Chapter 14
Epilogue: Can Capitalists Reform Themselves?

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Abstract After spending a decade as a journalist writing about rising income inequality and 2 years as an elected politician trying to do something about it, the author is convinced that the best chance that progressives have of bending the arc of the twenty-first century economy is with a message of inclusive prosperity. That means wholeheartedly embracing capitalism while ensuring that the wealth it creates is broadly shared. It also means embracing capitalists and convincing them that they, too, will benefit when others get a bigger slice of the pie. The moment is ripe for action. But a confrontational strategy of framing the plight of the twenty-first century middle class as a zero-sum political battle, one where the plutocrats have been winning at everyone else's expense, is not the answer. The stunning 2015 election failure of Great Britain's Labour Party serves as evidence to that effect. Most Americans understand that capitalism works as an economic system—just not as a social one—and that many of our most successful capitalists are the people responsible for its effectiveness. Thus the key is for plutocrats to realize it is in their best interest—and everyone else's—to participate in the solution by paying higher taxes. Such a stance has precedent. In the post-World War II era, civic-minded American business leaders were willing to advocate and pay increased taxes even though rates were much higher than they are now.

Keywords Capitalism • Inclusive prosperity • Income inequality • Progressivism • Plutocrats • American Dream

One summer day in 2015, I stood on an elegant stone deck overlooking a swimming pool on one side and a lush well-tended garden on the other. Behind me was a three-story brick mansion, easily worth $10 million, and in front of me was a group of Toronto's 1 %, including a couple of Canada's wealthiest businessmen. My job was to persuade them to vote for me, and for my party, which is promising to raise taxes on the rich to pay for a tax cut and more benefits for the middle class and the poor.

I won't pretend it was an easy sell. But after spending a decade as a journalist writing about rising income inequality and 2 years as an elected politician trying to

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do something about it, I'm convinced that the best chance that progressives have of bending the arc of the twenty-first century economy is with a message of inclusive prosperity. That means wholeheartedly embracing capitalism while ensuring that the wealth it creates is broadly shared. And it means embracing capitalists and convincing them that they, too, will benefit when others get a bigger slice of the pie.

For many on the left, this approach seems worse than a crime; it seems to be a mistake. After all, what the nineteenth-century socialists used to call "objective conditions" today seem to be lining up on the side of a pugnacious, progressive agenda.

Income inequality is surging worldwide—as Oxfam notoriously pointed out in 2014,[1] the combined wealth of the world's 85 richest people that year was equal to the wealth of the globe's bottom 50 %. CEO salaries are escalating—in 2012, the average CEO of a U.S. Fortune 500 company earned 350 times the salary of the average worker, compared to a ratio of 20 to 1 in the 1950s.[2] Meanwhile, middle class incomes have been stagnant or worse for the past three decades, and the economies of the western industrialized countries are barely growing.

There isn't much trickling down and, crucially for progressives, public opinion seems to be noticing. The financial crisis and the recession that followed it have made crony capitalism, especially where Wall Street is involved, an unavoidable issue for the right as well as the left. The hollowing out of middle class incomes, which had been masked by the pre-2008 credit bubble, was the starting point for both Jeb Bush and Hillary Clinton when they launched their presidential campaigns. A 600-page tome by a French economist whose title evokes Marx is a best seller (Thomas Piketty's *Capital in the Twenty-First Century*), and subpar growth across the western world has brought Keynes back into vogue.

Just as the stagflation of the 1970s set the stage for the Reagan and Thatcher revolution, now seems to be the moment for progressives to seize and reshape how we think about the political economy. The temptation is to go nuclear—to frame the plight of the twenty-first century middle class as a zero-sum political battle the plutocrats have been winning but whose outcome can now be reversed, to do to highly paid CEOs and billionaire hedge fund managers what Reagan and Thatcher did to unions and welfare recipients. Even Clinton, she of the $250,000 speeches to Goldman Sachs, is now calling for the "toppling" of the 1 %.[3]

But there's one big problem with this strategy. It isn't working. The most recent example is Britain, where the Labour Party this spring suffered its greatest defeat in three decades. Peter Mandelson, the former Labour cabinet minister and a leading

[1] Oxfam International, "Even It Up: Time to End Extreme Inequality," https://www.oxfam.org/en/campaigns/even-it-up

[2] Gretchen Gavett, "CEOs Get Paid Too Much, According to Pretty Much Everyone in the World," *Harvard Business Review*, September 23, 2014, https://hbr.org/2014/09/ceos-get-paid-too-much-according-to-pretty-much-everyone-in-the-world/

[3] Amy Chozick, "Campaign Casts Hillary Clinton as the Populist It Insists She Has Always Been," *New York Times,* April 21, 2015, http://www.nytimes.com/2015/04/22/us/politics/hillary-clintons-quest-to-prove-her-populist-edge-is-as-strong-as-elizabeth-warrens.html

strategist in Tony Blair's three successful elections, argues that the defeat happened because Labour misplayed the issue of rising income inequality.[4]

The mistake wasn't emphasizing Labour's egalitarian values and its belief in government's mission to "lean against inequality." In fact, Mandelson has praised Ed Miliband, the former Labour leader, for identifying the winner-take-all economy as a central issue for our time and spotting the essential fact that "since the global financial crisis, the public's intolerance for inequality has turned to outright anger about the polarization of incomes between the very rich and the rest."

But Mandelson believes Miliband struck the wrong note in his response to rising income inequality: "The bigger reason Labour lost the argument is that the British, on the whole, do not like income disparities being turned into class war. Earlier in his leadership, Mr. Miliband fought on a platform of social justice and fairness, using the language of 'one nation.' In the campaign, he seemed intent on pitting one half of the nation against the other."

There are good reasons to think Americans are equally averse to an eat-the-rich political response to income inequality. A growing body of research suggests that the connection between rising income inequality and public support for redistribution in the United States is a lot more tenuous than progressive common sense might suggest.

"Numerous political theorists suggest that rising inequality and the shift in the distribution of income to those at the top should lead to increasing support for liberal policies," Matthew Luttig, of the University of Minnesota, argues in a 2013 paper. "But recent evidence contradicts these theories. I empirically evaluate a number of competing theoretical predictions about the relationship between inequality and public preferences. In general, the evidence supports the claim that rising inequality has been a force promoting conservatism in the American public."

A separate study, by a group of scholars including Emmanuel Saez, Piketty's long-time collaborator and a leading income inequality researcher, confirmed that finding: "The median-voter theorem predicts that an increase in the demand for redistribution would accompany this rise in income concentration (Meltzer and Richard 1981). However, time-series evidence from survey data does not support this prediction. If anything, the General Social Survey shows there has been a slight decrease in stated support for redistribution in the U.S. since the 1970s, even among those who self-identify as having below-average income" (Kuziemko et al. 2013).

That's a terrible paradox for liberals. Rising income inequality, which makes progressive policies—including more redistribution—more urgent than ever, does not seem to be shifting public opinion in favor of such measures. The changing income distribution may even be making people more conservative.

There's now a lively and agonized debate among liberals about why that may be the case. One cause is surely the extent to which, over the past four decades, conservatives have shaped the ways in which all of us think about the economy. While the left was fighting—and winning—the culture war on values, the right was fighting—

[4] Peter Mandelson, "Why Labour Lost the Election," op-ed, *New York Times,* May 19, 2015, http://www.nytimes.com/2015/05/20/opinion/peter-mandelson-why-labour-lost-the-election.html

and winning—the culture war on the economy. From "Tax Freedom Day," to the "death tax," to debt and deficits, since the Reagan and Thatcher revolution, the right has defined and dominated the economic debate in the western industrialized world.

But another factor may be a new economic reality that progressive critics of surging income inequality can find difficult to acknowledge. Crony capitalism—that rigged economic game Elizabeth Warren speaks of so powerfully—is only one of the drivers of surging incomes at the top. Another is the "winner-take-all"[5] structure of the twenty-first century globalized knowledge economy, and the undeniable fact that at least some of the winners are succeeding because they are transforming our lives in valuable ways: Being a Steve Jobs delivers better returns than ever before for the particular genius entrepreneur, but it also happens to offer less employment for everyone else. Consider this—in the 1950s, when Detroit was America's engine of innovation, General Motors employed over 600,000 people. Today, when Silicon Valley is at the forefront of the technology revolution, two of its leading companies, Facebook and Google, employ jointly just 60,000.

Intuitively, Americans understand what is happening—they know that their wages and their jobs are being hollowed out, but they also realize that Silicon Valley whiz kids are driving the process just as surely as Wall Street banksters are. And they know that while the technology revolution that the late Jobs had led with his peers is threatening their incomes and security as workers, it is also vastly improving their experience as consumers. Like the early industrial revolution, today's wave of technological change is having a contradictory impact on those of us in the 99%—enriching our material lives even as it hollows out our jobs and wages. That's why, even in an age of rising income inequality and increasing middle class insecurity, the technology giants who are in the vanguard of the transformation are more likely to be lionized than reviled—witness the spontaneous iPad- and iPhone-lit vigils after Jobs' death.

The temptation for progressives is to view this sympathy for the plutocrats as what Marxists used to call "false consciousness": Bedazzled by the conservative message machine, unfortunate Americans are simply failing to recognize their true self-interest. That's the implicit view, for instance, of a recent scholarly study that concludes that middle class Americans who don't support redistribution are "prisoners of the American Dream" (Manza and Brooks forthcoming).

Jeff Manza, of New York University, and Clem Brooks, of Indiana University, take as their starting point the contradiction identified by Luttig and Saez—that, despite rising income inequality, "Americans have not increased their hostility to either inequality or the rich, nor have they increased support for redistributive taxes in recent decades." Their answer is belief in the American dream, which, they conclude, "is associated with significantly lower support for taxes and equality" (Ibid.).

But telling people they are brainwashed is rarely a good political strategy, and in this case it isn't even entirely true. In fact, the American Dream, in its narrow, hyper-meritocratic manifestation, is very much alive and well: In 1982, just 40 % of

[5] Alan Krueger, "Land of Hope and Dreams: Rock and Roll, Economics, and Rebuilding the Middle Class" (remarks, Rock and Roll Hall of Fame, Cleveland, June 12, 2013).

those on the Forbes 400 list of the richest Americans were self-made—they had built the businesses from which they derived their fortunes, not inherited them; by 2011, that figure had risen to 69 % (Kaplan and Rauh 2013).

The problem isn't rewards for the very best and the very brightest—lucky and smart and hard-working meritocrats are more richly compensated than ever in today's winner-take-all economy. What's going wrong in today's political economy is that jobs for those in the middle, and future opportunities for their children, are vanishing.

In a recent essay lamenting the lack of "sustained resistance to wealth inequality" in the United States, my compatriot Naomi Klein suggests this passivity is because, unlike leftist activists during the original Gilded Age, today we are "fully in capitalism's matrix" and are therefore unable to believe "in something else entirely."[6]

That's true—and most of us don't think it is a bad thing. We've tried the communist alternative, after all, and it didn't work out so well. The dominant concern about capitalism today isn't that it is failing as an economic engine—most goods and many services are getting ever cheaper and more abundant. Our complaint is that our political economy is doing a poor job of sharing the fruits of this twenty-first century capitalist cornucopia.

That's why income inequality is an essential issue for progressives, but also a complicated one. Most Americans understand that capitalism works as an economic system—just not as a social one—and that many of our most successful capitalists are the people responsible for its effectiveness.

This meritocratic effectiveness of the 1% is why the right wins when it succeeds in casting calls for more redistribution as a punishment of success. As former President Bill Clinton put it at his flagship conference last September, "I don't think most Americans resent someone doing well. They resent it if they're not getting a fair deal, too."[7] That's why eating the rich isn't the best way of making the case for more redistributive economic policy. We need to persuade the plutocrats themselves to embrace the idea, too. (For discussion on how Americans overall view inequality and approaches to address it, see Chap. 12.)

This is less of a paradox than you may think. Warren Buffett is right when he quips that there is a class war today—and that his class is winning. But the smartest plutocrats are starting to understand that mass democracy and an economic order skewed so strongly in favor of the 0.1 % won't be compatible for long. That's why socially minded pursuits like impact investing, corporate social responsibility, and inclusive capitalism are the high-status hobbies of many of today's plutocrats.

And warning that capitalism needs to do a better job of serving the middle class or it is doomed has become something of a mini-trend among the super-rich. Nick

[6] Naomi Klein, review of *The Age of Acquiescence* by Steve Fraser, *New York Times,* March 16, 2015, http://www.nytimes.com/2015/03/22/books/review/the-age-of-acquiescence-by-steve-fraser.html

[7] Associated Press, "Bill Clinton Defends Wife's Commitment to Poor, *Politico,* June 24, 2014, http://www.politico.com/story/2014/06/bill-clinton-hillary-clinton-poor-108249.html

Hanauer, a billionaire Seattle entrepreneur and tech investor, has written an open letter to his fellow “zillionaires,” cautioning that: “If we don’t do something to fix the glaring inequities in this economy, the pitchforks are going to come for us. No society can sustain this kind of rising inequality. In fact, there is no example in human history where wealth accumulated like this and the pitchforks didn’t eventually come out. You show me a highly unequal society, and I will show you a police state. Or an uprising. There are no counterexamples. None. It’s not if, it’s when.”[8]

Paul Tudor Jones, a Connecticut billionaire hedge fund manager who started his career trading cotton futures in New Orleans, sounded a similar warning in a TED talk in March 2015, predicting that “that gap between the wealthiest and the poorest, it will get closed. History always does it,” but predicting that history’s unwelcome tool might be war or revolution.[9] A better approach, Jones argued, was to build a fairer version of capitalism: “Capitalism has to be based on justice. It has to be, and now more than ever, with economic divisions growing wider every day. It’s estimated that 47 % of American workers can be displaced in the next 20 years. I’m not against progress. I want the driverless car and the jet pack just like everyone else. But I’m pleading for recognition that with increased wealth and profits has to come greater corporate social responsibility.”

Of course, it is one thing to support inclusive capitalism in theory, or a few charter schools, or some women entrepreneurs in Africa, or, in the case of Goldman Sachs, 10,000 small businesses. It’s quite another to tolerate higher taxes on your own income bracket. As Larry Summers, the former Secretary of the Treasury and chair of a recent *Center for American Progress* report called *Inclusive Capitalism*, put it— “A lot of CEOs ask me how they can help build a more inclusive capitalism. I tell them there is a simple place to start—pay more taxes.”[10]

It is time to remember that this is something civic-minded American business leaders were actually willing to do and to support in the postwar era. In 1950, to pay for the Korean War, America’s two main business organizations proposed a package of tax increases including raising the corporate tax to 50%, a special additional tax on the defense industry (which would profit from war spending) and a temporary increase in the income tax rate. In 1956, America’s leading business group called for a fuel tax to pay for highway building.

These and a dozen other similar episodes of pro-tax lobbying by American corporate chiefs, carefully documented by University of Michigan sociologist Mark Mizruchi in a 2013 book, seem almost fantastical today.

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[8] Nick Hanauer, “The Pitchforks Are Coming … for Us Plutocrats,” *Politico Magazine,* July/August 2014, http://www.politico.com/magazine/story/2014/06/the-pitchforks-are-coming-for-us-plutocrats-108014.html

[9] See TED website at https://www.ted.com/talks/paul_tudor_jones_ii_why_we_need_to_rethink_capitalism

[10] Larry Summers, personal communication, April 2015.

The willingness of postwar American business leaders to advocate higher taxes is even more astonishing because both companies and their bosses paid taxes at a much higher rate at the time than they do now. Corporate taxes accounted for around a quarter of all federal tax revenues in 1965. Today, companies pay around 10% of total revenue, and their share is dropping.[11] Personal tax rates on the wealthy used to be unthinkably high by today's standards, too—in 1963, the top tax rate was 91%.

There's a reason we called them the Greatest Generation—the elites of yesteryear were paid less and taxed more, yet they were much more willing to support further tax increases than their equivalents are today.

Progressives should call on the grandchildren of those postwar elites to do the same today. Even if only a fraction of the plutocrats are persuaded, middle class Americans will respond better to arguments that seek to include the winners of twenty-first century capitalism rather than demonize them.

On that balmy June evening speaking to the 1% gathered poolside in Toronto, I described going skating with my three children a few months earlier at the local public rink, just a few blocks away. As we made our way on to the ice, the richest man in Canada and his youngest daughter whizzed past. I had worked for his companies in the past, and we stopped to chat. He was enthusiastic about the rink—in his opinion, the nicest in town.

I had moved back to Canada just a couple of years earlier. I had been living in Moscow, London, and New York and writing a book about plutocrats, describing how they were forming a global community of peers, walled off from everyone else—a sort of virtual Galt's Gulch, Ayn Rand's fantasy valley to which her supermen retreated to escape the parasitic proletarians. The billionaire at the public skating rink, I told my 1% listeners, was illustrative of an inclusive society that had vanished in much of the world and was under threat even in Canada, where income inequality has increased over the past three decades but the chasm is still smaller than in the United States (TD Economics 2014; Corak 2013).[12]

All of us have a stake in preserving, building, or recovering inclusive prosperity—not least the plutocrats. Because, ultimately, there can be no Galt's Gulch. What Ben Franklin said at the signing of the Declaration of Independence is true of capitalist democracies today writ large: "We must hang together or, assuredly, we shall hang separately."

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[11] David Wessel, "How to Read Obama's New Budget," Brookings Institution website, February 26, 2014, http://www.brookings.edu/research/opinions/2014/02/26-how-to-read-obamas-new-budget-wessel

[12] In 1982, the top 1 % accounted for 7.1 % of the national income in Canada. By 2012, that share had increased to 10.3 %. Over the same span, the share of national income going to the top 0.1 % in Canada doubled from 2.5 to 5 %. This a big shift, but Canada is still much less unequal than the United States—the share of income going to the 1 % in Canada today is roughly the same as the share taken by the 0.1 % in the United States.

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