The iPhone stimulus
By Paul Krugman
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Are you, or is someone you know, a gadget freak? If so, you doubtless know that Wednesday was iPhone 5 day, the day Apple unveiled its latest way for people to avoid actually speaking to or even looking at whoever they’re with.

So is the new phone as insanely great as Apple says? Hey, I’ll leave stuff like that to David Pogue. What I’m interested in, instead, are suggestions that the unveiling of the iPhone 5 might provide a significant boost to the U.S. economy, adding measurably to economic growth over the next quarter or two.

Do you find this plausible? If so, I have news for you: you are, whether you know it or not, a Keynesian — and you have implicitly accepted the case that the government should spend more, not less, in a depressed economy.

Before I get there, let’s talk about where the buzz is coming from.

A recent research note from JPMorgan argued that the new iPhone might add between a quarter- and a half-percentage point to G.D.P. growth in the last quarter of 2012. How so? First, the report argued that Apple was likely to sell a lot of phones in a short period of time. Second, it noted that although iPhones are manufactured overseas, most of the price you pay when you buy one is domestic value-added — retailing and wholesaling, advertising and profits — all of which counts as part of G.D.P. Finally, it took some plausible guesses about the price of each phone and the number of phones sold, and used those guesses to make an estimate of the impact on G.D.P.

It’s all pretty straightforward. But the implications are wider than most people realize.

The crucial thing to understand here is that these likely short-run benefits from the new phone have almost nothing to do with how good it is — with how much it improves the quality of buyers’ lives or their productivity. Such effects will kick in only over the longer run. Instead, the reason JPMorgan believes that the iPhone 5 will boost the economy right away is simply that it will induce people to spend more.

And to believe that more spending will provide an economic boost, you have to believe — as you should — that demand, not supply, is what’s holding the economy back. We don’t have high unemployment because Americans don’t want to work, and we don’t have high unemployment because workers lack the right skills. Instead, willing and able workers can’t find jobs because employers can’t sell enough to justify hiring them. And the solution is to find some way to increase overall spending so that the nation can get back to work.

So where can more spending come from? Businesses are sitting on lots of cash but, for the most part, have seen little reason to do a lot of investment. Why expand your capacity when you don’t have enough sales to make full use of the capacity you already have? And because businesses aren’t spending a lot, incomes are low, so consumer demand is low, which perpetuates those low sales.

Yet depressions do end, eventually, even without government policies to get the economy out of this trap. Why? Long ago, John Maynard Keynes suggested that the answer was “use, decay, and obsolescence”: even in a depressed economy, at some point businesses will start replacing equipment, either because the stuff they have has worn out, or because much better stuff has come along; and, once they start doing that, the economy perks up.
Sure enough, that’s what Apple is doing. It’s bringing on the obsolescence. Good.

But why suffer through years of depressed output and high unemployment while waiting for enough obsolescence to accumulate? Why not have the government step in and spend more, say on education and infrastructure, to help the economy through its rough patch? Don’t say that the government can’t add to total spending, or that government spending can’t create jobs. If you believe that the iPhone 5 can give the economy a lift, you’ve already conceded both that the total amount of spending in the economy isn’t a fixed number and that more spending is what we need. And there’s no reason this spending has to be private.

Yet far from using public spending to support the economy in its time of trouble, our political system — driven by a combination of ideology, exaggerated deficit fears and Republican obstructionism — has moved to make the depression worse. Yes, unemployment benefits and food stamps are up, because so many more people are in need; but government employment has plunged, as has public investment.

Now, despite all this, we will eventually recover. Over time there will be more equipment that needs replacing, more iPhone-like innovations that boost spending, and, in the long run, we will exit this economic trap. But, as Keynes famously pointed out in another context, in the long run we are all dead. To borrow a phrase from myself, why not end this depression now?