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Companies Spend on Equipment, Not Workers

By CATHERINE RAMPELL

Companies that are looking for a good deal aren't seeing one in new workers.

Workers are getting more expensive while equipment is getting cheaper, and the combination is encouraging companies to spend on machines rather than people.

"I want to have as few people touching our products as possible," said Dan Mishek, managing director of [Vista Technologies](#) in Vadnais Heights, Minn. "Everything should be as automated as it can be. We just can't afford to compete with countries like China on labor costs, especially when workers are getting even more expensive."

Vista, which makes plastic products for equipment manufacturers, spent \$450,000 on new technology last year. During the same period, it hired just two new workers, whose combined annual salary and benefits are \$160,000.

Two years into the recovery, hiring is still painfully slow. The economy is producing as much as it was before the downturn, but with seven million fewer jobs. Since the recovery began, businesses' spending on employees has grown 2 percent as equipment and software spending has swelled 26 percent, according to the Commerce Department. A capital rebound that sharp and a labor rebound that slow

have been recorded only once before — after the 1982 **recession**.

With equipment prices dropping, and tax incentives to subsidize capital investments, these trends seem likely to continue.

“Firms are just responding to incentives,” said Dean Maki, chief United States economist at Barclays Capital. “And capital has gotten much cheaper relative to labor.”

Indeed, equipment and software prices have dipped 2.4 percent since the recovery began, thanks largely to foreign manufacturing. Labor costs, on the other hand, have risen 6.7 percent, according to the **Labor Department**. The rising compensation costs are driven in large part by **costlier health care benefits**, so those lucky workers who do have jobs do not exactly feel richer.

Corporate profits, meanwhile, are at record highs, and companies are hoarding cash. Many of the companies that are considering hiring say they are scared off by the uncertain future costs of health care and other benefits. But with the blessings of their accountants, these same companies are snatching up cheap, tax-subsidized tractors, computers and other goods.

“We had an opportunity to buy equipment at a very discounted rate,” Mr. Mishek explains of his decision to make bigger investments in equipment than in workers. “Now that the economy has turned around a little bit, it made sense to upgrade.”

Hiring has some hidden costs, as well as the expenses of salary and benefits, Mr. Mishek added.

“I dread the process we have to go through when we want to bring somebody on,” he said. “When we have a job posting these days, we get a flurry of résumés from people who aren’t qualified at all: people with misspellings on their résumés, who have never been in the industry and want a career move from real estate or something. It’s a huge distraction to sort through all those.”

Culling the résumés takes three days. Then he must make time to interview applicants, and spend \$150 for each drug test.

Once a worker is hired, that person must complete a federally mandated safety program, which Vista pays an outside contractor a flat fee of \$7,000 annually to handle. Finally, Vista's best employees spend several months training the new hire, reducing their own productivity.

"You don't have to train machines," Mr. Mishek observes.

Usually economists cheer on capital spending, and have supported Congress's tax breaks for capital investment, like **bonus depreciation**, which lets companies expense the full cost of purchases immediately instead of waiting several years. That is because capital and labor can be complementary: a business that buys a new truck often hires a new driver, too.

But with the rising costs of hiring, companies like Vista are finding ways to use capital to replace workers whose jobs are relatively routine.

"If you're doing something that can be written down in a programmatic, algorithmic manner, you're going to be substituted for quickly," said Claudia Goldin, an economist at Harvard.

To add insult to injury, much of the equipment used to replace American workers is made by workers abroad, meaning that capital spending is going overseas. Of the four pieces of equipment Vista bought last year, one was made domestically. The others came from Israel, Switzerland and Germany. ("I try to avoid buying Chinese at the workplace and at home," Mr. Mishek said.)

Of course the shift to more automated production predates the Great Recession. And in the long run, better technology lowers prices, raises living standards and helps workers move into higher-paying jobs. This was the case with the mechanization of farming, which a century ago **employed 41 percent of the American work force**.

"We don't have 11 million unemployed farmers today because over time farmers and their children transitioned into different sectors," says William C. Dunkelberg, chief economist at the National Federation of Independent Business. "We don't usually have this kind of shock, though, that displaces

a lot of workers at once.”

Better technologies may eventually offer better job opportunities, but only if people can upgrade their skills quickly enough to qualify. That is hard to do in the short run, especially when so many displaced workers need to be retrained at once.

“People don’t seem to come in with the right skill sets to work in modern manufacturing,” Mr. Mishek said, complaining that job applicants were often deficient in computer, mathematics, science and accounting skills. “It seems as if technology has evolved faster than people.”

Some economists support policies that might shift the balance away from capital spending. Andrew Sum, an economist at Northeastern University, advocates [tax incentives for hiring](#) that mirror those for capital investment. Congress passed a [hiring tax credit](#) along these lines last year, but it was not well publicized, and some said it was [poorly devised](#). The proposal is reportedly floating around Washington [once again](#).

Austan Goolsbee, chairman of the president’s Council of Economic Advisers, and many other economists say the relative prices of labor and capital are not the real problem. The biggest hurdle is that companies are loath to invest at all because economic growth is so slow.

Demand needs to grow for employers to be more comfortable with all sorts of investments, human or otherwise, Mr. Dunkelberg said.

Consider the booming 1990s, he says: Then, as now, capital was getting rapidly cheaper relative to labor, and then, as now, companies were increasing spending on capital more than on labor. But companies were investing so much money to begin with that labor spending still grew a lot. With a bigger economic pie, few cared how the slices were cut.



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