THE WALL STREET JOUNAL
HOLMAN W. JENKINS, JR - JANUARY 13, 2012, 7:28 P.M. ET

The Truth About Bain and Jobs

Job creation and destruction are both relentless. The small difference between the two is what we call prosperity.

Mitt Romney and his GOP rivals are engaged in a fruitless argument in South Carolina over whether private equity creates more jobs than it destroys. The debate is fruitless because voters and politicians don't believe jobs should ever be destroyed.

The American voter is not about to become sophisticated about the place of private equity in American life. But the American voter can become inured to it. So let backers of Newt Gingrich's flaming candidacy run a "King of Bain" video savaging Mr. Romney's leveraged buyout career on South Carolina TV.

All such productions are but poor reprises of a story that appeared in this paper on May 16, 1990, written by a reporter named Susan Faludi, later to become famous as an angry feminist author.

In 7,770 words, Ms. Faludi described the buyout of the Safeway supermarket chain, and if anybody suffered a layoff or pay cut or got depressed and committed suicide, she did not hesitate to blame private equity. You would think that firing had been unknown in the economy until private equity invented it.

Associated Press

Thomas S. Monaghan, founder of Domino's Pizza, Inc., left, and Mitt Romney, then-managing director of Bain Capital, sign an agreement in Sept. 1998.

Most damning, she claimed Safeway was a profitable company when private equity went to work trying to make it more profitable. What neither she nor Safeway's investors could have known was that the fat in the supermarket industry would soon be the target of Wal-Mart, Costco and other revolutionary discounters, so competitive change was coming in any case. The lesson? When private-equity investors sniff a profit opportunity, they are probably just one step ahead of someone else.

As a rule, private equity takes on the most troubled companies because turning them around offers the biggest profit opportunities. That's why private equity tends to generate more than its share of traumatic headlines. Look no further than Ripplewood Holdings' decision to put the maker of Twinkies into bankruptcy this week. It's the kind of decision that, were Ripplewood's principals ever to run for office, would get them savaged in an ad.

But guess what? Ripplewood also bought the company, Hostess Brands, out of bankruptcy three years ago, when it was called Interstate Bakeries. Ripplewood is just the latest manager to wrestle unsuccessfully with the company's fundamental problem, a unionized workforce in an industry where competitors aren't unionized.

Next time you're choosing a fattening indulgence in the checkout line, ask yourself if you're willing to pay extra so Twinkies and Wonder Bread (made by the same company) can arrive at the store on different trucks? So the driver can be excused from helping to unload? So the company can pay workers-comp costs way out of line the industry's? So a company with just 19,000 employees can administer 40 different pension plans?

We didn't think so.

But the best antidote to foolish thinking about job creation is the work of economists Steven J. Davis and John Haltiwanger. Their painstaking research has revealed a side of America's dynamism that isn't always pretty. Between 1977 and 2005, years roughly overlapping Mr. Romney's business career, some 15% of *all jobs* were destroyed *every year*, even as total jobs grew by an average of 2% a year. Job creation and destruction are both relentless, the authors showed in paper after paper. The small difference between the two is what we call prosperity.

But now Republicans are worried. To fault Mr. Romney for being involved with businesses that both grew and shrank, that created jobs and destroyed them, may be to fault him for having eaten from the tree of knowledge in a way that, say, President Obama has not. But how will his story fare in November against Mr. Obama's simpler story, in which ravenous capitalists destroy jobs and government creates them with things like the Detroit/UAW bailout, solar subsidies and health-care mandates?

Mr. Romney would be a fool to believe a political campaign is the right place to explain the private-equity business. But he has a perfectly defensible story to tell.

First, the money: He expected to be paid well. But nobody—not even those whose billions earned in private equity make Mr. Romney's millions look paltry—envisioned the astounding rise in business values in the gilded '80s and '90s. When Mr. Romney was asked by his boss to start Bain Capital in 1983, the Dow was at 1086.50. When he left on Feb. 11, 1999 to run the Olympics, it was 9363.46. His is not the only recent fortune owed partly to this accident of timing (Warren Buffett's and many others come to mind). Indeed, if we're being honest, Mitt here is representative of a generation of professionals whose serendipity it was to have spent the 1970s on our education and then to be spit into the job market just as one of history's great economic liftoffs was taking place.

Second, the work: He put his talent for calm, careful analysis to work helping American businesses adapt to the onrushing challenges of globalization and technological change. Looking back, it may even be true that his ratio of jobs created to jobs destroyed was better than the economy's as a whole.

What does this have to do with the presidency? Perhaps not much, but one thing he didn't learn at Bain Capital was to twiddle his thumbs because taking action might make somebody mad at him. That's not the worst qualification to bring to the Oval Office right now.