

II.B.3 PROPOSALS FOR REDUCING ECONOMIC INEQUALITY

Almost any action by any individual, firm, or public sector institution can be shown to have some impact on the distribution of income and wealth. But clearly some actions have larger impacts than others. Private and public sector activities, programs, and policy areas that are thought to have significant impacts on the distribution of income and wealth, and that are typically invoked as potential policy tools, include:

- 1) Taxes and direct cash transfers (progressive taxes, earned income tax credits, social insurance)
- 2) In-kind services (health care, social services)
- 3) Training and education (public and private education, on-the-job training)
- 4) Economic policy measures (macroeconomic policy, trade policy, minimum wage policy)
- 5) Institutional mechanisms and regulations (unionization, affirmative action, worker ownership)

For the most part measures such as these take for granted the larger social and economic institutional structure of American society. Some authors believe that more fundamental changes in these institutions may be necessary if inequalities of income and wealth are to be reduced in a significant way.

Box IIB-28 lists a number of books that address the issue of growing economic inequality in one manner or another. The notes that follow summarize what the authors of these books believe should be done about it.¹

II.B.3.a. Conservatives, Neo-Conservatives, Libertarians and Technocrats

1,2. **Newt Gingrich's** *To Renew America* and **Alvin and Heidi Toffler's** *Creating a New Civilization* are notably similar in both the tone and content of their economic vision. They

¹ The proposals reviewed here mostly address economic inequality in the United States. We consider proposals that address inequality outside the U.S., with emphasis on developing countries, in Section II.D.4.

BOX IIB-28. INEQUALITY: WHAT SHOULD BE DONE?

Texts reviewed:

CONSERVATIVES, NEO-CONSERVATIVES, LIBERTARIANS AND TECHNOCRATS

1. Newt Gingrich. 1995. *To Renew America*
2. Alvin and Heidi Toffler. 1995. *Creating a New Civilization: The Politics of the Third Wave*
3. Francis Fukuyama. 1992. *The End of History and the Last Man*

LIBERALS

4. Lester Thurow. 1996. *The Future of Capitalism*
5. Robert Reich. 1991. *The Work of Nations*
6. Mickey Kaus. 1992. *The End of Equality*
7. Sheldon Danziger and Peter Gottschalk. 1995. *America Unequal*
8. Robert Frank and Philip Cook. 1995. *The Winner-Take-All Society*
9. *Economic Report of the President*. 1995.
10. *Report of the Council of Economic Advisors*. 1995. Laura D'Andrea Tyson, Chair
11. Paul Krugman. 1994. *The Age of Diminishing Expectations*

PROGRESSIVES

12. Bennett Harrison and Barry Bluestone. 1988. *The Great U-Turn: Corporate Restructuring and the Polarizing of America*
13. Juliet Schor. 1995. "A Sustainable Economy for the Twentieth Century."
14. Arjun Makhijani. 1992. *From Global Capitalism to Economic Justice*

GREENS

15. Herman Daly and John Cobb. 1989. *For the Common Good*
16. Paul Ehrlich, Ann Ehrlich, Gretchen Daily. 1995. *The Stork and the Plow: the equity solution*
17. Paul Ekins et al. 1992. *The Gaia Atlas of Green Economics*
18. Donella Meadows, Dennis Meadows, Jorgen Randers. 1992. *Beyond the Limits to Growth*
19. World Commission on Environment and Development. 1987. *Our Common Future*

both paint glowing pictures of a libertarian techno-utopia of expanding economic prosperity for all. This new “brain-based economy” will be “dominated” by a “cognitariat” of “super-symbolic leaders” who “thrive on chaos.” Gingrich says that in the new Third Wave economy “your livelihood and security are likely to come from becoming an expert--maybe the world’s greatest expert--on one small corner of this vast infosphere.” Neither Gingrich nor the Tofflers discuss questions of economic inequality in any detail. Both acknowledge that even under conditions of general prosperity some persons may be disadvantaged. As a result, the Tofflers write, “we will need schooling, apprenticeships and on-the-job learning for work in such fields as the human services--helping to care, for example, for our fast-growing population of the elderly, providing child care, health services, personal security, training services, leisure and recreation services, tourism and the like.” The Tofflers also write of job opportunities “for domestic workers who are desperately needed in millions of two-income homes.”

3. **Francis Fukuyama**’s *The End of History* received much attention, just as the Soviet Union was breaking up, for its thesis that liberal democratic capitalism has decisively shown itself to be able to satisfy complex human needs more effectively than other systems. While Gingrich and the Tofflers are effectively silent about economic inequality, Fukuyama affirms it. He follows Nietzsche and celebrates *megalothymia*, the desire to be recognized as superior to others, as “a necessary precondition for life itself.” Fukuyama states that liberal democracy’s “long run health and stability rests on the quality and number of outlets for megalothymia that are available to its citizens.” He suggests that capitalist entrepreneurship, scientific and technological competition, and democratic political contests provide a mutually reinforcing set of megalothymotic outlets. He says that entrepreneurship attracts “the most talented and ambitious natures,” and that technology “makes possible the limitless accumulation of wealth, and thus the satisfaction of an ever-expanding set of human desires.” He warns darkly that *isothymia*, the desire to be recognized as equal with others, “will quickly run into limits imposed by nature itself.” He does not address issues of poverty.

II.B.3.b. Liberals and Neo-Liberals

4. In marked contrast to libertarians like Gingrich and the Tofflers, liberals like Lester Thurow and Robert Reich address the topic of growing economic inequality head-on. Both have been among the most consistent and articulate establishment academic voices sounding the alarm as economic inequality has continued to grow. Here is **Lester Thurow**, in *The Future of Capitalism*:

“A dramatic change has occurred in the distribution of income and wealth over the past twenty-five years and absolutely nothing has been done to reverse it. Policies to reverse current trends are not even being debated... [T]hese trends are produced by forces so fundamental that it is clear that they are not going to be reversed by marginal reforms in economic policies. Massive structural change will be required.” (pp 311-312)

It is remarkable then, to find that the concrete proposals put forward by Thurow (and by Reich; see below) for addressing economic inequality are in their most important respects not radically different from those of Gingrich and the Tofflers. In a nutshell, all four authors identify technological change as the driving force of modern economic life, and all four authors say that we are all going to have to accept this and adapt ourselves to it through massive investment in education and training. Here is Thurow’s sole specific recommendation concerning what we should do concerning rising economic inequality:

“The United States should commit to having the most skilled and best-educated labor force in the world. This means finding out who has the best-educated labor force at every level, being willing to chart our progress in catching up with and then passing whoever is best, and committing to doing whatever is necessary to achieve that goal. If something does not work it should be ruthlessly junked and other means adopted--but nothing will be allowed to stop us from reaching that goal.” (p 316)

5. In his best-seller, *The Work of Nations*, **Robert Reich** classifies American workers into three groups, “routine producers,” “in-service providers,” and “symbolic analysts.” Routine producers and in-service providers are both suffering, the first because their jobs (on assembly lines or as clerical workers) are moving overseas, and the second because their jobs (as bank tellers or gas station attendants) are being replaced by technology. But symbolic analysts are

having a field day. These are the scientists, engineers, bankers, lawyers, executives, accountants, consultants, planners, administrators, economists, architects, media people, editors, teachers and the rest of the professional strata.

Reich notes forcefully that technological change and globalization are allowing the symbolic analyst class to amass unprecedented wealth, while squeezing the routine producers and in-service workers ever tighter. He paints a picture of the professional top 20% of Americans “seceding” into their exclusive enclaves and withdrawing personal and financial support from the rest of American society and culture.

What is to be done? Reich suggests four things:

- 1) imposition of a truly progressive income tax, with few loopholes.
- 2) making sure that “any reasonably talented American child can become a symbolic analyst.” This would require such steps as: a) early childhood education and nutrition assistance; b) greater support for public education at all levels; c) “additional investment in universities, research parks, airports and other facilities conducive to symbolic-analytic work; and d) greater corporate participation in life-long training of employees.
- 3) seeking to upgrade lower-level production and service work through application of technology, reorganization, and training.
- 4) seeking to address the needs of the long-term poor, through a) job training programs; c) free child care for poor, single, working mothers; c) remedial course in reading, writing, and mathematics; and d) intensive pre-school education.

Except for items 1) and 4c) this is a “training” agenda, and differs from the libertarian/conservative agenda primarily in that Reich believes the public sector should play a major role in making it happen, while Gingrich and the Tofflers would rely on private initiatives. This is not a trivial difference, of course, because under Reich the training would serve those persons that the market would leave behind. But the effectiveness of the “training solution” is hotly debated. Schwartz (1995) writes, “...according to generally accepted estimates, an effective education and training program would cost more than \$170 billion a year” (p A25). A federal program of this size would be exceeded only by that of Social Security (\$336 billion), Health and Human Services (\$301 billion) and the Defense Department (\$260 billion). My point in making

the comparison is not to disparage the “training solution” but to make clear the magnitude of the social/political movement needed for it to be realized.

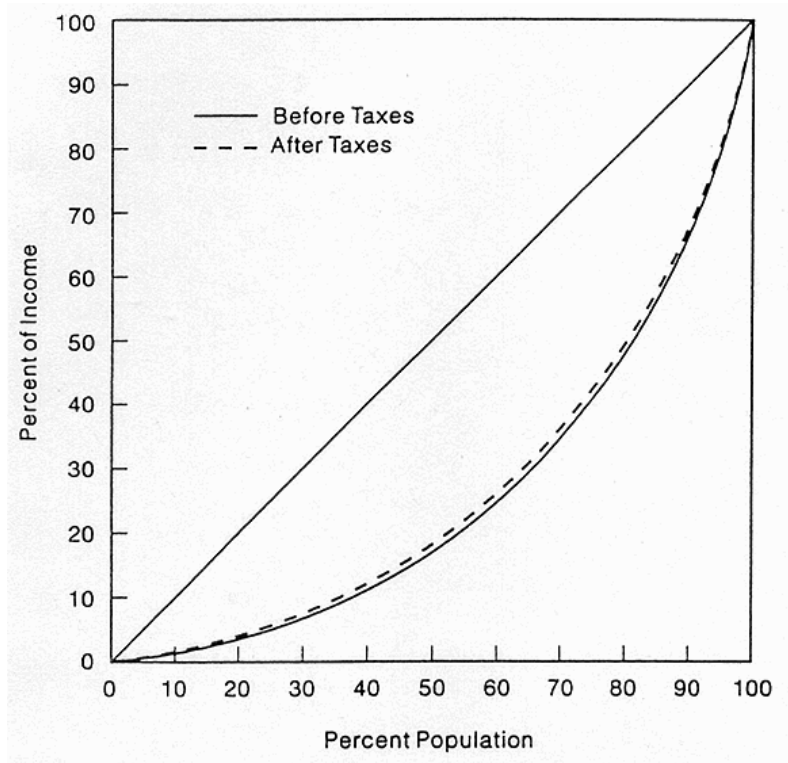
It may come as a surprise to many to find that Reich’s first agenda item, a more progressive, loophole-free tax system, can have only a small impact on the growth of economic inequality. **IIB-29** shows how little the before-tax and after-tax Lorenz curves for 1988 differ from one another. Gramlich et al. (1993) examined the impact that even much more highly progressive tax programs would have on inequality, and found it to be minor.² The reason is that economic inequality is of such a magnitude that the federal budget, large as it might appear, is too small to have more than a small impact on it, under any reasonably realistic structure of taxes and other revenues. Of course, a program of taxes and transfers whose explicit objective was to redistribute income could be designed to effect any desired distribution. But such a program would be much larger than the current federal budget if its objective was to reduce the Gini coefficient by more than a few percent.

6. **Mickey Kaus** was an editor of *The New Republic* and has written for many years about American social and economic policy. In *The End of Equality* he suggests that attempts to engineer greater economic equality will not work, simply because capitalism is *intended* to generate economic inequality (i.e., to facilitate competition for economic status), and there is no alternative to capitalism on the horizon. But he deplores the way wealthy persons are using their resources to impose *social* inequality by retreating into gated communities, withdrawing support for the well-being of the wider public sphere, and influencing public policy to their further advantage. He proposes policies that would insulate the most important qualities of social life from the influence of private wealth. The intent would be to begin building a common social and

² Gramlich simulates a new progressive tax package that includes a) an increase in the top marginal tax income tax rate from its current 28 percent to 50 percent; b) a 0.5 percent tax on security transactions; c) elimination of the taxable maximum for Social Security Hospital insurance taxes; d) doubling of the Earned Income Tax Credit; and e) an increase in SSI benefits. He finds that “even this combination would only lower the post-tax, post-transfer Gini by .01, only about 15 percent of the way back to the post-tax, post-transfer Gini in 1980.” (p 243)

BOX IIB.29. Lorenz Curve of Income Distribution in the United States, before and after taxes, 1988.

[Reprinted from Young, 1994]



Young writes: “To what extent does the federal income tax lower inequality? The answer is: not by very much. The Gini index decreases from .511 to .492, which represents a very slight decrease in inequality. Although the figure is not detailed enough to show this, the major effect of taxation is to reduce the share of total income enjoyed by the richest one-tenth of the population by about 2 percent, and to increase the share of total income enjoyed by the lower- to middle-income groups by a comparable amount. The effects of the poorest one-tenth of the population and the next-to-richest one-tenth are about neutral.” (pp 101-102)

political culture towards which all Americans could feel genuine allegiance, regardless of economic differences. He suggests a three-stage set of initiatives:

Stage I: Reinstitution of the military draft, with no way for the privileged to weasel out, and mandatory national service for those not drafted; public financing of elections, to eliminate the influence of wealthy contributors; a universal system of national health care, with strong penalties for not participating (“what matters is that everyone wait in the same waiting room”); and a comprehensive day-care system (centered at the work place, so that “the toddlers of secretaries mix with the toddlers of bank presidents.”)

Stage II: The elimination of poverty. Kaus says that a true common culture cannot emerge in the United States until people of different economic backgrounds feel comfortable living in the same neighborhoods and sending their kids to the same schools. But he acknowledges that this will not happen so long as 15% of Americans live in poverty. He states that the existing poverty programs of income support and services have not been successful, and proposes that they be abolished. In their place he offers what he believes is the only workable alternative: a guaranteed low-wage (\$4.00/hr in 1990) but respectable public-sector job for all who are willing to work. In addition an extended Earned Income Tax Credit would bring these and all other workers up to the poverty line. Kaus estimates that this entire program would be called on to provide about 6 million jobs and would require an additional \$60 billion above the current amounts spent on poverty relief.

Stage III: Kaus’s final stage, in which he speaks of “an ecology of equality,” is admittedly more speculative. He envisions a movement for social egalitarianism breaking down the barriers of residence and schooling, “suburb by suburb.” He says, “The upper middle class... will have to be bought off or beaten down--or else overcome by an appeal to the compensating virtues of social equality.” High quality public services, and especially public schools, are both necessary for such a movement to succeed and will be more easily provided as it builds.

Kaus' program is grounded in what he calls a philosophy of Civic Liberalism, which he opposes to the failed Money Liberalism of both establishment and progressive Democrats. He writes as one of many authors seeking to formulate new norms of Civil Society and clauses for a new Social Contract. As we'll see below, his proposal to end poverty falls comfortably within an emerging consensus opinion among a wide range of moderates, liberals and progressives. More problematic is his contention that a common social culture can be developed and sustained *even while* economic inequality continues to increase. Progressives (and most Greens, although they don't figure in Kaus' discussion) would challenge this. Kaus acknowledges that a major reconfiguring of social values would be needed for his program to succeed. But he claims that this new configuration would draw upon a widely shared set of conventional American values, including patriotism and the work ethic, and therefore has more chance of success, than does a left/progressive value configuration that is less widely shared (and is in fact perceived as threatening by significant numbers of middle and lower middle class Americans.)

7. In *America Unequal* **Sheldon Danziger** and **Peter Gottschalk** tell a story of the growth of economic inequality in America very similar to that told by Thurow, Reich, and Kaus. After an incisive analysis of the many dimensions of inequality they focus their policy analysis on the single topic of how to reduce poverty. They do not suggest ways to address the erosion of stable mid-level incomes, the swelling numbers of very highly paid professionals, or the skyrocketing incomes of the most affluent.

This is disappointing. However, their proposal for dealing with poverty is an important one because it is crafted in sufficient detail, and with sufficient political acumen, that it could serve as a credible vehicle for the development of policy by a federal administration truly committed to make a real difference on this issue. The goal of their program is to "ensure that a family with a least one full-time worker earning the minimum wage would have an income above the poverty line, after taxes and child care expenses."

Box IIB-30 offers a concise depiction of the economic dimension of poverty in America. It shows that as of 1991 there were 31.1 million poor persons in the United States. Of these, 30% are in families in which the heads are disabled, institutionalized, over age 65, or otherwise in a situation where they are not expected to work.

Of the remaining 21.6 million poor persons, 19% live in families whose heads are in fact full-time, full-year workers; another 19% have family heads that work more than half time; and an additional 20% have family heads that have at least worked at some point during the year. Of the remaining 8.9 million poor persons, 21% can be identified as having actively looked for work during the year, but with no success.

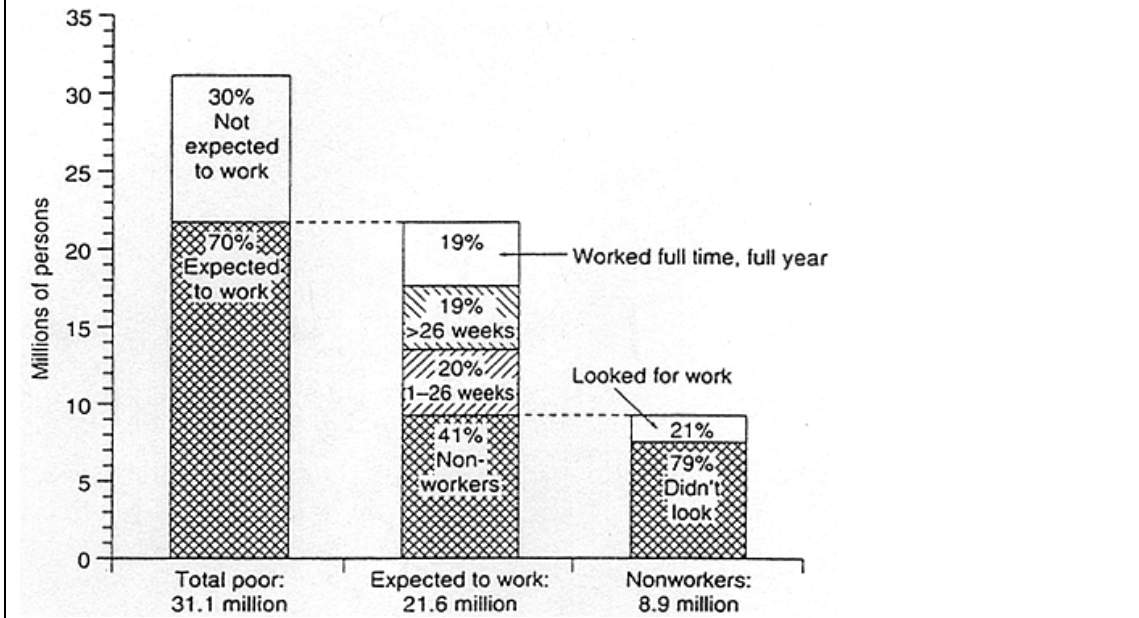
The Danziger-Gottschalk program “is targeted on... the roughly 14.5 million poor persons in families with heads who are working or looking for work.” It has several components:

- A. Rewarding Work
 - 1. An Earned Income Tax Credit (See **IIB-31**)
 - 2. Refundable Income Tax Credits for the Working Poor
 - 3. State income tax relief for the working poor
- B. Expanding Employment Opportunities
 - 1. Employer subsidies
 - 2. Public Service Employment
- C. Child Support for Single-Parent Families

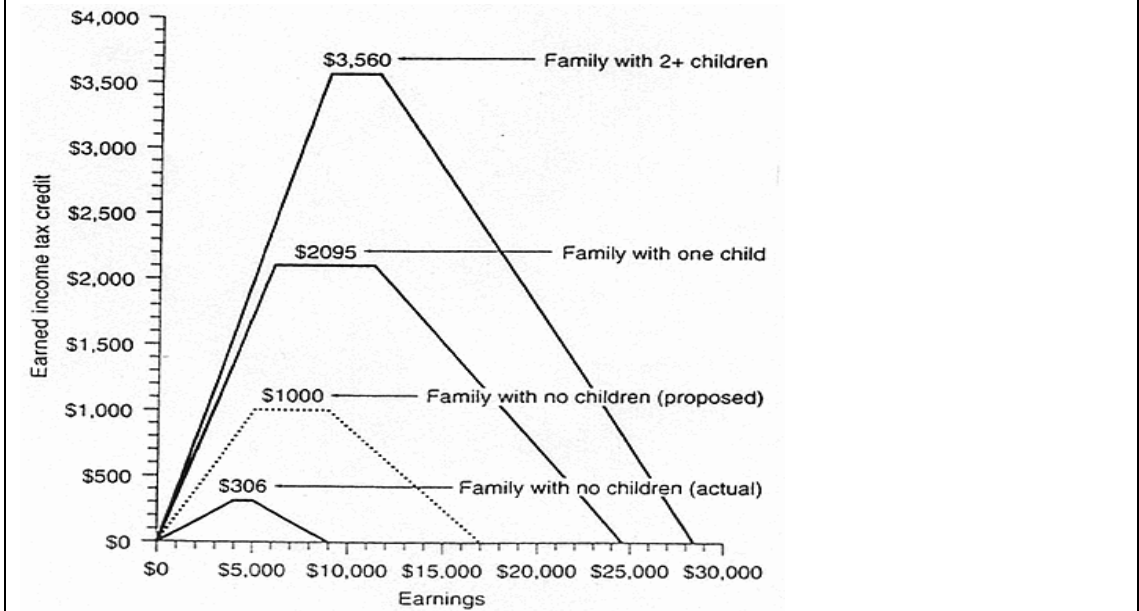
Danziger and Gottschalk estimate that their total program would require some \$20 billion in new spending. They suggest that implementation might begin by obtaining “funding to move forward in those areas where we know what works and funds for demonstration projects in those areas where we need more information.”

It would have been illuminating to see what authors as thorough as Danziger and Gottschalk would propose be done about the growth of economic inequality among persons other than those living in poverty. A defense of their presentation might be that concern for poor people has an ethical claim over concern for others in situations of less objectively oppressive circumstances. Further, the case can be made that there is more of a chance of assembling a sufficiently powerful political coalition in support of the serious reduction in poverty--say, within

BOX IIB-30. Poor Persons by Work Status of Head of Family, 1991
 [Reprinted from Danziger and Gottschalk, 1995]



BOX IIB-31. Earned Income Tax Credit, 1996
 [Reprinted from Danziger and Gottschalk, 1995]



the next decade--than there is of doing so in behalf of measures that would dim the economic prospects of the broad professional class and the truly affluent (beyond such symbolic but distributionally insignificant measures such as minimum taxes and luxury taxes.)

8. **Robert Frank** and **Philip Cook** address the third dimension of the growth of economic inequality-- “run-away incomes at the top”-- in *The Winner-Take-All Society*. They note that attempts to understand these high incomes using the conventional human capital framework have been unsuccessful. They suggest that many persons in the very top positions of any field, whether business, entertainment, academia or otherwise, receive the high incomes they do because they are operating within “winner-take-all” markets.³ These are markets whose payoffs are determined by relative as well as absolute performance. Such markets arise when people are willing to pay substantial premiums to obtain the (relative) “very best,” even if the very best may be only marginally better (in absolute terms) than many other performers just short of the top position. An important contributing factor is the global expansion of markets. The bigger the market, the more people there are to buy a mass market item (e.g., a CD) by a reputed top performer, or who are in a position to bid up the price of a professional service (e.g., a lawyer’s fee) in order to get “the best in the business.”

Frank and Cook suggest that winner-take-all markets encourage an excess number of contestants to attempt to enter these markets and are thus inefficient. They also propose that institutions such as hospitals and universities will engage in “positional arms races” to attract the very top professional talent and thus bid up the prices beyond the economically efficient level. And they believe that extreme inequalities of compensation are socially undesirable, even if they were economically efficient. Thus, they recommend adoption of policies that would limit entrance into these markets, call a truce to positional arms races, or just reduce the winners’ take. They suggest steeply progressive income or consumption taxes, and a variety of measures appropriate to particular professions: reform of physician fee structures, caps on liability rewards

³ Winner-take-all markets are also discussed in Section II.B.2.b, above, regarding the causes of inequality.

for attorneys, tuition increases at public universities for students in lucrative professional fields, and the like. But they give no estimates of how big of an impact any of these measures might have on winner-take-all incomes, and thus on the overall extent of economic inequality in society.

9, 10. It's instructive to compare the recommendations of the authors we've reviewed with the policies proposed by the Clinton Administration during this period. The *Economic Report of the President* (1995) and the *Annual Report of the Council of Economic Advisors* for 1995 acknowledge that the growth of income inequality is a matter of serious concern. The President begins his report by noting with satisfaction that output is rising, the deficit falling, and employment growing, but immediately adds,

“Still, living standards for many Americans have not improved as the economy has expanded. For the last 15 years, those Americans with the most education and the greatest flexibility to seek new opportunities have seen their incomes grow. But the rest of our work force have seen their incomes either stagnate or fall. An America that, in our finest moments, has always grown together, now grows apart.” (p 3)

This is followed by statements that “In our new information-age economy, learning must become a way of life,” and that “Technology is the driving force of the new global economy.” But the training and other programs proposed to address this situation, while certainly beneficial, are hardly substantial enough to make a noticeable aggregate difference in income inequality.

The President seeks to address eroding mid-range incomes with his “Middle Class Bill of Rights”. It provides that:

- * If a family makes less than \$120,000 a year, the tuition that that family pays for college, community college, graduate school, professional school, vocational education, or worker training should be fully deductible, up to \$10,000 a year.
- * If a family makes \$75,000 a year or less, that family should receive a tax cut, up to \$500, for every child under the age of 13.
- * If a family makes less than \$100,000, that family should be able to put \$2,000 a year, tax free, into an individual retirement account from which it can withdraw, tax free, money to pay for education, health care, a first home, or the care of an elderly parent.

Because all but the top 2 or 3 percent of American households qualify for the biggest part of this “middle class” tax relief (see Box IIB-9) it is unclear whether their effective impact would

be to decrease or increase the level of economic inequality. In any event, the overall impact of these proposals on the distribution of income would not be major.

11. **Paul Krugman** begins *The Age of Diminished Expectations* by stating that economic growth and income distribution are far more important to overall human well-being than are deficits, trade policy, inflation, finance, or any of the other economic issues that command so much attention in the public arena. He echoes most of the authors reviewed thus far:

“Although some people became fabulously rich, and a sizable fraction of the population achieved unprecedented affluence, the typical American family... earned little if any more in real terms in 1990 than they did in the late 1970’s... And for Americans in the bottom fifth of the income distribution the years since 1980 have been little short of nightmarish, with real incomes dropping, the fraction of the population in poverty rising, and homelessness soaring.” (p 2)

Krugman continues his account by addressing the key question of the stagnation of economic output over the past two decades: “Why did it happen? And what can we do about it? The answer to both is the same: We don’t know.”

Krugman considers a number of proposed explanations, including the upheavals of the 60’s and the energy crisis of the 70’s, and shows why these are implausible explanations. He says, “So we really don’t know why productivity growth ground to a near halt. That makes it hard to answer the other question: What can we do to speed it up?”

He notes that the conventional answer given by economists is simply to:

“...give your workers more capital to work with, and better education, and they will be more productive. And how are we to do these things? Simple: Suffer. Consume less now... send your children to school for more hours, and pay for the extra teachers and classrooms this requires. Do these things, and though you may be worse off right now, eventually... ten years from now--or is it 20?--our productivity will be sufficiently higher to make up for present sacrifices.” (p 20)

Krugman says that neither the “supply side” theories of Arthur Laffer and Jude Wanniski, which were tried, and failed, during the Reagan years, nor the “industrial policy” theories of Robert Reich and Lester Thurow, which are praised by the Clinton Administration but receive only token support in practice, appear to be very helpful. He concludes:

“So what are we going to do about productivity growth in the United States? Nothing... [T]he basic political consensus at present is that a low rate of productivity growth is something America can live with. We can hope that something will turn up... [b]ut we won't do much more than wish... Productivity growth is the single most important factor affecting our economic well-being. But it is not a policy issue, because we are not going to do anything about it.” (p 22)

Next Krugman considers income distribution. He reviews how growing income disparities are eating away at America's social fabric, but then says,

“Yet income distribution, like productivity growth, is not a policy issue that is on the table. This is partly because we don't fully understand why inequality soared, but mostly because any attempt to reverse its trend appears politically out of bounds... [And] the problem with poverty, as an issue, is that it has basically exhausted the patience of the general public... any systematic initiative to raise the incomes of the poor seems unlikely for many years.” (p 26; pp 28-29)

As for the rich, he notes that while “a few policy initiatives might cut down on some of their sources of income,” these “would make only a small dent in the trend.”

Krugman concludes:

“So income distribution, like productivity growth, is a policy issue with little prospect for serious policy action. The growing gap between rich and poor was arguably the central fact about economic life in America in the 1980s. But no policy changes now under discussion seem likely to do much to narrow this gap.” (p 29)

What are we to make of this analysis by one of the most prolific and quoted economists of our time? And a liberal at that?

When he says that no policies “now under discussion” appear likely to narrow the income gap, we need to ask what group of discussants he has in mind. Analysts like Danziger and Gottschalk have developed what amount to pre-drafts of legislation that could importantly address the issue of poverty in America. But Krugman may be correct in so far as the coalitional pre-organizing necessary to mount a legislative drive in support of a poverty initiative of the sort envisioned by Danziger and Gottschalk is not underway. These sorts of reforms require a decade or more of base-building before they become real legislative options.

With respect to the question of growing income inequality among people who are not poor, Krugman is correct. Nothing proposed by Thurow, Reich, Danziger, Gottschalk, Kaus,

Frank, Cook, the Council of Economic Advisors or the President “seem likely to do much to narrow this gap.” For our purposes, however, it’s premature to conclude, as Krugman does, that discussion of this topic is “politically out of bounds.” To judge whether a proposal for addressing inequality among the non-poor is politically practical we need, first, to see the proposal, preferably one as comprehensive as the one Danziger and Gottschalk have offered to reduce poverty. But none of the analysts reviewed above, Krugman included, have offered one.

II.B.3.c. Progressives

What I call “progressives” are what used to be called “democratic socialists” or “left social democrats.” The liberals just reviewed accept capitalism as the least problematic of a set of imperfect economic systems. The progressives, by contrast, may acknowledge capitalism’s vigor and resiliency but are not yet reconciled to it, and have their antennae deployed to pick up any hints of cracks in the foundations, and any whispers of an alternative in the wings. For many progressives the perpetuation and deepening of economic and social inequality under *laissez-faire* capitalism is the fundamental reason why it should be opposed.

12. **Bennett Harrison** and **Barry Bluestone** were among the very first authors to claim that the slower growth and increasing inequality that began in the early 1970’s represented something more than a dip in an otherwise healthy business cycle. In their best-seller *The Great U-Turn: Corporate Restructuring and the Polarization of America*, they put the cause of this squarely in the lap of corporate America. In response to growing global competition, they said, American corporate managers adopted a strategy of “slashing labor costs throughout the economy.” Higher wage labor was, logically, the first target. Much of this was located in the industrial sectors of the labor force. Thus a strategy of slashing labor costs became a strategy of deindustrialization. Management also went on the offensive against the unions. Union contracts tend to equalize wage rates among individuals across broad categories of workers. The decline of union labor contributed both to lower wages in general and increasing wage inequality. Finally,

Bluestone and Harris note that “as the economy transfers workers from goods production, where school credentials have relatively little importance to wage differentials, to the service industries, where such differentials are high, the overall degree of wage inequality is destined to increase.”

Harrison and Bluestone advocate that instead of this “low road” strategy of global competition in a race to the bottom, we should embark on the “high road alternative”:

“We must work not cheaper, but smarter, with smarter machines. The high road suggests that as a nation we must undertake enormous new investments in science and technology; in applied research and development efforts; in new capital formation; in education, training and retraining; and in new forms of labor-management practices that foster economic democracy and teamwork.” (p xxvi)

This high road competitive strategy is one facet of the overall strategy proposed by Harrison and Bluestone to achieve

“...the promise of an ever-improving standard of living. Americans expect to find and hold high-paying jobs as they get older, and they expect their children to fare even better. As generations pass, we also look forward to more time for leisure without suffering losses in pay...The American Dream has [also] traditionally been infused with a strong social conscience and an abiding belief that a more equal society is a more equitable one.” (p vii)

The strategy to accomplish this calls for:

- 1) industrial policy;
- 2) democracy in the workplace;
- 3) renewed public support for the right of unorganized workers to be represented by unions of their choosing;
- 4) managed international trade;
- 5) the reconstruction of the nation’s physical infrastructure;
- 6) reregulation of specific private market activities, especially in the runaway financial sector;
- 7) public fulfillment of the promise of universal social benefits, including health insurance, child care, and care of the aging.

They recognize that this is an ambitious agenda but are confident of success:

“Essentially, the United States must turn back toward greater planning and away from the treacherous path of *laissez-faire*. Do we believe this will occur? Absolutely. The world of *laissez-faire* is too unstable and its presumed benefits too inequitable. Sooner or later, the pendulum will swing back toward a better balance between unfettered free enterprise and democratic planning. Otherwise, there is no chance at all of reversing the great U-

turn that has undermined both our standard of living and our progress toward a more just society.” (p 20)

Notice that the majority of the seven points in Harrison and Bluestone’s strategy concern the management of economic outcomes by way of political processes. Once such democratic planning mechanisms have been established, the growth of economic inequality would be curtailed simply by deciding not to do those things that increase it. Any supposed inefficiency that this process might entail would be more than compensated for by the renewed commitment to technological innovation and economic growth on the part of working Americans, now that we are assured that the fruits of our labor will be fully and equitably shared. Thus the structure of political and economic power in Harrison and Bluestones’ vision represents a radical break from the status quo structures assumed by the liberals, but the program that they call for is otherwise not that different: education and training to support and to adapt to technological change intended to drive economic growth.

13. **Juliet Schor**’s article, *A Sustainable Economy for the Twenty-first Century*, presents the economic vision of the New Party. According to Schor,

“The debate between Republicans and Democrats on economics has narrowed to a marginal one. Both sides now worship at the alter of the market, differing mainly on whether it should be marginally regulated in the public interest or not regulated at all. Both defend the sanctity of the existing distribution of income, wealth and power... We think we’ve got a better idea.” (p 269)

The New Party’s vision is based on principles of democratic control, sustainability, equality and efficiency. Many of the policies Schor suggests have an important bearing on the level and distribution of incomes. These include:

1. *Basic Income Grant (BIG)*: “[E]very citizen would be eligible to receive a minimum income from the government, which would be sufficient to provide a modest standard of living. A BIG would allow people to opt out of the labor market for a while, to raise their children or pursue activities that are not lucrative (the arts, community work, or social services). It would enable them to retire when they feel ready, or to pursue schooling or retraining. Eligibility would be tied to a work requirement: the length of eligibility for receiving BIG would be tied to past work, and participation in unpaid community service, as well as child and elder care.”

2. *comparable worth*: “[A]ll places of employment [should] be required to institute

comparable worth programs...phased in over a three year period.”

3. minimum wage: “We suggest a phased-in increase to \$7.00 an hour for adults, with subsequent pegging to the median wage in the economy.”

4. progressive taxes: Schor calls for expansion of lower income exemptions, higher marginal rates for higher incomes, removal of the income cap on payroll taxes, and higher corporate income taxes.

5. green tax: A national value-added ‘green’ tax should be levied on retail commodities such as gasoline; household, lawn and pool chemicals; air conditioners; meat; furniture; jet travel; and disposable products.

6. Corporate Democracy Act: This legislation would:

- a) provide that Boards of Directors be filled from outside management to include workers, consumers and other stakeholders, in addition to stockholders;
- b) “...erode the legal fiction of the corporation as person, thereby creating increased civil and criminal liability for individual managers.”
- c) “...transfer corporate chartering to the Federal government and set minimum standards for tax subsidies, pollution and unfair labor practices...”

7. socially responsible firms: “Government should provide significant incentives for democratically controlled enterprises, such as consumer cooperatives, employee-owned firms, and municipally and community-owned enterprises. These include tax incentives, regulatory encouragement, financial schemes, preferential buying, and technical aid.”

Schor notes that “many of these reforms will require new economic resources,” and that these new resources “will have to be created through productivity growth.” Where Krugman pleads ignorance and is silent Schor demurs only briefly:

“[However]...the recent US record on productivity growth has not been good... Economists don’t have a very good understanding of why productivity growth has been so meager, but the likely culprits are low investment, heavy-handed labor management, declining quality of education and training, the short-term perspective imposed by financial markets, and distorted resource use due to uncounted environmental costs. We also believe that the growing inequities of our society are having an impact: unemployment, poor schools, crime, drugs, homelessness. All these problems take their toll.” (p 286)

Schor acknowledges that “over the past fifteen years, the steady demise of progressive economic ideas is striking.” She attributes this to “the powerlessness that people feel in the context of the globalizing economy,” and the exploitation of that sense of powerlessness by corporate interests to inculcate a hegemonic ideology of free-market capitalism. She concludes

by calling on progressives to “confront the myth of economic powerlessness.. and mobilize alternative visions for a sustainable economy in the twentieth century.”

14. In his book *From Global Capitalism to Economic Justice*, **Arjun Makhijani** puts forth a vision that is quite similar to Schor’s but begins from a global perspective. He begins,

“The violence, greed and exploitation characterizing capitalism, the violence and authoritarianism characterizing socialism, and the environmental destruction characterizing them both have made people all over the world search for a “third way...” (p 85)

Makhijani draws on the positive aspects of socialism (its commitment to ending poverty and inequality) and of capitalism (its commitment to political democracy and individual initiative) to present an alternative. Key elements include:

1. The establishment of democratic control over corporations and other economic institutions.
2. The establishment of ways to phase out economic activities which are endangering the Earth.
3. Guaranteed employment for all, at minimum wages set to produce above-poverty-level incomes for full-time work.
4. The integration of non-monetized work into the economic calculus in diverse ways and the accompanying empowerment of women in the economic system.
5. The establishment of democratic control over markets from local to global levels.

Makhijani notes that in order to prevent corporations from avoiding democratic control by playing one nation off against another, we will need

“..an international agency to create and to enforce rules and regulations for multinational corporations, along with a workable, democratic process in which non-governmental organizations as well as governmental institutions have a role.” (p 102)

However, because multi-national corporations are inherently difficult to control, Makhijani suggests that we adopt *local self-reliance* as a preferred scale of economic organization. To do this we would need to set up structures of democratic participation, including workers, community members and others, to control corporations at the local level.

As an alternative to both the capitalist and the Marxist constructions of “property,” Makhijani suggests that we

“...borrow from ancient times, and from tribal peoples and from farmers the concept of *usufruct*... Control of property must be used to provide for ourselves, our children, our

families, our communities. But usufruct also means that property is held in trust for future generations, so that it cannot be violated for short-term profit, gain or even income, as is the norm today.” (p 110)

Makhijani notes that the redistribution of wealth and income, far from being a disincentive to initiative, can give poor people, who are often fatalistic or demoralized, a sense of hope and confidence that their work efforts can now be fruitful. He says,

“Redistribution does not mean absolute equality or the abolishing of riches. It means limiting riches and abolishing poverty. The example of the state of Kerala in India shows that a strong commitment to redistribution can enhance both political democracy and improve the human economic condition immensely with very modest resources.” (p 93)

The vision put forth by Schor and Makhijani has a name, although they don't use it: economic democracy. This stance was developed most thoroughly by the progressive activists of the 1970's who were trying at that time to articulate a third way between corporate capitalism and authoritarian socialism. Economic democracy would allow the corporate owners and managers to keep their factories, but would set up representative councils and committees, from the shop floor to the community, regional, and national levels and beyond, to oversee and ensure that any decisions made or actions taken would serve the greater social interest. A reformed state structure more open to grassroots participation would guide and direct the economy as necessary.

II.B.3.d. The Greens

The authors reviewed thus far, whether conservative, liberal or progressive, all affirm economic growth as not just a good thing but as almost an imperative of human life. These authors identify the slowdown in economic growth over the past twenty years as having imposed unnecessary and inequitable hardships on the great majority of persons. For these authors the revival of strong, steady economic growth is arguably the single most important economic task today.

Most environmentalists, by contrast, are ambivalent about economic growth. Many believe it to be an unmitigated bad. Others believe that if properly guided economic growth can

be compatible with, and perhaps even support, environmental sustainability. Still others believe that the question of the goodness or badness of economic growth is moot, because whatever we may or may not desire, there are limits to economic growth and at some point, perhaps soon, it will come to a stop. If such limits exist then the task before us is simply to choose the *sort* of steady-state world in which we would like to live.

Questions concerning the distribution of wealth and income may or may not be of major concern to an environmentalist who believes that economic growth can and should continue. But they are of critical concern to any environmentalist who believes that, by choice or by necessity, the future world economy will be a steady-state economy. Under those circumstances the distribution of wealth and income becomes a nearly zero-sum game.

The authors of the books noted below, with the exception of the authors of *Our Common Future*, believe that in order to prevent a far greater, catastrophic end to human well-being, we should begin a conscious transition to a steady-state world, as expeditiously as practicable. For this view to be considered seriously these authors need to be explicit about how they imagine a future steady-state output to be divided among persons and communities.

15. In *For the Common Good*, **Herman Daly** and **John Cobb** propose an “economics of community” as their alternative to capitalism or socialism. They suggest that we should begin a process of successive decentralizations. In the short run nations should seek to become as independent as possible of the global economy. In the longer run regions and communities within today’s nations should seek to become as self-sufficient as possible. At all of these levels, people should seek to reduce the scale of economic activity until it has reached a level that is ecologically sustainable. A greater portion of human livelihood would be devoted to agriculture than is currently the case in the developed nations. Necessary industrial production would be conducted as much as possible by worker-owned firms.

Daly and Cobb acknowledge that in an earlier book Daly had suggested that limits on economic inequality should be set such that the incomes of the most well-off were no greater than

10 times those of the poorest. In *For The Common Good* they decline to set such a limit. Rather, they explain,

“We think that eventually a healthy community might evolve in which a notion of this sort was politically acceptable.... (in the meantime) we hope that over the years a combination of income and inheritance taxes, on the one hand, and social dividends, worker ownership of business, and guaranteed employment on the other, will reduce the spread of incomes from their present exaggerated range.” (p 331)

The tax and incomes policies they propose are as follows:

1. Negative Income Tax - A minimum guaranteed income of \$9000 would be set for a family of four. An income tax with marginal rates of 50% would be positively applied to all incomes above \$18,000 and negatively to incomes below that level. These transfers, along with national health care and a guaranteed job programs would assure that no family lives in poverty.

2. Other Taxes - Daly and Cobb would continue to use inheritance and gift taxes (for redistributive purposes); would adopt pollution and severance taxes (to internalize external costs); and would allow states and localities to raise revenues via sales and property taxes. They would abolish the corporate income tax, but require that all profits be distributed to shareholders.

Daly and Cobb ground their proposals concerning economic inequality in biblical teachings:

“The goal for an economics of community is not equality, but limited inequality. Complete equality is the collectivist’s denial of true differences in community. Unlimited inequality is the individualist’s denial of interdependence and true solidarity in community. The principle of limited inequality... is explicit in biblical accounts of the laws of the ancient Hebrews governing landholding, usury, the Sabbath, the jubilee year, and also in the wisdom literature of Proverbs and Psalms... We get no instruction regarding the proper numerical range of permissible inequality, but on the principle itself the biblical teachings are clear.” (p 331)

Daly and Cobb acknowledge that realization of their vision of a politically decentralized, biospheric, self-sufficient world will require profound and deep changes in human understanding, motivation, beliefs, values, and behaviors. They are deeply optimistic that this can happen, but they believe it will require a transformation of the sort that is sparked and sustained by religious experience and commitment. They witness as Protestant Christians, saying,

“[W]e doubt that without that faith we would have either seen what we have seen or persevered in an unwelcoming context in articulating that vision and calling for change... We have tried to make our case throughout this book in a predominantly secular mode... But we also think the *real* possibility for change depends on an awakening of the religious depths in a world whose secularity has gone quite stale.” (p 380)

16. In *The Stork and the Plow: the Equity Answer to the Human Dilemma*, **Paul Ehrlich**, **Anne Ehrlich** and **Gretchen Daily** try to go beyond the conventional environmentalist account and include equity concerns as a core value:

“Any hope (for a sustainable future)... lies in becoming more resource-efficient and, especially, more equitable than most human societies have been in a very long time. *Efficiency*, broadly speaking, is the amount of satisfaction derived per unit resource. *Equity* is the similarity of people’s access to sociopolitical rights, adequate food and other material resources, health, education, and other ingredients of well-being...” (p 6-7)

At the center of the equity debate is the existence of the gap between the rich and the poor nations of the world. The Ehrlichs and Daily say:

“All nations should cooperate to close the rich-poor gap, with over-developed nations reducing their material consumption in order to make room for needed physical development in less developed countries. Speed is of the essence, since the scale of the transition is vast, and the lead time required for such tasks as reorganization of cities, redesigning transport systems, and deploying new energy technologies is on the order of a half century.” (p 264)

In a way that is less commonly seen in the liberal or progressive literature, the Ehrlichs and Daily stress the importance of action at the personal level:

“Have an absolute maximum of two children; preferably just one. If you want more, adopt. Educate yourself continuously on environmental issues... join a local environmental organization. Support NGO’s working on the equity and other issues that are discussed in this book that are not normally viewed as ‘environmental,’ but which we hope you are now convinced actually are... Change your lifestyle as much as you can to lessen your impact on Earth’s life-support systems...eat less meat, walk... be energy efficient.” (p 270-271)

The Ehrlichs and Daily do not provide quantitative estimates of how a comprehensive action agenda in support of equity and sustainability might be implemented, what these would cost, or what final impacts these would have. But they do present in some detail estimates made by U.C. Berkeley Professor John Holdren that suggest what a scenario of global equity might entail from a biophysical perspective. The Holdren scenario provided that:

“...poor nations would develop fast enough to increase their per capita energy use by 2 percent per year between 1990 and 2025, doubling it from 1 to 2 kilowatts. Simultaneously, rich nations would strive to reduce their per capita use by 2 percent annually through increased efficiency, dropping the average use per person from 7.5 to 3.8 kW (while maintaining or increasing benefits.) Rich and poor nations would converge on an average per person energy use of 3 kW during the remainder of the century... Meanwhile the world population peak size of 10 billion people would be reached around 2100; then a slow decline would begin.” (p 242)

The scenario as presented in *The Stork and the Plow* requires that the industrial nations stop economic growth in 1990 and reduce their per capita GDP by about 21%, from \$15,000 to \$11,800, over the next 40 years. This happens because the projected maximum rate of increase in energy efficiency (\$GDP/watt) is not sufficient to offset the proposed rate of decrease in annual energy use. Beginning in 2030, however, economic growth resumes, as energy use levels off while energy efficiency continues to increase.⁴

BOX IIB-32. THE HOLDREN SCENARIO (in Ehrlich et al, 1995)

$$\text{Population} \times \text{Energy/Person} = \text{Total Energy Use}$$

		(billions)	(kilowatts)	(terawatts)
1990	Rich	1.2	7.5	9.0
	Poor	<u>4.1</u>	1.0	<u>4.1</u>
		5.3		13.1
2025	Rich	1.4	3.8	5.3
	Poor	<u>6.8</u>	2.0	<u>13.6</u>
		8.2		18.9
2100		10	3.0	30

17. After cataloguing the failures of both socialism and capitalism to deal with sustainability and equity concerns, **Paul Ekins**, in his book *Green Economics*, offers this outline of the organizing principles of a “Green Mixed Economy”:

⁴ In 1996 Holdren presented a revised version of the scenario, which allowed economic growth in the industrial nations to continue at a positive rate at all times. This was done after a reassessment of the estimated maximum feasible rate of improvement of energy efficiency.

* Universal small-scale ownership of enough of the four forms of capital (ecological, human, social and manufactured) to permit personal self-reliance for all. Such ownership could be personalized or held at the community level as in many preindustrial societies.

* Cooperative work structures based either on extensive profit sharing by the workforce and industrial democracy, or, better still, full worker ownership.

* A vigorous, decentralized, progressive market in which consumers are informed and motivated enough to base their purchases on ethical, social and environmental, as well as conventional consumer, criteria.

* A state that enforces and enables. It would enforce “polluter pays” principles, anti-monopoly and anti-trust legislation, standards of product and company information, personal and community rights, and conditions of environmental sustainability.

* The state would enforce strict limits on the size of landholdings, provision of high-quality education and health care, training and business advice, and some scheme of inalienable universal share ownership. It would support and encourage household and voluntary economies.

* Beyond enablement, the state should also guarantee a decent minimum standard of living to those who through age or disability, have special needs.

* A concept of “the state” that embraces international and local institutions, as well as national organization, to accommodate processes of globalization and decentralization as appropriate.

The main instrument used to directly address economic inequality would be the Basic Income:

“Its goal is equality of citizenship, where all can participate in the mainstream life of society...the BI is not ‘free income’, and will be politically infeasible if it is regarded as such. It is a cost embraced by those of higher-than-average incomes as an expression of commitment to the wider health of their society. In return, those whose BI is greater than their tax payment must express their commitment and make a contribution to their society in other ways... The welfare state will not be sustainable--politically, socially or financially - until it becomes a real welfare community of mutual rights and responsibilities.” (p 128-129)

Ekins provides more detail concerning the BI:

“Costings for the UK indicate that a Full Basic Income (FBI) at a level enabling subsistence would require a 70% income tax rate. A Partial Basic Income (PBI) at half subsistence could be financed by a 35% tax rate, a 20-pound per week tax allowance, and abolition of National Insurance and existing tax reliefs on pensions and mortgages... The first step towards PBI and FBI might be a transitional BI at 40% of PBI to get the system established. Both this and PBI would require other income support benefits for those with special needs.” (p 129)

18. When *The Limits to Growth* was published in 1972 critics from developing nations, and from poor communities within the United States, charged that it gave no indication of how distributional issues might be handled under the proposed steady-state or “equilibrium” economy. Until this was made clear, these critics said, persons and communities at an economic disadvantage would continue to support an agenda calling for vigorous economic growth.

In *Beyond the Limits*, published twenty years later, **Donella Meadows**, **Dennis Meadows** and **Jorgen Randers** address this concern. They begin by making the case that “Economic growth takes place primarily in the nations that are already rich,” and thus “... the pattern of economic growth as it has occurred over the past few decades is not helping [poor countries.]”

They then explore possible scenarios of the future using an updated version of their original World 3 model. The scenario they advocate calls for:

- 1) implementation of a variety of resource conservation and pollution control measures;
- 2) agreement by all persons to limit their family size to an average size of two children starting in 1995;
- 3) agreement by all nations to aim for, and then live within, a per capita industrial output equivalent to the 1990 level of South Korea.

Under these conditions world per capita economic output would stabilize by 2100 at the 1990 South Korean level of \$5,400 (‘90 US \$).⁵

Regarding distributional equity, the authors say,

“A sustainable society would not freeze into permanence the current inequitable patterns of distribution. It would certainly not permit the persistence of poverty... for both moral and practical reasons any sustainable society must provide material sufficiency and

⁵ See the discussion of *The Limits to Growth* and *Beyond the Limits to Growth* in Section II.A.1.

security for all. To get to sustainability from here, the remaining material growth possible--whatever space there is for more resource use and pollution emissions, plus whatever space is freed up by higher efficiencies and lifestyle moderations on the part of the rich--would logically be allocated to those who need it most.” (p 210-211)

Put more simply, this means that persons who today earn above “the average level of Europe in 1990” (i.e., about \$20,000/year) would not be able to experience any further increases in income. They would continue to work, but any increase in earnings received after this time would be transferred to persons in lesser circumstances or perhaps used for compensatory services. After equalization has been achieved, further increases in economic income would depend on the ability of technological innovation to more efficiently reconfigure the sustainable level of resource flows.

19. The highly praised 1987 report of the **World Commission on Environment and Development**, *Our Common Future*, popularly known as the Brundtland Report, helped legitimize concern for the environment as an integral element of any program for international or domestic economic development. In a well-known passage the Report defines sustainable development as “...development that meets the needs of the present without compromising the ability of future generations to meet their own needs...” (p 43). They reference the limits-to-growth debate as follows:

“The concept of sustainable development does imply limits--not absolute limits but limitations imposed by the present state of technology and social organization on environmental resources and by the ability of the biosphere to absorb the effects of human activities. But technology and social organization can be both managed and improved to make way for a new era of economic growth.” (p 8)

They are explicit concerning the need for continued economic growth:

“If large parts of the developing world are to avert economic, social and environmental catastrophes, it is essential that global economic growth be revitalized. In practical terms, this means more rapid economic growth in both industrial and developing countries, freer market access for the products of developing countries, lower interest rates, greater technology transfer, and significantly larger capital flows...” (p 89)

The Commission said that significant reduction in poverty in the developing nations was unlikely without economic growth rates of at least 3% in those nations. It noted that economic growth rates for the industrial countries were projected at about 3-4%,

“...the minimum that international financial institutions consider necessary if these countries are going to play a part in expanding the world economy. Such growth rates could be environmentally sustainable if industrialized nations can continue the recent shifts in the content of their growth towards less material and energy intensive activities and the improvement of their efficiency in using material and every.” (p 51)

While the Commission emphasized economic growth as the primary vehicle for the alleviation of poverty, it acknowledges that this could happen more rapidly if it were combined with redistributive policies. It suggests that if the richest one-fifth of the population in a typical developing country were to have 25% of their incremental income redistributed equally to the remaining four-fifths, the percentage of the population below the poverty line could be reduced from 50% to 10% within 24 years if per capita income grew at 3%, 36 years if it grew at 2 percent, and 70 years if it grew at 1%.

II.B.3.e. Concluding Note

What would it take to reduce income inequality in the United States? The crude calculations shown in **IIB-33** give an idea of the magnitudes involved. Table 1 shows the distribution of income by quintile for 1992 (1990 US \$). Suppose we wanted to transfer enough income from the top 20% of the population (Q5) to the bottom 20% (Q1) such that the mean income of the bottom 20% was now equal to that of the second quintile (Q2). Such a policy would eliminate poverty. It would require that a tax of about 14% be levied on incomes of the top quintile and the proceeds transferred to the bottom quintile. This tax amounts to about \$7,651 on annual incomes of \$54,419. The 80/20 ratio drops from today's 9.8 to 3.5. The Gini coefficient drops from the current .37 by a full 10 points, to .27, which is the level today in Belgium (.27), Luxembourg (.27), and Canada (.28).

BOX IIB-33. INCOME TRANSFERS NEEDED TO END POVERTY AND INEQUALITY					
	income shares (%)	1992 mean income (1990 US\$)	taxes / transfers (%)	taxes / transfers (\$)	
Table 1. Current Distribution of Income					
Q1	4.5	5553			Gini = .37
Q2	10.7	13204			80/20 = 9.8
Q3	16.6	20484			
Q4	24.1	29739			
Q5	44.1	54419			
Table 2. Transfers Needed to Bring the Lowest Quintile (Q1) Up To The Level of the Second Lowest Quintile (Q2)					
Q1	10.7	13204	+138%	+7651	Gini = .27
Q2	10.7	13204			80/20 = 3.5
Q3	16.6	20484			
Q4	24.1	29739			
Q5	37.9	46769	-14.1%	-7651	
Table 3. Transfers Needed to Bring the 80/20 Ratio Down to 2.5					
Q1	13.1	16042	+189%	+10,489	Gini = .20
Q2	13.1	16402	+21.5%	+2836	80/20 = 2.5
Q3	16.6	20484			
Q4	24.1	29739			
Q5	33.1	29856	-26.7%	-14, 561	

Table 3 shows what it would take to reduce inequality such that the 80/20 ratio is 2.5. This is the distributional equity goal we chose in the exercises in Part I of these notes. To do this requires a tax of 27% on the incomes of the top quintile, about \$14,600 on an income of \$54,419. The proceeds are redistributed to bring the bottom two quintiles up to a mean income of \$16,042.

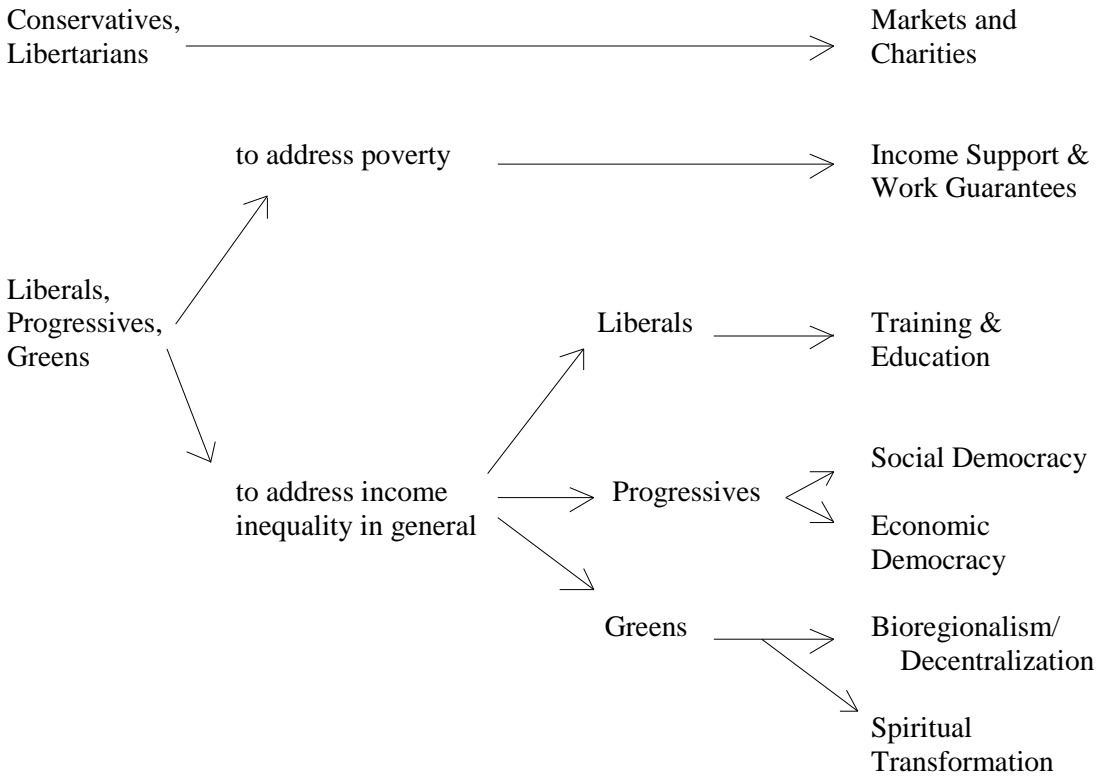
The tax rates and levels of redistribution that these examples suggest would be needed to achieve our equity goals are probably overstated because the exercise doesn't account for acceptable changes in the level of income over the lifecycle. On the other hand, the tax rates shown are probably lower than would need to be levied on the very highest percentiles—say, the top 5% and 1% of the population.

Even more importantly, this exercise embodies a number of unrealistic assumptions that might be useful heuristically but not for thinking about policy. It's unlikely that any program to reduce inequality would seek to do so completely by means of direct transfers from one quintile to another. The great share of any tax revenues would likely go to capacity building: education, health and similar services; and these would make their major impacts felt over periods of a generation and longer. This has the advantage of being less immediately costly. However, as we saw in our review, the effectiveness of these services as a means of reducing inequality in a significant way is questionable.

Boxes IIB-34 and **IIB-35** provide a rough summary of the proposals reviewed earlier in this section. Those proposals that are currently viable policy options will not reduce income inequality by significant amounts, although their concerted application could likely go a long way towards keeping inequality from increasing. Those proposals that seem more likely to significantly reduce income inequality are not actively supported by major political parties or institutions at this time.

BOX IIB-34. What is to be done about income inequality?

This diagram shows the sorts of solutions to problems raised by income inequality proposed by analysts holding different political values. See Box IIB-35 for discussion.



BOX IIB-35. What is to be done about income inequality? (Notes)

Box IIB-34 is a schematic display of the positions held by people of different ideologies concerning what should be done about income inequality.

Conservatives and libertarians rely on markets and charities.

Liberals, progressives and greens are united in their espousal of income support and guaranteed jobs as the appropriate response to persistent poverty.

This unity doesn't hold when dimensions of economic inequality other than poverty are at issue. Liberals advocate training and education. Progressives are split, with one tendency advocating social democracy—essentially, the European welfare state—and the other holding out for economic democracy, which calls for structural constraints on the growth of inequality. The social democrats are not upset that market economies produce unequal incomes, so long as these can be equitably redistributed. The economic democrats want to organize productive relations such that they generate equitable incomes directly.

In general the greens despair of the ability of humans to actively manage global-scale institutions in a sustainable and just manner. Decentralism/bioregionalism is a response to these concerns. If human institutions remain small they will not be able to do much ecological damage, and they can be run in accordance with democratic norms that help ensure equitable outcomes.

Many, though not all, greens believe that a transition to a decentralized/bioregional world will only be possible if accompanied by a transformation of the human spirit.

The social democratic progressives and the liberals often share common views, as do the economic democrats and the decentralist greens.