance of a skilled work force.

The point is that successful companies — or, at any rate, companies that make a large contribution to a nation's economy — don't exist in isolation. Prosperity depends on the synergy between companies, on the cluster, not the individual entrepreneur.

But the current Republican worldview has no room for such considerations. From the G.O.P.'s perspective, it's all about the heroic entrepreneur, the John Galt, I mean Steve Jobs-type "job creator" who showers benefits on the rest of us and who must, of course, be rewarded with tax rates lower than those paid by many middle-class workers.

And this vision helps explain why Republicans were so furiously opposed to the single most successful policy initiative of recent years: the auto industry bailout.

The case for this bailout — which Mr. Daniels has denounced as "crony capitalism" — rested crucially on the notion that the survival of any one firm in the industry depended on the survival of the broader industry "ecology" created by the cluster of producers and suppliers in America's industrial heartland. If G.M. and Chrysler had been allowed to go under, they

would probably have taken much of the supply chain with them — and Ford would have gone the same way.

Fortunately, the Obama administration didn't let that happen, and the unemployment rate in Michigan, which hit 14.1 percent as the bailout was going into effect, is now down to a still-terrible-but-much-better 9.3 percent. And the details aside, much of Mr. Obama's State of the Union address can be read as an attempt to apply the lessons of that success more broadly.

So we should be grateful to Mr. Daniels for his remarks Tuesday. He got his facts wrong, but he did, unintentionally, manage to highlight an important philosophical difference between the parties. One side believes that economies succeed solely thanks to heroic entrepreneurs; the other has nothing against entrepreneurs, but believes that entrepreneurs need a supportive environment, and that sometimes government has to help create or sustain that supportive environment.

And the view that it takes more than business heroes is the one that fits the facts

The New York Times

September 6, 2012

Cleaning Up the Economy

By PAUL KRUGMAN

Bill Clinton's speech at the Democratic National Convention was a remarkable combination of pretty serious wonkishness — has there ever been a convention speech with that much policy detail? — and memorable zingers. Perhaps the best of those zingers was his sarcastic summary of the Republican case for denying President Obama re-election: "We left him a total mess. He hasn't cleaned it up fast enough. So fire him and put us back in."

Great line. But is the mess really getting cleaned up?

The answer, I would argue, is yes. The next four years are likely to be much better than the last four years — unless misguided policies create another mess.

In saying this, I'm not making excuses for the past. Job growth has been much slower and unemployment much higher than it should have been, even given the mess Mr. Obama inherited. More on that later. But, first, let's look at what has been accomplished.

On Inauguration Day 2009, the U.S. economy faced three main problems. First, and most pressing, there was a crisis in the financial system, with many of the crucial channels of credit frozen; we were, in effect, suffering the 21st-century version of the bank runs that brought on the Great Depression. Second, the economy was taking a major hit from the collapse of a gigantic housing bubble. Third, consumer spending was being held down by high levels of household debt, much of which had been run up during the Bush-era bubble.

The first of these problems was resolved quite quickly, thanks both to lots of emergency lending by the Federal Reserve and, yes, the much maligned bank bailouts. By late 2009, measures of financial stress were more or less back to normal.

This return to financial normalcy did not, however, produce a robust recovery. Fast recoveries are almost always led by a housing boom — and given the excess home construction that took place during the bubble, that just wasn't going to happen. Meanwhile, households were trying (or being forced by creditors) to pay down debt, which meant depressed demand. So the economy's free fall ended, but recovery remained sluggish.

Now, you may have noticed that in telling this story about a disappointing recovery I didn't mention any of the things that Republicans talked about last week in Tampa, Fla. — the effects of high taxes and regulation, the lack of confidence supposedly created by Mr. Obama's failure to lavish enough praise on "job creators" (what I call the "Ma, he's looking at me funny!" theory of our economic problems). Why the omission? Because there's not a shred of evidence for the G.O.P. theory of what ails our economy, while there's a lot of hard evidence for the view that a lack of demand, largely because of excessive household debt, is the real problem.

And here's the good news: The forces that have been holding the economy back seem likely to fade away in the years ahead. Housing starts have been at extremely low levels for years, so the overhang of excess construction from the bubble years is long past — and it looks as if a housing recovery has already begun. Household debt is still high by historical standards, but the ratio of debt to G.D.P. is way down from its peak, setting the stage for stronger consumer demand looking forward.

And what about business investment? It has actually been recovering rapidly since late 2009, and there's every reason to expect it to keep rising as businesses see rising demand for their products.

So, as I said, the odds are that barring major mistakes, the next four years will be much better than the past four years.

Does this mean that U.S. economic policy has done a good job? Not at all.

Bill Clinton said of the problems Mr. Obama confronted on taking office, "No one could have fully repaired all the damage that he found in just four years." If, by that, he meant the overhang of debt, that's very much the case. But we should have had strong policies to mitigate the pain while households worked down their debt, as well as policies to help reduce the debt — above all, relief for underwater homeowners.

The policies we actually got were far from adequate. Debt relief, in particular, has been a bust — and you can argue that this was, in large part, because the Obama administration never took it seriously.

But, that said, Mr. Obama did push through policies — the auto bailout and the Recovery Act — that made the slump a lot less awful than it might have been. And despite Mitt Romney's attempt to rewrite history on the bailout, the fact is that Republicans bitterly opposed both measures, as well as everything else the president has proposed.

So Bill Clinton basically had it right: For all the pain America has suffered on his watch, Mr. Obama can fairly claim to have helped the country get through a very bad patch, from which it is starting to emerge.

OP-ED CONTRIBUTOR

Let Detroit Go Bankrupt

By MITT ROMNEY

Published: November 18, 2008

IF General Motors, Ford and Chrysler get the bailout that their chief executives asked for yesterday, you can kiss the American automotive industry goodbye. It won't go overnight, but its demise will be virtually guaranteed.

Without that bailout, Detroit will need to drastically restructure itself. With it, the automakers will stay the course — the suicidal course of declining market shares, insurmountable labor and retiree burdens, technology atrophy, product inferiority and never-ending job losses. Detroit needs a turnaround, not a check.

I love cars, American cars. I was born in Detroit, the son of an auto chief executive. In 1954, my dad, George Romney, was tapped to run American Motors when its president suddenly died. The company itself was on life support — banks were threatening to deal it a death blow. The stock collapsed. I watched Dad work to turn the company around — and years later at business school, they were still talking about it. From the lessons of that turnaround, and from my own experiences, I have several prescriptions for Detroit's automakers.

First, their huge disadvantage in costs relative to foreign brands must be eliminated. That means new labor agreements to align pay and benefits to match those of workers at competitors like BMW, Honda, Nissan and Toyota. Furthermore, retiree benefits must be reduced so that the total burden per auto for domestic makers is not higher than that of foreign producers.

That extra burden is estimated to be more than $2,000 per car. Think what that means: Ford, for example, needs to cut $2,000 worth of features and quality out of its Taurus to compete with Toyota's Avalon. Of course the Avalon feels like a better product — it has $2,000 more put into it. Considering this disadvantage, Detroit has done a remarkable job of designing and engineering its cars. But if this cost penalty persists, any bailout will only delay the inevitable.

Second, management as is must go. New faces should be recruited from unrelated industries — from companies widely respected for excellence in marketing, innovation, creativity and labor relations.

The new management must work with labor leaders to see that the enmity between labor and management comes to an end. This division is a holdover from the early years of the last century, when unions brought workers job security and better wages and benefits. But as Walter Reuther, the former head of the United Automobile Workers, said to my father, "Getting more and more pay for less and less work is a dead-end street."

You don't have to look far for industries with unions that went down that road. Companies in the 21st century cannot perpetuate the destructive labor relations of the 20th. This will mean a new direction for the U.A.W., profit sharing or stock grants to all employees and a change in Big Three management culture.

The need for collaboration will mean accepting sanity in salaries and perks. At American Motors, my dad cut his pay and that of his executive team, he bought stock in the company, and he went out to factories to talk to workers directly. Get rid of the planes, the executive dining rooms — all the symbols that breed resentment among the hundreds of thousands who will also be sacrificing to keep the companies afloat.

Investments must be made for the future. No more focus on quarterly earnings or the kind of short-term stock appreciation that means quick riches for executives with options. Manage with an eye on cash flow, balance sheets and long-term appreciation. Invest in truly competitive products and innovative technologies — especially fuel-saving designs — that may not arrive for years. Starving research and development is like eating the seed corn.

Just as important to the future of American carmakers is the sales force. When sales are down, you don't want to lose the only people who can get them to grow. So don't fire the best dealers, and don't crush them with new financial or performance demands they can't meet.

It is not wrong to ask for government help, but the automakers should come up with a win-win proposition. I believe the federal government should invest substantially more in basic research — on new energy sources, fuel-economy technology, materials science and the like — that will ultimately benefit the automotive industry, along with many others. I believe Washington should raise energy research spending to $20 billion a year, from the $4 billion that is spent today. The research could be done at universities, at research labs and even through public-private collaboration. The federal government should also rectify the imbedded tax penalties that favor foreign carmakers.

But don't ask Washington to give shareholders and bondholders a free pass — they bet on management and they lost.

The American auto industry is vital to our national interest as an employer and as a hub for manufacturing. A managed bankruptcy may be the only path to the fundamental restructuring the industry needs. It would permit the companies to shed excess labor, pension and real estate costs. The federal government should provide guarantees for post-bankruptcy financing and assure car buyers that their warranties are not at risk.

In a managed bankruptcy, the federal government would propel newly competitive and viable automakers, rather than seal their fate with a bailout check.

Mitt Romney, the former governor of Massachusetts, was a candidate for this year's Republican presidential nomination.

Detroit Bailout Would Reward Bad Decisions

By Alison Acosta Fraser

I had just gotten to work one December morning in 1994 when my boss called an urgent, unscheduled meeting to announce we were filing for bankruptcy. Orange County, Calif., had just initiated what was then the largest municipal bankruptcy in the nation. Most of the taxpayers and workers in this large and prosperous county didn't see it coming.

Fast forward almost 20 years to Detroit. Far from a surprise, many wonder why the city waited so long to declare bankruptcy. Its $18 billion in debt is just the latest in a downward spiral of bad economic news coming from a deeply troubled city. Fully half of its debt stems from unaffordable pensions and health care retirement benefits.

Detroit perpetuated some of the mistakes the automakers made, rather than learning from them. Government growth was fueled not by new tax revenues, but by unaffordable future promises to its copious municipal workers. At the same time, the city pursued an anti-growth agenda through tax increases, expanded regulation and abysmal services. No wonder families and businesses fled, taking their tax dollars and payrolls with them. Now the city cannot keep the lights on or pay its debt.

It is sad that it has come to this for those 700,000 left in a city which once held more than 2 million. Detroit's leaders could have pursued growth-oriented reforms to create an environment that would allow entrepreneurs to flourish. But Detroit automakers went to Washington to demand bailouts and threaten further job losses rather than getting their houses in order. It's not hard to understand why the city fathers continued to double down on failed policies.

No doubt some will call for Washington to come to the rescue. That would be wrong. It would not force Detroit's leaders to come up with a sound solution, but simply enable continued bad policy. It would reward bad management at a tremendous cost to taxpayers in cities, counties and states who have made the right policies. And it would set a terrible precedent, opening the floodgates for other troubled state and local governments.

Two elements of Detroit's debt will take center stage during what will likely be a long bankruptcy process: Unfunded retirement promises and the treatment of municipal bonds.

Municipal bonds are typically regarded as very safe investments, with the full faith and credit of the municipality standing behind it.

Yet treating these bondholders as any other creditor could be a new and unwelcome development in public finance. It would raise costs of debt for state and local governments across the nation, just at the time when many are struggling to dig out of their own budget messes.

But pensions and retiree health care will be the more difficult. The employee pensions system has $3 billion in unfunded liabilities. Retiree health benefits are $6 billion in the red. Thousands of retirees depend on their pensions for a living and more are approaching retirement.

Finding a way to restructure benefits without sending retirees to the poorhouse while still reducing the city's unfunded liability will be grueling. But it is necessary. Bankruptcy is the last

chance for Detroit's leaders to restructure their debts and government services to save the city. In fact, it will force them to do so.

Some have compared Detroit to Greece: High ratio of government workers, high taxes, big government, massive retirement programs and unsustainable debt. But the more likely scenario is that as Detroit goes, so will the nation.

The federal government is $17 trillion in debt — making it larger than the entire U.S. economy. Social Security's excess costs are $12 trillion. Medicare's are $43 trillion. State and local bailouts are bad because they reward and enable further fiscal misbehavior. But, they would also push the nation closer to a big debt tipping point.

Detroit's problems are more deep rooted and dire. The way out will be tough. Rather than vague comparisons with Greece, Washington should look to Detroit and not wait to fix its own fiscal mess.

- Alison Acosta Fraser is director of government finance programs at The Heritage Foundation.

The U.S. government's often maligned $14 trillion intervention not only staved off global collapse - but is making money.

Walter E. Williams

Job Destruction Makes Us Richer

Jul. 27, 2011

Here's what President Barack Obama said about our high rate of unemployment in an interview with NBC's Ann Curry: "The other thing that happened, though -- and this goes to the point you were just making -- is there are some structural issues with our economy, where a lot of businesses have learned to become much more efficient with a lot fewer workers," adding that "you see it when you go to a bank and you use an ATM; you don't go to a bank teller. Or you go to the airport and you're using a kiosk instead of checking in at the gate." The president's statements suggest that he sees labor-saving technological innovation as a contributor to today's high rate of unemployment. That's unmitigated nonsense. Let's see whether technological innovation causes unemployment.

In 1790, farmers were 90 percent, out of a population of nearly 3 million, of the U.S. labor force. By 1900, only about 41 percent of our labor force was employed in agriculture. By 2008, fewer than 3 percent of Americans were employed in agriculture. Through labor-saving technological advances and machinery, our farmers are the world's most productive. As a result, Americans are better off.

In 1970, the telecommunications industry employed 421,000 workers as switchboard operators, annually handling 9.8 billion long-distance calls. Today the telecommunications industry employs only 78,000 operators. That's a tremendous 80 percent job loss. What happened? The answer: There have been spectacular labor-saving advances in telecommunications. Today more than 100 billion long-distance calls a year require only 78,000 switchboard operators. What's more is the cost of making a long-distance call is a tiny fraction of what it was in 1970. Can we say these technological innovations made the nation worse off?

Professor Russell Roberts, my George Mason University colleague, gives other examples in his Wall Street Journal article (6/22/2011) "Obama vs. ATM's: Why Technology Doesn't Destroy Jobs." He says that today just a couple of workers can manage the egg-laying operation of nearly a million chickens laying 240 million eggs a year, through a highly mechanized and computerized process. Thousands of toll collectors are replaced by E-ZPass machines. Autoworkers are replaced by robots. Fifty years ago, a typical textile worker operated five machines capable of running thread through a loom 100 times a minute. Today machines run six times as fast, and one worker can oversee 100 of them.

You say, "Williams, certain jobs are destroyed by technology." You're right, but many more are created. Think about it. If 90 percent of Americans still had been farmers in 1900, where in the world would we have gotten workers to produce all those goods that were not even heard of in 1790, such as telephones, steamships and oil wells? We need not go back that far. If there hadn't been the kind of labor-saving technical innovation we've had since the 1950s -- in the auto, construction, telephone industries and many others -- where in the world would we have gotten workers to produce things that weren't heard of in the '50s, such as desktop computers, cellphones, HDTVs, digital cameras, MRI machines, pharmaceuticals and myriad other goods and services?

What technological innovation does is reduce the value of some jobs, raise the value of others and create many more jobs. Some workers are made better off through greater employment opportunities. Others are made worse off by having to accept less attractive employment opportunities, an adjustment process that can be painful. Since technological progress makes goods and services cheaper, and of higher quality, to stand in its way, in the name of saving jobs, will make us a poorer nation. What we're witnessing in our economy is what economic historian Joseph Schumpeter termed "creative destruction," the process in which something new replaces something older.

By the way, we can always count upon an infinite number of potential jobs. The reason is that human wants are insatiable. People always want more of something. That want will create jobs for someone else.

OP-ED COLUMNIST

Robots and Robber Barons

By PAUL KRUGMAN

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The American economy is still, by most measures, deeply depressed. But corporate profits are at a record high. How is that possible? It's simple: profits have surged as a share of national income, while wages and other labor compensation are down. The pie isn't growing the way it should — but capital is doing fine by grabbing an ever-larger slice, at labor's expense.

Wait — are we really back to talking about capital versus labor? Isn't that an old-fashioned, almost Marxist sort of discussion, out of date in our modern information economy? Well, that's what many people thought; for the past generation discussions of inequality have focused overwhelmingly not on capital versus labor but on distributional issues between workers, either on the gap between more- and less-educated workers or on the soaring incomes of a handful of superstars in finance and other fields. But that may be yesterday's story.

More specifically, while it's true that the finance guys are still making out like bandits — in part because, as we now know, some of them actually are bandits — the wage gap between workers with a college education and those without, which grew a lot in the 1980s and early 1990s, hasn't changed much since then. Indeed, recent college graduates had stagnant incomes even before the financial crisis struck. Increasingly, profits have been rising at the expense of workers in general, including workers with the skills that were supposed to lead to success in today's economy.

Why is this happening? As best as I can tell, there are two plausible explanations, both of which could be true to some extent. One is that technology has taken a turn that places labor at a disadvantage; the other is that we're looking at the effects of a sharp increase in monopoly power. Think of these two stories as emphasizing robots on one side, robber barons on the other.

About the robots: there's no question that in some high-profile industries, technology is displacing workers of all, or almost all, kinds. For example, one of the reasons some high-technology manufacturing has lately been moving back to the United States is that these days the most valuable piece of a computer, the motherboard, is basically made by robots, so cheap Asian labor is no longer a reason to produce them abroad.

In a recent book, "Race Against the Machine," M.I.T.'s Erik Brynjolfsson and Andrew McAfee argue that similar stories are playing out in many fields, including services like translation and legal research. What's striking about their examples is that many of the jobs being displaced are high-skill and high-wage; the downside of technology isn't limited to menial workers.

Still, can innovation and progress really hurt large numbers of workers, maybe even workers in general? I often encounter assertions that this can't happen. But the truth is that it can, and serious economists have been aware of this possibility for almost two centuries. The early-19th-century economist David Ricardo is best known for the theory of comparative advantage, which makes the case for free trade; but the same 1817 book in which he presented that theory also included a chapter on how the new, capital-intensive technologies of the Industrial Revolution could actually make workers worse off, at least for a while — which modern scholarship suggests may indeed have happened for several decades.

What about robber barons? We don't talk much about monopoly power these days; antitrust enforcement largely collapsed during the Reagan years and has never really recovered. Yet Barry Lynn and Phillip Longman of the New America Foundation argue, persuasively in my view, that increasing business concentration could be an important factor in stagnating demand for labor, as corporations use their growing monopoly power to raise prices without passing the gains on to their employees.

I don't know how much of the devaluation of labor either technology or monopoly explains, in part because there has been so little discussion of what's going on. I think it's fair to say that the shift of income from labor to capital has not yet made it into our national discourse.

Yet that shift is happening — and it has major implications. For example, there is a big, lavishly financed push to reduce corporate tax rates; is this really what we want to be doing at a time when profits are surging at workers' expense? Or what about the push to reduce or eliminate inheritance taxes; if we're moving back to a world in which financial capital, not skill or education, determines income, do we really want to make it even easier to inherit wealth?

As I said, this is a discussion that has barely begun — but it's time to get started, before the robots and the robber barons turn our society into something unrecognizable.