THE NEXT SYSTEM PROJECT

TRANSFORMATIONS

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REVERSING INEQUALITY

Unleashing the Transformative Potential of an Equitable Economy

SUMMARY

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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 these inequalities more acute. Their observable and felt harm to our civic and economic life is corroborated by research from many disciplines, suggesting that a move toward a more egalitarian society would certainly realign most aspects of economic and social life for the better. But inequality keeps moving in the wrong direction, toward more concentrated wealth and power. What is the pathway to real change?

For starters, we must understand what we are up against. Inequality does not spring mainly from technological change and globalization, though these both compound and complicate the growing rift. *But the main drivers and accelerators of inequality are the imbalances of power and agency embedded in our political and economic system.*

Reducing inequality requires a "next system" analysis and playbook that advances systemic solutions for a systemic problem. 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, especially the dramatic reductions in inequality between 1940 and 1975, when the rules of the economy were focused on building broader prosperity primary for white households. Future approaches to reducing inequality must tackle the racial bias at the core of the rigged rules of the economy.

That said, part of the path *is* uncharted. In particular, grappling with ecological limits to growth means that many of the New Deal and post-World War II policies that reduced inequality for earlier generations will no longer work 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.

This summary will not include a review of inequality data nor summarize the widespread negative impacts of inequality on our democracy, economy, and civic life. One compelling argument spelled out in the longer paper is the tremendous societal benefits of transitioning to a more equitable society.

UNDERSTANDING THE DRIVERS OF INEQUALITY

While there is a growing understanding that extreme income and wealth inequality has negative impacts on society, *most proposed solutions fail to address deeper systemic drivers*. If we misdiagnose an illness, we are likely to prescribe an insufficient or even dangerous remedy. If we misdiagnose the causes of inequality, we will likely put forward misguided solutions.

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. Other policy-makers 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 do to 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.

Power Shift. 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.

Since the mid-1970s, we have lived through a massive power shift. Organized labor's clout has ebbed while transnational corporations' power has grown. 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.

Rule Changes. As power shifts, so do the rules of the economy. These rules 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.

Declining Return to Labor. 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. These rule changes have shifted the US economy into a new stage, with the surge in capital income working as a driver of income and wealth concentration over the past 15 years. Wealth is now creating more wealth at an alarming rate.

Systemic Racism. Another overlapping systemic driver is institutional racism's role in distorting income and wealth outcomes, particularly for Blacks and Latinos. Rigged rules in the economy have historically been, and continue to be, racially biased—which means the solutions we need have to be grounded in an understanding of historic and present day systems of racial advantage and disadvantage.

AN AGENDA TO REDUCE EXTREME INEQUALITY

Several types of policy changes are required to reduce and reverse extreme inequality. We need rules and policies that:

- lift the floor
- level the playing field
- break up the over-concentration of wealth and check unbridled corporate power.

Beyond these interventions, we also need policies and practices that:

- "rewire" capitalism for shared prosperity.

Together, these four categories provide a framework for developing possible solutions.

1. Rule 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. Many European social democracies are considerably more equal thanks partly to their strong social safety nets and policies that maintain a high floor of income, health, and basic services.

Examples of rule changes that raise the floor include:

- Minimum wages set at living wage level
- Universal health care
- Robust labor standards and protections
- Free access to universal education, lifelong learning, and job retraining
- Universal basic income
- Job guarantee
- Adequate and compassionate welfare support

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.

2. 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:

- Investment in education
- Reductions in money's distorting influence on politics
- Revision of free trade policies

3. Rule Changes that Deconcentrate Wealth. While promoting policies that lift wages and level the playing field, we must also reverse the rigged rules that exacerbate wealth concentration. Otherwise, wealth will continue to concentrate, further polarizing the economy and society. Examples explored in detail in the report include:

A. Tax policies that tax the top:

- Restoring progressive taxation
- Elimination of tax preference for income from wealth
- Protection and expansion of inheritance taxation
- Elimination of the cap on social security withholding taxes
- Taxation of wealth (in the US and globally)

B. Enforcement and expansion of anti-trust laws

- Breaking up mega-banks, with expansion of the community and public banking sector

- Ending policies that make dominant financial institutions "too big to fail"

C. Revamp CEO pay and corporate incentive systems

- Eliminate taxpayer subsidies for excessive executive pay
- Penalize companies for excessive state and local CEO/worker pay gaps

4. Rule Changes that Rewire the System. Some interventions effectively rewire institutions, reduce the excesses of extractive capitalism and consumption, and promote broader income and wealth distribution. These include:

- Broader ownership and worker ownership of enterprises
- Policies and institutional forms that set a better balance between corporate interest and public interest
- A transparent financial system designed for people and planet

A. Broader Ownership of Enterprises. 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 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.

B. 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. 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. 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:

- Creation of a network of state-level public banks
- Creation of a National Infrastructure and Reconstruction Bank
- Taxation of financial speculation
- Expansion of the community-based financial sector

C. 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. Interventions range from consumer action to socially responsible investing to changing the rules inside and outside corporations to foster greater accountability. These include shareholder power reforms, board independence, and establishment of community rights.

Fundamental change will require reengineering the corporation as we know it, including:

- Federalizing the corporate charter
- Banning corporate influence in our democracy
- Establishing accountability to broader sets of stakeholders
- Expanding the benefit corporation sector

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 public support. We can build power and win some of these rule changes by focusing on strategic "pressure points" that can accelerate the transition to the next system. This will require pressing 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.

We need game-changing campaigns that would 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

Three examples of such campaigns explored in depth in the full report are:

- Dividends for all: linking common wealth sources of revenue to programs that expand economic stability
- Taxation of excessive carbon pollution, with revenue directed to investments in renewable energy, green infrastructure, and a just transition
- Expansion of tuition-free higher education by creating education trust funds funded by progressive taxes on wealth

UNLEASHING EQUALITY

The initiatives outlined in this report could change our current political economy in fundamental and beneficial ways—revolutionizing, for example, corporate structure and banking and finance. Moving to an egalitarian society, one that healed the wounds of extreme inequality and exclusion, would itself help forge a new system.

In a more egalitarian society where people are more economically secure, we can break free of the "work-and-spend cycle", break free of exploitative bosses, corporate control, and the ever present fear of joblessness. We can be free to stay more rooted and to build up our communities and the infrastructure of people-centered democracy (and protest). An egalitarian America would be a fundamentally different—more congenial and resilient—place.