

The big job engines: education and health

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Spending on health care and education will be the fastest way to create jobs while other sectors recover.

Here's a thought experiment. Suppose that you have \$50,000. Using that cash, you can: a) remodel your outmoded bathroom; b) purchase an expensive new car; c) replace your arthritic and failing knee; or d) pay for two years of college for your child at your state university.

Which of these do you choose? My guess is that most people would pick either "c" or "d." These days, fixing up your house or getting a new set of wheels feels like a luxury. But even in tough times, health and education are still necessities to most people. What's more, the public seems to support increased government spending in these areas. In an early February Gallup poll, 56% of Americans considered aid for education "one of the most important" items to have in a stimulus bill, beating everything else, including tax cuts.

The public support for health and education carries a broader economic implication. The two sectors, long maligned as inefficient, may turn out to be the best hope for sustaining the economy. Hospitals, universities, and the like employ about 30 million workers, or 22% of the workforce. These employees are numerous enough and well-paid enough, on average, to prop up the economy while housing and finance recover.

Stabilizing influence

If additional stimulus is needed, the health and education fiscal policy channel is still functioning, while other ways of getting money into the economy have broken down. Taxpayer money given to banks, businesses, or households will likely be saved with little stimulative effect. But funds directed to schools and hospitals—as called for in President Barack Obama's recent stimulus bill—will almost certainly be spent on buying equipment, putting up new buildings, and hiring workers. Health-care employers in particular seem willing to hire nurses, medical technicians, home aides, and the like. Over the past year the number of health and education workers has risen by 500,000.

Ordinarily, such spend-and-hire behavior would be objectionable. After all, most people on both sides of the political aisle agree that health and education are overpriced and hobbled by world-class bureaucracies. Indeed, on Mar. 10, Obama unveiled his education reform program. Health-care reform is high on his agenda as well.

But these are no ordinary circumstances. In many regions—especially the hard-hit manufacturing belt—people working in health and education are crucial to keeping local economies afloat. In Michigan, health and education now provide 23.7% of jobs while manufacturing has dropped to half that, only 12.5%.

Looking back over the past decade, health and education have been a stabilizing influence nationally, hiring at a steady pace and adding 5.3 million jobs since 1999. Meanwhile the rest of the economy has gone through booms and busts, creating fewer than 400,000 new jobs in 10 years as offshoring ate away at manufacturing.

Spending on health and education eventually will have to be reined in. But that crisis is 5 or 10 years down the road. For now, schools and hospitals may be the best choice we have for keeping the labor market afloat.

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