Obama, Clinton, Keynes, and the Enduring Mysteries of Job Creation

David Boaz - June 27, 2011

Asked on NBC's *Today* show about continuing unemployment, President Obama said:

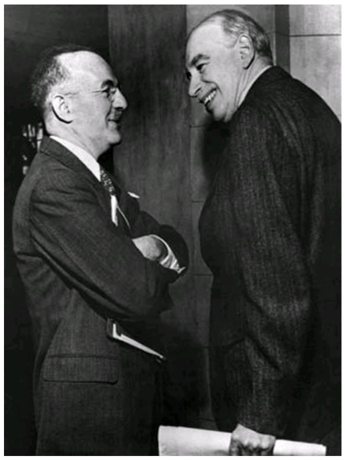
> There are some structural issues with our economy where a lot of businesses have learned to become much more efficient with a lot fewer workers. You see it when you go to a bank and you use an ATM, you don't go to a bank teller, or you go to the airport and you're using a kiosk instead of checking in at the gate.

Lots of people criticized the president for not understanding the basics of economic progress and job creation. But he's not alone.

If there's any theory underlying the Obama administration's economic programs, it's Keynesianism. "The Keynesian prescription is if all else fails, the government can spend the money," says the prominent economist Alan Blinder.

But sometimes Lord Keynes made his view of job creation very simple. As Obama took office, the *Wall Street Journal* offered an interesting vignette on Keynes's view of how to create jobs:

> Drama was a Keynes tool. During a 1934 dinner in the U.S., after one economist carefully removed a towel from a stack to dry his hands, Mr. Keynes swept the whole pile of towels on the floor and crumpled them up, explaining that his way of using towels did more to stimulate employment among restaurant workers.



John Maynard Keynes (right) and Assistant Secretary of the U.S. Treasury Harry Dexter White, 1946. Credit: IMF

Assuming this story is true, it seems to underline the absurdity of the whole "make-work" theory. Keynes's vandalism is just a variant of the broken-window fallacy that was exposed by Frederic Bastiat, Henry Hazlitt, and many other economists: A boy breaks a shop window. Villagers gather around and deplore the boy's vandalism. But then one of the more sophisticated townspeople, perhaps one who has been to college and read Keynes, says, "Maybe the boy isn't so destructive after all. Now the shopkeeper will have to buy a new window. The glassmaker will then have money to buy a table. The furniture maker will be able to hire an assistant or buy a new suit. And so on. The boy has actually benefited our town!"

But as Bastiat noted, "Your theory stops at *what is seen.* It does not take account of *what is not seen."* If the shopkeeper has to buy a new window, then he can't hire a delivery boy or buy a new suit. Money is shuffled around, but it isn't created. And indeed, wealth has been destroyed. The village now has one less window than it did, and it must spend resources to get back to the position it was in before the window broke. As Bastiat said, "Society loses the value of objects unnecessarily destroyed."

And the story of Keynes at the sink is the story of an educated, professional man intentionally acting like the village vandal. By adding to the costs of running a restaurant, he may well create additional jobs for janitors. But the restaurant owner will then have less money with which to hire another waiter, expand his business, or invest in other businesses. Before Keynes showed up in town, let us say, the town had three restaurants among its businesses, each with neatly stacked towels for guests. After Keynes's triumphant speaking tour to all the Rotary Clubs in town, the town is exactly as it was,

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What is Britannica Blog?

Britannica Blog is a place for smart, lively conversations about except the three restaurants are left to clean up the disarray. The town is very slightly less wealthy, and some people in town must spend scarce resources to restore the previous conditions.

As Jerry Jordan wrote in the *Cato Journal*, the real challenge for society is not creating jobs but creating wealth — that is, a higher standard of living for more people. There are many destructive ways, beyond messing up the towels in a restroom, to create jobs:

> I am reminded of a story that a businessman told me a few years ago. While touring China, he came upon a team of nearly 100 workers building an earthen dam with shovels. The businessman commented to a local official that, with an earth-moving machine, a single worker could create the dam in an afternoon. The official's curious response was, "Yes, but think of all the unemployment that would create." "Oh," said the businessman, "I thought you were building a dam. If it's jobs you want to create, then take away their shovels and give them spoons!"

And there's your question for President Obama: Do you really think the United States would be better off if we didn't have ATMs and check-in kiosks? (As it happens, ATMs have helped banks to serve customers, save money, and open more branches, but they apparently haven't eliminated the need for tellers: "'At the dawn of the self-service banking age in 1985, for example, the United States had 60,000 automated teller machines and 485,000 bank tellers. In 2002, the United States had 352,000 ATMs—and 527,000 bank tellers. ATMs notwithstanding, banks do a lot more than they used to and have a lot more branches than they used to.' More recently, the Bureau of Labour Statistics reports there were 600,500 bank tellers in 2008, and the BLS projects this number will grow to 638,000 by 2018.") And do you think we'd be better off if we mandated that all these "shovel-ready projects" be performed with spoons?

In his 1988 book *The American Job Machine*, the economist Richard B. McKenzie pointed out an easy way to create 60 million jobs: "Outlaw farm machinery." The goal of economic policy should not be job creation per se; it should be a growing economy that continually satisfies more consumer demand. And such an economy will be marked by creative destruction. Some businesses will be created, others will fail. Some jobs will no longer be needed, but in a growing economy more will be created. In 2004 Brink Lindsey noted that "total U.S. private-sector employment rose by 17.8 million during the decade from 1993 to 2002 [despite job losses in the recession years of 2001 and 2002]. To produce that healthy net increase, a breathtaking total of 327.7 million jobs were added, while 309.9 million jobs were lost." That means that in a typical non-recession year some 32.9 million jobs were created, while 30.3 million were lost. In a world of constant creative destruction, it's absurd to suggest that slow employment growth is a result of ATMs and check-in kiosks.

Another famous essay by Bastiat was his "Candlemakers' Petition," and that's where Hillary Rodham Clinton enters the story. In that parody, the French economist and parliamentarian imagined the makers of candles and street lamps petitioning the French Chamber of Deputies for protection from a most dastardly foreign competitor:

> You are on the right track. You reject abstract theories and have little regard for abundance and low prices. You concern yourselves mainly with the fate of the producer. You wish to free him from foreign competition, that is, to reserve the *domestic market* for *domestic industry*.
>
> We come to offer you a wonderful opportunity. . . .
>
> We are suffering from the ruinous competition of a rival who apparently works under conditions so far superior to our own for the production of light that he is *flooding* the *domestic market* with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival . . . is none other than the sun.

For after all, Bastiat's petitioners noted, how can the makers of candles and lanterns compete with a light source that is free? Thank goodness we wouldn't fall for such nonsense today. Except that in 2006 Senator Clinton and nine colleagues (ranging from Barbara Boxer to Tom Coburn) endorsed a petition from—you guessed it—the domestic candlemaking industry asking the secretary of commerce to impose a 108.3 percent tariff on Chinese candle producers. And the Commerce Department gave them what they wanted.

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Misunderstandings of the process of job creation are hard to eradicate. I can recall my father urging us to shop in our own little town rather than the slightly bigger town nearby, to “keep our money here in town.” That’s a micro-example of the protectionist mistake. Economies work best when they take advantage of specialization and comparative advantage. I am no more made better off by “buying Kentucky” or “buying American” than I am by making my own clothes and growing my own food. With each economic choice I tend to make what I’m best at and buy things I can get cheaper elsewhere, whether from the neighborhood store or from China. Businesses call it the make-or-buy decision, but individuals make the same decision with each purchase.

Finding new and more efficient ways to deliver goods and services to consumers is called economic progress. We should not seek to impede that process, whether through protectionism, breaking windows, throwing towels on the floor, or fretting about automation.

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