Robert B. Reich

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I thought I would talk today about the real jobs problem, but I want to also put it in the context of what is going to happen in this country in less than two weeks, which is the presidential election. Most of the time we tend to think of the jobs problem and the election as a matter of domestic policy, that is: What has Bush done or failed to do with regard to creating jobs? And what would Kerry do or what is he proposing with regard to creating jobs?

I want to take a slightly different tact because I am intrigued by the relationship between economics, politics, and sociology. It seems to me that there is much to be said here that perhaps is not often said in public about jobs and politics and also the underlying framework in which Americans understand what is at stake. Let me start by saying something very obvious—that jobs are coming back very slowly. Because business cycles are business cycles and follow a reversal of Isaac Newton’s law of gravity, everything that goes down eventually goes up. We eventually will get more jobs. The problem is it is an extremely slow recovery largely because many American consumers—who are the major engine of demand in the economy—have huge personal debt.

They are reluctant to spend a lot of money now because they are also worried about their jobs. Their wages have been
stagnant. In fact, for 80 percent of Americans who are called production and non-supervisory workers, wages have actually declined, adjusted for inflation, over the last year. This is quite unusual at this point in the recovery. Meanwhile, health-care costs have soared. Most Americans have experienced sticker shock—double-digit increases in health-care costs—over the last few years. At the same time employers, in a radical move, are rapidly shifting health-care costs onto employees in the form of larger and larger deductibles, co-payments, and premiums. On top of this, you have energy prices going up. So consumers are reluctant to spend what is needed to get the economy really going, which is what is needed in turn to convince employers and investors to undertake major investments in new equipment, innovation, and production facilities. Instead, the whole economy is just struggling to get going.

But that is not the real jobs problem. The core jobs problem has to do with the business cycle. I think that it was a terrible mistake for George W. Bush to give a big tax cut that went mostly to the wealthy. His premise was that it would create a stimulus to the economy. But wealthy people already spend as much as they want to spend. That is the definition of being wealthy. So if you give a tax cut to wealthy people on the supposition that they are going to turn around and spend it and stimulate the economy, you are bound to be wrong. It is a very inefficient way to stimulate the economy.
A far more efficient way of stimulating the economy would be to put money directly in the pockets of people who are more likely to spend it: for example, by exempting the first $15,000 or even $20,000 of income from the payroll tax for maybe a year or two. If you are concerned about what that would mean to the federal budget, you could lift the ceiling, which is now $88,000, on that portion of the payroll tax going to Social Security. This is just but one example of many things that could be done. My point is that as long as the jobs problem is understood as a cyclical problem of job losses and gains, the perpetual solution will be that it’s just a matter of stimulating the economy adequately.

Let me go on to what I think is the real jobs problem. Transcending the business cycle is something much more troubling to me. For the past 25 years now, you can see a pattern in which the divergence between rich and poor, or more specifically the divergence between every rung on the economic ladder between rich and poor, is widening. It is a divergence not only of income but also of wealth, and to some extent, of economic opportunity. The middle class, and particularly, the lower middle class—what we used to call the working class—have found themselves over the last 25 years in deeper and deeper trouble. Their wages and benefits, adjusted for inflation, have gone nowhere. People who only have a high school degree have found themselves in deeper economic trouble—not just in terms of wages and benefits but also in terms of the security of their source of income.

Why is that? What is going on? There are basically two things going on. One is globalization. I am reluctant to use this word because rarely in public discourse has a word like this one gone so directly from obscurity to meaninglessness without any intervening period of coherence. The second is technological change. Now globalization and technological
change do not together explain all of the widening divergence, but they explain much of it.

Globalization is complicated for many people to understand. Many of us have spent years trying to understand it because there is in the public’s mind a cartoon version of globalization that focuses on trade and assumes that the global playing field of trade is between our U.S.-based companies and their companies, be they French, British, Canadian, Japanese, Chinese, or whatever. In this vision, the extent to which our companies are successful means we are more competitive and the extent to which they are more successful in terms of exporting more of their goods and services means they are more competitive. Well, that cartoon version is inaccurate. It is not reality. The reality of globalization has a lot to do with trade, but also with direct investment across borders: a company there investing in production facilities here; a company here investing in suppliers there. It is a global web of enterprise that increasingly characterizes most companies.

I was, as you know, Secretary of Labor [from 1993 to 1997]. And one day our family car died. We needed a new car, so we went out to a Toyota dealer. And I found a Toyota that perfectly met our family’s needs. But then my wife, being a wiser and subtler politician than I, reminded me that I was Secretary of Labor of the United States. So I immediately left that dealership and went with her to another American-brand dealership. And I found another car that was pretty good,
almost as good as the Toyota, and I said to the dealer of the American brand, “I know it has an American nameplate but I want you to tell me honestly, ‘Was this car made here in the United States by American workers or was it made abroad by non-American workers?’” He looked at me for a long instant trying to decide—was I one of those or one of those? Finally, he looked up with a smile and said, “Well, which would you prefer?”

The reality is that it is hard to find any product whether it is cars, airplanes, or any service product that is completely made here in the United States. Everything is made everywhere. In fact, the standard of living of people in any place around the globe, and in Evanston, in Illinois, and in the United States, depends not so much on the profitability of companies that are headquartered where the workers live, but increasingly on the value that they add to this increasingly integrated global economy—regardless of whom you work for.

Take me, for example. I write books. My publisher is Knopf, a division of Random House, which is a division of Bertelsmann, a German company. So my employer is a German company. It doesn’t make any difference. The fact is that the extent to which I add value as an author has something to do, too little unfortunately, with my standard of living.

I was talking about this issue not long ago, and I realized that I had a very personal, almost existential, relationship with this: About 10 years ago I had to have my hips replaced. I went to the Brigham and Women’s Hospital in Boston, which
does this procedure very well, and they gave me a brand new pair of hips. Now, I have beautiful new hips. I cannot show them to you, but they are lovely, lovely hips. I was talking about this issue of globalization, and I realized I had not made a very fundamental inquiry. So I went back to Brigham and Women’s. They discovered that my lovely new hips were fabricated in Germany and designed in France. I have French designer hips. Actually, I should say, “Liberty Hips.”

But you understand the point I am making. As we have seen more and more global integration through trade, direct investment, and portfolio investment, we have seen that those who have a very good education and those who are well connected—and those connections have also to do with education—are reaping many benefits from globalization. Globalization often means a larger and larger market for your skills, for your insights, for your ideas, for your creativity, for your innovations. But if you don’t have very much education, the chances are that globalization has the opposite effect because now there are millions of people around the world who would be delighted to work for a fraction of your wages.

Globalization helps and enhances the value of people who add great value to the global economy. Globalization undermines the economic security and the wages of people who do not have much education and who are doing relatively routine things, like manufacturing, insurance claims adjusting, or almost anything else that can be done easily elsewhere.

By the way, people are very concerned about outsourcing abroad. They are saying, and have said for the last couple of years, “Oh, this is terrible. It means that high-tech workers in the United States, their wages and benefits are going to be undermined because the Indians and Chinese can do it so much more cheaply.” Well, eventually—maybe 15, 20, or 25 years from now—outsourcing might have an effect on the
wages and benefits of a lot of people with a lot of education in the United States, but not for many, many years. We are talking about a very tiny sliver of the American workforce, particularly the well-educated workforce. And we are talking about, again, a set of jobs for which there is greater and greater demand. Innovative, creative, insightful work is in greater demand given the underlying structural changes in American industry. So outsourcing is certainly something that people can get upset about and certainly something that becomes politically contentious in an election year. But once the economy comes back, once jobs come back, once we get back on the upward trajectory of that business cycle, people who are well educated will not be concerned about outsourcing.

If you look at the wages and benefits adjusted for inflation of people who have college degrees, median wages, and benefits of college degrees, they continue to be on an upward escalator—outsourcing or no outsourcing. The people we need to be worried about are the people we used to talk about as the working class. And it is not just globalization; it is also the second issue of technological change.

Now you remember, I am sure, that there used to be a lot of people called telephone operators, and there used to be people called bank tellers. I tell my students that there was a time when you had to deal with a person in order to make a deposit in a bank or get money out of a bank. And they say,
“Really?” And some of you may remember when there were “service” stations. Anybody remember those service stations? Just before I went to Washington as Secretary of Labor, I used to go to a full-service station. I would stop the car, people would come out, they would ask me questions, they would check the oil, and they would wash the windshield. I went back to that same place after I got back from Washington, and there was nobody there, nobody.

Not too long ago a governor of a Midwestern state, who shall remain nameless, asked me to come out and help him celebrate the fact that he had just lured a factory from Europe. I came out for the big fanfare, and I actually got a tour of the factory. It turned out there were, I counted, four jobs. Most of the factory work was done by centrally controlled machine tools and robots, and there were four technicians sitting behind computer consoles doing all of this.

It is nice to land a factory, but if you are really concerned about jobs, technology itself is supplanting a lot of what we used to assume were fairly good jobs in the United States. Even if we were to be so unwise as to put a wall around the United States and cut off all international trade, technology would still be getting rid of a lot of jobs. It doesn’t mean these people don’t have jobs. It just means they don’t have the jobs they had before.

If you look at the government’s listing of job categories we have today from the Bureau of Labor Statistics and compare them to the job categories listed in 1978, you would see that a quarter of all the jobs that are listed today were not even listed in 1978. Jobs and job definitions are changing continuously. The problem is not the number of jobs, again, that is a business-cycle phenomenon. The problem is the quality and pay of those jobs. Just like globalization, technology is your friend if you have a lot of education because technology enables you
to leverage your education and enhance the value of what you do. Computers and e-mail and all the other accoutrements of modern working life allow you to increase your productivity and enhance the value of what you are adding—particularly, if you have a good education and good connections. But that same technology can undermine the value of your job if it competes with you, if it is software that is doing exactly what you used to do. If you are a claims adjuster for an insurance company, if you are a stock broker only making trades, or if you are a travel agent, today software exists that can do your job much more cheaply. So your job is undermined. You have to do something else, but what is it that you do?

What happened to all the people who have been displaced by globalization and technology—the telephone operators, the bank tellers, and the service station attendants? The people who have been displaced by globalization and technology, who no longer have the secure, good working-class or middle-class jobs that they used to have? Most of them are moving into the personal service sector of the economy.

This is a sector of the economy that doesn’t compete globally and does not compete with software. I am talking about retail, restaurant, hotel, hospital, surface transportation, eldercare, childcare, and construction jobs. Many of these jobs don’t compete internationally because they have to be done here. And they don’t really compete with software because they necessitate personal attention. The problem is that given workforce supply and demand, there are so many people moving into the personal service sector of the economy that the education levels that are demanded are often not terribly high. Thus supply and demand dictates that their wages and benefits, if there are any benefits, are going to be fairly low.

Hence, because of globalization and technological change, we see a labor force that is splitting between professionals and
personal service workers. Overall, professionals are doing well and will continue to do better—outsourcing and the business cycle notwithstanding. Personal service workers, on the other hand, are doing worse and worse. The people in the middle, the working class and the lower middle class, they seem like they are disappearing as we saw with factory workers, telephone operators, and claims adjusters, but they are really not. Many of them are falling into the personal service sector.

So how does this fit in with politics? It fits in with politics in a very specific and troubling way. I was talking with some members of Northwestern’s faculty a few minutes ago, and the question came up, “Why is it that politicians no longer use the term ‘working class’?” What happened to the working class? Politicians refer to the “middle class” or they refer to “working families,” but you don’t hear the term “working class” either from Democrats or Republicans. If you follow the logic of my argument, part of that is because the working class is smaller. But there is something else going on.

Most political consultants will tell you that the reason politicians do not talk about the working class is that everybody wants to think of themselves as middle class. Not only does everyone want to think of themselves as middle class, but everyone wants to assume that they have upward mobility—that they could make it. And even if they don’t make it, their children will make it into the upper middle class and
maybe beyond that. So instead of talking about the working class you talk about this large working middle class or the middle class.

Yet the reality is that you have a larger and larger number of people who are falling out of the old working class into the personal service sector and relatively insecure jobs making $15,000 to $40,000 per year. These are not terrible jobs, but they are not jobs that can support a family with one wage earner. Thirty years ago, Democrats and Republicans both talked about the working class. Today, when there is a real crisis of the working class, or a crisis of people who used to be in the working class, politicians do not talk about it. They just talk in code.

I want to spend a couple of minutes now, because the 2004 election is almost upon us, talking about the code politicians use to talk about the anxieties, frustrations, and worries of what used to be the working class, but right now is a much larger group of people in some economic peril. And when I say “economic peril,” remember I am not just talking about job loss, because those jobs or some jobs are coming back. The problem is that jobs that are coming back don’t pay very well. It is not that they do not have jobs. It is not that they won’t have jobs. It is that the jobs they have, or the jobs they will get, don’t pay well. They are insecure jobs. They do not have benefits attached to them.

I know because when I was Labor Secretary, I spent huge amounts of time in places where they had or used to have
working-class jobs. Over the past few months, I have been in Wisconsin, Ohio, Pennsylvania, Nevada, Maine, West Virginia, and every place that is considered to be a battleground state. And I have talked with many people there about their wages, their jobs, their health care. Here is what I have found: There is an economic populism and there is a cultural populism in America today. You may be wondering what I mean by “populism.” I mean populism in the classic sense, of 100 or more years ago. It is a populism that essentially acknowledges that people are angry, frustrated, or worried about their economic condition, and it gives people a sense of not only hope that their condition can change, but also someone to blame for that condition.

I am giving you a very truncated definition of populism, but bear with me on this because there are millions, tens of millions, of Americans who are angry, frustrated, and upset. They want somebody to commiserate with them, and they want somebody to blame.

Cultural populism and economic populism are two different ways in which politicians respond, or could respond, to this growing insecurity, anxiety, and frustration. But mostly Republicans have used cultural populism. What do I mean by this? I mean that as I am out there in places like West Virginia or working-class sections of Ohio, and as I talk with people about their jobs, I hear them get angry. And within seconds, their anger is transmuted into anger about liberal elites, usually on the East or West Coast, presumably here in Evanston, too: liberal elites who cram their values down the throats of working people; liberal elites who are not only supportive of abortion rights, gay rights, affirmative action, immigrants, and professional women, but also liberal elites who are internationalists. Liberal elites who are not willing to be tough enough with terrorists; liberal elites who would subordinate America’s
interest to the United Nations or any other international body; liberal elites who read *The New York Times*; liberal elites who drink lattes; liberal elites who are culturally so different and so far removed from the working people who are scared and frustrated that those liberal elites are out of touch with the America that they run. They must be to blame. Turn on talk radio and you hear the same cadences.

Now, I spend more time than I should on television shows like “The O’Reilly Factor” and Sean Hannity’s and Joe Scarborough’s shows. When I appear on these shows, they yell at me, then I yell at them, they yell back, and so on. I don’t even know what I say half the time after all the yelling. But if you listen closely, what one hears is cultural populism and anger—anger directed at groups that seem to be in control and seem not to care about the working people of this country.

It is a very potent, powerful political tool. Democrats used to use economic populism. In the 1930s, Franklin D. Roosevelt talked about the economic royalists, who because of their speculation and their financial irresponsibility, imposed extraordinary costs on the rest of the country.

I am not suggesting that Democrats go back to economic populism, but I am suggesting this: If Democrats don’t respond, as I don’t think they have effectively, to the crisis of America’s working class or the former working class, then the default mechanism is cultural populism. In the heartland of America where people have lost their jobs, good middle-class and working-class jobs, men are particularly angry. And that anger translates itself into a fierce intolerance that I see and I hear growing out there.

This has not been exactly an upbeat message. But there are things that can be done for people who have lost their way in the economy. I don’t think we need to stop the forces
of globalization and technological change, and I don’t think we should try because it’s impossible. It would be a terrible mistake to protect and preserve the old jobs.

When I was in Washington, I had a sense that there were really two parties—not Republicans and Democrats—when it came to jobs and the economy: There were the preservationists and the party of “Let Her Rip.” The preservationists wanted to preserve, protect, and subsidize. By the way, there were some Republicans who wanted to do this, too. A lot of military expenditures are about preserving, protecting, and subsidizing certain kinds of jobs. And then there was the party of Let Her Rip; let the chips fall where they may. Let the free market do whatever it is going to do, and it is too bad if some people are stranded.

Neither of those party’s positions are attainable or sustainable. The preservationist stance cannot work over time. You cannot preserve those jobs. The forces of globalization and technological change will take many of those jobs away. The Let Her Rip position is equally unattainable, equally unsustainable because you cannot just “let her rip.”

The fact of the matter is that ultimately, people in a democracy will not allow themselves to be treated in such a way. They will wise up, and they will seek to preserve. They will be anti-free trade. Right now, the American public is extraordinarily anti-free trade, more anti-free trade than it has been in the past 30 years.

It seems to me the only long-term answer has to do with investments in education—K-12, early childhood education, and better access to postsecondary training. Not everyone has to have a four-year college degree, but generally people do need at least one year after high school to acquire some technical skills. I don’t mean the old kinds of vocational education because jobs become too obsolete too quickly. I am
talking about mastery of a domain of technical knowledge that enables people to continuously learn on the job, such as technicians’ jobs—laboratory technicians, hospital technicians, office technicians. There is a tremendous demand for these people who can install, improve upon, and maintain all sorts of machinery. We need them. Those jobs would pay a lot and could create a new middle class. But we are not training people for these jobs.

However, it is not just about education. We also have to raise the minimum wage and expand the Earned Income Tax Credit, the most important and largest anti-poverty policy we have. I say, “If I ever want to lose an audience, if I ever have an audience that is just too excited by what I say, all I have to say is ‘Earned Income Tax Credit,’ and they leave.” Most of you are gone. Come back. The Earned Income Tax Credit, a reverse income tax, is essentially a conservative idea. Milton Friedman and others generated it. Bill Clinton expanded it dramatically. It is a very important way of supplementing wages for people at the bottom.

I believe we also have to get very serious about health care. It is one of the problems that people are struggling with right now. I think John Kerry’s health-care proposal is a good beginning, and it makes entire sense to me that we roll back the Bush tax cuts for people earning over $200,000 to what they were paying under Bill Clinton.

By the way, they never did better in their entire lives than they did under Bill Clinton, and much better than how they are doing under George W. Bush. Roll them back, and use those revenues to provide affordable health care and make a down payment on the budget deficit.

We haven’t even talked about the budget deficit, but it is out of control, and I worry—I, who was never a fiscal hawk in the Clinton administration, but a fiscal dove—I worry now.
We are much closer to the time that the baby boomers are retiring, so the cost of Medicare, let alone Social Security, is going to overwhelm us unless we re-exert control over the budget deficit.

Since I am not running for anything, I can say something that is political dynamite: If you go back to the historic ideals of this country, we need to do more than roll back the tax cut for people earning over $200,000. I think we have to invest substantially in our people, in our workers, in terms of education and health care, and a whole bunch of social programs that allow people to make the most of their God-given talents and abilities. That means taxing people who can afford to be taxed to a greater extent than they were taxed before given the crisis that we are now in. What is a country about? What is a society about if we are not about providing opportunities to all of us to make the most of our abilities and talents? And what is a society about if we are not all wedded together as citizens to ensure that people do have those opportunities?

The language of privatization, the language of individualization is a very potent language for America, but it leaves out the language of social responsibility. The question is not what we as individuals can possibly get out of our society or out of our economy. The question is what do we, as citizens, owe each other as members of a common society? And I hope that the framework of our political conversation will adapt itself to that new reality.

Thank you very much.