

## Mitchell's Musings 3-19-12: Apples and Oranges

Daniel J.B. Mitchell

Many readers will recall headlines, such as the one pictured below, that appeared a little more than a month ago.<sup>1</sup> Labor conditions in Chinese factories manufacturing Apple products became a hot issue after the *New York Times* published a series of critical articles.<sup>2</sup> The *New York Times* series, in turn, seemed to be linked, at least in timing, to the activities of Mike Daisey, an activist who had been performing a one-man play at the Public Theater in New York City based on claimed interviews with workers at Apple contract factories in China. The *Times* published an op ed by Mr. Daisey about those factories that has now been modified.<sup>3</sup> There was added publicity when the public radio program, "This American Life," broadcast a program based on the Daisey play.

Los Angeles Times

# BUSINESS

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DOW 12,874.04 • 72.81 | S&P 500 1,351.77 • 9.13 | NASDAQ 2,931.39 • 27.51 | GOLD \$1,723.00 • 0.30 | OIL \$100.91 • 2.24 | EURO \$1.3202 • +.0032 | U.S. T-NOTE (10-yr.) 1.98% Unch.

**COMPANY TOWN**



**JANE TRANTER**, head of BBC Worldwide Productions, shows off a model of the Stig, the masked driver from "Top Gear." The U.S. version of the series, adapted by her team, is about to start its third season.

ANNIE CHIRACK Los Angeles Times

**MANUFACTURING**

## Apple OKs labor audits of factories

An industry-funded group starts looking at the tech giant's suppliers in China.

DAVID SARNO AND ANDREA CHANG

Responding to criticism after worker deaths and injuries at Chinese factories that produce iPhones and iPads, Apple Inc. and its suppliers have agreed to allow a labor watchdog group to monitor those facilities.

ture its products live and work in factory "cities." Many toil long hours for low pay in plants that don't meet health and safety requirements, activists have alleged, and workers spend off hours in cramped dormitories.

The Foxconn facilities in Shenzhen and Chengdu, China, that employ tens of thousands of live-in workers [See Labor, B3]

**TECHNOLOGY**

Datto

As it turned out, Mr. Daisey's interviews were apparently fabricated and the issue came to light after another public radio program - "Marketplace" - conducted a more thorough fact check

<sup>1</sup> The article shown in the picture is at <http://www.latimes.com/business/la-fi-apple-china-labor-20120214,0,5184260.story>

<sup>2</sup> For example:

<http://query.nytimes.com/gst/fullpage.html?res=9C02E2D71438F935A15752C0A9649D8B63&pagewanted=all>

<sup>3</sup> <http://www.nytimes.com/2011/10/06/opinion/jobs-looked-to-the-future.html>

than had occurred at “This American Life.”<sup>4</sup> “This American Life” has now retracted the broadcast.<sup>5</sup>

Even before the most recent revelations, the Daisey and *New York Times* stories produced a predictable reaction. Apple promised to do better at auditing and correcting labor conditions at its Chinese suppliers. While some commentators were critical of Apple, others pointed out that the situation in China is complicated. It is a developing country. What were U.S. factories like in the 19<sup>th</sup> century when America was a developing country? Conditions at suppliers to big American firms in China may not be great but they tend to be better than in other workplaces. In relative terms, Chinese workers think conditions at the suppliers to American firms are good. Etc., etc., etc.

Of course, now the debate has shifted away from labor conditions at Chinese factories and instead focuses on Mr. Daisey, particularly after he defended his fabrications as a form of theater rather than journalism: (from the “This American Life” retraction statement)

*Interviewer: So you lied about that. That wasn't what you saw.*

*Mike Daisey: I wouldn't express it that way.*

*Interviewer: How would you express it?*

*Mike Daisey: I would say that I wanted to tell a story that captured the totality of my trip. So when I was building the scene of that meeting, I wanted to have the voice of this thing that had been happening that everyone (has?) been talking about.*

But there is another question that was not asked by Mr. Daisey, by the *New York Times* series, by “This American Life,” or by “Marketplace.” Why are all of these products – Apples and many others – being manufactured in Chinese factories? Is it really true that there is some law of nature (or economics) that says the U.S. should no longer manufacture things and should instead just do “services”? And if there is such a law, how can the U.S. go on buying imported manufactured goods and run up more and more debt in payment for them? Or put another way, how can there be a law of nature (or economics) which cannot be sustained? In short, the questions to be asked about Chinese labor conditions and about assumed natural laws are like apples and oranges. They are different and only distantly related.

At about the time that the Daisey exposé was released, another item was also circulating in the news media, albeit rather buried in the back pages:

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<sup>4</sup> <http://www.marketplace.org/topics/life/ieconomy/acclaimed-apple-critic-made-details>

<sup>5</sup> [http://podcast.thisamericanlife.org/special/TAL\\_460\\_Retraction\\_Transcript.pdf](http://podcast.thisamericanlife.org/special/TAL_460_Retraction_Transcript.pdf)

*Foreign demand for U.S. Treasury debt rose to a record high in January. China, the largest buyer of Treasury debt, increased its holdings for the first time in six months. Total foreign holdings rose 0.9 percent in January to \$5.05 trillion, the sixth consecutive monthly increase, the Treasury Department reported Thursday. China boosted its holdings 0.7 percent to \$1.16 trillion. Japan, the second-largest buyer of Treasury debt, increased its holdings 2 percent to a record \$1.08 trillion.<sup>6</sup>*

In short, the two Asian countries that base their economic policy and exchange rate policy on mercantilism – exports are good; imports are bad – continue to drain manufacturing jobs from the U.S. Japan, it might be noted, is boosting its dollar reserves on the anniversary of the earthquake and tsunami that devastated parts of the country. Reserves are supposed to be a “rainy day fund,” prudently held for emergencies. If the earthquake/tsunami was not a rainy day, what would such a day be?



When such questions are raised, the response tends to be along the lines of the *Economist* magazine article pictured above.<sup>7</sup> Chinese wages will go up and it will no longer be so cheap to manufacture there. Presumably, when that happens, trade will somehow balance. But wait! Japanese wages are far above Chinese and we are still awaiting that balance. And no one is writing plays and publishing exposés about labor conditions in Japanese factories.

In short, the natural law of eventual adjustment is as artificial as the natural law of manufacturing-is-passé-in-the-U.S. There is no evidence, based on the experience with Japan, that some natural force will remove the trade imbalance problem. The U.S. has an exchange

<sup>6</sup> [http://www.washingtonpost.com/business/foreign-holdings-of-us-debt-hit-record-high-china-ups-holdings-for-1st-time-in-6-months/2012/03/15/gIQAV8e2DS\\_story.html](http://www.washingtonpost.com/business/foreign-holdings-of-us-debt-hit-record-high-china-ups-holdings-for-1st-time-in-6-months/2012/03/15/gIQAV8e2DS_story.html)

<sup>7</sup> <http://www.economist.com/node/21549956>

rate problem that will not be addressed by an Adam Smith-style invisible hand. Wishful thinking about natural adjustment will not remove the problem. Only a conscious and visible exchange rate policy on the part of the U.S. can do it.