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Robots Don't Destroy Jobs; Rapacious Corporate Executives Do

By William Lazonick, professor of economics and director of the UMass Center for Industrial Competitiveness. He cofounded and is president of the Academic-Industry Research Network. His book, "Sustainable Prosperity in the New Economy? Business Organization and High-Tech Employment in the United States" (Upjohn Institute, 2009) won the 2010 Schumpeter Prize. Cross posted from Alternet R

Americans are understandably upset about profits without prosperity. Corporate executives seem to be the big winners, while the middle class is declining and young people face a bleak economic future. How did this happen? It's easy to blame technology, especially the automation that supposedly displaces workers. But that's not the real story. The fact is that automation creates jobs. It's the misuse of corporate profits that are destroying them.

There was a time when high corporate profits meant bright employment prospects for most members of the US labor force. That relation between profits and prosperity was strongest in the immediate post-World War II decades when US corporations led the world in manufacturing, provided workers with career-long employment security, and reinvested profits in productive capabilities in the United States. For the past three decades, however, the pursuit of corporate profits has been at the expense of prosperity for an ever-growing proportion of the American population.

This disconnect between profits and prosperity began in the 1980s with permanent plant closings that cost production workers their middle-class jobs. It increased in the 1990s as major US corporations scrapped the career-with-one-company norm that had prevailed for salaried employees, and it became common even for college-educated people with a couple of decades of work experience to find themselves on the wrong end of the pink slip. Then in the 2000s, as US corporations accelerated the globalization of production activities, the jobs of all members of the US labor force, no matter what their level of educational attainment, became vulnerable to competition from qualified people in lower wage areas of the world.

Profits without prosperity is now starting to get attention in the mainstream press. In his *New York Times* op-ed, "Robots and Robber Barons" (Dec. 9, 2012), Paul Krugman seeks to explain why, with corporate profits up, labor compensation is down. As part of the ongoing digital revolution, he argues, robots are throwing American workers out of their jobs. In addition, he claims that corporations are making high profits through price gouging, and are not sharing these gains with their employees.

Krugman is on to something important that needs to become part of the national policy debate. But he is off target in blaming a combination of automation and monopolistic practices for the disconnect between profits and prosperity.

Automation is not the problem. As part of a process that could reconnect profits and prosperity, the US economy needs more, not less, corporate investment in automation. A company that successfully invests in automation creates far more, and typically better, jobs than those it destroys. Indeed, the study of industrial history reveals that when a nation's leading companies fail to make sufficient investments in automation its economy runs into trouble.

As Krugman himself notes, the argument that automation is bad for workers' employment and incomes dates back almost two centuries to the British economist, David Ricardo, who was writing during the world's first industrial revolution. By definition, automation displaces the need for workers to perform the tasks that have been automated. If, however, automation only destroyed jobs, advanced economies such as those of Britain, France, Germany, Italy, Japan, and the United States would not have risen to positions of world industrial leadership with strong middle classes.

Some of these new jobs are created in the industries that produce automated equipment. By far Japan is the world leader in both the production and use of robotics. An original source of Japan's competitive advantage in this capital-goods sector was the willingness and ability of production workers to cooperate with engineers in automating tasks they performed on the shop floor Under Japan's system of "lifetime employment," these production workers did not fear that the introduction of robots would result in loss of employment, while their involvement in the automation process gave them experience that, post-automation, could be put to productive use in other parts of the business organization.

Increasingly, moreover, in the age of nanotechnology, automation performs productive functions that no human being could ever have possibly done. Rather than destroy jobs, these automated processes make it possible for companies to produce all kinds of sophisticated goods and services. These products are the hallmark of an advanced economy, and open up all kinds of new employment opportunities in companies and countries in which these goods and services are produced.

Automation entails huge upfront investments. Companies that invest in automation have to build organizations to ensure steady supplies of high-quality materials, improve and maintain machinery, and capture sufficiently large market shares to achieve economies of scale. These investments in the development and utilization of automated facilities create lots of high-value-added jobs, especially for companies that, because of their investments, can grow large by producing higher quality, lower costs products than the competition.

To repeat, automation is not the problem. The three-decades long erosion of middle-class jobs in the United States is the result of, as stated earlier, permanent plant closings, layoffs of older employees, and the globalization of employment – none of which have been the result of automation. In the process, many US industrial corporations have become very profitable (for now, but by no means forever). The question that needs to be asked is why US corporations are failing to reinvest these profits in new products and processes that can create large numbers of *new* high value-added employment opportunities in the United States.

The problem lies in the ideology that corporations should be governed to "maximize shareholder value," which became prevalent in boardrooms and business schools in the 1980s, and has become totally dominant since. In the name of shareholder value over the decade 2001-2010, the 500 corporations in the S&P 500 Index (representing about 75 percent of US stock-market capitalization) expended not only 40 percent of their profits on cash dividends – the normal mode of rewarding shareholders – but also another 54 percent on stock buybacks, the purpose of which is to give a manipulative boost to a company's own stock price. Large established companies did hardly any buybacks in the early 1980s. Over the past decade, buybacks by S&P 500 companies totaled about $3 trillion, which has left scant corporate resources for investment in innovation and high-value-added job creation.

When companies do massive buybacks to boost their own stock prices, the big winners are the very same top executives who make these resource-allocation decisions. Why? Because the largest single component of top executive pay is the income from exercising stock options – which become more lucrative when the stock price goes up, even if for just a short period of time during which the options can be exercised and the acquired stock sold.

Many corporate executives justify buybacks by arguing that they represent the best corporate investments available. How about investments in innovation and job creation? Or how about corporate support for government investments in the national knowledge base, which typically provides the foundation for enterprise innovation and profits? If top executives have been the big winners of this financialized buybacks-options game, then the big losers have been erstwhile members of the US middle class as well as tens of millions of younger Americans who will never have the opportunity of entering the middle class.

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