

Radical Problems, Radical Solutions

One man's proposal to rebuild the American economy through national service programs

Introduction

It's no secret that the US economy is in turmoil, and Americans are struggling. Our manufacturing sector has been in decline for decades as jobs move overseas. Our education system is falling in comparison to other countries. Real wages are down, prices are up, people are hurting.

One of the proposals made by President-Elect Barack Obama during his campaign was a refundable tax credit to students – up to four thousand dollars of guaranteed tuition in exchange for 100 hours per year of community service. This is a very good idea and will certainly be productive. However, it is this author's opinion that it simply doesn't go far enough.

These are difficult times; perhaps the most difficult in many ways that have hit this country in my 38 years. In such times, radical new thinking is called for; while prudence is always in order, we can no longer afford half-measures or hesitancy. It is quite clear that how we deal with the next few years will make – or break – the future of this country for generations to come.

The Next Level

In recognition of these facts, and of the basic intelligence and good sense of the Obama proposal and many like it that are currently in place on a smaller scale throughout the country, this author proposes taking this solid approach to the next level by extending this concept, which will be referred to hereafter as the "National Service Barter System (NSBS)," to include incentives for small business. In partnership with public and private higher education, such a system could have wide-ranging benefits throughout every level of society. Our military, the public sector, the private sector, charity, and individuals all benefit. Additionally, the proposed system includes advantages over current social welfare systems by acting as a reward rather than a hand-out, helping to strip away the stigma of poverty and the indignity of welfare. While it is outside the scope of this proposal to suggest specific implementations, it may even be possible to tie the NSBS to welfare benefits, allowing (and motivating) those who participate to enjoy greater financial stability in the short term, and greater employability and personal stability in the long term.

Never in history have we faced such a monumental collection of challenges, and never in history has the time been more right to introduce a radical new paradigm of public service that encompasses education and the growth of business for the benefit of the country as a whole.

The Basics

In a nutshell, the proposal is as follows:

- Extend the tuition benefit to include not only a small portion of a four-year education, but an entire college degree including the tools necessary to allow students to excel in their classes by

giving them the time and freedom to focus their energy on learning and implementing what they learn.

- Create a similar system by which businesses and startups can secure interest-free, tax-free loans to grow their businesses in exchange for a commitment to render public service of equivalent value to government and non-profit institutions
- Create a National Service Database to help bring together the three core groups – students, small business, and the public service sector (to include both government and non-profit work) – to network with each other; to identify need, talent, and resource; and to bring these three groups together in a synergy beneficial to all parties involved, and to society as a whole.

The Details

Of course, this proposal entails a lot of money. Before we proceed to the arguments, let's set some parameters and get a general idea of how this thing would work.

The Student

A graduating high school student, or anyone who wants to attend college for a degree or certification will be able to apply for assistance and choose for themselves what they think is the best approach to securing the necessary financing. Some may choose simple tuition assistance, others may decide they need not only their tuition paid but help paying the rent, securing transportation, and feeding and clothing themselves for the period that they are in school.

Using the Obama proposal as a model, each hour of community service by a college student is worth ten dollars (up to \$4000 tuition reimbursement over four years, with an expected return of 100 hours per year community service). Let us then establish that each hour of community service performed *while a student* deducts ten dollars from the amount borrowed to cover tuition. Obviously a cap can be placed on this – there's certainly no sense in having a "sky's the limit" system that would be ripe for abuse.

So let's say a student wants to attend a four year college, and then continue on to a four-year medical school. At current prices, this amounts to a very approximate average of around \$140,000 tuition plus living expenses – rent, food, shelter, clothing – of about \$25,000 per year. So for this ten years we're talking about a total of roughly \$350,000.

Obviously it's rather unrealistic to expect this to be paid back at \$10 per hour; with 100 hours per year of community service, our student will leave college owing a total debt of about \$342,000. How does the student pay this off? Through continued service; the student commits on graduation to serve one thousand hours per year – one half of the student's work year based on a 40-hour week – to community service.

The new doctor is now credited not at \$10 per hour, but at a rate equivalent to an average of their hourly pay in the private sector, adjusted for geography and for inflation.

Where a disparity exists between the cost of the student's tuition and the average wage of the student where they serve, the disparity can be averaged; if the tuition is 90% of the national average and the

student serves in an area where the wages are 130% of the national average, the new doctor's service time is compensated at 110% of the national average.

Students may also elect to serve in the military in order to repay their debt; in this case, the pay-down of the education loan can be set to the difference between their military pay and the national average wage for their line of work.

In order to perform the community service as defined by this program, the student is listed in a national database of available service personnel that can be accessed by participating agencies including government groups, non-profit organizations, and for-profit businesses who are also participating in the National Service Barter System (see below).

Business and Industry

There is no logical reason that this same system can't be extended to help promote small business, help seed startups, and even help bail out existing industrial concerns that are in trouble such as US automakers.

Let us create a fellow who happens to be a web designer. She's been able to pull in a little work here and there, but not enough to pay the bills, and certainly not enough to hire other people or pay for adequate advertising. She's trapped in a cycle of not-quite-making it; she has reasonable demonstrated skill and wants to take his business to the next level, but has been unable to really get a good running start for lack of resources. She has no medical insurance; she may even lack business clothing or a vehicle. Since her core business is designing websites, she may not understand other aspects of business like accounting, and she may not have the time to handle sales. Then if she *does* land a contract large enough to really get her moving, she may lack the personnel to execute the contract.

Under the NSBS, our designer can apply to the government for a loan, scaled reasonably to the nature and scope of her business. For a web design shop to really get off the ground, this might be on the order of a quarter-million dollars. This would allow her to purchase capital equipment, software, pay herself a decent salary, purchase a vehicle, telephones, office equipment, advertising, and perhaps even hire an employee or two for a year.

In exchange for this loan, our web designer then commits to a minimum of 1000 hours of NSBS work per year designing websites for non-profit groups, government agencies, and other participating businesses at no charge, for which she is credited at the 'average shop rate,' adjusted for geography and inflation. She's tied into a network that not only gives her the ability to identify and contact groups in need, but also to find students who can work for her as part of *their* obligation to service. There is no duplication of service; a student (or recently graduated) web designer could work off part of his service obligation for our web designer, but *either* he gets service credit, *or* he gets paid and our web designer gets service credit – *not both*.

This system can be scaled to deal with even very, very large organizations. If, for instance, Ford Motor Company wants to borrow \$10billion, then they can repay that by providing vehicles at no cost to non-profit or government groups. The caveat here would be that the donations are valued at the cost of

production, rather than retail or even wholesale prices. This would help prevent large companies from making a profit directly from their national service obligations.

The great thing about this for business is that it doesn't require that all of their work be expended in repaying loans, or paying accruing interest; their minimum obligation can be scaled to one half of the work they reasonably expect to do in a year. For our web designer, that means one thousand hours per year. Compensated at a fair average of national 'shop rates,' which we'll call \$50 per hour for web design, this translates into fifty thousand dollars per year of loan repayment. Our fledgling business owner is able to repay her obligation, establish her work professionally, and get help from others in the National Service program – say a recent accounting graduate to spend a few hours a month on handling accounting and taxes; a student volunteer to handle sales or reception or other work, etc. – and enough 'paid' time to continue growing her business.

Public Sector, Charity & Other Eligible NSBS Contractors

Three major groups of organizations are eligible to draw from the NSBS resource pool: Government, Charity, and private industry that is currently active in the pool. The first two are self-explanatory. The third bears some detail, and ties the system together.

Continuing with our web designer above, she now has her \$250,000 startup money. She's bought enough computers, software, and equipment for a four-person office; she's rented or purchased her office space and has handled everything else necessary to start work.

The first thing she does is visit the National Service Database. Not only does she need to find NSBS customers to start paying her loan down, she also needs to find NSBS participants who are available to provide service.

First, she needs an accountant; she can find one on contract through NSBS that will spend perhaps 80-100 hours of the accountant's 1000hr/year service obligation to handle her bookkeeping and taxes.

Second, she needs basic office help – a college student or two will work nicely here to handle telephone and reception duties and light clerical work. These students get hourly credit at student rates for their work.

She also needs at least semi-skilled professional assistance. The nature of this assistance will depend on our web designer's personal strengths – for instance, if she is an excellent graphic designer, but not so great with writing code, she might choose to hire a recent CompSci graduate who will get credit for 1000 per year toward paying off his student loan, plus be paid a wage for his other 1000 hours per year of full-time work. Any work that the CompSci graduate performs that is done for credit to the web designer's business is credited at a percentage of the web designer's predetermined 'shop rate' – on the order of 66-80%. For argument, let's call it 75%. The web designer herself is credited at 100% of shop rate for her work, but *only* her direct work for an NSBS-eligible client. This system of diminishing returns should help prevent the exploitation of 'free' labor and encourage small business owners to remain deeply engaged in the service process, since the use of NSBS labor would result in an increased work-hour requirement. Taking the 75% rate, if a business relied solely on NSBS labor to fulfill their business'

service obligation, it would then require approximately 1300 hours' work to meet the 1000-hour-per-year minimum service obligation. This is a nice place to make the necessary use of an NSBS employee cost-effective, but not so much that it's worthwhile to just dump everything in that employee's lap. Furthermore, since the employee also has a 1000-hour-per-year obligation, and work that an NSBS employee is paid a wage for is *not eligible* for NSBS credit to that employee, there is reasonable cause to limit employers to 1000 hour per employee per year cap on work that is credited to the web designer's business for NSBS purposes.

She might also choose to hire a salesperson who is a straight employee, working on salary-plus-commission; she may have an attorney on retainer, or she may choose to leverage NSBS to have a recent law school graduate handle her legal work, or she might hire an NSBS-eligible child care facility to help offset those costs. The permutations are endless.

Valuation of services

The US government already has the information and mechanisms in place to determine the value of a given service, as well as regional adjustments in 'real time' for geographic differences in economy and periodic adjustments to account for inflation. A baseline average value should be reasonably easy to establish for nearly any possible class or type of service rendered.

Benefits at large; effective scope

Clearly there are a number of benefits to be enjoyed for all participants, and society as a whole, from this system. The student gets an education and an opportunity to develop their skills. The recent graduate gets to pay down their remaining college debt while still earning a living wage. The business owner gets a nice jump-start to get ahead of the endless cycle of never having enough income to maintain and grow her business.

Society benefits in reduced costs for government contracts and free services to non-profit groups, plus a more educated work force and lower unemployment. Each participant benefits 'internally' from the sense of doing something worthwhile and earning their assistance, rather than just 'leeching' taxpayer money. Additionally, individual participants and businesses benefit from the formation of networks and contacts made within the NSBS system that can then be carried forward to for-profit work as their NSBS obligation is fulfilled. They build a portfolio or other type of work experience, making them more valuable to potential employees or customers. Participating non-profit groups and government agencies benefit because they can reduce costs immensely by leveraging NSBS labor and services. As students, recent graduates, and businesses move out of NSBS and into a standard business model, the government benefits from increased tax revenue. Businesses that don't participate directly in NSBS benefit due to the increased ability of all these people to spend, and America as a whole becomes more productive.

Caveats, regulation, and risk

Obviously, safeguards must exist to prevent unscrupulous individuals from 'gaming the system.' Students can be required to maintain a minimum GPA, pass certification or acceptance requirements prior to being granted loans, and other mechanisms can be put in place (or build on existing

mechanisms) to ensure ongoing compliance and avoid fraud. Caps should be defined – for instance, a startup company might be limited to borrowing a total of five years’ operating capital, where an established business may be limited to borrowing a total of one year’s capital.

Back-to-back loans should be avoided; recent graduates should be ineligible for startup loans until their existing obligation is paid, and businesses would not be eligible for consecutive loan terms (i.e. a startup could not borrow 5 years’ projected capital and then borrow as an established business in the sixth year, or close the business at the end of five years and start another to be eligible for a second loan period; established business could not borrow in consecutive years; a longer ineligibility period may even be considered).

Other regulatory safeguards can be put in place that might include mechanisms like court-ordered community service compliance (which could potentially lead to imprisonment, since failure to perform community service is already a crime under existing law), prosecution for fraud, etc.

There will need to be a regulatory agency to help ensure and enforce compliance; this will also involve recordkeeping on the part of all participating parties. Loans under NSBS of any kind should be interest- and tax-free, including the value of services performed to meet NSBS obligations; however any non-NSBS income would be taxed under existing statute as applicable. Compliance assistance could also be rendered within and external to the NSBS system in terms of advisory services and so forth.

Obviously this all creates an additional cost burden, especially for the initial period – the first year or so – when there will be many people taking advantage of the system who have not yet started to pay their obligations back. However, this would quickly be self-correcting with the appropriate compliance requirement and oversight in place. As time goes on, the value benefits of reduced spending by government and increased tax revenue should offset the cost of the program entirely.

Caution must be urged to avoid creating an unwieldy system – the purpose here is not to create another monolithic government bureaucracy, but to build a publicly-supported system that benefits everyone from the top to the bottom of society. *Nearly* every citizen of the US should be able to take advantage of this program in some productive fashion. It is inevitable that attempts at abuse will be made; it is equally inevitable that some will succeed. That said, a firm regulatory mechanism coupled with strict enforcement through the judicial branch should help to minimize these abuses.

Conclusion

Your author is not an economist or an expert in government; indeed, if anything I’m the web designer who I’ve used as an example above. I understand that it’s not within my personal abilities to anticipate every possible angle of such a system, nor have I any notion as to how one would go about estimating the cost. However, I have given this system careful consideration based on my own knowledge and experience, and I believe that it can be made to work very well as sort of a twenty-first century ‘New Deal’ where mass public works infrastructure projects are expanded to include most possible facets of American productivity and commerce. I don’t believe that any part of this concept is unworkable or at all impossible to achieve, even though there may well be details I’m missing, or have chosen to gloss over for the sake of presenting an easy overview of how such a system might work.

With all that said, this is the little contribution that I can make to try to help move my country in a positive, productive direction and away from the downward spiral we are currently experiencing. While I'll not flatter myself to suggest that the capable team being assembled by our President-Elect would need the help of someone like myself to make this happen, I'm more than happy to be contacted if you have any questions, would like me to clarify anything I've written, or would like me to lend my input to the consideration of possible implementation issues.