

[TRANSFORMATIONS] SYSTEMIC CHALLENGES & SOLUTIONS IN 21ST CENTURY AMERICA



REVERSING INEQUALITY

Unleashing the Transformative Potential of an Equitable Economy

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INTRODUCTION

*The US economy's deep systemic inequalities of income, wealth, power, and opportunity are part of global inequality trends, but US-style capitalism and public policy make inequalities more acute. Their observable and felt harm to our civic and economic life is corroborated by research from many disciplines. Yet, by the same token, moving toward a more egalitarian society would realign most aspects of economic and social life for the better. **So how can we bring these changes about?***

For starters, we must know what we are up against. These inequalities do not spring mainly from technological change and globalization, though both compound and complicate the rift. Instead, imbalances of power and agency embedded in our political and economic system are the main drivers and accelerators of inequality.

Reducing inequality requires a “next systems” analysis and playbook. Here, we briefly examine our current inequality predicament and show how these inequalities undermine our democracy, economic stability, social cohesion, and

other cherished values. We then explore the systemic causes, perpetrators, and superchargers of inequalities and, finally, evaluate policy interventions and pressure points for leveling them.

The path through this thicket is only partly uncharted. The United States can learn from other advanced industrial countries with significantly less inequality, adapting policies and practices to US needs and circumstances. We can also learn from our own history—from understanding that our rigged rules have been racially biased—to how we dramatically reduced inequality between 1940 and 1975.

That said, part of the path *is* uncharted. Grappling with climate change and other breached ecological boundaries—whether ocean acidification, fresh water contamination, or methane dumping—intensifies the challenges of reducing extreme inequality. And many of the New Deal and post-World War II policies that reduced inequality for earlier generations won't work now given today's levels of

population, resource consumption, and ecological risk.

Together, the extent and widely felt effects of inequality challenge us to put a fine-tuned combination of historical insights, policy innovations, best practices, and fresh thinking to the test. Just as urgently, we also need a vision of a more equal and opportunity-rich society.



I. INEQUALITY TRENDS

Today's climate of extreme inequality reflects forty years of polarizing wages, wealth, and opportunity. Signs of the times include:

Stagnant Wages. Over the past four decades, the US economy has doubled in size, but the bottom half of US households has seen no income gains. In 1970, the bottom half of wage earners made an average of \$16,000 a year in current dollars. By 2014, this group's earnings had risen to only \$16,200. During those same years, the top 1 percent of workers saw their annual income grow from an average of \$400,000 to \$1.3 million.¹

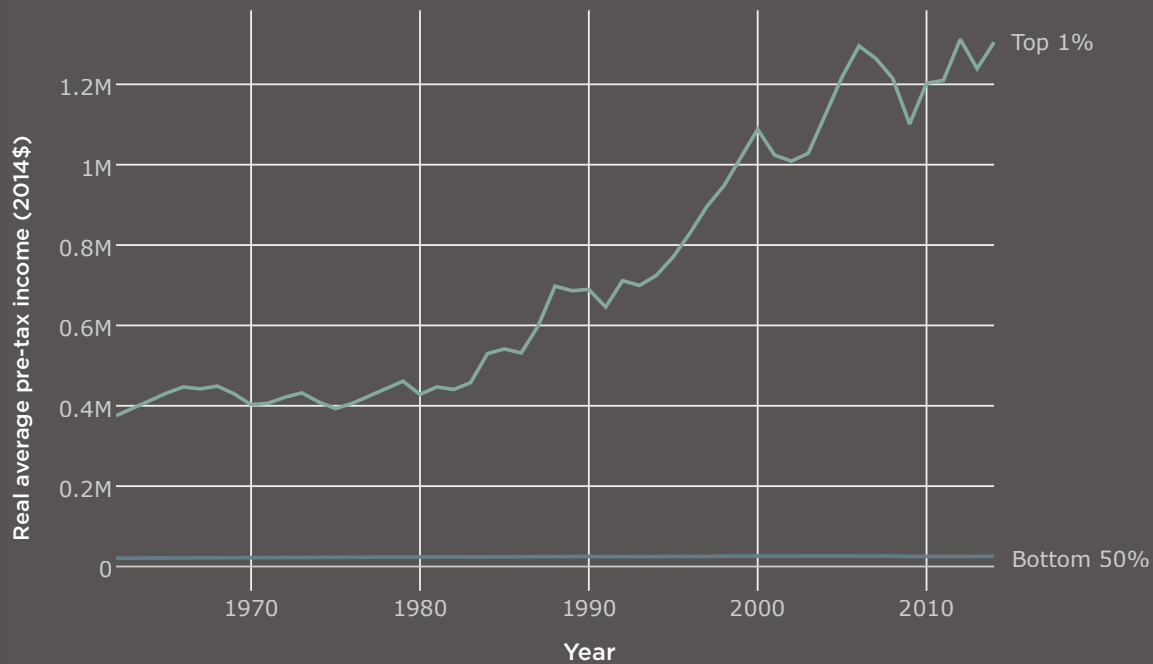
Wage stagnation has been masked in many households by people working longer hours, assuming debt, and enlisting more household members to take paid jobs. Almost half of US workers earn under \$15 an hour. One in three earns less than \$12 an hour.²

Poverty. Despite four decades of economic expansion, poverty in the US has changed little. Over 43 million

people—one of every seven Americans—live below the poverty line in urban and rural communities. The poverty rate for African Americans is 24.1 percent; for Latinos, it is 21.4 percent. One in five children lives in poverty.³ Most poor people work, but others cannot because they are disabled, mentally ill, or too young or old. Such poverty spells hunger and food insecurity, insufficient health care, poor and unsafe housing, lack of savings or financial cushion, and social exclusion and marginalization.⁴

Income Gains Flowing to the Top. Since the Great Recession of 2008, over 85 percent of income gains have gone to the top 1 percent of households, and most to the top one-tenth of 1 percent.⁵ CEOs of major US firms earn over 300 times more than typical workers in their companies, up from twenty to one in 1965.⁶

Pre-tax Income of Bottom 50% vs. Top 1%, 1962-2014



Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, *Distributional national accounts: methods and estimates for the United States*, Appendix II, B7 and B10, <http://piketty.pse.ens.fr/files/PSZ2016DataAppendix.pdf>.

Income Inequality Across Regions, States, and Cities. In 2013, the nation's top 1 percent of households made 25.3 times as much as the other 99 percent. Some states are more unequal than others. Nine—including New York, Connecticut, and Wyoming—have gaps between the top 1 percent and the bottom 99 percent that exceed forty to one.

Our country's most unequal county is Teton, Wyoming, home to the billionaire sanctuary of Jackson Hole. In Teton, the average income of the 1 percent is a whopping \$28.1 million, over 233 times the average incomes of other 99 percent. The most relatively equal county in the

US is Wade Hampton, Alaska. There, the 1 percent's average income of just under \$150,000 is only five times the average income of the other 99 percent.⁷

Changing Nature of Work. Over the past thirty years, the nature of work has changed. A growing percentage of the US workforce holds jobs that are contingent and part time, typically without security, health care, and benefits. The millions of new workers in the "sharing economy" who rent rooms out or drive for Uber as independent contractors number among them.

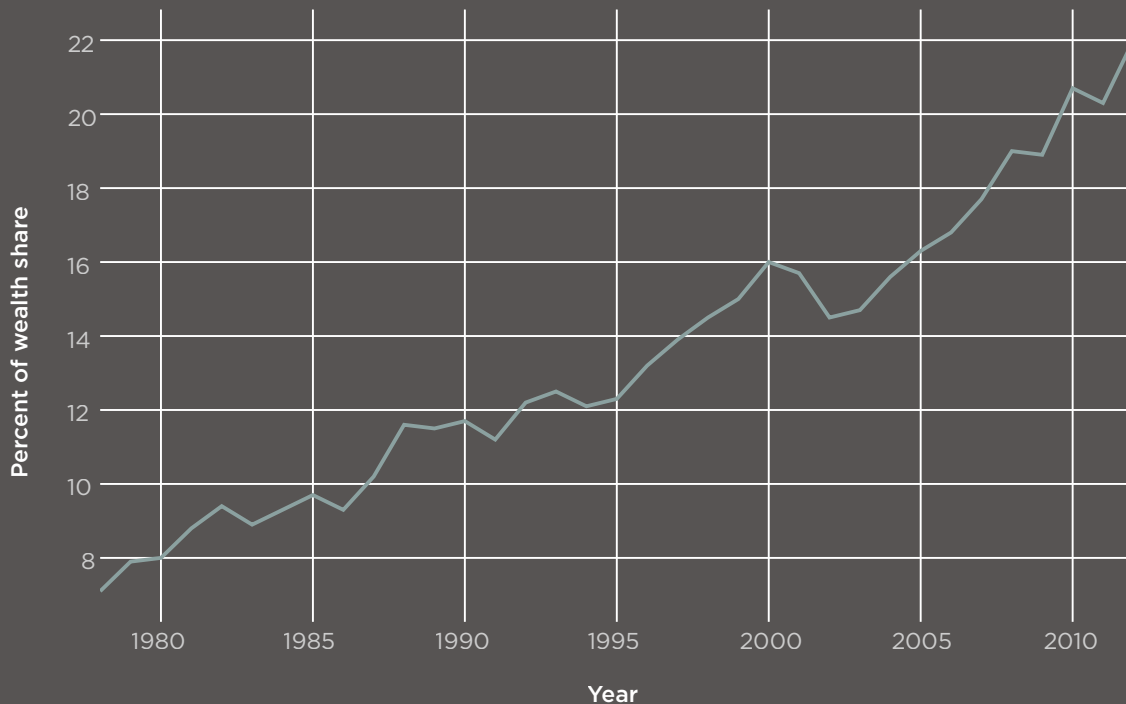
Technological change is also displacing a growing segment of jobs. According to

one Oxford study, about 47 percent of US occupations are at risk of elimination due to technological change and automation.⁸ The jobs most likely to be “substituted by computer capital” are transport and logistics, with the advent of self-driving vehicles, and office support. We can expect polarization of the job market as one result, with a continued decline in middle-skill jobs, such as manufacturing and certain service jobs, and an expansion of low-skill and high-skill professionally trained jobs.⁹

Wealth Inequality. The distribution of assets and wealth is even more unequal

than income distribution. Median net worth for most US households has stagnated or fallen. The share of wealth owned by the richest 1 percent of households has increased from 33.8 percent in 1983 to 36.7 percent in 2013. The share owned by the richest 20 percent rose from 81.3 percent to 88.9 percent over the same period.¹⁰ The top one-tenth of 1 percent (an estimated 160,000 households with net worth that starts at \$20 million) now own more than 22 percent of all US household wealth in 2012, up from 7 percent in the 1978. This tiny subgroup—the true American elite—now

Wealth Share of Top .1%



Source: Emanuel Saez and Gabriel Zucman, “Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data,” *Quarterly Journal of Economics*, May 2016, Vol. 131, Data Fig1-6-7b, <http://gabriel-zucman.eu/uswealth/>.

owns as much as the bottom 90 percent of US households combined.¹¹

Racial Wealth Disparities. Growing inequalities of income and wealth have reinforced and, in some cases, compounded historic inequalities among Black, Latino, and white households. The financial crisis of 2007–09 deepened these racial and ethnic wealth divides. Between 2010 and 2013, median African American households saw their wealth decrease by almost 34 percent, from \$16,600 to \$11,000.¹² Latino households experienced a 14.3 percent decline, from \$16,000 to \$13,700. Meanwhile, the wealth of the median white household increased modestly by 3.4 percent, from \$138,600 to \$141,900.

According to the Pew Research Center, the median wealth of white households in 2013 was a stunning thirteen times that of Black households—up from eight times greater in 2010.¹³ White households had ten times more wealth than Latino households. African-American households have six cents—Latinos, seven—for every dollar in wealth a white household owns.¹⁴

Negative Net Worth and Economic Precariousness. Discussions of wealth and assets typically ignore the growing number of vulnerable and insecure households *with no* financial reserves. An estimated

15 to 20 percent of families have zero savings or negative net worth—they owe more than they own. They are disproportionately women, renters, and people without college degrees. The underwater ranks also include a large number of people who on the surface appear to be in the stable middle class. Health challenges are a major cause of savings depletion, both in medical bills and lost wages.¹⁵

Financial planners advise families to set aside three months of living expenses in financial reserves to serve as a cushion, so a household with \$2,000 a month in expenses should have \$6,000 in liquidity. But 44 percent of households do not have enough funds to tide themselves over for three months, even if they lived at the poverty level, according to the Assets and Opportunity Scorecard.¹⁶

Forbes 400. At the very pinnacle of US wealth is the Forbes 400, billionaires whose combined net worth totals \$2.3 trillion. Together, this small group has more wealth than the bottom 61 percent of the US population combined. The richest 100 have more wealth than the entire Black population, over 14 million households. The net worth of the wealthiest 20 billionaires—all of whom could sit in one Gulfstream 650 luxury jet—exceeds that of the bottom half of the US population combined.¹⁷

II. INEQUALITY MATTERS

While the data on inequality is hard to dispute, people do draw different meanings from it. Some argue that how wealthy the wealthy are is irrelevant as long as social mobility and opportunity for the rest of us are real. But are they?

A. DAMAGES

Poverty's indisputable toll aside, the growing gap between the very wealthy and everyone else has its own troubling dynamics. According to findings from any number of disciplines, the extreme disparities of wealth and power corrode our democratic system and public trust. They break down civic cohesion and social solidarity, which in turn worsens health outcomes. Inequality undercuts social mobility and undermines economic stability and growth.

Economic historians now view inequality as a precondition for major economic upheavals and downturns, such as the Great Depression of 1929 and the Great Recession of 2008. A brief overview of why inequalities of income, assets, and opportunity matter confirms as much.

Poverty, Deprivation, and Social Exclusion. After decades of stagnant wages, most low-income workers are now struggling to get by on poverty wages. Workers who care for the elderly and children, clean offices, staff retail establishments, and prepare and serve food are all in the same boat. Nearly half of the workforce is stuck in jobs paying less than \$15 an hour. According to Oxfam USA, 43.7 percent of workers—58.3 million people—earn less than \$15 an hour, including 53 percent of Black workers and 60 percent of Latino workers. Over 41 million of these workers earn under \$12 an hour.¹⁸ That's less than \$25,000 a year—a hair above the poverty line for a family of four. Most of these low-wage workers get few or no benefits—no sick leave, vacation days, childcare, or retirement plans. The pressures to perform and provide in this vacuum make for a difficult work-life

balancing act for many millions of individuals and working families.

Democracy. Inequality effectively disenfranchises us, diminishing what our vote at the ballot box means relative to the influence of money drowning out our voice in the public square. It warps lawmakers' priorities and blocks necessary reforms. Almost forty years after winning the Presidency, Jimmy Carter told journalist Thom Hartmann that our political system is now "an oligarchy with unlimited political bribery being the essence of getting the nominations for president or [being] elected president."¹⁹ During the first six months of the 2016 Presidential election

campaign, almost half the money contributed to candidates, both Republican and Democrat, came from 158 donors.²⁰

Extremely wealthy donors wield political influence in many ways, as investigative journalist Jane Mayer points out in *Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right*.²¹ Besides political action committees and direct donations to candidates, the super rich use tax-exempt funds to influence politics. John Olin, the Bradley brothers, and Richard Mellon Scaife pioneered what Mayer calls "weaponizing philanthropy" to advance a narrow agenda. Charles and David Koch organized a network of hundreds of other donors—especially from the extractive coal, gas, and oil industries that have spent billions to fund sham science, attack environmental regulation, and hamstring the US political system's response to climate change. Hoping to block health care and climate change legislation, this deep-pocket network funds think tanks and advocacy groups that mobilize constituencies as well as communications experts who advance a war of ideas. That's all on top of donating directly to candidates and campaigns. Mixing legally questionable tax-exempt funds with "dark money" contributions to entities that are not



required to disclose donations, a handful of billionaires has wielded enormous influence over the US Congress and captured twenty-five state houses where the GOP controls both legislative branches and the governorship.²²

A brief case in point is Art Pope's influence in North Carolina. The CEO of a chain of discount stores, Pope invested heavily through a network of super PACs in a Republican takeover of both branches of the North Carolina legislature in 2010. Three-fourths of all spending by independent groups in the 2010 races came from accounts linked to Pope, who also helped get Republican Governor Pat McCrory elected in 2013 and later served as McCrory's budget director.²³ Over the same years, Pope's family charitable foundation gave millions to groups pushing anti-gay marriage and anti-LGBT agendas.²⁴ The North Carolina legislative program included voter suppression, regressive tax policies (such as lower corporate taxes and higher sales taxes), expanded restrictions on abortion, codification of right-to-work laws in a constitutional amendment, and the infamous "bathroom bill" limiting transgender rights. Where extreme inequality is entrenched, one person can shift an entire state's culture and priorities.

Democrats have their share of large money donors, many with roots in Wall Street finance. And wealthy Democratic donors have held enormous sway in numerous races around the country.²⁵ The insurgent campaign of Bernie Sanders was so important precisely because he bucked this trend: of the over \$228 million he raised, \$201 million came from donations under \$200 and only \$3 million from donors giving over \$2,000 each (compared to over \$174 million in large contributions for candidate Hillary Clinton and almost \$28 million for the eventual winner, Donald Trump).²⁶ So while large donors dominate our system, the Sanders campaign demonstrated that candidates with broad support can still compete.

Public Health. Extreme levels of inequality are bad for our health. British epidemiologists Richard Wilkinson and Kate Pickett have documented, in *The Spirit Level: Why Greater Equality Makes Societies Stronger*, how pronounced inequality worsens health outcomes across the board. The more unequal a community, the greater the incidence of heart disease, asthma, mental illness, cancer, and other morbid illnesses.

While poverty feeds all kinds of bad health outcomes, research indicates that you are better off residing in a community

with a lower standard of living but greater equality than a higher-income community where inequality is greater. Researchers at the Harvard School of Public Health attribute one US death in three to high levels of income inequality.²⁷

Counties and countries with lower incomes but less inequality enjoy better health. Their infant mortality rates are lower, their life expectancy longer, and their incidence of all kinds of diseases less high. US counties with higher average incomes but greater disparities between rich and poor are less healthy places to live.²⁸

Why? According to health researcher Wilkinson, communities with less inequality have stronger “social cohesion,” a culture that supports people working towards a common goal rather than an “every man for himself” mentality, and greater networks of mutual aid. Social morality tempers individualism and market values, Wilkinson writes, and more abundant social capital “lubricates the workings of the whole society and economy. There are fewer signs of antisocial aggressiveness, and society appears more caring.”²⁹

Breakdown in Social Cohesion. Extreme inequalities of income, wealth, and opportunity rip our communities apart,

spawning social divisions and distrust that erode social solidarity. Each year, new research reveals, we grow more polarized by class and race as birds of a feather flock together. As one analysis of US Census data notes: “As overall income inequality grew in the last four decades, high- and low-income families have become increasingly less likely to live near one another. Mixed income neighborhoods have grown rarer, while affluent and poor neighborhoods have grown much more common.”³⁰

As same-income enclaves form and close the door behind them, people’s sense that they share a common destiny withers, replaced by fear, disconnectedness, misunderstanding, distrust, and class and racial antagonisms that undermine relationships. Too often, public support for public investments in health infrastructure and social opportunity decline as a result.

Social Mobility and Equal Opportunity.

Excessive inequality contributes to declining social mobility in the US. For many decades, economists argued that inequality was the trade-off with social mobility in a dynamic economy.³¹ But now Canada and European nations—with their social safety nets, investments in public goods, and progressive tax

policies—enjoy greater social mobility than the US. Research across the industrialized OECD countries confirms that Canada, Australia, and the Nordic countries—Denmark, Sweden, and Finland—now rank among the most socially mobile nations. The United States now numbers among the *least* mobile of industrialized countries if earnings are the yardstick.³² With three times greater social mobility than the US, it seems the American dream has moved to Canada. Clearly, the correlation between social mobility and policies that redistribute income and wealth through taxation is strong.

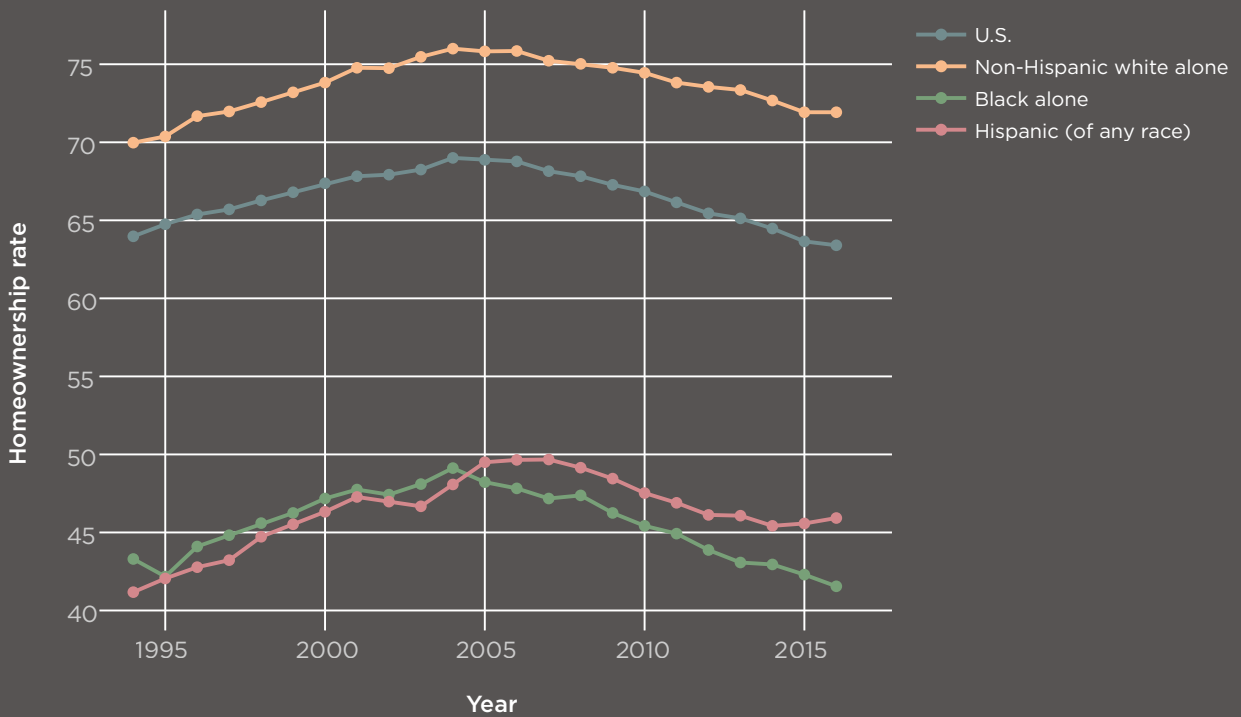
Economic Stability and Volatility. The conventional economic wisdom is that we should tolerate high levels of inequality to foster economic growth. But do policies that increase equality slow economic growth? And do aggressive pro-growth policies worsen inequality? New research reveals the opposite, increasingly showing that excessive inequality undermines economic stability and slows traditional measures of economic growth while fostering volatility, bubbles, and punishing cycles of booms and busts.

The strong parallels between 1929, on the eve of the Great Depression, and the

2008 economic meltdown are instructive here. Both economic recessions came on the heels of a decade when rewards were divvied up extremely inequitably. Before both downturns, private corporations and government encouraged the lower and middle classes to borrow, extending easy access to credit. Also during both, household debt nearly doubled. Wages stagnated for most workers while the wealthiest 1 percent captured a huge percentage of income gains. And then as now, when financial markets experience inequality-induced volatility, investors of capital become cautious. Many understand that rigged rules favor inside actors and politically connected financiers, and, so, if they lack insider information they'll think better of investing it back into the economy.

Our economic history doesn't have to be our economic destiny. Research by the International Monetary Fund (IMF) and the National Bureau of Economic Research finds that more equal societies have stronger rates of growth, enjoy longer economic expansions, and recover from economic downturns faster.³³ The flipside: unequal societies are less resistant to both financial crises and political instability—a possible explanation for the sluggish and uneven recovery from the Great Recession of 2008.³⁴

Homeownership Rates by Race and Ethnicity of Household, 1994-2016



Based on data from US Census Bureau, *Quarterly Homeownership Rates by Race and Ethnicity of Householder: 1994 to Present*, Table 16, <https://www.census.gov/housing/hvs/data/histtabs.html>, analysis by The Democracy Collaborative.

Growing inequality's toll on economic stability and private markets has enormous consequences. According to the IMF, unequal income trends in the US mean that future economic expansions will be just one third as long as in the 1960s, before the income divide widened, if we stay on our current path.³⁵

Supercharging Racial Wealth Disparities.

Disparities in Black, Latino, and white wealth have been exacerbated by overall economic inequality trends in recent decades. After the 2008 economic meltdown, white assets rebounded while Black and Latino assets declined.

Outcomes were different because Black and Latino wealth is largely in home equity while white wealth also includes financial holdings.³⁶

The historic gap in homeownership rates also drives racial and ethnic disparities in assets. For generations, white families have enjoyed access to wealth that has eluded their Black counterparts, making it far easier to get down payments together and help their heirs get a stake in the economy. Between 1994 and 2017, white homeownership rates rose to 76 percent, Black rates to 49 percent—an almost 30-point gap that persists today. That said, since 2006

the homeownership rate has declined steadily for everyone, from 69 percent to 63 percent in the first quarter of 2017. For Blacks, the homeownership rate fell from 48 percent in 2005 to under 42 percent by late 2016. For Latinos, the homeownership declined over the same years from 50 percent to 46 percent. For whites, it dropped from 76 percent to 72 percent.³⁷

Culture. Wealth concentration distorts our civic life and culture in many ways. Art, music, sports, and other dimensions of our culture and civic life are less inclusive and beneficial as a result. In

Greed and Good, veteran journalist Sam Pizzigati discusses how art, culture, and sports in an extremely unequal America are strained and weakened. Community-based and taxpayer-funded support for culture languishes, forcing local theater, arts, music, and performance organizations to struggle, fold, or compete for wealthy patrons. In this climate, wealthy philanthropists pick the cultural winners, usually elite cultural institutions to which they have a personal connection.³⁸

A great deal of cultural experience has moved out of reach for all but the

U.S. Household Savings, 1975-2015



Source: IOECD data, <https://data.oecd.org/hha/household-savings.htm>.

affluent. Survey the cost of tickets to art museums, theater productions, and sporting events to understand how these events typically cater only to the wealthiest 10 to 20 percent of US households. Meanwhile, arts, sports, theater, and music programs in public schools are early casualties of budget cuts as many educational systems tighten their belts. As Pizzigati writes, “America’s schools are offering students precious little contact with the arts.” Only 25 percent of eighth graders, according to a survey by the National Assessment for Educational Progress, were “actually singing or playing an instrument at least once a week.” The same small percentage attended schools where visual arts classes were offered—and only once or twice a week at that—and 17 percent attended schools with no visual arts offerings.³⁹

Consumerism. Inequality spurs status-based consumerism and consumption as people spend money and consume goods to signal the social class and subculture they belong to—or wish they did. In what Robert Frank calls a “positional arms race,” such class self-differentiation and status marking often drives up personal debt.⁴⁰ The personal savings rate—the amount households save over income—has fluctuated downward over the past several decades. In 1975, it was

at 17 percent; by 2005, on the brink of the economic meltdown, it had fallen to a low of 1.9 percent. In 2017, it has averaged closer to 5 percent.⁴¹ Recklessly extravagant consumption leads to obvious ecological problems with very little increase in personal happiness.

These extreme inequalities of income, wealth, power, and opportunity count and add up. They undermine much of what Americans say we value most—everything from our health to the next generation’s prospects to the vibrancy of our democracy and the stability of our economy.

B. POSSIBILITIES FOR THE NEXT SYSTEM

After reviewing this litany of the damages caused by extreme inequality, it is easy to fall into the mental trap of believing that inequality is our destiny. And some subscribe to the idea that reversing inequality trends will undercut economic growth and prosperity. We are stuck in old and discredited theories that concentrations of wealth are necessary to form pools of investment capital (sometimes called “capital formation”) and that unequal rewards provide incentives for hard work. This false logic underestimates the negative consequences of today’s extreme inequalities, which have little to do with differences

in work ethic or individual merit. In fact, these inequalities are holding our society back, destabilizing our economy, and thwarting a timely transition to the next system.

The initiatives outlined below could change our current political economy in fundamental and beneficial ways—revolutionizing, for example, corporate structure and banking and finance. And moving to an egalitarian society, one that healed the wounds just described, would itself help forge a new system. In an egalitarian society where people are economically secure, they can break free of “work and spend;” break free of bosses, corporate control, and fear of being jobless out in the cold; and be free to stay more rooted and to build up their communities and the infrastructure of people-centered democracy (and protest). An egalitarian America would be a fundamentally different—more congenial and resilient—place.

Keeping this endgame in mind, it is vital that we understand that life conditions for the majority do not have to be skewed in the way that they are now. Indeed, the next system and a more equitable society will have these welcome features, among others:

Lower Stress. A better social safety net will ensure that no one would live in deprivation, social exclusion, and fear the way that millions do today. Greater protection from calamity will also reduce the pervasive stresses of living in a world where one illness, catastrophic accident, divorce, or job loss can lead to utter destitution and homelessness. These stresses exist up and down the economic ladder in a society without universal access to health care, housing, and opportunities for lifelong learning. As it is now, the price of having no ceiling on wealth is having no floor to break falls.

Reduced Societal Polarization. Our economic polarization has fueled our political polarization. With less inequality—and less room for powerful wealthy interests to pit sectors against one another—social cohesion and harmony will be greater. In an egalitarian society, a new politics would work for the common good by directly addressing real community problems and expanding opportunity and prosperity through broader ownership of land, housing, and enterprises, an economic floor with a guaranteed basic income and other wealth-sharing mechanisms. At last, Americans really will stand united rather than fall divided.

Connected Communities. Communities with less inequality will be better, safer, more beautiful, and more diverse places to live. Just as extreme inequalities separate people and foster fear and fence-building, greater inequality will encourage more active street life, local recreation, neighborly mutual aid, sharing, and community celebration. As researcher Daniel Sage concludes, reductions in inequality “could bring about significant improvements in social trust, solidarity, community belonging and civic participation and, subsequently, improve the quality of life for many in a given society.”⁴²

Healthier People. People will be healthier in a more equitable society. Along with less stress, there will be greater public health, universal access to health care, and early intervention for mental health, learning disabilities, and trauma recovery. This emphasis on prevention and quick response will, in turn, lower societal costs for health and long-term care.

Lifelong Learning. Instead of education as a tracking system for class-based divisions, a lifelong learning system would provide training, skills, and life enrichment for people at all stages of life. Students would not live in fear of taking on tens of thousands of dollars in

debt to get advanced education opportunities. With a huge percentage of the future’s jobs not even invented yet, we will need an education system that teaches adaptation, agency, and collaborative thinking.

Changing Work, Less Toil, More Leisure.

Without extreme inequality, there will be less disparity in the value of different jobs to society. Work will be connected to meeting real social needs, not extracting value from workers, communities, and the earth. Technological and scientific advantages will mean less work—and more leisure—for all, rather than funneling greater profits to the top on the backs of labor.

Authentic Democracy. Life in the next system will include opportunities for voice and real democratic participation at all levels of society—and the free time to participate. Instead of feeling shut out from the decisions that shape our lives, we will we have a voice in the things that matter most. Participation would go beyond periodic voting in representational elections to many options for engagement. Residents could take part in participatory budget processes, policy discussions, and opinion polling, using new technologies to collect input and advisory votes. Without



the influence of dark money, there would be no more gerrymandering and greater transparency when private interests collide with public decisions. With all voices heard and embodied in the decisions shaping our lives, there would be less alienation from public and community institutions.

Harmony with Nature. Living in harmony with ecological boundaries can be liberating, not constraining. Extreme inequalities and fear push us into a survival mode where we cannot notice our interconnected place within nature. In contrast,

we would all benefit from cleaner air and water, healthy trees, public wild spaces, and a more robust ecological commons. Instead of seeing ourselves as separate and fearing nature, we can integrate our communities into the natural world with connected parks, wild spaces, riverside corridors, and food forests with nut and fruit trees.

This is just a glimpse of the human potentials that will be unleashed in a transition to a more equitable economy and broader prosperity.

III. SYSTEMIC DRIVERS OF INEQUALITY

Explanations for why inequality has grown in the past four decades abound, and some are bitterly contested.

Many traditional economists attribute growing inequality largely to “skill-biased technological change.” Wage differentials, some economics argue, mirror a hard fact of life: some workers possess the advanced skills needed to adapt to technological change and some don’t. Policy-makers who buy this theory focus on individual education, skill building, and job training. In contrast, those who embrace cultural explanations and attribute income and wealth inequality to differences in individual initiative, effort, pluck, and intelligence advocate for hands-off laissez faire policies. Both approaches fail to address system drivers.

Current levels of inequality have little to do with differences of individual skill or effort. Many other countries are weathering the same technological transition that the US faces and doing so with considerably less inequality. Blaming

either technological change or personal merit and performance fails to address the deeper power imbalances and structural drivers of inequality that are not linked to either and also fails to lead us to interventions that will reduce it. Instead, we must reckon with why power shifts and public policies have tipped the economic rewards in favor of asset owners at the expense of wage earners and why benefits increasingly redound to transnational corporations instead of domestic enterprises.

A. POWER SHIFT

Most traditional economists would tell us that current levels of inequality stem from market forces that are usually efficient. The thought that one group might use its political power to distort the market is unthinkable. As Robert Kuttner describes an old-school position he does not himself hold:

Power is not relevant, because competition will generally thwart attempts to place a thumb on the market scale. Thus if the society is becoming more unequal it *must* be (a favorite verb form) because skills are receiving greater rewards, and the less-skilled are necessarily left behind; or because technology is appropriately displacing workers; or because in a global market, lower-wage nations can out-compete Americans; or because deregulation makes markets more efficient, with greater rewards to winners; or because new financial instruments add such efficiency to the economy that they justify billion-dollar paydays for their investors.⁴³

But what if this is not true? What if certain actors in the economy are wielding their political, philanthropic, and economic power to shape the rules? “What if market outcomes and the very rules of the market game reflect political power, not market efficiency?” asks Kuttner.⁴⁴ What if inequalities, such as the oversized rewards to money managers in the financial services industry are actually inefficient and bad for the economy?

As wealth concentrates, so does political and social power, including the clout to dictate the rules governing the economy, such as tax and trade policies. In *Inequality: What Can Be Done?*, the late

Anthony Atkinson of the London School of Economics traced growing inequality to “changes in the balance of power.” Even technological change, often considered a neutral force, is shaped by power, according to Atkinson. “Technological progress is not a force of nature but reflects social and economic decisions. Choices by firms, by individuals and by governments can influence the direction of technology and hence the distribution of income.”⁴⁵

According to Atkinson, “Measures to reduce inequality can be successful only if countervailing power is brought to bear.”⁴⁶ The social contract in place for the thirty years after World War II until 1975, he notes, resulted in considerably less inequality than we have now.

Since the mid-1970s, we have lived through a massive power shift. Organized labor’s clout has ebbed while transnational corporations’ power has grown. In 1955, almost a third of US workers belonged to a trade union, forming a countervailing power to employers and helping enforce a social contract that compelled sharing the rewards of productivity gains. Today, fewer than 12 percent of workers are in a union, which diminishes clout and bargaining power for labor as well as Americans.⁴⁷

Historically, the trade union movement didn't just bargain for its own workers. It formed a critical constituency for expanding civil rights and ensuring healthy rules for the larger economy, pushing for social insurance, health care, worker safety, and minimum wage laws.

As the power of workers has waned, that of financial capital has increased. In parallel power shifts, transnational corporations' clout has increased while that of Main Street businesses has shrunk, and the power of campaign contributors has risen while that of voters and civil society institutions has diminished. Together, these trends have enriched the fortunate few at the expense of the overwhelming majority.

B. RULE CHANGES

As power shifts, so do the rules of the economy, and they have been changed to benefit asset owners at the expense of wage earners. Laws governing taxes, global trade, wage levels, and government spending priorities all increasingly tilt toward capital.

Inaction to reduce inequality is also a systematic failure of our current rule-making process. With the political system increasingly captured by large asset owners and transnational corporations,

lawmakers and enforcers trying to discourage corporate and financial industry consolidation have been thwarted.

Along with foot-dragging, rule changes have also benefited larger, global firms at the expense of smaller Main Street businesses. For example, today's two-tiered tax system lets transnational companies use the "offshore" system to game their taxes down, while domestic firms pay higher effective rates. For example, United Parcel Service (UPS) pays an effective annual corporate tax rate of 27.5 percent. Federal Express, which operates in the same business but aggressively uses offshore subsidiaries and other tax loopholes, pays an effective rate of 4.2 percent.⁴⁸

One direct result of the power shift and rule changes over four decades is a decline in worker's share of productivity gains. In the thirty years after World War II, workers and shareholders of capital shared productivity gains. We had a social contract, and organized labor enforced it. In the past thirty years, however, most productivity gains have gone to a return on capital, not to workers. Net productivity grew 72.2 percent between 1973 and 2014 while inflation-adjusted hourly compensation of the median worker rose just 8.7 percent, or 0.20

percent annually, with essentially all of the growth concentrated in the years from 1995 through 2002.⁴⁹ This explains why, as chronicled earlier, almost half of US workers make under \$15 an hour.

Rule changes that increase the power of capital and reduce the power of wage earners combine with the hard-wired tendencies of capitalism to generate inequalities. As Thomas Piketty pointed out, when the return on capital exceeds the rate of growth in the economy, inequalities will compound. (Piketty's formula—"r > g"—has become the "E=mc²" of our contemporary inequality physics.) Without some intervention to alter this dynamic, we are at the gates of what Piketty calls "patrimonial capitalism"—an economy shaped almost entirely by inherited wealth and power.

These rule changes have shifted the US economy into a new stage with different inequality drivers. Between 1980 and 2000, the sky-high earnings of CEOs and other movers and shakers drove inequality. More recently, income from capital—from the ownership of wealth—is adding the most to our economic divides. Recent research documents that the surge in capital income has been the driver of income concentration over the past 15 years. "It looks like the working

rich who drove the upsurge in income concentration in the 1980s and 1990s," the study authors observe, "are either retiring to live off their capital income or passing their fortunes onto heirs."⁵⁰

C. SYSTEMIC RACISM IN ASSET BUILDING

Another overlapping systemic driver is institutional racism's role in distorting income and wealth outcomes, particularly for Blacks and Latinos.⁵¹ While the drivers described above exacerbate inequalities among whites, Blacks, and Latinos, they do not fully explain the picture. Nor does understanding them necessarily pave the way to clear prescriptions for change.

Systemic racism's roots, going back centuries, simply run too deep for that. A historically recent example is the ways that Blacks and Latinos were largely excluded from many New Deal and post-World War Two income-raising and wealth-expanding initiatives. Such government programs as low-interest mortgages and tuition-free higher education exacerbated the racial divide, giving white households the means to pull farther away.⁵²

Rigged rules in the economy have historically been racially biased, adding another layer of barriers. Consider a few examples:

- The Social Security Act of 1935—a law that has greatly reduced elder poverty over the past several decades—initially excluded farm labor and domestic work—jobs that were held predominantly by people of color.
 - The Fair Labor Standards Act of 1938 excluded from minimum wage protections many occupations that were filled largely by Black workers, such as agricultural and domestic workers (maids, nannies, etc.) and tip-based jobs (Pullman porters and restaurant servers).
 - The first government programs aimed at expanding home ownership, starting with the Federal Housing Administration, had racially biased underwriting. As a result, only 2 percent of FHA mortgages between 1934 and 1968 went to households of color. This legacy of discrimination in wealth building helps explain today's stunning disparities in homeownership among whites, Blacks, and Latinos.
 - These racialized rule changes have had dramatically different outcomes for households of color, as described earlier. From the mid-1970s on, households of color were subject to the same rule changes that have worsened inequality across the board. But even then the impacts were not the same for all groups. Yes, white households saw wages and wealth stagnate or decline, but Black and Latino households experienced more severe downturns. For example:
 - Had average Black household wealth grown at the same rate as average white household wealth over the past thirty years, Blacks would have an additional \$38,000 in wealth today—enough to double the average nest eggs of those nearing retirement.⁵³
 - Had their wealth grown apace with white wealth, Latinos would now each have an additional \$9,000 in wealth.
- Clearly, inequality cannot be righted until the interaction of systemic racism is addressed along with inequality's other drivers. The same goes for the historical legacy of racism in asset building. Were average Black wealth to inch along at the pace it has over the past three decades, it would take Black households 228 years to amass the same amount of wealth that white families have today. That's almost as long a time—245 years—as legalized slavery lasted in the US.⁵⁴

Policy solutions that aim to be “universal” or “race blind” can neither fully fix these historic inequalities nor address the systemic racial drivers, perpetuators, and intensifiers of inequality. For example, programs for expanding homeownership must address the legacy of residential segregation and the fact that homes in predominantly Black and Latino neighborhoods do not appreciate or hold their value as much as properties in predominantly white neighborhoods do.

Many of the policies reviewed below can reduce racial economic disparities. But race-blind interventions might not. Racism’s legacy in asset building and in the criminal justice system, alongside unequal residential settlement patterns and discrimination in access to credit, undermines programs to reverse inequality, making a racial equity framework essential in any program to reduce inequality.

The Institute for Assets and Social Policy advocates subjecting public policy changes to a “racial equity audit” to assess whether the policy is worsening or reducing racial economic disparities. One example cited: a universal student debt-relief program that fails to target low- and middle-income households could exacerbate racial

wealth disparities by unintentionally compounding inequalities rather than reducing gaps.

This audit found that eliminating student debt for all households would expand the divide between median Black and white wealth by an additional 9 percent. While eliminating student debt for all households regardless of income increases median net worth for young white and Black households, most likely white families benefit more because they are more likely to complete college and graduate degree programs.⁵⁵

Both the deliberate and the unintended missteps cataloged here are not just old baggage that can be easily jettisoned. Their impacts persist and must be attacked head on if we are serious about greater equality.

IV. LESSONS FROM OTHER SYSTEMS

There are many proven ways to reduce inequality. Among the most popular are proposals to raise the minimum wage and wages generally, tax higher incomes, invest in equality of opportunity, and stimulate the economy to help create higher paying jobs.

One source of ideas is the US experience in the thirty years after World War II—a period of relatively widely shared prosperity. Many people also point to the Nordic model, a cluster of interventions that both “raise the floor” and tax high incomes in such countries as Denmark, Sweden, and Norway, where inequality is far less grievous than in the US.

A. AMERICAN DECADES OF PROSPERITY

The United States enjoyed a period of broadly shared prosperity after World War II. While certain public policies compounded racial asset inequalities in these decades, incomes still grew across the board.

The rising postwar tide lifted most boats and the US attained the lowest levels of inequality in the twentieth century. Public

policies flowing out of the 1930’s New Deal get the credit:

- Expansion of worker “right-to-organize” laws that codified protections for workers and the freedom to join a union.
- Establishment of minimum wage and hour policies.
- Large public investments in the interstate highway system and other infrastructure.
- Highly progressive income and estate tax rates that raised revenue from those best able to pay.
- Expansion of social welfare, including social security, health insurance, and welfare.
- Low-cost higher education and increased spending on K-12 education.

By the early 1960s, thanks in part to the civil rights movement, social inclusion

and poverty alleviation became major policy issues. At the time of greatest US relative equality, the nation waged a “war on poverty” to address systemic poverty, deprivation, and marginalization. “Great Society” programs—including Head Start, the expansion of Medicare, and the exploration of guaranteed income programs—were created to lift the floor. Extraordinary private sector growth helped keep unemployment low and extend middle-class jobs to previously excluded groups.

During these decades, we taxed ourselves—and particularly those with the highest income and assets—at progressive rates. We invested these tax revenues in infrastructure and people, boosting incomes and consumption.

We still have plenty to learn from these US successes, but there are three reasons why we need a different playbook now to meet current inequality challenges. The first is that earlier strategies to address systemic racism, as discussed above, were not adequate. The Great Society programs of the 1960s failed to ease generational inequities, sparking rebellions in US societies over economic apartheid. And by the late 1970s, whatever racial economic progress had been made, began to erode.

The second reason for a different approach now is that many of the broadly shared economic gains were the result of a US military-backed empire and unrivaled competition in the global economy. After World War II, the US economy expanded without global competition from war-ravaged Europe, Japan, and China while US corporations benefited from a highly interventionist military and foreign policy that enforced unequal trade, extraction, and labor markets.

The third is the ecological limit to the extract-produce-consume-burn-dump economic development model, premised on cheap and unlimited access to fossil fuels. The broadening of the US middle class and luxury class came with tremendous ecological costs to our communities, health, and planet.

The rise of mass consumerism brought many blessings and labor saving devices, but also came with huge environmental costs—air, water, and soil pollution; habitat destruction and extinction; overdevelopment and suburban sprawl; resource depletion; and the growing impacts of climate change. And we are just beginning to understand the long-term health effects of hundreds of toxic chemicals introduced since the 1950s on our environment and bodies.

While many advocate a return to “New Deal 2.0” policies, significant ecological constraints now call past models of expanding economic growth into question. Firing up the traditional economic growth machineries of extraction, production, consumption, and dumping—and hoping to slice the pie more equitably—will not reduce extreme inequality on a finite planet. Instead, we need a whole new approach to prosperity that is centered on local economies and dignified livelihoods—one that adds value to communities—and an economy based on resilience.

For these reasons, our new blueprint for reducing inequality should put lessons from the past in the context of local experiments and ventures going on now. And, far more than the New Deal did, we must aim to boost racial equity, honor other nations’ economic sovereignty, and respect ecological limits.

B. THE NORDIC MODEL

The “Nordic model” is often celebrated as an alternative to escalating inequality in the US. Norway, Sweden, Denmark, and Finland do have considerably less inequality of income and wealth, thanks to both robust social safety nets and progressive taxation. They also come out on top in indexes of quality-of-life indicators such as longevity, health, work-life balance, and vacations.

While some dismiss the Nordic countries as “welfare states,” with widespread personal dependence on government, they are, more accurately, “universal service states.” They focus on poverty alleviation, a robust social safety net, and full employment. Commitment to work by all who are able is central to their anti-poverty strategy.

The rewards of this approach hit home. Quality of life for workers is much higher, and work-life balance is considerably healthier than in the US. OECD research shows that Americans on average work 1,790 hours in 2015, compared to 1,424 for Norwegians and 1,457 for Danes.⁵⁶ Meanwhile, social mobility is increasing in the Nordic countries and declining in the US.

To US workers jostled by rapid technological change, the Nordic focus on “lifelong learning” and job training speaks volumes. In most Nordic countries, the transition from youth to adulthood follows a different path than the US K-12 model and our focus on college and high-paying jobs. A deep culture of “lifelong learning” entails folk schools, debt-free vocational training, and support for work transitions and parents. What in the US would be considered low-status working class jobs—waste managers, restaurant servers, and school

custodians—are valued and well-compensated in the Nordic countries.

Does all of this lead to economic health? In *Viking Economics: How the Scandinavians Got It Right—and How We Can, Too*, George Lakey traces the connection between emphasizing economic security, efficiency, and productivity and reaping economic benefits as a nation.⁵⁷ Contrasting the “Viking” way with the US incentive model based on insecurity, high unemployment, and fear of poverty and hunger, he notes that Scandinavians have considerably higher productivity rates, even with their shorter work week. And the rate of start-up companies in Norway and Denmark is considerably higher than in America. US researchers found that Nordic entrepreneurs are greater risk-takers because they do not worry about education debt, retirement, and medical care, thanks to the “universal services” they enjoy.

Nordic businesses compete in importing, exporting, and outsourcing in the global economy. But their own laws and social contracts discourage them from cutting wages to be more competitive. While taxes are higher, most wealthy individuals and businesses do not resent a system that also delivers universal services and invests heavily in public goods. “For their

high taxes the Norwegians have gotten overall affluence, stability, opportunity, a high level of services that make life easier and more secure,” writes Lakey.⁵⁸

A cultural understanding in the Nordic countries is that not all the “job creators” come from the entrepreneurial and investor class. As Lakey writes, they have “a more complicated view of who lays the golden eggs”:

For one thing, they think the workers do a very large share of the egg-laying, which is why they invest so heavily in human capital and get higher productivity from their workers than in many countries. For another thing, their track record with cooperatives, state-owned and municipal-owned enterprises gives them a positive perception of other sources of egg-laying.⁵⁹

The US is not Denmark, but the lessons from that country that are relevant to US efforts to reduce inequality are multifold. A high social floor, ensuring minimum income, health care, and access to job training both reduce inequality and foster greater security and well-being. Taxing the wealthy and investing in such public goods as low-cost education and infrastructure are widely popular, even among the wealthy that pay higher taxes.⁶⁰



V. INTERVENTIONS AND SOLUTIONS

An Agenda to Reduce Extreme Inequality

Several types of policy changes are required to reduce and reverse extreme inequality. We need rules and policies to lift the floor, level the playing field, break up the over-concentration of wealth, and check unbridled corporate power. We also want to investigate policies and practices that “rewire” capitalism for shared prosperity. These four categories are not fixed, but provide a framework for generating possible solutions. In each policy category, we will move from the most recognized and accepted to those that are the most systemic and, in some cases, the most politically challenging to implement.

A. RULES CHANGES THAT LIFT THE FLOOR

Policies that “lift the floor” try to reduce poverty and establish a basic minimal standard of material security for all.

As discussed, many European social democracies have considerably higher levels of equality thanks partly to their strong social safety nets and policies that maintain a high floor of income, health, and basic services.

Here, in contrast, one-third of workers have no paid sick days and one-half have no paid vacation days. Everyone deserves the right to take time off when ill and to have a few weeks of paid vacation

each year. In other industrial and post-industrial countries, these breaks and fallbacks are considered basic human rights. Similarly, most workers in other OECD countries are members of unions or covered by blanket labor agreements while here the right to join a union and engage in collective bargaining has been corroded at the federal level and in many states by aggressive anti-union policies and corporate practices.

Examples of rule changes that raise the floor include:

Ensure the Minimum Wage is a Living Wage. The minimum wage has lagged

behind rising basic living expenses in housing, health care, transportation, and childcare. The minimum wage for restaurant servers who receive tips has been stuck at \$2.13 an hour since 1991.⁶¹ Twenty-nine states and the District of Columbia have raised minimum wages above the federal minimum of \$7.25.⁶²

Universal Health Care. Our aim should be to expand health coverage so that every child and adult gets good basic health care—and no one is allowed to become infirm or destitute for lack of health care. The Affordable Care Act, now under threat of erosion, was a step toward universal coverage, increasing the number of those with health care by twenty million. But over twenty-eight million still lack coverage, primarily because of cost.⁶³

Basic Labor Standards and Protections.

Ensuring basic worker rights and standards can lift up the bottom 20 percent of workers who are currently the most exploited and disadvantaged. The forty-hour workweek (or overtime pay), minimum vacation, and family medical leave, sick leave, and protections against wage theft, racial discrimination, and sexual harassment would make life more humane for everyone as well as increase productivity.

Universal Education, Lifelong Learning, and Job Retraining.

Quality education should be accessible to all and continue throughout one's lifetime. Especially in a global economy undergoing significant technological transitions, workers need to be able to reskill to keep their jobs or get new ones.

Guaranteed Minimum Income (or “Universal Basic Income”).

One way to ensure a secure income floor is to pay out a minimum income to supplement low wages. Expanding the Earned Income Credit—by many accounts, the most effective and easy way to administer an anti-poverty program in the US—would be relatively simple. A growing number of thinkers and policy activists are exploring the potential of a “universal basic income” or “guaranteed income.” Interesting experiments in Finland, Switzerland, and Oakland, CA are already piloting the concept of a universal basic income that supplements wage income.⁶⁴ A pilot in Ontario Canada will provide a Universal Basic Income (UBI) for three years to 4,000 residents, worth about \$12,500 a year for an individual and \$18,000 for a couple.⁶⁵

Jason Hickel writes in *The Guardian* that basic income “can yield impressive results—reducing extreme poverty and

inequality, stimulating local economies, and freeing people from having to accept slave-like working conditions simply in order to stay alive.... But perhaps most importantly of all, a basic income might defeat the scarcity mindset that has seeped so deep into our culture, freeing us from the imperatives of competition and allowing us to be more open and generous people.”⁶⁶

This idea becomes more powerful when viewed in the context of technological change displacing wage income while revenue would come from shares of commons-based resources, such as the broadcast spectrum, natural resources, and the atmosphere. Residents of Alaska receive an annual check from the Alaska Permanent Fund, a share of that state’s oil revenue. (See “Dividends for All” below.)

Government Employment as Last Resort.

A key policy that honors the dignity and importance of work is making the public sector an employer of last resort. Like the Works Project Administration during the 1930’s Great Depression, government should identify useful work that the private sector is not doing—and pay unemployed or underemployed Americans decent wages to do it. Like many public expenditures, this could be paid for through budget allocations or a dedicated tax.

Adequate Welfare Support. Those kept from working by disability, mental and physical illness, or age need a social welfare safety net composed of many of the services described above. The 1994 welfare reform exacerbated poverty, increasing homelessness among those unable to work.⁶⁷ A better safety net could help some return to the paid labor force by stabilizing their housing and keeping others out of harm’s way.

Policies that raise the floor not only reduce poverty and economic deprivation; they also reduce economic insecurity and stress throughout society. In the US, until stricken ourselves, we greatly underestimate how easily and rapidly job loss, divorce, or major illness can lead to destitution, homelessness, and death—and how many Americans have lived this experience.

B. RULE CHANGES THAT LEVEL THE PLAYING FIELD

Policies and rule changes that level the playing field eliminate the unfair wealth and power advantages that flow to large asset owners and transnational corporations while opening up opportunities for those historically excluded, especially through racially rigged policies. Examples of such policies include:

Invest in Education. In the current global economy, disparities in education reinforce and contribute to inequality. Public investment in both K-12 and higher education is a keystone intervention to reduce inequality over time. There is a growing recognition that investing in early childhood education returns enormous benefits. In 2014, New York City established a universal pre-K program, with a proposal to fund it with an income tax surcharge. The program went ahead with a less progressive funding mechanism instituted by New York State.⁶⁸

Reduce Money’s Distorting Influence in Politics. Through campaign finance reforms—including public financing of elections—we can reduce massive private wealth’s undue political influence. Such reforms should limit campaign contributions, ban corporate contributions and influence, and require timely disclosure of all political donations.

Revise Free Trade and Fair Trade Rules. Most international “free trade” treaties benefit wealthy asset owners and shareholders while driving down workers’ wages. Free trade agreements—often negotiated on behalf of transnational companies—often pit nations and workers against one another in a race to lower standards encompassing child labor,

environmental protection, workers’ rights to organize, and business regulation. Corporations operating in countries with the weakest standards are the biggest winners in this system. As an alternative, fair trade rules would elevate environmental and labor standards so companies compete on the basis of other efficiencies besides the bottom line.

Level the Playing Field in Taxation.

Widespread benefits would accrue to most taxpayers if we leveled the taxation playing field by requiring more of both wealthy individuals and corporations. Today, we have one tax system for most US citizens and domestic businesses and another for the wealthy and transnational corporations; this lets some wealthy families and businesses game the tax system and dodge taxation.

C. DECONCENTRATING WEALTH

While promoting policies that lift wages, level the playing field, and expand opportunity, we must also reverse the rigged rules that exacerbate wealth concentration. Otherwise, wealth will continue to concentrate, further polarizing the economy and society.

Think about it like this: Concentrated wealth is like water hurtling down a hill.

Key Inequality Driver: Our Off-Shore Tax System

Local jurisdictions attempting to levy taxes and invest in new economy institutions are undermined by a global tax-avoidance system. Individuals and corporations can shift trillions to off-shore havens to escape taxation, accountability, and publicity. The “Panama Papers” that were disclosed in April 2016 riveted global attention on this system with titillating details of the shady dealings of world leaders and violent drug and human traffickers.

Hundreds of large transnational corporations use the off-shore system to reduce or skirt their tax obligations. Verizon, General Electric, Boeing, and Amazon are just a few of the offenders.⁶⁹ One common dodge is to shift paper profits to subsidiaries in low-tax or no-tax countries like the Cayman Islands or Ireland. Companies utilizing these schemes maintain the fiction that their profits are piling up “off shore” while their losses accrue in the United States, reducing or eliminating their obligation to Uncle Sam.

What sums are at stake? In *The Hidden Wealth of Nations: The Scourge of Tax Havens*, researcher Gabriel Zucman estimates that \$7.6 trillion in individual assets are parked in tax havens, about 8 percent

of the world’s financial wealth. By his reckoning, tax haven use has grown 25 percent in the past five years and US citizens have at least \$1.2 trillion stashed offshore. In all, \$200 billion a year in tax revenue is lost from wealthy individuals and \$130 billion from corporate tax avoidance.⁷⁰

Hidden assets need to be daylighted too. Transnational corporations have an estimated \$2.6 trillion in assets parked in offshore tax havens or stashed in subsidiary corporations in countries with minimal or no corporate taxation.⁷¹ These same companies use public infrastructure in the United States, hire employees trained in publicly funded education institutions, and rely on the US legal system to protect their property rights.

Corporate tax dodging especially hurts Main Street businesses, which are forced to compete on an unequal footing. “Small businesses are the lifeblood of local economies,” said Frank Knapp, CEO of the South Carolina Small Business Chamber of Commerce. “We pay our fair share of taxes and generate most of the new jobs.... Why should we be subsidizing US multinationals that use offshore tax havens to avoid paying taxes?”⁷²

Offshoring also facilitates criminal activity—from laundering drug money to financing terrorists. Smugglers, drug cartels, and even terrorist networks like ISIS thrive in offshore secrecy jurisdictions where individuals can hide or obscure their ownership of bank accounts and corporations to avoid reporting and government oversight.⁷³

The offshore system has spawned a massive tax-dodging industry. By shifting rewards to the speculative economy, teams of tax lawyers and accountants that add nothing to the efficiency of markets or products undermine efforts to build healthy local economies. Instead of making a better mousetrap, companies invest in designing a better tax scam. Reports of General Electric's storied tax dodging show that some modern multinationals view their tax-accounting departments as profit centers.⁷⁴

Systematically confronting offshore tax havens will require legislative action, international diplomacy, and sanctions and penalties aimed at both banks and tax-haven jurisdictions. Uniform disclosure and transparency, both of banks and capital flows, should be a fundamental

component of all new treaties. The United States has enormous responsibility and leverage in fixing this broken international system.

A constituency for reform already exists. Americans for Tax Fairness and the Financial Accountability and Corporate Transparency (FACT) coalition, to name two, have been advocating to close offshore tax havens.⁷⁵ Pressing for such transparency reforms as disclosure of “beneficial ownership” of shell corporations and entities, the FACT Coalition advocates passage of “The Incorporation Transparency and Law Enforcement Assistance Act.”⁷⁶ This would require virtually all US companies to disclose who really owns or controls them when they are formed and to keep that information updated.

The US itself operates as a secrecy jurisdiction and “offshore” tax haven for international wealth seeking a safe harbor. Low-bar corporate disclosure and reporting requirements in such states as Wyoming and Delaware make them ideal for banking illegal funds and hidden wealth.⁷⁷

Whatever barriers are erected, the water works around it. We might institute policies to temporarily discourage the wealthy from influencing the political system. The only way to ultimately protect the democratic system is to break up aggregations of power.

Given the nature of concentrated wealth, politically popular policies for reducing inequality through “expanded opportunity” alone cannot unmake the drivers of inequality. For instance, raising the minimum wage or establishing a universal basic income puts more money in workers’ pockets, but they do not rewire the drivers that are pushing wages down and accelerating wealth. If we do not correct the economic and political distortions caused by concentrated wealth and power, policy solutions, no matter how carefully crafted, cannot succeed.

Some policies that can de-concentrate wealth and power include restoration of progressive income and wealth taxes, anti-trust laws, and disincentives for corporations to pay CEOs hundreds of times more than ordinary workers.

1. Restoring Progressive Taxation

While the help needed is not exactly on the way, several tax policies do address the concentration of wealth and the

resulting concentration of political power. Such tax policies also raise revenue, but the primary goal, as with anti-trust policies, is to reduce monopolies’ lock on political and economic power.

Restore Progressive Income Taxes. We should reinstate high taxes for the highest income groups, those with annual incomes over \$250,000. In the 1950s, millionaires’ incomes were taxed at rates over 91 percent. But taxes on the wealthy have steadily declined over the past 50 years. Today, the percentage of income paid by millionaires in taxes has plummeted to 21 percent. If the 1 percent paid taxes at the same actual effective rate as they did in 1961, the US Treasury would have an additional \$231 billion a year to invest in public goods or reduce taxes on middle income taxpayers.⁷⁸

Eliminate Tax Preference for Income from Wealth. Our current tax code has it backwards in several respects. It currently gives a preference to income derived from wealth over income derived from work by taxing capital gains at absurdly lower rates than earned income. For example, billionaire Warren Buffett pays an effective tax rate of about 16 percent because his income comes mostly from capital gains, which are taxed at only 20 percent (and these rates seem likely to

drop in 2017).⁷⁹ Meanwhile, the earned wages of a doctor, teacher, or a scientist in the top income tax bracket are currently taxed at a 39.6 percent rate. One solution is to treat all income the same and maintain a progressive rate structure. Elders with low retirement income from investments will pay at low rates. Billionaires reaping most of their income from capital will pay at higher rates.

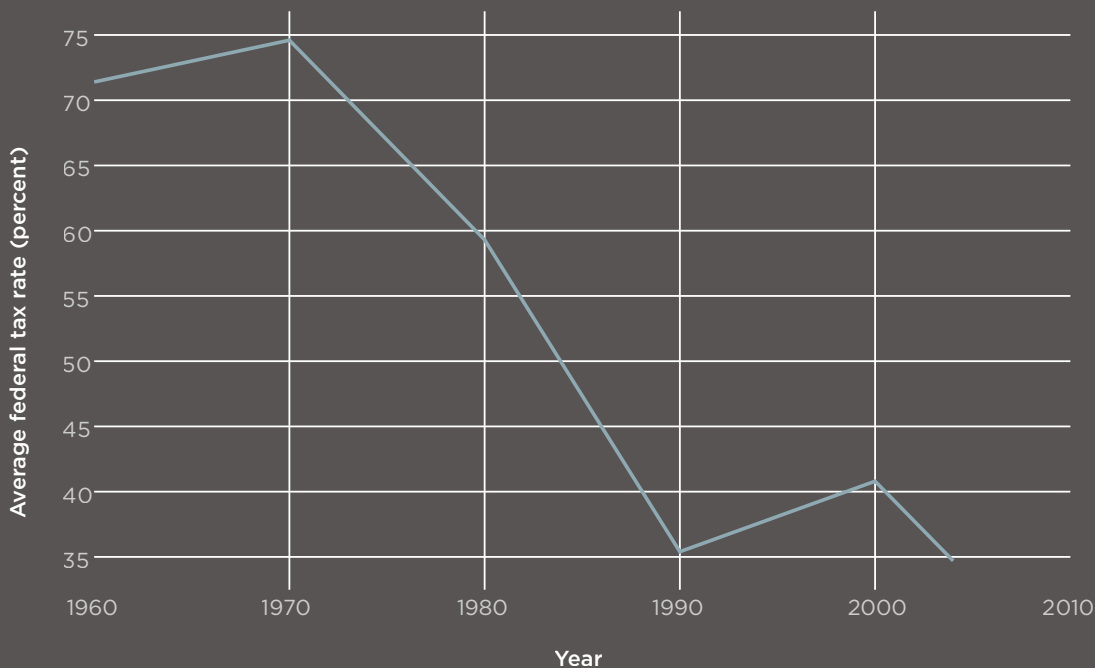
Protect and Expand Inheritance Taxation.

In 1916, Congress passed laws instituting a federal income tax and an inheritance or “estate” tax. For decades, these taxes

helped deconcentrate income and wealth and even encouraged Gilded Age barons to turn over their fortunes and mansions to civic groups and charities.⁸⁰ For almost three decades, these share-the-wealth taxes have been under organized attack, but they should be strengthened in the face of growing economic inequality.

Levy a Wealth Tax on the 1 Percent. A “net worth tax” on individual or household assets—including real estate, cash, investment funds, savings in insurance and pension plans, and personal trusts—would generate substantial revenue. The

Falling Tax Rate of .01%, 1960-2004



Source: Thomas Piketty and Emmanuel Saez, “How Progressive is the U.S. Federal Tax System? A Historical and International Perspective (2007),” Table 2, page 13, <https://eml.berkeley.edu/~saez/piketty-saezJEP07taxprog.pdf>.

law can be structured to tax wealth only above a certain threshold. For example, France's solidarity tax on wealth kicks in only when a person's assets exceed \$1.4 million.⁸¹

Eliminate the Cap on Social Security

Withholding Taxes. Extend the payroll tax to cover all wages, not just wage income up to \$127,200. Today, some in the 1 percent are done paying their withholding taxes in January while those in the 99 percent pay all year.

US and Global Wealth Taxation.

Even as social mobility declines, under current operating rules, wealth will continue to flow to a small minority. Without intervention, French economist Thomas Piketty points out, continued wealth concentration will corrode democratic institutions.

A new generation of wealth dynasties is emerging. They bear strong similarities to those of the First Gilded Age of 1890–1915. Twenty years from now, on our current trajectory, US politics and culture will be dominated by the offspring of families with names like Walton, Gates, Soros, Adelson, Buffett, and Koch.

How? Over the next fifty-five years, some \$59 trillion will pass from older

to younger generations through inheritances. This is estimated to be the largest intergenerational wealth transfer in history.⁸² To slow the creation of hereditary wealth dynasties, Piketty calls for wealth taxation and, given capital's mobility in the digital age, he advocates a global wealth tax. Taxes, says this quantitative economist, go to the heart of reducing extreme wealth inequality. "Without taxes," he writes, "society has no common destiny, and collective action is impossible."

2. Anti-Trust Laws

Throughout US history, concern about how concentrations of wealth and power undermine democratic institutions has run deep. A parallel concern has been that concentrations of corporate power and monopolies threaten consumer interests. As Barry Lynn writes, "The purpose of antimonopoly laws was to protect our communities against distant capitalists taking control of local commerce that we believe we should be in control of. These political and social goals were at the heart of antimonopoly thinking in the United States at the community level, at the state level, and later at the federal level for 200 years."⁸³ Lynn argues that the libertarian "Chicago school" economists in the late 1970s and 1980s convinced policy makers that anti-trust

enforcement led to waste and inefficiencies—and that’s when US anti-trust enforcement lost its teeth.

Whatever the cause, we have witnessed an extraordinary concentration of corporate power over the past thirty-five years in almost every major sector—telecommunications, transportation, media, manufacturing, agriculture, extractive industries, and retail. The rise of Amazon.com, for example, has led to the mass closure of neighborhood bookstores and independent booksellers and is now knocking out many local retail establishments. Another example: airline consolidation has dampened competition and raised prices for many airline routes.

After a road test of a century or more, it is now clear that such monopoly capitalism deepens inequality, undermines productivity, reduces job growth, and thwarts small business formation.⁸⁴ Most of us see the impact of corporate consolidation in our bills for broadband, prescription drugs, cell phone services, and air travel. But societies that have challenged concentration policies see immediate results. Israel’s anti-concentration legislation passed in 2011 with broad political support from all parties.⁸⁵ Increased competition in the Israeli mobile phone market led to a 90-percent price drop.⁸⁶

From a next system point of view, we need to both regulate and enforce anti-trust to enable local and regional economies to flourish and grow more resilient.⁸⁷

Break Up Mega-Banks and Expand the Community and Public Banking Sector.

Reversing the thirty-year process of banking concentration and supporting a system of decentralized community-accountable banks and credit unions committed to meeting the real credit needs of communities would move capital back to the local and regional real economy. Limiting the size of financial institutions to several billion dollars and eliminating government preferences and subsidies to Wall Street’s “too big to fail” banks would deal a fair hand to the 15,000 community banks and credit unions that are already serving local markets. Keeping the banks we depend on for everyday business—and insuring them with government and depositor funds would protect this essential part of the financial sector. And outlawing big banks’ risky Wall Street activities—or at least eliminating public incentives— could help insure against another economic meltdown like the one we saw in 2008.

End Too-Big-To-Fail in Banking. The five largest Wall Street banks are over 30 percent bigger than they were before the

Great Recession of 2008. They continue to jeopardize the economy by engaging in risky speculative investing and by resisting appropriate oversight, regulation, and separation of functions. If passed, the 21st Century Glass-Steagall Act would at least restore the traditional division between investment and commercial banks and would protect commercial banks' depositors and the larger economy from the consequences of high-risk activities such as derivatives dealing and securitization by making these forms of institutional gambling illegal.

3. CEO Pay and Corporate Incentive Systems

The CEO pay system is one cause of unequal wages and short-term decision making horizons. CEOs and compensation committees respond to rules that provide financial incentives and bonuses for short-term, myopic thinking. But next systems rules and values can encourage a longer-term perspective and a “stakeholder” orientation in decision making.⁸⁸

Extreme CEO-worker pay gaps—where top executives take home hundreds of times more in compensation than average employees—run counter to basic principles of fairness. These gaps also endanger business effectiveness. Management guru Peter Drucker, echoing the

view of Gilded Age financier J.P. Morgan, believed that the ratio of pay between worker and executive could run no higher than twenty to one without damaging company morale and productivity.⁸⁹ More recently, researchers have documented that Information Age enterprises operate more effectively when they tap into—and reward—the creative contributions of employees at *all* levels.⁹⁰

Twenty to one may sound more like reform odds than salary guidelines today, but the 2010 Dodd-Frank financial reform legislation does require companies to report the ratio between CEO pay and the median pay for the rest of their employees—a step in the right direction. Starting in 2017, this simple reporting provision will become a benchmark for evaluating corporate performance, unless the current Congress repeals it along with other Dodd-Frank provisions.⁹¹ More generally, reporting reform opens the door to policies that remove disincentives for excessive pay. Such reforms should:

Eliminate taxpayer subsidies for excessive executive pay. Big corporations avoid paying taxes on multimillion-dollar salaries and bonuses paid to their CEOs because they can deduct them entirely as businesses expenses. This systemic flaw forces taxpayers to subsidize

massive compensation for already wealthy executives. The more firms pay their CEO and top managers, the smaller their federal tax bills. These and other perverse incentives embedded in tax and accounting loopholes add up to more than \$50 billion over a decade in lost revenue.⁹² One policy proposal worth considering is the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (H.R. 399/S.82), which would treat bonuses as salary and cap corporate deductibility at \$1 million.⁹³

Penalize Companies for Excessive State and Local CEO/Worker Pay Gaps. Some jurisdictions, like Portland Oregon, are not waiting for federal action or corporate governance reforms to close the wage gap. Numerous states and localities are considering disincentives for grossly unequal compensation within companies. In late 2016, Portland became the first municipality to impose an increased surcharge on the city's business tax on companies that pay their CEOs more than one hundred times their median worker. Portland expects the tax to raise \$2.5 million to \$3.5 million a year and will dedicate proceeds to the city's services for the homeless and other needs.⁹⁴

Portland goes farther. It levies a 2.2 percent business tax on the adjusted

gross income of any corporation doing business in the city and a 10 percent surtax on the company's current business license if the CEO-worker pay ratio exceeds one hundred to one. For a company with a CEO-worker pay ratio of 175 to 1 and a \$100,000 business tax fee, the additional surcharge would be \$10,000. Companies with a CEO-worker pay ratio over 250 to 1 must pay a 25 percent surcharge.⁹⁵

Portland's tax will be paid almost entirely by large transnational companies. Over 500 companies do enough business with the city to be subject to the tax and some—Honeywell, Oracle, Wells Fargo, General Electric, and Goldman Sachs, for instance—top *The Wall Street Journal's* annual list of CEO compensation⁹⁶. The surtax ordinance applies only to public corporations because the uniform federal disclosure data they supply determines the basis of the tax. Most private and smaller and medium-size public businesses in the city do not have huge CEO-worker pay gaps so do not need to worry. Portland's city government projects that 88 percent of the revenue will come from the top 10 percent of corporate taxpayers and that 96 percent will come from the top 20 percent.⁹⁷

Bills inspired by the Portland ordinance have been introduced in Illinois, Massachusetts, Rhode Island, Minnesota, and Connecticut. San Francisco voters will decide whether to adopt such an ordinance on a ballot initiative.⁹⁸ On the other hand, the conservative Business Roundtable has identified federal pay ratio disclosure as one of top sixteen regulations it most wants abolished.⁹⁹

The issue of CEO pay is far from symbolic. Challenging corporate pay practices is essential to discouraging corporations from being engines of inequality.

D. REWIRING THE NEXT SYSTEM

Many of our next-system solutions go beyond the framework of raising the floor, leveling the playing field, and reducing the concentration of wealth and power. Some interventions effectively rewire institutions, reduce the excesses of extractive capitalism and consumption, and promote broader income and wealth distribution.

Several reforms that move us toward the next system include broader ownership and worker ownership of enterprises, striking a better balance between corporate interests and public interests, and a more transparent and regulated finance system.

1. Broader Ownership of Enterprises

Many of the solutions proposed here require redistributing income and wealth, but others could be called “pre-distributional”—such as ensuring that employees share the benefits of productivity gains and wealth creation.

Broadly owned enterprises, which range from having employee shareholders to full worker ownership, build wealth and assets for workers and promote greater equality. Research indicates that such firms are better for workers, more rooted in communities, and more productive and stable than more traditional investor-owned companies. They serve as an important pillar in a next-system economy, leading toward greater equality and broad-based prosperity, as well as providing a foundation for more democratic workplaces and communities. These jointly owned firms are multiplying. According to the Department of Labor, in 2014 there were more than 9,600 employee-stock ownership plans (ESOPs) with 15.1 million participants, totaling \$1.4 trillion in value. This represents a substantial wealth equity share for each of these employee owners—in the neighborhood of \$50,000 to \$90,000.¹⁰⁰ Roughly half of these companies are majority employee owned. The National Center for Employee Ownership estimates that some

300–400 companies a year are acquired by ESOPs, expanding both the number of participants and assets under worker ownership.¹⁰¹

Some examples of the power and value of broader ownership are truly inspiring. In April 2006, Hamdi Ulukaya, the founder and CEO of Chobani yogurt, announced that he was giving 10 percent of the value of the company's shares to his 2,000 full-time workers. Based on a company valuation of \$3 billion, this amounted to an average payout of \$150,000, with shares valued at over \$1 million to some of the company's longest-serving employees. In a memo to employees, Ulukaya wrote that the award was not a gift, but a "mutual promise to work together with a shared purpose and responsibility. How we built this company matters to me, but how we grow it matters even more. I want you to be part of this growth—I want you to be the driving force of it."¹⁰²

Dal LaMagna, CEO of Tweezerman, a beauty tools company that he founded in 1980, gave his employees a 20 percent ownership stake in the company when it sold in 2005. Workers kept their jobs and together received \$12 million from the sale of the company. LaMagna went on to become CEO of the Brooklyn-based

IceStone, maker of countertops out of recycled glass and materials. LaMagna convinced shareholders to try his broader ownership program, initially granting workers a 10 percent ownership interest. Management treated its employees as partners, sharing information about the company's financial situation and acting on frontline workers' suggestions for improvements and cost savings.

When Hurricane Sandy slammed into the New York area in 2012, IceStone's Brooklyn warehouse and equipment were submerged under five feet of saltwater. With \$6 million in damage and no flood insurance, LaMagna thought the business was done for. But his employee-partners had a different plan. They showed up for work, disassembling equipment, cleaning everything, and rebuilding. Without their ownership stake, LaMagna believes, the company would not have made it. "It's in my selfish interest as an owner to broaden my workers' stake," LaMagna wrote. "A prosperous company is held by many hands—not just investors, but also by our suppliers, customers, and most importantly, the people who spend their entire working days here."¹⁰³

Expanding worker ownership—both broadening wealth and democratizing the workplace—are key features of the

transition to the next system. One initiative sponsored by Democracy Collaborative aims to expand the workforce to 50 million worker-owners by 2050. The idea is to work with private companies as owners plan for succession and ownership transition, including sale to worker-owners. Such a coordinated intervention could bring worker ownership to scale.¹⁰⁴ Initiatives like these promote broader ownership and reduce inequality without a wait for government action or incentives.

2. Rewiring Finance

In our current finance system, voluminous debt and interest payments basically transfer wealth from the bottom of the wealth scale to the top. This hyperfinancialization of the economy has transformed large sectors of finance into extractive enterprises rather than the stable lending systems needed for real community economic activity.

Part of the solution is to strengthen and expand institutions in the financial sector, such as community development credit unions and banks, that are rooted in local economies and have allocating capital for socially useful enterprises, such as local food cooperatives, affordable housing, and renewable energy projects, built into their missions. Other solutions include creating new intermediaries and

monetary mechanisms operating in the public interest. Forming such local institutions should help keep money in communities, discourage capital flight, and displace predatory lenders in the financial services market. Solutions include:

Create a Network of State-Level Banks.

Each state should have a partnership bank, similar to the one in North Dakota, which has been operating since 1919. These banks would hold government funds and private deposits and partner with community-based banks and other financial institutions to extend credit to enterprises and projects that contribute to the local economy's health. The North Dakota experience has shown how a state bank can provide financial and economic stability and curb financial speculation. North Dakota has more local banks than any other state and can claim the nation's lowest bank default rate.

Found a National Infrastructure and Reconstruction Bank.

Instead of channeling Federal Reserve funds into private Wall Street banks, Congress should establish a federal bank to invest in public infrastructure and partner with other financial institutions to invest in reconstruction projects. Investments that help make a transition to a green economy should get priority.

Tax Financial Speculation. As discussed, the 1 percent contributed to the 2008 economic meltdown partly by moving vast amounts of wealth into the speculative “shadow banking system.” Our society is still paying the mammoth social costs of this brush with disaster in the forms of home foreclosures, unemployment, and the destruction of personal savings. Taxing the speculative activities of the 1 percent would discourage reckless risk taking and encourage investment in the real economy that would benefit the 99 percent.

A “Wall Street” tax on financial transactions could generate game-changing funds for reinvesting in the transition to a financial system that works for everyone. Speculative trading now accounts for up to 70 percent of trades in some markets. Commodity speculation unnecessarily bids up the cost of food, gasoline, and other basic necessities for the 99 percent. A modest federal tax on every transaction that involves the buying and selling of stocks and other financial products would both generate substantial revenue and dampen speculation. For ordinary investors, the cost would be negligible, like a tiny insurance fee to protect against financial instability. Estimated revenue: \$150 billion a year.¹⁰⁵

Expand the Community Financial Sector.

One alternative to Wall Street is a parallel community investment sector that would have its own institutions and capital intermediaries as well as a distinctly different mission. Between 1980 and 2000, the “socially responsible investing” sector grew, with a small community investment sector of local credit unions, community loan funds, and community-oriented banks. By 2014, over 800 community development financial institutions had been certified, including 492 loan funds, 176 bank-holding companies, banks or thrifts, 177 community development credit unions, and thirteen venture capital firms.¹⁰⁶ Since the 2008 economic meltdown, what is called the “impact investing” sector—additional intermediaries that offer combinations of debt financing, equity investments, and grants to support new ventures—has grown, opening up new capital for community-based enterprises.

3. Transform the Corporation

The concentration of corporate power has endangered our economy, democracy, and planetary health. Incremental checks and balances have not worked, so the only alternative now is to end corporate rule and break up large corporate entities. Besides reining in and regulating today’s corporations, we must also rewire the corporation as we know it.

Unfortunately, the Supreme Court's 2011 "Citizens United" decision moves the tide of change in the wrong direction, giving corporations greater rights to use their wealth and power to change our economy's rules. An essential first step in shifting the balance is to reverse this decision through congressional action or constitutional amendment.

While we all know responsible and ethical people working in corporations, the current corporation by design is hard-wired to maximize profits for absentee shareholders and reduce the cost of employees, taxes, and environmental rules that shrink profits. Under this regime, large global corporations can dodge responsibilities and obligations to stakeholders, including employees, localities, and the environment. These corporations may pledge fealty to the rule of law, but they spend inordinate sums lobbying to rewrite or circumvent regulations and laws, and many shift operations to other countries and secrecy jurisdictions, as described above.

At root is a power imbalance. Concentrated corporate power is unaccountable—and the countervailing forces of government oversight or organized consumer power are weak. Looking at the roots of the 2008 economic meltdown, we can

see that it is a case study of how some in the financial sector wielded their political power to rewrite government rules, dilute accounting standards, intimidate or co-opt government regulators, or outright lie, cheat, and steal. Millions of people lost their homes to foreclosure while financial institutions that admitted to deceptive practices and reckless lending received bailouts from taxpayers. The homeownership rate and median wealth declined while asset values quickly rebounded and wealth gains flowed to the top 1 percent.

Transforming the corporate form is not antibusiness. Such changes strengthen rooted and productive enterprises that contribute to our real economy by creating a framework of fair rules and a level playing field. The emergence of such business networks as the American Sustainable Business Council (ASBC) are an alternative to the US Chamber of Commerce, which mostly lobbies on behalf of the 300 largest global corporations. ASBC advocates for "high road" and sustainable development policies that will build an ecologically durable economy with broad prosperity.¹⁰⁷ Other business networks that move us to a next system include the Small Business Majority, Main Street Alliance, Business Alliance for Local Living Economies, and Business for a Fair Minimum Wage.

Corporate governance today is oriented to the primacy of shareholder capital and power. But there are other ways to rewire the corporation to advance social goods, such as broader ownership and accountability. And communities have used various fair-minded strategies to assert rights and power in relation to corporations. Some strategies are incremental, and thus have a limited impact, but are worth understanding as part of the lay of the land in rule changes.

Consumer Action. As stakeholders, consumers have leverage to change corporate behavior. For example, consumer boycotts forced the Nestle Company to revamp its unethical infant formula marketing campaigns around the world and the textile giant J.P. Stevens to soften its hardball anti-worker tactics.¹⁰⁸ More recently, many customers dropped Uber when such corporate practices as attempting to break a taxi workplace action at New York City airports in opposition to Donald Trump's Muslim travel ban came to light.¹⁰⁹ New technologies enable consumers to become more sophisticated in using their clout—forcing companies to treat employees and the environment better.¹¹⁰

Socially Responsible Investing. Shareholders can also exercise power by

avoiding investments in socially injurious corporations. In 2015, over \$8.72 trillion in investments were managed with ethical criteria.¹¹¹ Companies do change some behaviors to protect their brands.

Shareholder Power for the Common Good. For over forty years, socially concerned religious and secular organizations have entered the shareholding process to improve corporate behavior and management. Shareholder resolutions, coupled with educational and consumer campaigns, have often done the trick. A high-profile case in point is the movement to pressure US companies to stop doing business in South Africa during the apartheid era. Similarly, the movement to divest from the fossil fuel industry has now shifted over \$5.2 trillion in assets out of the 200 major coal, oil, and gas companies and toward investments in the new energy economy.¹¹²

Rule Changes Inside Corporations to Foster Accountability. Internal changes in corporate governance like these could also broaden accountability and corporate responsibility:

Shareholder Power Reforms. Today, many barriers impede the exercise of real shareholder power and oversight. Corporations should be required to have real

governance elections, not handpicked slates that rubber stamp management choices.

Board Independence. Public corporations should have independent boards—free of cozy insider connections—that hold management properly accountable.

Community Rights. Communities deserve greater power to require corporate disclosure about taxes, subsidies, worker treatment, and environmental practices, including the use of toxic chemicals.

Reengineering the Corporation. All the corporate reforms described above, however, are no substitute for fundamentally rewiring the corporation with a new ethical and legal framework. As a prime example, federal law could redefine the social contract between corporations and society through a new federal charter according stakeholders other than absentee shareholders the right to fundamentally redefine the corporation.

Federal corporate charters. Most US corporations are chartered by states, and some, including Delaware, have such minimal accountability requirements that thousands of global companies now call them home. But corporations above a certain size that operate across state and

international boundaries should need a federal charter to operate. Such charters could redefine the governing board of a corporation to include all major stakeholders: consumers, employees, localities where the company operates, and environmental organizations.

Banning Corporate Influence in Our Democracy. Corporations should be prohibited from any participation in our democratic systems, including elections and bankrolling candidates, political parties, party conventions, and advertising aimed at influencing the outcome of elections and legislation. As noted, for starters the Supreme Court’s wrong-headed “Citizens United” decision would have to be reversed.

The rewired corporation may still employ thousands of people and be innovative and productive, but it will be much more accountable to a wider circle of shareholders, to the communities in which it operates, and to customers, employees, and the common good.

Accountability to broader stakeholders. Executive pay practices, we have learned from the run-up to the 2008 financial crisis, affect far more than shareholders. Effective pay reforms need to encourage management decisions that take all

corporate stakeholders' interests into account, not just those of shareholders but also of consumers and employees and the communities where corporations operate. Boards can be restructured to include worker and home-base community representation. Germany's long tradition of "codetermination" involves broader stakeholder boards for both workers (often appointed or elected by unions or worker councils) and geographical representatives.¹¹³

B Corporations. B Corps are for-profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. Today, more than 2,000 Certified B Corps from fifty countries and over 130 industries work together to redefine success in business. Businesses are evaluated and scored on wages, working conditions (such as family leave, stock options for employees, and flexible hours), environmental practices, community involvement, procurement practices, energy use and waste management, as well as other criteria.¹¹⁴

The Durham, North Carolina-based Firsthand Foods had a strong B Impact initial score but joined a B Corp Clinic convened by the Business Sustainability Collaborative at North Carolina State's

Poole College of Management anyway. There, business owners, business students, and B-Corp evaluators together looked at ways to improve business practices and scores. Companies participating in the clinic ranged from Red Hat, an open source technology company with 9,300 employees worldwide, to Seal the Seasons, a local food company in sustainable packaging and distribution processes. "The reason I am in business is to demonstrate that you can do business this way and be successful," said Tina Prevatte, co-CEO of Firsthand Foods. "We believe in this movement of business as a tool for doing good."¹¹⁵

VI. GAME-CHANGING CAMPAIGNS

In our current national political arena, many of the solutions put forward here are not on the policy agenda. But the groundwork for a future political realignment can be laid now, starting with issues upon which there is a broad consensus. We know, for example, that the wider public supports raising the economic floor by raising minimum wages. When asked about the characteristics of the society that they would like to live in, most Americans describe something with much lower inequality, akin to Sweden.¹¹⁶

So what is our strategy for building power and winning some of these rule changes? And are there strategic “pressure points” that can accelerate the transition to the next system? Foremost, we must press forward with game-changing policy campaigns that capture the imaginations of key constituencies. A proven shortcoming of incrementalist strategies—working for small and symbolic victories—is that they fail to stretch our imaginations as to what is possible and desirable and so fail to fully engage us and harness our collective energy.

A “game changing” campaign would ideally do three things:

- Reduce the concentration of wealth and power, break up institutions, or redistribute wealth and power.
- Open up economic opportunities for those excluded in the current system.
- Capture the imagination of a wide constituency of people willing to fight for policy change.

Here let us look at three complementary examples of game-changing campaigns that put forward big ideas that would dramatically improve the quality of people’s lives and simultaneously address systemic drivers of inequality. The hope is that these will inspire readers and activists to come up with more game-changing campaigns.

A. DIVIDENDS FOR ALL: LINKING COMMON WEALTH TO ECONOMIC STABILITY

The wealthy receive property income and rents from private assets that they own. So why shouldn't the rest of society also receive property income from what we own together? Our shared wealth includes the broadcast spectrum, the atmosphere, intellectual-property protections, and much more. Environmental entrepreneur Peter Barnes proposes that we charge for the use of common assets and pay out dividends to every resident—one person, one share. This commons-based revenue could fund a universal basic income, as discussed earlier. Additional property income will help the vast majority of workers who have seen their incomes stagnate, while also curbing resource depletion and making it easier to manage the commons.

Alaska Permanent Fund. For more than thirty years, all residents of Alaska have received yearly dividends from the Alaska Permanent Fund. The Fund administers every Alaskan's claim on the oil wealth extracted from the publicly owned North Slope oil fields. Governor Sarah Palin worked to expand the levy. These dividends have ranged from about \$1,000 per person per year to over \$3,000. Children have legitimate claims

too, so a dividend of \$2,000 boosts a family of four's income by \$8,000. Alaskans can automatically assign part or all of their dividends to tax-sheltered college savings accounts or tax-deductible charities.¹¹⁷

Cap Carbon and Pay Dividends. To slow climate change, we must raise the cost of unleashing carbon. A "cap and dividend" system would cap the amount of carbon dumped in the atmosphere and charge producers a dumping fee. The revenue would be paid out to consumers per capita, partly to offset higher energy costs. Congress tried to implement a "cap and dividend" regime in 2009, when the idea was still too new. The growing urgency of the climate crisis, combined with stagnating living standards for most Americans, could give the idea new legs.¹¹⁸

Stakeholder Policy. One way to structure funding outlays from commonwealth sources is to create "stakeholder funds" for young adults to spend on creating a future for themselves. One such option is thoughtfully framed in *The Stakeholder Society* by political scientists Bruce Ackerman and Anne Alstott.¹¹⁹ As a means to overcome the deep inequalities of opportunity that open up between affluent families and everyone else, the authors contend, young adults would receive

a cash stake that they can invest in a business, additional educational training, an asset, or other capital expenditures that open up opportunities. One consideration in designing such an approach is identifying and appealing to a constituency that would advocate for and defend the policy.

B. TAXING EXCESSIVE CARBON POLLUTION AND INVESTING IN GREEN INFRASTRUCTURE AND A JUST TRANSITION TO RENEWABLES

We know that putting a price on carbon would help the economy become less dependent on fossil fuels. Countries such as Norway, Sweden, and Denmark have had carbon taxes since 1991. Norway has one of the highest carbon taxes in the world and bumped it up in 2012, providing incentives for conservation and renewable energy use as well as investments in new technology, including a facility that tests carbon-sequestration technologies.¹²⁰

We also know that to reduce climate change's severity we must keep fossil fuels in the ground. Oil, gas, and coal companies currently have five times the amount of reserves that can be safely burned without catastrophic climate change. But who will bear the economic

and social costs of the transition to a clean-energy economy?

Although wealthy American households have much greater carbon footprints than others do, the cost of paying carbon taxes could regressively fall on those with less financial means if energy prices rise without rebates or offsets for low-income consumers. A transition to clean energy would also disproportionately harm communities that have built their livelihoods around energy extraction and production, such as towns in the Kentucky and West Virginia coalfields or the near coastal refineries.

At the global level, developing countries like China, Brazil, and India have argued that the wealthy industrialized nations bear the largest responsibility for a century of emissions and should reduce their consumption deeper and faster than countries that did not share in the industrial revolution's benefits.

Perhaps it is now time for finger pointing to give way to cooperation. We need to work together to make sure that no single community and sector disproportionately shoulders the energy transition's costs. We need to engage new constituencies for the energy transition and avoid pitting workers and communities against

environmental policies. And the goal for now should be creating different kinds of “transition funds” for different groups.

The revenue for these transition funds should come disproportionately from large carbon consumers and be used to offset negative impacts. Those who drive the biggest cars, take more plane trips, and own and heat multiple homes should pay the most. Currently, these big carbon users do not bear the full economic and environmental costs of their high living standard.

Direct a Carbon Tax for Green Jobs

Fund. Carbon taxes can be configured in many ways to avoid adverse impacts on low-income people and maximize the tax’s transformative potential. For example, as described above, several cap-and-dividend proposals would put a price on carbon consumption but also provide per capita rebates to offset increased energy costs. Low carbon users, who typically are lower income households, would come out ahead while heavy carbon users would pay more. The Healthy Climate and Family Security Act, introduced in the 114th Congress, would direct revenue from a carbon tax to a Healthy Climate Trust Fund that would pay annual dividends to US citizens. A portion of revenue could be directed to

sustainable infrastructure investments to lower energy costs and create local jobs in retrofitting buildings and installing solar, wind, and other renewable resources.¹²¹

Create a Carbon Hog Levy on Private Jets for a Just Transition Fund.

The private luxury jet is a prime example of profligate carbon consumption. Every hour jet-setters spend aloft, the *Helium Report* notes, burns as much fuel as an entire year of driving.¹²² One proposal is to tax private jet consumption and dedicate revenue to what labor organizer and environmental activist Tony Mazzocchi called a “Just Transition Super Fund.”

Economist Robert Pollin, author of *Green Growth*, estimates that a fund of \$200 million a year would provide adequate benefits and green-job training for displaced fossil fuel workers. Providing transition assistance and ecological remediation to communities that have historically borne the costs of fossil fuel extraction would require raising an additional \$200 million annually over twenty years.¹²³ One source of revenue for this fund could be a luxury sales tax and annual surcharge on private jet ownership.

Taxpayers already subsidize private jet travel by paying billions of dollars to keep small airports near resorts operating.

Many of these airports, like the one carrying golfers on private jets to Oregon's Brandon Dunes, offer no commercial airline service at all.

The United States currently sports over 11,000 luxury private jets, and the industry will build an estimated 9,200 new aircraft worth \$270 billion over the next decade. The typical private jet owner: a sixty-three-year-old male with a net worth of \$1.66 billion, according to the Wealth-X research firm.¹²⁴ Jet owners like these can easily afford a new tax for flying high.

Taxing Luxuries to Capitalize a Global Green Fund. Other luxury consumption taxes could also fund global climate change remediation. The Global Green Fund—established by the United Nations Framework Convention on Climate Change to help developing countries adapt to, mitigate, and counter climate change—has been capitalized by contributions from U.N. member countries. Some could meet their funding pledges by taxing luxuries at home.

Countries from Taiwan to Sardinia have levied or explored luxury taxes on energy-guzzling performance cars, second homes, and yachts. The United States could set a global example by adopting a similar approach. Jurisdictions

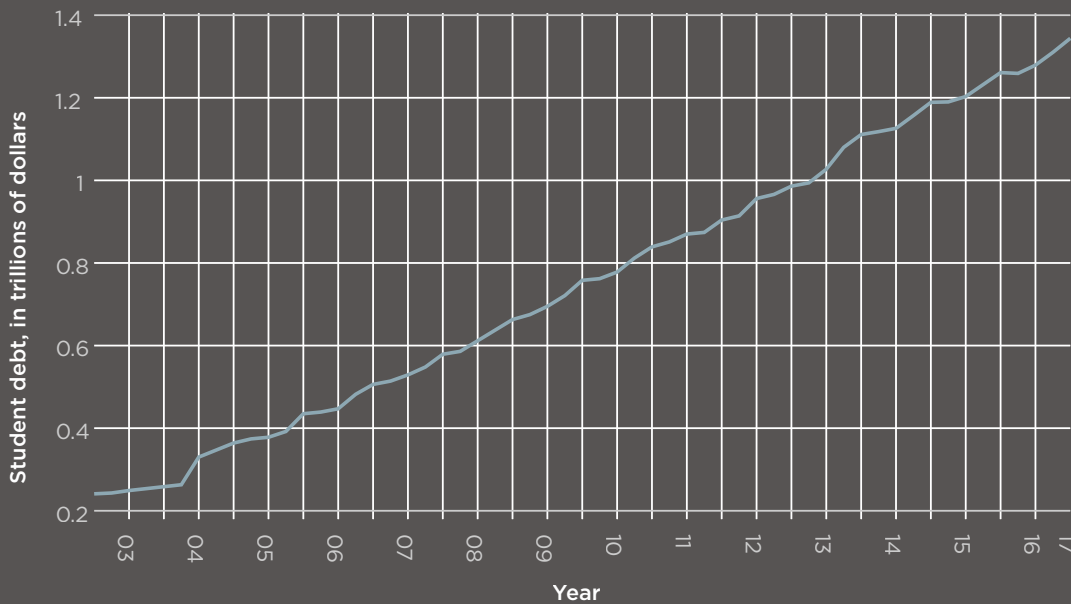
will naturally worry that taxing luxury consumption steeply might hurt jobs in certain sectors. Preventing this fallout is why a functioning Just Transition Super Fund is so important. As Joe Uehlein, the founder of Labor Network for Sustainability, points out, workers support energy transition in such places as Germany that have robust “just transition” programs.¹²⁵

Climate change activists, fossil fuel industry workers, and front-line communities affected by extractive industries all form a natural and powerful constituency for policies that create transition funds for building a more equitable future.

C. EXPANDING TUITION-FREE HIGHER EDUCATION

The debt load that young people are taking on to attend college today is staggering. Over 44 million Americans hold federal student loans totaling \$1.4 trillion dollars, more than the nation's total credit card debt.¹²⁶ In 2016, seven in ten graduating seniors borrowed for their educations. Their average debt now tops \$37,000—the highest figure for any class ever.¹²⁷ Already, some 43 percent of borrowers—together owing \$200 billion—have either stopped making payments or have fallen behind on their student loans. Millions are in default.¹²⁸

Student Loan Debt in the United States, 2003-2017



Source: Federal Reserve Bank of New York, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/HH-D_C_Report_2017Q1.xlsx.

This burden doesn't fall just on young people. Many parents and other family members are taking out student loans for their children, and many former collegians are still struggling to pay off student loans more than a decade after they attended college.

There is no economic benefit to this system whatsoever. Indebted students delay starting families and buying houses, experience compounding economic distress, and feel too strapped to take entrepreneurial risks.¹²⁹ A 2007 Princeton study showed that students graduating with student debt were more likely to choose high-salary jobs and to shy away

from lower-salary public interest or mission-based work.¹³⁰

One student debt source is largely hidden. State and federal tax cuts for the wealthy have led to cuts in higher education budgets. Forty-seven states now spend less per student on higher education than they did before the 2008 economic recession.¹³¹ In practice, we have shifted tax obligations away from multi-millionaires and onto states and middle-income taxpayers. And that has forced colleges to raise tuition costs and fees.

Foregoing estate taxes takes a particularly mean bite out of the higher education

budget. In 2005, for instance, Congress stopped sharing federal revenue from the estate tax—a levy on inherited wealth paid only by multi-million dollar estates—with the states. Most state legislatures failed to fill the gap with a state tax, so they lost billions in revenue over the past decade. The thirty-two states that let their estate taxes expire could be raising billions in revenue, according to the Center on Budget and Policy Priorities.¹³² The resulting tax breaks went entirely to multimillionaires and billionaires and contributed to tuition increases.

Look at how this reverse-Robin-Hood scheme plays out in states. California used to raise almost \$1.4 billion a year from its state estate tax. Now, that figure is down to zero. And since 2008, average tuition in California has jumped by over \$3,500 at the state’s four-year public colleges and universities. Florida lost \$700 million a year and raised tuition nearly \$2,500. Michigan lost \$155 million a year and hiked average tuition by over \$2,200.¹³³

An Opportunity Trust Fund. One debt-buster would be an “education opportunity fund” for reducing or eliminating college student debt. A version of this plan articulated by Bill Gates Sr. would make college tuition grants to

young people who complete civilian or military service. Gates called this a “G.I. Bill for the next generation.”¹³⁴ Sourced by a dedicated tax on estates, inheritances, and wealth, state and federal funds like these could also underwrite tuition-free education, support early childhood education, or pay for universal asset savings accounts, so called “baby bonds.”

Possible sources of revenue for these funds could include:

Robust Estate and Inheritance Taxation.

Over the past decade, the federal estate tax has been weakened through higher exemptions and the increased use of loopholes, such as the Grantor Retained Annuity Trust (GRAT). Closing these loopholes and instituting a graduated rate structure would reduce the undue influence of concentrated wealth and generate additional revenue. Reform proposals, such as the Sensible Estate Tax Act and the Responsible Estate Tax Act, would generate between \$161 billion and \$200 billion in estimated additional revenue over the next ten years.¹³⁵

Net Worth Tax on Fortunes. There is no direct wealth tax in the United States, but lawmakers should consider levying an annual net worth tax on wealth over a high threshold—say, \$50 million—at a low tax

rate of 1 to 2 percent. Annual net worth taxes in other OECD countries, including England, Netherlands, France, Italy, and Spain, have been part of a constellation of policies that reduce concentrated wealth and generate revenue for opportunity investments. Such taxes are typically levied on wealthy households who pay annual rates under 0.5 percent of net worth. With rising inequality, France doubled its wealth tax in 2011, and there are renewed calls to reinstate wealth taxes in Germany and Spain.¹³⁶

Luxury real estate transfer taxes. In 2016, San Francisco voters levied a real estate transfer tax on all properties selling for \$5 million or more. The measure is expected to raise \$44 million a year, according to the *San Francisco Chronicle*. The city plans to use part of the revenue to provide free tuition and a \$500 annual grant for textbooks and supplies to any San Francisco resident who enrolls at San Francisco City College. Anyone who has lived in the city for at least a year qualifies, regardless of income. “Even the children of the founders of Facebook,” said city supervisor Jane Kim.

Promoting progressive taxes on inheritances and wealth by itself will garner limited public support. Advocates of estate tax repeal have spent millions to

save billions for wealthy families, partly by confusing the public about who actually pays the estate tax.¹³⁷

However, such taxes are more feasible when coupled with a program that expands opportunity and engages a potentially powerful constituency. In Washington state, for instance, state estate tax revenue capitalizes an “education legacy trust fund,” so the tax withstood a ballot initiative challenge in 2006, thanks to the support of parents, students, educators, and others.¹³⁸

Presidential candidate Bernie Sanders said at a Philadelphia town hall in 2016 that he is 100 percent certain about one thing. If millions of young people stood up and said that they are “sick and tired of leaving college \$30,000, \$50,000, \$70,000 in debt, that they want public colleges and universities tuition-free,” then, he predicted, “that is exactly what would happen.” Sanders is right: Imagine a political movement made up of the 44 million households that currently hold \$1.4 trillion in student debt.¹³⁹

CONCLUSION

A review like this one that presents the negative impacts of inequality and proposes solutions can sometimes evoke wary responses: Is this feasible? And, if so, what if reducing inequality unintentionally damages the economy and undermines freedom?

These are legitimate considerations, which figure into the design of the next system, but the bigger, more important questions are: What if reducing inequality unleashes positive benefits? Greater equality really does have the potential to shift a number of the drivers that break down social cohesion.

Change of the magnitude needed to reverse inequality has to flow from a shared vision of what is possible. The labor leader Samuel Gompers grew up rolling cigars and later became the longest serving president of the American Federation of Labor. When asked, “What does labor want?” he is often misquoted as saying, “More.”¹⁴⁰

What he actually said, in 1893: “What does labor want? We want more schoolhouses and less jails; more books and less arsenals; more learning and less vice;

more work and less crime; more leisure and less greed; more justice and less revenge; in fact, more of the opportunities to cultivate our better natures.”

What do we want in our next system? We want less inequality and more dignified work that meets real needs, not market metrics. We want less toil and more recreation. We want the full weekend and a few more weekdays to delight in one another and to care for the young, the old, and those in need.

We want the material basis of economic prosperity and the ecological bounty required to thrive—clean water and air, fertile soil and wholesome food. We want time and attention to care for the earth, to be generous stewards and protectors of the commons, passing it on undiminished to future generations.

We want our children to flourish, their bodies to grow strong and healthy, with full voices and laughter. We want to protect all of us from toxic chemicals and toxic social divisions. We want our elders to be honored and treasured, to grow old with dignity and in community.

We want connection, so people know one another and have time to take care of one another. We want vibrant communities of art, creativity, song, and learning. We want culture and sport to be untainted by hyper-consumerism and to express our highest aspirations. We want greater equality as a good in itself but also for the good it brings.

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