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Economic Recovery and Social Investment

A Strategy to Create Good Jobs in the Service Sector

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Introduction

Today's prolonged economic slump is fundamentally different from an ordinary recession. In the aftermath of a severe financial collapse, an economy is at risk of succumbing to a prolonged deflationary undertow. With asset prices reduced, the financial system damaged, unemployment high, consumer demand depressed, and businesses reluctant to invest, the economy gets stuck well below its full employment potential.

In these circumstances, fiscal contraction and tight monetary policy would only make things worse. But even very low interest rates, of the sort being implemented by the Federal Reserve's policy of "quantitative easing," are insufficient to cure the deflationary condition. What's needed is aggressive fiscal policy – and not the kind of fiscal policy promoted by the austerity lobby to "restore confidence" and allay supposed fears of inflation. With creditors willing to lend the government money for 30 years at well under 3 percent interest, there is obviously little fear of inflation driven by deficits. The problem isn't low confidence in deficit-reduction. Banks are now sitting on about $1.8 trillion in cash or government securities – because they can't imagine where to profitably invest it. Businesses are delaying investment in expansion not because they are fretting about deficit projections for 2023. They are waiting to see customers with money to spend, and general austerity will only reduce that spending power.

But where should this fiscal policy be directed? One, obviously, is investment in a green economy and modern public infrastructure. The other – too little appreciated – is increased outlay in human services, of the sort that can create good, non-exportable jobs and improve the life prospects of the next generation, as well as provide stable, counter-cyclical sources of employment and demand. Government also has the power to structure other service-sector work as decent jobs.

Public investment, including public investment in the service sector, can help the economy climb out of the current deflationary trap – and establish a foundation for a stronger middle class in the future.

Lessons from the Greatest Generation

Rather than budget austerity, we need very significant public spending to compensate for the shortfall of demand elsewhere in the economy. World War II finally cured the Great Depression with public spending using deficits that exceeded 30 percent of GDP at the height of the war – more than triple the recent peak in 2009. About one-fourth of the increased spending was financed by higher, steeply progressive taxes; the rest was financed by borrowing.

But neither high taxes nor high deficits deterred growth-enhancing investment – quite the contrary: *they underwrote it*. Businesses thrived thanks to the increase in public contracts. The public spending recapitalized American industry, re-employed a generation of workers idled by depression, and invested massively in science and technology that would have civilian and commercial applications after the war. Despite the fact that half of what was produced was blown up, the real economy grew at nearly 15 percent per year during the war; and despite the emphasis on war production, with the return to full employment civilian living standards dramatically improved.

At war's end, no serious person worried about the debt level 10 years hence in 1955. There was no Bowles-Simpson targeting deficit reduction. Rather, the worry was that 12 million returning GIs would not find jobs and the economy would sink back into depression. So the government doubled down on public investment, with policies like the GI Bill and the Marshall Plan, and a consumer boom took over where the wartime spending boom left off. The debt took care of itself thanks to high growth rates. Within three decades, the debt ratio had dwindled from a 1946 peak of 122 percent of GDP to just 33 percent by the late 1970s.[1]

We don't want another war to play this stimulus role. But there are plenty of worthwhile peaceful candidates for the same, positive fiscal impact of public investment.

Recession or Hidden Depression?

Though the damage is not as severe, the dynamics of the current economy resemble those of the Great Depression. One common characteristic is a "debt deflation," a phenomenon first identified by Professor Irving Fisher in a classic article in 1933.[2]

In a debt deflation, the value of debts is constant but the value of assets and wages is declining. So the real burden of debts increases relative to purchasing power and saps demand. With debt deflation, falling prices also lead people to put off purchases because the product will likely be cheaper tomorrow. Businesses hesitate to buy raw materials because the retail price may be lower than wholesale ones. Economic activity simply stalls.

Consumers and businesses overwhelmed by debts face an invidious choice. They can tighten their belts and reduce other purchases in order to keep current on the debt payments. Or they can default on the debt, losing their equity and causing a fire sale of assets into a down market, reducing prices still further. Either way, their actions constrain demand and worsen the economy's general deflation.

In the financial collapse of 2008, the most direct debt deflation was confined to housing, commercial real estate, and securities backed by mortgages. Since the peak in housing values in 2006, average home equity per homeowner has declined from $200,000 to $78,000 in inflation-adjusted dollars, the lowest level since 1968.[3]

Thanks to the unprecedented intervention by the Federal Reserve, which bought trillions of dollars of securities, we narrowly avoided a general price deflation. But the wider damage was still massive. Though housing prices appear to have bottomed out in a majority of local markets as of late 2012, they are still about 30 percent below their 2006 peak, leaving tens of millions of homeowners underwater on their mortgages and at risk of default or foreclosure. Even if these vulnerable Americans manage to avoid eviction, they have lost their most significant financial asset, the equity in their homes; that loss in turn depresses their propensity to spend. Nor can most underwater homeowners, with negative equity, qualify for today's record low-interest-rate mortgages, so the Fed's cheap money policy is of no benefit to them.

Along with debt deflation, the related condition similar to the Great Depression is a "liquidity trap." This simply means that economically damaged consumers and businesses are more reluctant than usual to spend and to invest, because they fear that worse is yet to come. They hang on to cash, or stay "liquid." This reverses the consumer behavior of the past 30 years, when American households did the opposite – borrowed to maintain living standards.

On the eve of the 2008 crash, median worker earnings had been barely keeping up with inflation for three decades, as nearly all of the economy's productivity gains went to the top one percent. With interest rates steadily declining since the early 1980s, assets – especially housing – tended to increase in value faster than inflation. So the strategy of the beleaguered American middle class was to use debt as a substitute for income. For the broad middle class (defined as the three middle quintiles of households), the ratio of debt to income increased from 67 percent in 1983 to 157 percent in 2007. Mortgage debt on owner-occupied homes increased from 29 percent to 47 percent of the value of the house. When housing values collapsed, debt ratios increased further.[4]

When the economy crashed and asset values fell, this strategy suddenly became inoperative, and consumer behavior reversed. Households began paying down debt. That may be prudent and necessary as a long-term rebalancing strategy, but in the short run it deprives the economy of one more source of aggregate demand. And the recession only worsened the income shortfall. Today's median household income is back down to the level of 1995, according to the Census Bureau.[5]

Over the long term, consumer borrowing as a substitute for lagging wages is not sustainable. The cure, of course, is to assure that median wages rise with the economy's increasing productivity, as was the case for the quarter-century after World War II.

In the very useful phrase of the British political economist Colin Crouch, the bubble economy of the past three decades has been pumped up by "privatized Keynesianism." Private debts have soared relative to GDP – short term bank borrowing to finance speculation; mortgage debt; student debt; and consumer borrowing against assets. Public debt, which was declining prior to the George W. Bush years, has risen due to two wars and tax cuts and the reduced revenues of the recession – not because of deliberate stimulus spending, which will account for only about 14 percent of the projected increase in the 10-year post-crash public debt.[6]

But the problem with "privatized Keynesianism" is that it is *pro-cyclical*. Unless it is well-regulated, private debt exaggerates bubbles, and then excessively contracts in downturns. Nothing illustrates this better than the housing sector. What's needed is genuine Keynesianism, a strategy whose essence is that it can be *counter-cyclical*. Government debt has gotten far too much

alarmist publicity, but in truth it is the one form of debt that should be increasing in a slump, not contracting along with the rest of the debt-deflation.

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The history of the Great Depression demonstrates that it is possible for the economy to be growing, but still be stuck at an economic equilibrium well below full employment. Thanks to the policies of the New Deal, which got us halfway out of depression until the war did the rest, the economy grew at a rate of 11 percent in 1934, 9 percent in 1935, and 13 percent in 1936.[7] Yet the Great Depression persisted, with unemployment in excess of 12 percent and the economy clearly performing far below its potential, until World War II.

According to the National Bureau of Economic Research, which defines a recession as two consecutive quarters of negative GDP growth, the current recession began in December 2007 and ended in June 2009. But more than three years later, a deflationary depression continues. Using the NBER definition, *it is possible to be out of a recession and still be in a deflationary depression*.

The current economy displays the weakest post-recession recovery on record. Even after mild postwar recessions, the annual growth rate in the years immediately following was typically 5 or 6 percent as the economy gained back the recession's losses and more. Growth for 2010, when the economy was benefiting from a relatively small stimulus package, was a modest 3 percent, and then slowed to an anemic 1.7 percent in 2011. With the 2009 stimulus program of the Recovery Act used up, the growth rate for 2012 is projected by the Federal Reserve to be about 2.0 percent. This performance is not sufficient to reduce unemployment or to escape the deflationary trap. Given all of these deflationary trends, there is simply no substitute for government purchasing power to compensate for the other shortfalls of demand.

The Case for Investing in People

The economic collapse triggered by the financial crisis that exploded in September 2008 represented the collision of three trends. One was the license given to speculative finance resulting from increasingly reckless deregulation. That permissiveness allowed bankers to create pyramids of highly leveraged and deceptive securities that collapsed like a house of cards when underlying assets such as subprime mortgages proved nearly worthless.

The second trend was the worsening income distribution. The average per capita productivity of the economy has doubled in a generation. But nearly all of that gain has gone to the very wealthy, who find it impossible to spend all they take in. So the economy as a whole had a shortfall of purchasing power; this was temporarily offset by ever increasing, but unsustainable, levels of household debt.

Third, since the early 1980s, the economy has been losing good, middle class jobs, especially in manufacturing. I first identified this trend in an article I wrote for *The Atlantic* in 1983, "The Declining Middle," and the patterns have only intensified since then. Middle class jobs are disappearing for several reasons, including the weakening of unions and government supports such as good unemployment insurance, the competition from low-wage countries, and the shift from manufacturing to services. The post-2008 crisis has weakened worker bargaining power even further.

We do need heroic policies to revive and expand U.S. manufacturing. A strong manufacturing sector is necessary for several reasons, including the importance of staying at the cutting edge of advanced technology, restoring a sustainable balance of payments, and capacity in advanced products needed for national defense. Manufacturing jobs are increasingly "knowledge jobs," and goods production is part of a knowledge chain that runs from materials science to computerized design that we can't afford to lose. But as manufacturing processes become more highly automated they will inevitably represent a dwindling percentage of overall jobs.

So where will the sources of increased demand and good, middle class jobs come from? One obvious candidate is the creation of good, professional service jobs improving the quality of education and care for the young, the old, and the sick.

Concealed Choices

The economy is irrevocably shifting from manufacturing to services. But what kind of service jobs will we get? The American work force has gone from 28 percent factory workers and 72 percent service workers in 1978 to 14 percent factory workers and 86 percent service workers today.[8] But the service sector encompasses tens of millions of "bad" jobs that are unstable and offer low pay with few benefits – in routine clerical work, retail sales, fast food, low-end human services – alongside a relatively small number of well-compensated professional positions, including doctors, lawyers, and scientists, as well as astronomically rich investors in the financial sector.

As the *New York Times* recently reported, in the service sector, especially retailing, corporations find it expedient to keep millions of people who want full-time jobs in part-time work. This allows management to vary the labor force day by day, and even quarter-hour by quarter-hour, in response to projected customer traffic. Other occupations that don't face daily demand fluctuations, such as warehouse workers, have been converted from permanent full time positions to contingent jobs. These changes have not occurred because schedules require them, but rather to enable management to cuts costs by disguising permanent workers as temps or contract employees. This denies workers fringe benefits, social insurance, and makes them all but impossible to unionize because they are not part of potential bargaining units.

While these management decisions are often explained as cost-effective responses to the new economy, they are actually efforts to shift costs and risks of fluctuating business conditions from owners and managers onto workers. In many cases, such as warehouse work and trucking, they represent deliberate misclassification of permanent workers as temps or contract employees. This is illegal under the Fair Labor Standards Act, but the act has been weakly enforced.

In unionized service-sector work such as in the hotel industry, on the other hand, contracts regularize the employment relationship so that all of the risks of customer fluctuations are not on the employee. Unionized hotel workers, for example, may be subject to seasonal layoffs (which are covered by unemployment compensation), but for most of the year they are guaranteed a standard workweek and the benefits of stable employment.

We are shifting irrevocably to a service economy. But there are political choices to be made (or evaded). One path leads to an economy of minimum-wage fast food workers and security guards, many of them with temporary or part time jobs, on one extreme – and billionaire hedge fund managers and takeover artists, on the other. The other leads to a commercial sector of

decent wages and terms of work and a human service sector of middle class professionals that serve social needs – which in turn make for a more productive economy and decent society.

Though the path forward is often depicted as an economic inevitability, in fact it is a political choice – but one that is obscured and not sufficiently debated. We can allow an increasingly laissez-faire economy to take a low road of underpaid and under-professionalized service jobs. Or we can use taxation, public borrowing, and social investment to create more high-quality careers in the human services, which in turn will stimulate an economic recovery and produce a society of more balanced life chances.

The Nobel Laureate Wassily Leontief once offered a parable of a manufacturing economy so productive that there was only one human worker and her job was to flip the switch. In such a society, the operative economic questions became distributive: how would we allocate the wealth produced by machines? And what would everyone else do for a living? There is no single economically "efficient" answer. Many possible distributive outcomes are broadly consistent with a highly productive economy.

One answer is that the financial market that financed the technology owns that wealth. Another is that it goes to the single production worker. Neither is a very good, fair, or efficient outcome. The increasing wealth needs to be broadly allocated – "spread around" as President Obama famously told Joe the Plumber – and utilized to create good, middle-class professions.

In 1959, the president of the West Coast longshoremen's union, Harry Bridges, reluctantly concluded a deal with the shipping industry. He agreed to allow automated containers to replace the jobs of many of his dockworkers. Union members with "A" cards would retain guaranteed jobs. A much larger force of "B" members would become casual labor. Wages of permanent workers would rise with productivity, nearly all of which was increased capital-productivity. Upon signing the deal, Bridges quipped, "At this rate, by 2000 there will be one longshoreman left on the docks. But he will be the best paid son of a bitch in the United States." It was a good deal for Bridges' dwindling membership, but not such a good deal for workers generally.

When I wrote on the "declining middle" in 1983, the Bureau of Labor Statistics had just projected that nine of the ten fastest growing jobs in the 1980s would be low-skill, low-wage service jobs like fast-food workers, security guards, back-office clerks, home health aides, and janitors. And this is exactly what occurred. A deregulated economy's propensity to generate low-quality service jobs has only intensified. Currently, only two of the ten jobs with the largest projected growth through 2020 have an average salary higher than the economy's overall average, while five of them (salespeople, health aides, personal care aides, office clerks, and laborers) have average salaries about or below the poverty line for a family of four.[9]

Widening income inequality has exacerbated this tendency. The very wealthy require large retinues of servants, directly and indirectly. Their lopsided purchasing power spawns entire industries of recherché fashions, exotic entertainments and McMansion communities. Some of the jobs serving the elite are even relatively well-paid jobs, because the most affluent among us do not want to be served by just anybody. A private chef for a billionaire earns more than a schoolteacher. But this strategy of job-creation in the services does not add up to an attractive or well-balanced society.

Meanwhile, there are tens of millions of Americans who cannot afford to purchase even basic services. And those who do serve them are typically underpaid and under-qualified. Two large and emblematic sectors are health care and early-childhood education.

Good Human Services as Social Investment and Economic Stimulus

Millions of jobs serving the very young, the very old and the very sick are low-wage jobs. This is a social decision, not the product of private supply and demand, because the qualifications and earnings for these occupations are set socially. A person caring for three-year-olds, for instance, can be a glorified baby sitter with minimum certification as a day care worker – or a well trained professional in child development. The job can pay minimum wage, or it can be a middle-class occupation and career. This social choice governs not just the quality of the job, but the quality of the early education given – especially to young children who begin life with fewer inherited advantages than the children of the professional class and the business elite.

Whether we have good-quality early childhood education and daycare also influences the capacity of mothers and fathers to be better parents. The rightwing story that poses a choice between family responsibility and social child care has it backwards. In a society that has reliable day care, parents perform less of a juggling act between work and home, and can be more effective in their parental role.

A nursing home worker, likewise, can be a nurse-aide making $8 an hour, or a licensed practical nurse or trained recreation aide earning almost twice that, closer to $30,000 a year. Well-qualified and trained nursing home personnel produce not just better career opportunities and economic stimulus, but better quality of life for the elderly. Having competent staff is more efficient in the long run because there is less turnover, less need for outlays on recruitment, better morale, and fewer incidents of neglect that require far more expensive medical treatment.

I've done a rough, order-of-magnitude calculation and found that for an annual expenditure of about $100-$150 billion (or under one percent of GDP), we could set a national policy goal of guaranteeing that all human service jobs are professional jobs that pay at least $25,000 a year (which is itself a lower minimum bar than others have suggested).[10] This requires professionalizing some occupations, as well as universalizing the availability of some categories of woefully underfunded services such as early education. As long as the current deflationary economy persists, this funding could come from additional government borrowing. As the economy recovers thanks to the additional stimulus, the normal increase in revenues could pay for part of the cost, supplemented by increased progressive taxation.

One of the great problems of the manufacturing economy, and of some services such as software engineering, accounting, call center work, and repair of jet engines, is that globalization allows these jobs to be done offshore by lower-paid workers. Human service jobs, by contrast, must be performed at home. If we have a national policy of guaranteeing that they are good jobs, there is no risk that they move overseas. We get the quadruple benefit of macro-economic stimulus, better jobs, better quality services, and (in the case of the young) improved lifetime opportunity and productivity.

Early Childhood Education

Extensive research has demonstrated that literally the most productive investment society can make is in high quality early-childhood education. The children of the poor are disadvantaged from the moment of conception, by the realities of poor nutrition, environmental hazards like lead poisoning, and the chaotic and high-stress environments in which their parents live. As infants and toddlers, they are less likely to get the diets or the verbal interactions characteristic of the middle and upper class, and enter school with far smaller vocabularies and more vulnerabilities to health problems.

Very early interventions can alter these trajectories for the better and improve the capacity of the next generation to be productive adults. Professor James Heckman of the University of Chicago has demonstrated that a dollar invested in the early education of children under age three returns eight or nine dollars to the economy.[11] High quality Pre-K education is increasingly universal for the children of the professional and business class, yet is almost non-existent for the children of the lower middle class and the poor, except for a small minority lucky enough to be admitted to the grossly under-funded federal Early Head Start program.

State-subsidized pre-kindergarten funding increased from $2.9 billion in 2005 to $4.8 billion in 2008, and the American Recovery and Reinvestment Act of 2009 allocated nearly $100 billion to education aid as a whole. But that funding has now expired, and most states have since cut back Pre-K funding. Even including ARRA money, state funding for Pre-K has declined in each of the last two years.[12] The big policy mistake was to presume that stimulus spending should be "targeted and temporary."

This is exactly the opposite of what should be occurring, both as counter-cyclical fiscal policy and as child-development policy. A protracted economic slump is a moment for public outlays to replace shortfalls in private demand and to fill in gaps in public systems, just as we introduced Social Security at the pit of the Great Depression. But the current deflationary depression, uniquely in all the recessions the past 80 years, has been a period of reductions in social spending.

By the same token, day care and all-day school programs that are more than custodial can help compensate for educational disparities. But high-quality early childhood education cannot be delivered by a workforce of high-turnover, untrained, minimum wage workers. In France, where there is a national policy of universal, child-development-oriented early education, pre-kindergarten teachers are required to be more highly trained than public school teachers. They must get additional course credits in public health and early child development, and they are compensated accordingly.

Universal, high quality early childhood education and daycare is an obvious candidate both for stimulus spending and for permanent social outlay once the immediate crisis is behind us. This policy shift, costing around $50 billion a year, could also create upwards of two million permanent, professional jobs and careers that will never threaten to move to China.

Nursing Care and Home Care

According to the Bureau of Labor Statistics, two of the fastest growing job categories are home care workers and nurse-aides (also known as Certified Nursing Assistants, or CNAs). These occupations suffer from shortages because the pay is low and the working conditions often frustrating. Nurse-aides typically make slightly above minimum wage, whereas Licensed Practical Nurses (usually a one-year certificate program) earn about $20 an hour, which annualizes to $42,000 a year. Registered Nurses, graduates of a two-year or four-year college degree program are still more highly trained, with median earnings in excess of $60,000.

There is extensive evidence that having home care or nursing-home care performed by staff with the lowest minimally acceptable skill levels is a false economy. The money that is saved on lower wages is lost in medical incidents such as increased

bedsores on the part of nursing home residents or failure to diagnose medical conditions early, both resulting in the need for far more expensive hospital stays. It also condemns these service workers to jobs that do not pay well.

In the case of registered nurses, there is a nationwide shortage, projected to be 260,000 RNs by 2025.[13] This shortfall will only increase as insurance coverage under the Affordable Care Act becomes more widespread. The shortage is the result of several trends, including a retiring generation of older RNs and worsening work conditions. As managed care has limited hospital stays, the typical hospital inpatient is now "sicker and quicker," meaning that nurses are juggling more patients and have less time to familiarize themselves with each case. This change has also accelerated retirements. The same managed care pressures to limit physician time with patients have led to an increased demand for nurses.

Instead of viewing the RN shortage as an opportunity to create more middle class jobs by investing in the education and training of nurses, the United States has outsourced its nurse training to Nigeria and the Philippines, and imports tens of thousands of nurses from these and other foreign countries every year. These are good jobs that could be filled by Americans. Part of the problem is the bottleneck in nurse training programs: pay at community colleges for masters or PhD level instructors is lower than the pay for hospital nurses, so training programs are understaffed and cannot serve all the qualified students who apply for admission. A relatively small amount of public money could solve the nursing shortage and create well-paid professional jobs, while easing the strain on nursing staffs.

Home-care workers are typically funded by Medicaid, whose budget has been severely strained in the recession. Cost-cutting state administrations seek to keep these wage costs as low as possible, typically classifying home care workers as independent contractors with no job security or benefits. Work that could and should be done by LPNs or RNs is often performed by home care workers with little training. This creates a vicious circle of burnout, high turnover, and poor results, even though the vast majority of these workers are conscientious and eager to perform well.

One strategy for upgrading these jobs has been used by trade unions. Recently, in several states, led by California, the SEIU and the American Federation of State County and Municipal Employees (AFSCME) have succeeded in persuading legislatures and governors to approve laws or executive orders establishing public agencies with which home-care workers could bargain collectively, as well as providing additional public funds. In Alameda County in California, the typical wage went from $4.25 to $10 an hour. But with state budgets in free-fall, this kind of progress has come to a halt and only a national, federally-funded strategy for upgrading home-care work and pay can fill the gap.

Education Myths and Realities

A standard litany blames America's anemic economic performance on poorly trained workers who in turn reflect "failing schools." This story is a triple play for conservatives hostile to the public sector. It deflects attention from the true sources of our economic slump; scapegoats a key public institution, its employees and unions; and diverts focus from the underlying problems of poverty.

The evidence is now in that charter schools and voucher schools actually under-perform demographically comparable public schools.[14] What's needed is not more businesslike competition but more investment in public education – money that was promised but never delivered under the original No Child Left Behind bargain of 2001 between President George W. Bush and

Senator Edward Kennedy. Schools need public funds for longer school days, smaller classes, peer evaluation and mentoring of teachers (as opposed to inventive compensation schemes based on high-stakes tests), as well as high-quality after school and pre-school strategies. Social supports for parents of at-risk children are part of this mix. Teach-to-the-test and rigid formulas of teacher evaluation are not.

The same public school systems, collective bargaining protections, and supposedly incompetent teachers that "fail" in high-poverty areas do just beautifully with middle class kids. As critic Diane Ravitch has documented, American schools with lower than 25 percent poverty rates have test outcomes equal to the best educational systems in the world, such as Finland and Taiwan.[15] Schools are being asked to compensate for all of society's other failings that produce concentrated poverty. Social investments to complement what schools do can both improve educational outcomes and produce more professional human service jobs.

Career Ladders and Labor Market Policies

It is not realistic to expect a minimum-wage, poorly trained human service worker to become a skilled professional overnight. To make our broad strategy work, we need an overarching plan for career ladders and public subsidies to help aspiring workers ascend them.

In some occupations, these ladders exist in theory. One can invoke heartening, individual stories of the nurse's aide who graduated to licensed practical nurse, or the classroom aide who went to night school and earned a teaching credential. But the truth is that these are one-offs. Despite a few model programs, our society seems determined to make this path as arduous as possible. Almost by definition, someone working for near minimum wage, often with family responsibilities, has an extreme shortage of time as well as money. Though some rare individuals do succeed, it takes uncommon tenacity and self-sacrifice, and sometimes the sacrifice of one's own children.[16] Why should we make this so hard? It is in the best interests of both the individual and society to improve a worker's skills. Other societies have figured this out, and provide subsidies for living expenses during training.

By the same token, the completion rates for two-year Associate's degrees at community colleges are dismal. Less than one third of people who begin programs get a degree within seven years. This poor track record does not reflect slacking off. Most such students are juggling work and family, and earning a living crowds out time to complete a degree. A very good social investment would be financial aid not just for tuition but to support living costs while community college students complete degrees. Denmark, the nation with the most advanced and effective active labor market policies, makes good use of such supports. Supporting retraining efforts does not crowd out individual responsibility, but rather makes it possible.

These efforts would not only provide needed economic stimulus. They would be part of two broader labor-policy shifts that America sorely needs. First, we need to reverse the trend toward casualization of labor that has been occurring for three decades. One of the great advances of the 20th century was regularization of the employment relationship. Through successful social struggle, growth of unions, and enactment of legislation, most jobs came to provide decent wages and fringe benefits. Workers could not be fired without cause. Loyalty to the firm was reciprocated. Grievance systems were created and respected. Economists termed these jobs primary labor-market jobs. Casual, secondary labor-market jobs, which paid less and offered no

such guarantees, continued to exist, but they were the exception. In recent years, however, the shift to casual jobs has become the norm, and in low-paid human-service work, casual, high-turnover jobs are the industry standard.

Second, the upgrading of human-service work would reverse another insidious trend – the employer's habit of trying to increase the efficiency of labor by fragmenting jobs into separate tasks and paying the lowest possible wage for each task – a strategy known as Taylorism, after the early 20th-century "efficiency expert," Fredrick Winslow Taylor, who first recommended it.

However, when it comes to human services, many of the supposed economic gains of Taylorism are illusory. Whereas registered nurses once performed multiple tasks and became very familiar with each patient, many hospitals have created a plethora of lower-wage occupations – phlebotomists to draw blood, technicians to perform tests, nurse's aides to take blood pressures – leaving the RN to cover more patients and do a far narrower range of tasks. The upgrading of human-service work would be part of an overdue process of reversing Taylorism. More workers would use a broader range of human skills to care for whole human beings, and higher wages would reflect the importance of their work.

More than 60 percent of all human service work is underwritten, directly or indirectly, by some level of government. Thus, public policy determines whether these jobs are professional occupations or casual labor and whether they are adequate to the social need. A national strategy of filling the holes in America's social safety net could serve both as a counter-cyclical engine of recovery and as a permanent strategy for replacing dwindling manufacturing jobs with good, domestic, non-exportable human service jobs.

To be sure, there are other good candidates for stimulus spending, most notably modernization of infrastructure and conversion to a sustainable green-energy future. However, these are not mutually exclusive, and in the array of policy choices, expanding and upgrading human services has gotten far too little attention and should be a major part of a public investment-led recovery.

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The shift to upgrading work in the service sector, especially work in the human services, can be part of a deficit-financed macro-economic recovery strategy to address the nation's current unemployment crisis and slow recovery. But this is not enough. It should also be part of a long-term effort to upgrade both the quality of work and of social services. The mistaken slogan of the February 2009 Recovery Act was "timely, targeted, and temporary." That precluded any medium or long term planning. To adapt to the needs of an economy of the future, efforts to improve service sector employment need to be planned, pro-active, and permanent.

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About the Project

The Next Social Contract Initiative *aims to rethink our inherited social contract, the system of institutions and policies designed to empower and support citizens from childhood through work and retirement. Inspired by the premise that economic security and opportunity are mutually reinforcing, a new social contract should foster innovation and openness, encourage long-term growth and broadly shared prosperity, and engage individuals and families not only as participants in the economy but also as citizens.*

About the Series

Renewing the American Social Contract *is a series of major policy papers outlining bold proposals from leading thinkers for reforming American social policy in areas from wages and job creation to taxation and the welfare state. Representing diverse perspectives from across the political spectrum, the contributors to the series share a commitment to questioning orthodoxy and enlarging the boundaries of debate.*

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