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LIBERTY
AND
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FOR ALL



HOW TO SAVE OUR
MIDDLE CLASS WHEN JOBS
DON'T PAY ENOUGH

PETER BARNES

Author, Capitalism 3.0

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WITH LIBERTY AND DIVIDENDS FOR ALL

How to Save Our Middle Class
When Jobs Don't Pay Enough

PETER BARNES



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With Liberty and Dividends for All

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Berrett-Koehler Publishers, Inc.

235 Montgomery Street, Suite 650

San Francisco, California 94104-2916

Tel: (415) 288-0260, Fax: (415) 362-2512

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First Edition

Paperback print edition ISBN 978-1-62656-214-1

PDF e-book ISBN 978-1-62656-215-8

IDPF e-book ISBN 978-1-62656-216-5

2014-1

Interior design/art: Laura Lind Design. Editor: Elissa Rabellino. Cover design: Brad Foltz. Proofreader: Henri Bensussen. Credit cover art: iStock.com/peterspiro. Indexer: Katherine Stimson. Production service: Linda Jupiter Productions.

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the pursuit of Happiness.

–From the US Declaration of
Independence

One Nation under God, indivisible, with liberty and justice for all.

–From the US Pledge of Allegiance

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For Jonathan Rowe

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PREFACE

I wrote this book because I'm appalled by the decline of America's middle class and outraged when our leaders mislead us about what we can and can't do to stop it.

That said, I'm not by nature an angry person, and this isn't an angry book. I'm a practical person who has started and led businesses for most of my working life. I want to fix capitalism rather than scuttle it. I therefore take a seasoned and, I hope, reasoned look at how our economy presently distributes income and how it might do so better in the future, without in any way diminishing liberty.

We must face the fact that jobs alone won't sustain a large middle class in the future—there just aren't, and won't be, enough good-paying jobs to do that. This means we need broadly shared streams of *nonlabor* income. The best way to create those streams isn't with taxes; rather, it's with dividends from wealth we own together. Such dividends make political as well as economic sense. They rest on conservative as well as liberal principles and can unite our country rather than divide it.

Dividends of this sort aren't redistribution; they're a way to allocate income fairly in the first place so that there's less need to redistribute later. Nor are they government transfers or private charity. Rather, they're legitimate property income.

Dividends from co-owned wealth won't only halt the decline of our middle class; they'll have ancillary benefits as well. They'll dampen capitalism's overuse of nature and, at the same time, supply enough debt-free purchasing power to keep our economy humming.

Of course, I'm fully aware that just because an idea makes sense doesn't mean it will be adopted. Powerful industries and individuals will fight dividends from co-owned wealth. On top of that, our political system is so dysfunctional right now that it can barely keep our government open, much less fix our economy's deeper flaws. Still, I advance this simple and sensible idea because, while system changes don't happen often, they do happen occasionally. A crisis comes, and suddenly what was once unthinkable becomes not only plausible but necessary. Think back to the 1930s and 1940s if you want reminders.

That doesn't mean we should passively wait for a crisis to hit. Quite the contrary: the crisis of 2008 was wasted because we *didn't* prepare for it beforehand. System change requires work that begins well before the reigning system falters. The time to lay the groundwork for universal dividends, therefore, is now. This book shows why and how.



A Simple Idea

*Every individual is born with legitimate claims
on natural property, or its equivalent.*

—Thomas Paine

We live in complicated times. We have far more problems than solutions, and most of our problems are wickedly complex. That said, it's sometimes the case that a simple idea can spark profound changes, much as a small wind can become a hurricane. This happened with such ideas as the abolition of slavery, equal justice under law, universal suffrage, and racial and sexual equality.

This book is about another simple idea that could have comparable effects in the twenty-first century. The idea is that all persons have a right to income from wealth we inherit or create together. That right derives from our equality of birth. And the time to implement it has arrived.

Why is this? America today is on the brink of losing its historic vision. From our beginnings we aspired to build a meritocratic middle class, and by the mid-twentieth century we had largely done so. Though millions of Americans remained marginalized, our median income—the income that half of Americans earn more than—was enough for a family to live comfortably on, often with only one wage earner. Further, most Americans assumed that their children would live better than they did—in other words, that our broad middle class would not only survive but expand.

But that's not what happened. As we approached and then entered the twenty-first century, our economy continued to grow, but almost all of its gains flowed to a wealthy few. This disturbing fact has been amply noted by presidents and many others, but what hasn't yet been identified is a remedy that can work.

This book contends that paying dividends from wealth we own together is a practical, market-based way to assure the survival of a large middle class. It can be implemented by electronically wiring dividends to every legal resident, one person, one share. Such a reliable flow of nonlabor income can sustain a large middle class for as long as we have a prosperous economy. What's more, it can *keep* our economy prospering by continuously refreshing consumer demand.

The core of this idea isn't new. Thomas Paine, the patriot who inspired our war of independence from Britain, proposed something quite like it in 1797. And Alaska has been running a version of it since 1980. The main things that would be new are the scale and sources of income.

This old/new idea is ready for prime time for two major reasons. One is the lack of alternatives. Our current fiscal and monetary tools can't sustain a large middle class, nor can increased investment in education, infrastructure, and innovation. None of these old palliatives address the reality that for the foreseeable future, there won't be enough good-paying jobs to maintain a large middle class.

A second reason is the current stalemate in American politics. Solutions to all major problems are trapped in a tug-of-war between advocates of smaller and larger government. Dividends from co-owned wealth bypass that bitter war. They require no new taxes or government programs; once set up, they're purely market-based. And because they send legitimate property income to everyone, they can't help but be popular among voters of all stripes.

Would dividends from co-owned wealth mean the end of capitalism? Not at all. They would mean the end of *winner-take-all* capitalism, our currently dominant version, and the beginning of a more balanced version that respects all members of society, including those not yet born. This better-balanced capitalism—we could call it *everyone-gets-a-share capitalism*—wouldn't solve all our problems, but it would do more than any other potential remedy to preserve our middle class, our democracy, and our planet.



ODDLY ENOUGH, THIS BOOK BEGAN as an idea for a board game. The idea came to me while I was teaching a course at Schumacher College in England. I wanted to make the point that capitalism—that is, a market economy with private property and profit-maximizing corporations— isn't necessarily inconsistent with a healthy planet or an equitable society. I projected a PowerPoint slide of the iconic Monopoly board game and said, "Imagine a game like this, except with slightly different rules. There'd be private property, profit-seeking corporations, winners and losers, but at the same time, nature and the middle class would fend for themselves and flourish."

At the time, I had only an inkling of what those slightly different rules might be, but I had no doubt they could be written. My inspiration was that Monopoly itself had been invented by Quakers to demonstrate the ideas of nineteenth-century American economist Henry George. If I could invent a similar game in which markets respected nature and narrowed the gap between rich and poor, perhaps it could inspire a real-world economy that did the same things. (Alas, Monopoly was later copied, patented, and promoted by Parker Brothers, now Hasbro, as a celebration rather than a critique of capitalism.)

After I returned to the United States, game ideas began circulating in my head. I started making prototypes and testing them with my teenage son and his friends. As the game evolved into more elaborate versions, I realized that

a game by itself wasn't enough. I needed to describe the actual economic system the game was seeking to evoke. Ergo, I needed to write a book.

The game itself is still in development. It turns out that it's not as easy to create a game as it is to write a book—the numbers have to be right, the play has to be fast, and many things have to sync. Perhaps one day I'll finish the game, or perhaps someone else will. (I invite game developers to contact me.) But the book I started is finished and in your hands.



IT'S IMPORTANT TO DISTINGUISH between *economics* and *our economy*. The terms are often conflated but refer to different things. *Economics* is a body of thought; *our economy* is a system that functions in the real world. As has been said in other contexts, the map is not the territory. Our economic system is real terrain, and economics is a picture of it, necessarily inaccurate and incomplete.

Much has been written about the deficiencies of contemporary economics. I'm more concerned about the defects of our actual economy. But to understand those defects—and to fix them—we must start with a sufficiently wide lens, which is why conventional economics is a problem. It obscures what needs to be seen and thereby inhibits us from changing what needs to be changed.

Our economy today is a huge and complex system. As such, it's subject to patterns of behavior that characterize

other complex systems. It's also, like every other system in the universe, part of several larger systems. How you see it depends on where you stand and how wide your lens is. You see it differently if you zoom in on a single part of the system, zoom out to the system as a whole, or zoom out even farther to the larger systems in which our economy is nested.

Many economists view our economy as a self-contained whole. They know it's affected by our society and planet—and conversely, that it *affects* our society and planet—but the impacts in both directions are hard to quantify. It's a lot easier not to count or consider them.

In this book I approach our economy as *both* a self-contained system and part of two larger systems, American society and the biosphere. Viewing it as a part of these larger systems enables us to see how it's out of harmony with both of them, as well as how it might be brought into harmony. Viewing our economy as a self-contained system lets us see how the interactions between its internal parts drive its overall behavior—and how small changes in the structure of those interactions can trigger big changes in aggregate outcomes.

I also adopt a wider-than-conventional view of the *purpose* of an economy. Most economists believe that ever-increasing production is the principal, if not the only, goal of an economy, because if we produce enough stuff, everything else will sort itself out. This mode of thinking made sense in the days when we lacked material goods. Those days, however, are over. Our current surplus production capacity demands two higher purposes for our economy:

ensuring the security of a large middle class and synchronizing human activity with nature. Neither of these objectives arises automatically from producing more stuff. Unless they're consciously built into our economy's structure, we're highly unlikely to achieve them.

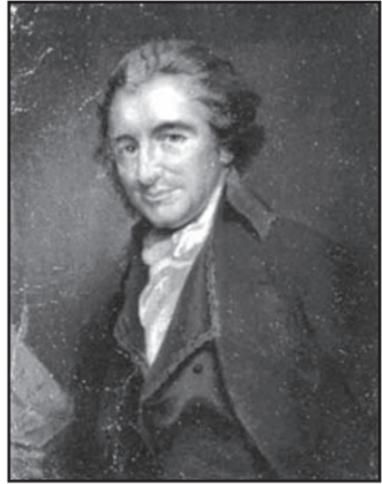


WHILE I PROPOSE TO EXPAND THE GOALS of our economy, I don't propose to alter the means by which it achieves them. I wish to be very clear about that. As an entrepreneur, I strongly believe in markets, though markets with more players than today's. And I believe just as strongly in private property, tempered by a certain amount of community property. My ideal economy is a multistakeholder equilibrium in which profit-driven businesses, a large middle class, and the earth's vital ecosystems—acting through legally empowered agents—balance each other for the good of all.

I'm not sure where these beliefs place me on the political spectrum; I draw from economists and politicians of several persuasions. Still, if I had to pick a single thinker who most inspired this book, it would be the American essayist Thomas Paine.

Paine led an extraordinary life. Unlike other Founding Fathers, he wasn't a man of privilege. He was born in England to a Quaker corset maker and sailed, penniless, to Philadelphia five months before the Concord Minutemen fired "the shot heard 'round the world." He then wrote *Common Sense*, the best-selling pamphlet that inspired America to declare independence from his native coun-

try. Still impoverished after independence, he returned to England and was charged with libel against the king. Fleeing to France, he was elected to the revolutionary convention despite speaking no French. He narrowly escaped execution twice: once by William Pitt's writ, then by Robespierre's. Returning to America, he died in New Rochelle, New York, in 1809, largely forgotten.



Thomas Paine (1757–1809)

(Portrait by Auguste Milliere, 1880,
National Portrait Gallery)

After *Common Sense*, Paine's most famous essays were *The American Crisis* ("These are the times that try men's souls"), *The Rights of Man*, and *The Age of Reason*. His last great work was *Agrarian Justice*, which, despite its title, isn't about agriculture but about property rights.

"There are two kinds of property," Paine contended. "Firstly, natural property, or that which comes to us from the Creator of the universe — such as the earth, air, water. Secondly, artificial or acquired property — the invention of men." The latter kind of property must necessarily be distributed unequally, but the first kind rightfully belonged to everyone equally, Paine thought. It was the "legitimate birthright" of every man and woman, "not charity but a right."

Paine's genius was to invent a way to distribute income from shared ownership of natural property. He proposed a "National Fund" to pay every man and woman fifteen pounds at age twenty-one and ten pounds a year after age fifty-five. (These sums are roughly equal to \$17,500 and \$11,667, respectively, today.¹) Revenue for the fund would come from "ground rent" paid by landowners, the privatizers of natural wealth. Paine even showed mathematically how this could work.

Presciently, Paine recognized that land, air, and water could be monetized, not just for the benefit of a few but for the good of all. Further, he saw that this could be done at a national level. This was a remarkable feat of analysis and imagining. If that's Paineism, then call me a Paineist.



BEFORE WE GET TO THE HEART OF THE BOOK, let me introduce a few key terms.

Dividends are periodic payments made by corporations, mutual funds, or trusts to their shareholders or beneficiaries. Such payments vary from time to time, depending on the earnings of the payers, but at any given time they're the same for each share.

In capitalist economies, dividends are a major form of nonlabor income. To receive them, you must have a legal *right* to receive them. At present, most of those rights are held by a small minority. But there is no reason why

ownership of such rights can't be expanded, and good reason why they should be.

Systems—which is to say, conglomerations of parts that continuously interact—are what maintain order throughout our universe, and we should be grateful for that. For purposes of this book, the two most important things to remember are: (1) a system as a whole is distinct from, and greater than, the sum of its parts; and (2) a system's structure determines its outcomes.

Our economy, obviously, is a highly complex system, and making sense of it is never easy, even for economists. But patterns common to all systems tell us, or at least strongly suggest, that wealth distribution within an economy depends more on the design of the system than on the efforts of its individual participants. If a roulette wheel has eighteen black pockets, eighteen red ones, and two green ones, balls will land in the green pockets roughly two thirty-eighths of the time no matter how we throw them. That's why the house always wins. Similarly, if an economic system is structured to distribute income in a certain way, that's what it will do. No matter what we *want* it to do, that's what it *will* do.

The middle class is the group of households sandwiched between the lap of luxury and the yaw of poverty. Though the actual term wasn't used until the mid-nineteenth century, Americans have long believed that it's hugely important for such a class to be as large, prosperous, and secure as possible. The current reality, however, is that our middle class is in steady decline and there's no end

in sight. The old props for sustaining it—public education, labor unions, and economic growth—aren't working anymore. New props are needed, but no one knows what they are.

Co-owned wealth is the underappreciated complement to privately owned wealth. It consists of assets created not by individuals or corporations but by nature or society as a whole. This little-noticed cornucopia includes our atmosphere and ecosystems, our sciences and technologies, our legal and financial systems, and the value that arises from our economic system itself. Such co-owned wealth is hugely valuable but at the moment is barely recognized.

To heighten our awareness of co-owned wealth, I use the adjective *our* in places you might not expect. For example, instead of *the* atmosphere I say *our* atmosphere, and instead of *the* money supply I say *our* money supply. Using an impersonal article implies that co-owned wealth belongs to no one. I prefer to speak as if it belongs to everyone.

Rent is one of the most important and underused concepts in economics. As I (and most economists) use the term, rent is the money paid to businesses over and above their costs of labor and capital in competitive markets. It includes premiums paid for scarce things and excessive profits extracted by monopolies, oligopolies, and industries coddled by government. As I (but few economists) also use the term, rent is, in addition to the above, a potentially virtuous flow of money paid to all of us for use

of our co-owned wealth. (See chapters 4 and 5 for a detailed discussion of rent.)

Rent isn't talked about much in polite society; it's the eight-hundred-pound gorilla that everyone pretends isn't there. Economists in particular rarely mention it, not out of ignorance but because they find it awkward to offend those who extract it disproportionately. The time has come, though, to bring rent out of the closet, for it holds the key to saving our middle class and planet.

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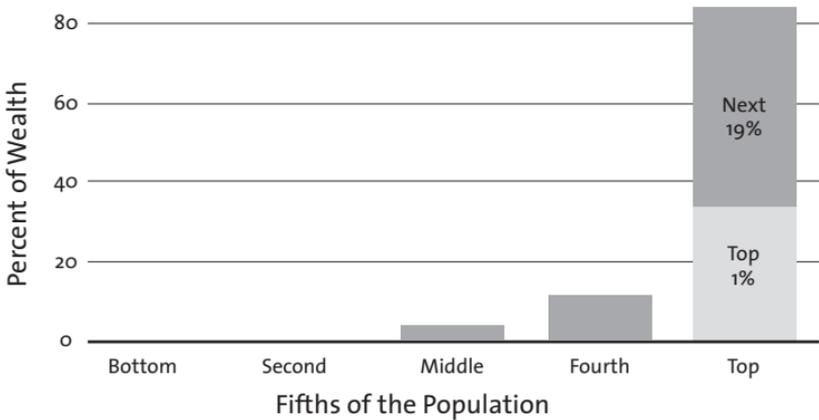
The Tragedy of Our Middle Class

*They're closing down the textile mill across the railroad tracks,
Foreman says these jobs are going, boys,
and they ain't comin' back . . .*

— Bruce Springsteen

In 2011, Occupy Wall Street brought to the fore a truth that many had known but few had spoken of: a hugely disproportionate share of wealth in America is concentrated in the hands of the top 1 percent. This thin upper crust currently owns 35 percent of all wealth, while the next 19 percent claims 53 percent. This leaves the

Figure 2.1: US WEALTH DISTRIBUTION (2010)



Source: Edward N. Wolff¹

remaining 80 percent of Americans with—well, not much as shown in figure 2.1.

Anyone looking at this graph can't help but ask, "Where's the middle?" It simply isn't there. This isn't the kind of society most Americans want, yet it's what we now have.

This sort of society has two major problems. One is the vastness of the inequality, which has numerous negative side effects. As studies have shown, highly unequal societies have more homicides, obesity, heart disease, mental illness, drug abuse, infant mortality, and teenage pregnancies than do more egalitarian societies.² Highly unequal societies also suffer from a loss of spirit. When people know their economic system is stacked against them, they cease to believe they can attain security and comfort, much less riches. They also lose faith in their political system, which, mirroring their economy, makes a mockery of the American vision.

The second major problem is that while incomes of the rich have soared, incomes of the middle class have declined. According to the 2010 US Census, the median household income fell 8 percent in the last decade. More tellingly, since 1970, the incomes of men in their twenties and early thirties have fallen by 30 percent.³

This is historically new. When I was growing up, middle-class families with one breadwinner could send their children to college without incurring huge debts. Wages were rising, housing and education were affordable, and health insurance was within reach. Those days are gone now, and today's middle class is as anxious about its future as my parents were hopeful.



AMERICA'S FOUNDERS ARE REMEMBERED for many things, but one of their greatest inventions is often forgotten: the mass middle class. "The class of citizens who provide at once their own food and their own raiment may be viewed as the most truly independent and happy," wrote James Madison.⁴ "They are also the best basis of public liberty and the strongest bulwark of public safety. The greater the proportion of this class to the whole society, the more free, the more independent, and the more happy must be the society itself."

With this vision in mind, one state after another abolished primogeniture, the feudal system under which eldest sons inherited all of their parents' land, while early Congresses reserved land in every new town for universal public education. Thirty years later, the French so-

ciologist Alexis de Tocqueville observed in America “a democratic people, where there is no hereditary wealth, every man works to earn a living; labor is held in honor; the prejudice is not against but in its favor.”⁵

Things changed with industrialization, immigration, and the robber barons. A large class of factory workers arose in the cities. They earned pitiful wages, toiled sixty hours a week, and lived in squalid, overcrowded tenements. But they joined unions, and after half a century of struggle, those unions lifted wages, reduced working hours, and helped make housing and higher education affordable for the majority. Thus was born the world’s first mass middle class, a fulfillment of the Founders’ vision in a postagrarian economy.

The quarter century after World War II was the golden age of America’s middle class. Twenty million veterans went to college or bought homes thanks to the GI Bill. Green-lawned suburbs sprouted like mushrooms after rain. Families filled their garages with cars, tools, and barbecues. In 1980, Ronald Reagan proclaimed that it was “morning in America,” and most voters believed him, or wanted to.

In fact, it was already after noon, though few realized it at the time. Like agriculture before it, manufacturing had begun shedding workers. Not only were foreign manufacturers outcompeting ours; American companies were moving factories overseas. Americans were told not to worry—we’d become a service economy, and white-collar jobs would fill the blue-collar void. But food serv-

ers, retail clerks, and health aides were paid considerably less than their industrial counterparts. A steadily tightening squeeze, with wages stagnating and prices of middle-class necessities rising, took hold.

In addition to deindustrialization, three other long-term phenomena gained momentum after 1980: globalization, automation, and deunionization.

Globalization. Since the early 1800s, economists have argued that trade is good and more trade is better. Their rationale is the theory of comparative advantage. As David Ricardo reasoned, if England could make textiles more efficiently than Portugal, and Portugal could make wine more efficiently than England, then both countries—including their workers—would benefit by trading woollens for port.

But trading in physical goods is one thing and globalization is something else: it is the integration of separate national economies into a single world economy. In any capitalist economy, products are made wherever costs are lowest and sold wherever prices are highest. When the economy is local or national, businesses have some incentive to support the general good—to pay taxes, train workers, contribute to their communities, and so on. But when corporations can scour the planet for the lowest costs and avoid contributing to *any* community, that is no longer true. The big winners, then, are corporate owners, and the big losers are workers and communities.

Automation. When Henry Ford launched the Ford Motor Company in 1903, cars were built by skilled craftsmen one at a time. Ford had many technical patents, but his most revolutionary invention was the assembly line. Within five years he was making one Model T every ninety-eight minutes. By 1929 his River Rouge plant was turning out a car every ten seconds.

The fear of eighteenth-century English weavers was that textile machinery would put them out of work. And it did. What Ford showed in the twentieth century was that automation could have the opposite effect. By making complex products so cheap that millions could afford to buy them, it vastly increased the number of workers needed. On top of that, it enabled large, automated companies to pay decent wages. This was the beginning of industrial America's mass middle class.

Today, automation is displacing workers again. ATMs replace human tellers, e-mail replaces postal workers, computerized trading replaces floor traders, and so on. The result is an American workforce that's splitting into well-paid elites at the top and low-paid service workers at the bottom, with few decently paid punters in the middle.

Deunionization. An affluent economy is a prerequisite for a large middle class but by no means a guarantee. To sustain a large middle class, a nation must consciously and continuously temper the natural impulse of capitalism to minimize labor costs. That has been done by various countries in various ways, but there's always pushback and never a guarantee that gains for the middle class will endure.

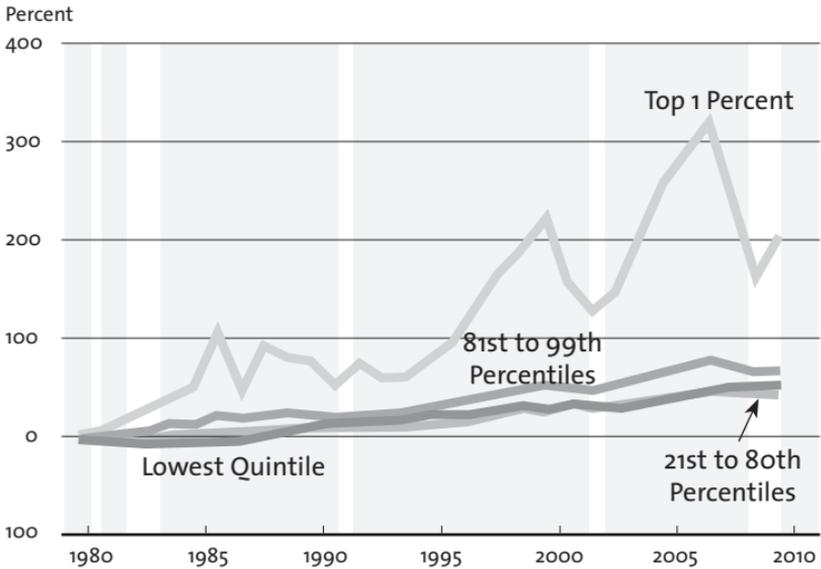
Sustaining a large middle class requires counterbalancing the profit-maximizing imperative of corporations. For much of the twentieth century, the requisite counterforce came from labor unions. In the United States and Western Europe, labor unions finished the job that Henry Ford started. Through collective bargaining, they drove up wages and shortened the workweek; through political power, they won such benefits as unemployment insurance and Medicare. In countries like Germany and Sweden, where labor unions have remained strong, so has the middle class. In the United States, by contrast, union membership peaked in 1945 at 35 percent of nonagricultural workers, then started declining. It's now at 12 percent of the total workforce and just 6 percent of private sector workers, and the trend isn't likely to reverse.⁶



THESE THREE PHENOMENA, though distinct, aren't unconnected. They all result from the dominant corporate imperative to maximize profit. And as figure 2.2 shows, they've all shifted money from the middle of our economic ladder to the very top.⁷

Americans were surprisingly slow to notice that the golden era of the middle class had passed. As former Labor Secretary Robert Reich has explained, three factors masked the middle class's descent. First, women entered the labor force in large numbers, providing two incomes for many households. Second, many Americans

Figure 2.2: THE RICH GET RICHER
(1980–2010)



Source: Congressional Budget Office.

made ends meet, or tried to, by working overtime and taking second jobs. And third, middle-class families maintained their lifestyles thanks to a vast expansion of consumer debt. But these masks couldn't last forever. When the credit bubble burst in 2008, so did the accompanying illusions.⁸

All this is a tragedy not just for hard-hit families but also for the idea of America as a nation of self-reliant citizens. And the tragedy is far from over. According to a recent study, three-quarters of Americans nearing retirement have less than \$30,000 in retirement savings.⁹ Even with Social Security, they'll end their lives in trailer homes. On top of this, millions of today's twentysome-

things will be saddled for decades with student loans they can't repay.



THE DECLINE OF THE MIDDLE CLASS is now in full view, and Americans are hungry for solutions. But what are they? With much fanfare, President Barack Obama in 2009 created the White House Task Force on the Middle Class, headed by Vice President Joe Biden, to find some. The task force dutifully held hearings, consulted experts, and published reports. To no one's great surprise, the reports recommended more education, job training, child care, "green jobs," retirement savings, and other piecemeal measures. Most would be beneficial as far as they went, but they wouldn't go very far, and they certainly wouldn't fix the causes of middle-class decline.

Republicans, meanwhile, have been calling for more tax and spending cuts, deregulation of business, and privatization of Social Security and Medicare. It's not immediately obvious how such policies would strengthen the middle class, but Republicans insist that they would. They argue that unburdened "job creators" would generate rising incomes for all, without unions or higher minimum wage laws. It could happen, I suppose, but I wouldn't bet on it. Far more likely is that wealth would flow upward at an even faster rate.

Think tanks have been busy, too, cranking out papers with lots of bullet points. Mostly, these papers revamp policies that worked a few decades ago. But as financial

prospectuses are required to say, “Past performance is no guarantee of future results.” Indeed, in history, the way forward is rarely the way back.

Here are the four most-touted pro-middle-class policies and the reasons why they won’t halt the current decline:

Stimulus. Though they quarrel over details, most economists agree that when recession strikes, government should rekindle the economy by adding money to it. Democrats prefer to do this through direct spending, Republicans through tax cuts. The Federal Reserve often plays along by lowering interest rates or printing money through a process called “quantitative easing.”

Such fiscal and monetary pump-priming often perks up the economy for a while, but it doesn’t fix the causes of middle-class decline. As we’re seeing nowadays, it’s easy for GDP and corporate profits to grow without more income flowing to the middle class.

Job creation. Listen to any politician and you’ll hear bold promises to spur job creation. The underlying premise is that more private sector jobs will save the middle class and that given enough incentives, profit-seeking entrepreneurs will create them.

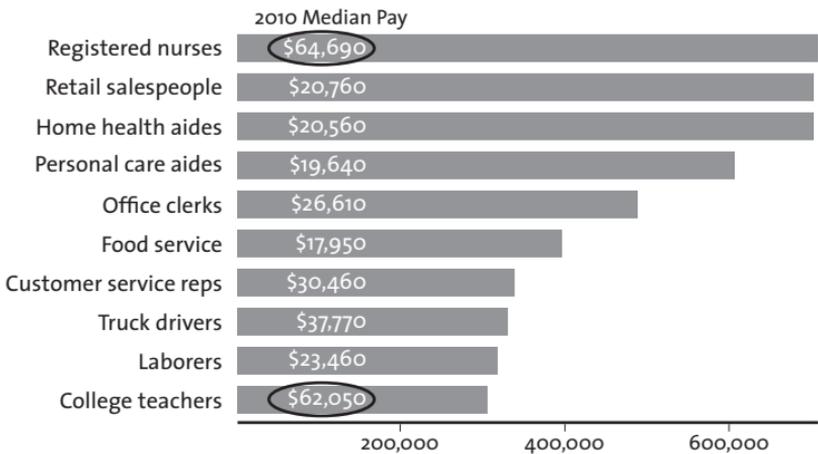
There’s no question that the middle class needs jobs. But it doesn’t follow that jobs by themselves can sustain a large middle class in the future. Most jobs today pay barely enough to make ends meet. What a large middle class needs is *good-paying* jobs in large numbers, and those simply aren’t being created.

In the heyday of America's middle class, jobs at IBM and General Motors were often jobs for life. Employers offered health insurance, paid vacations, and good pensions. Workers' pay and responsibilities tended to rise with seniority. In today's globalized economy, by contrast, good wages and long-term relationships are rare. Workers are expendable—often they're literally "temps"—and their benefits are shrinking. And that's unlikely to change.

It's also unlikely that jobs of the future will pay more than today's (adjusted for inflation). In unionized industries like autos and airlines, two-tier contracts are now the norm. This means that younger workers get paid substantially less than older ones for doing the same work.

Nor is the picture brighter in other industries. Figure 2.3 shows the US Labor Department's list of the ten fastest-growing occupations.¹⁰

Figure 2.3: TOP TEN GROWTH OCCUPATIONS
(2010–2020)



What these numbers tell us is that the middle class in 2020 will consist largely of nurses and teachers. Never mind that these occupations depend in one way or another on public funding, which nowadays is shrinking. The deeper question that leaps from these numbers is: Where are the millions of good-paying private sector jobs that are needed to sustain a large middle class? The Labor Department doesn't say. Nor does anyone else.

Education. About a year before the financial meltdown, President George W. Bush told a friendly Wall Street audience, "Income inequality is real—it's been rising for more than twenty-five years. And the reason is clear: we have an economy that increasingly rewards education and skills because of that education."¹¹ The solution, he argued, was for young people to study harder and schools to teach better.

Education—by which I mean both academic and vocational—is a worthy endeavor in its own right, so there's every reason for America to invest more in it than we now do. But we mustn't delude ourselves into thinking that education will cure inequality or sustain a large middle class. It won't.

The reason is simple though not immediately obvious. While it's true that people with college degrees earn more than people without them, it doesn't follow that cranking out college graduates creates more high-paying jobs. It's a logical fallacy, called the *fallacy of composition*, that what works for a few will work for all. Increasing the supply of college grads doesn't increase the demand

or the pay rate for them. It gives us better-educated taxi drivers, salespeople, and carpenters, but not better-paid ones. As economist Lawrence Mishel has written, “Boosting college graduations will not materially address either past or future inequalities. In fact, it will exacerbate the already deteriorating pay and benefits facing young college graduates and lead to falling wages among all college graduates.”¹²

The same is true for job training. As economic historian Joyce Appleby has observed, “It is true that there are businesses that require labor and individuals who would like jobs but don’t qualify for them. And it is true that job training can help. But it doesn’t follow that job training programs reduce unemployment or poverty. The reason is that poverty and unemployment are not much influenced by the qualifications of the workforce. They depend, rather, on the demand for labor.”¹³

Innovation. American companies love to innovate, and they do it very well. That leads to clever new products and more efficient production processes, but it doesn’t lead to more good-paying jobs. In fact, it may lead to fewer.

Consider Apple, the world’s most valuable company and exemplar of American ingenuity. Apple’s brilliant products are designed in Silicon Valley but made almost entirely in China. What’s more, Foxconn, Apple’s low-wage Chinese manufacturer (and also Dell’s, Hewlett-Packard’s, and Intel’s), has broken ground on a new factory to make robots. Its goal is to “hire” one million ro-

bots, displacing hundreds of thousands of Chinese workers. “Robots don’t complain, or demand higher wages, or kill themselves,” the *Economist* noted wryly.¹⁴

Then there’s Apple’s neighbor Google, which along with its online services is developing a driverless car. If it catches on, it will be an awesome innovation, but not one that cab or truck drivers will like. Will FedEx stick with humans when mechanical drivers are a fraction of the cost? Not likely.

And what are we to make of the “insourcing” of manufacturing jobs that has recently raised hopes in the Midwest? North Canton, Ohio, for example, used to be home to the Hoover Vacuum Cleaner company, which once employed seven thousand people there. By 2007, Hoover had closed all its US factories and moved them to Mexico and China. It was therefore big news in North Canton when a company called Suarez Industries announced that it was moving a heater factory there from China, seemingly reversing the direction of globalization.

Unfortunately, Suarez needs only 250 local workers to churn out 10,000 heaters a week. How can they do that? “We reengineered the Chinese heater,” the production manager explained. The Chinese model had 192 screws; the revamped model has 31. So yes, thanks to innovation, some manufacturing jobs are returning to America, but they aren’t many, and they don’t pay well. When Hoover left town, it was paying assembly-line workers \$13 to \$17 an hour. Suarez will pay its screw turners the minimum wage, \$7.85 an hour as this is written.¹⁵

If stimulus, job creation, education, and innovation — helpful as they may be — can't sustain a large middle class in the twenty-first century, we'd better do some deep rethinking. And that means digging into all the sources of income within capitalism.



BROADLY SPEAKING, CAPITALISM CREATES two kinds of income. One is derived from physical or mental labor, the other from ownership of property rights. At this moment, the middle class gets nearly all of its income from labor. (I'm counting Social Security and pensions as deferred wages and salaries.) By contrast, the top 1 percent reaps the bulk of our economy's capital gains, dividends, and other forms of property income, which not coincidentally are taxed at lower rates than labor income. This arrangement works nicely for the rich but not so nicely for workers whose wages are being squeezed.

The question that needs to be asked is this: From where might the middle class get some nonlabor income? As far as I can tell, almost no one is asking this question today. The unchallenged assumption is that nonlabor income is fine for the top few percent, but everyone else should toil to make ends meet.

To be clear: I'm not saying that nonlabor income should be the primary source of income for most people; I'm saying that it should be a supplement. The rich would still get most of their income from property, and everyone else would still get the bulk of their income

from working. But everyone should also get *some* non-labor income as a birthright. Otherwise, we can kiss our large middle class goodbye.

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