Three Paths for Raising Incomes in America

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Gross domestic product (GDP) in the United States has grown consistently since the Great Recession of 2008, but middle-class and lower-income workers have not had their share of the rewards from this economic expansion. Three trillion dollars of output has been added to the ranks of U.S. GDP in the past ten years, while median hourly pay for American workers has increased by less than eighty cents.

This isn’t the way it was supposed to be. Whenever the United States experienced economic growth, wages generally rose along with it—that is, until the 1980s. Since then, workers have been badly left behind, compared to the robust wage growth of earlier times. Most American workers haven’t seen a substantial raise in forty years, while the poorest workers have only recently seen incomes rise slightly above 1980 levels. Since 1979, median wages have stagnated for every income strata but the very top, where incomes have risen rapidly. For four decades, the rich have captured almost all the rewards of growth, generating the hazardous levels of inequality we see today.

This story of disappearing American wages is familiar by now, but it bears repeating. The failure of incomes to rise has fundamentally reshaped the American economy, contributing to working-class bitterness, a persistently high poverty rate, and a dispirited electorate. As wages have stagnated, the prices of basic goods, such as housing, health care, education, and child care, adjusted for inflation, have consistently trended upward. The sharp decline of private-sector unions has badly weakened bargaining power of labor and undermined protections against exploitative employers. Coupled with the sharp drop in manufacturing jobs, there’s no longer a reliable path to middle-class incomes for workers without a college degree. Furthermore, the failure to raise the minimum wage more than marginally until recently has also punished lower-income workers. The rise of piecemeal and gig economy work has introduced new and profound precarity—insecure and capricious employment—into more workers’ lives. Americans now work longer hours for less pay than their European counterparts.

Tightening labor markets typically force employers to pay their workers more, and so the recent drop in unemployment rates has given some hope for broad wage growth. The unemployment rate has fallen sharply in the recovery since the Great Recession, and in April 2019 reached 3.6 percent—a rate not seen since the late 1970s. But unlike previous booms, the stronger labor market of the past ten years has failed to generate commensurate wage growth. The small wages gains of recent years for lower- and

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middle-income workers have scarcely made up for decades of torpor. Meanwhile, the costs of basic goods, as noted, continue to rise. 40 percent of Americans struggle to pay for at least one basic need, such as food or rent, and cannot pay for an emergency costing $400. Families who are making ends meet are doing so by working longer hours. While stock market prices have risen greatly in recent years, this growth has mostly benefited the wealthy, as middle- and working-class Americans have little direct exposure to the stock market. But 84.3 percent of middle-income Americans have some form of debt.

Meanwhile, the federal government’s policies toward poverty have shifted from supplying direct cash help to establishing work-related tax credits. While the poverty rate has fallen over time in the United States, it still remains near the highest of the rich world—and those U.S. families in poverty are receiving aid from a shrinking puddle of support. For 99 percent of welfare recipients, the purchasing power of their benefits is lower now than it was in 1996, and the number of poor families receiving support has plummeted: in 2017, less than a quarter of families with children in poverty receive benefits.

The major new work-related programs, Earned Income Tax Credit (EITC) Credit and Child Tax Credit (CTC), are among the most progressive aspects of our tax code, transferring billions of dollars to low-income workers. But these programs remain inadequate to the task of alleviating poverty, especially for households in deep poverty (having income below half the federal poverty level). As a UN report summarized in 2017, “neither [America’s] wealth nor its power nor its technology is being harnessed to address the situation in which 40 million people continue to live in poverty.” The United States has a child poverty rate of 21 percent, the highest in the developed world, and also has the highest child mortality rate among the twenty richest countries. Poverty also afflicts the nonwhite U.S. population at disproportionately high levels: though blacks and Hispanics account for less than a third of the population, they account for two-thirds of children living in poverty.

Corroborating the data, the American people do not think the recent economic gains are fully reaching them. In an April poll, only 12 percent of Americans say their family has benefited a great deal from the current economy; another 31 percent say that they have received some benefit. But a majority of Americans say the nation’s recent macroeconomic growth has either not helped their families much (27 percent) or not helped them at all (27 percent). A survey conducted in March of last year—around the time President Trump was declaring the arrival of “the greatest economy in the history of America”—found that most Americans believe our economy makes it “too tough for the middle class to make ends meet,” and only 39 percent think Congress and the president are working to improve their financial situation.

The struggles of working Americans are not natural or unavoidable effects of an American economy in a globalized world—nor the price we pay for the sustained growth of the past few years—but rather the result of deliberate policy choices.

This report will explain three categories of strategies for providing income support to remedy the dire and unjust circumstances faced by millions of American families: (1) money transfers generated by tax credits to reduce inequality, now the largest transfer of income after Social Security, Medicare, and Medicaid; (2) direct government creation of good jobs; and (3) interventions to share wealth and generate more worker control over capital—from employee stock sharing schemes to social wealth funds. In each section, the report will explain existing programs and proposals, their histories, the politics surrounding them, and discuss their relative merits and drawbacks.

Transfer Programs

One approach to building a livable society for all Americans is to have the government supplement incomes. In this approach, the government basically leaves the job market alone, but fills in the gap to boost everyone’s income up so that they can get by. This section will focus on two ways the government can do this: (1) through refundable tax credits,
such as the Earned Income Credit and the Child Tax Credit; and (2) through direct transfers in the form of basic income payments and/or cash allowances.

**Earned Income Tax Credit/Child Tax Credit**

Among rich nations, the United States has a stingy welfare state with regard to low-income Americans. In the 1990s, amid the racialized welfare panic generated by Reaganite Republicans—and embraced by Clintonite Democrats, eager to reposition themselves as belt-tightening realists—the federal government replaced the more generous Aid to Families with Dependent Children (AFDC) with Temporary Aid for Needy Families (TANF), which provides block grants to states and tends to impose stringent work requirements on beneficiaries. Politicians across the spectrum embraced this form of “workfare” as a way of signaling their preference for the “deserving” (that is, working) poor over the “undeserving” poor—who were perceived as lazy and deviant, and who were typically depicted in the media as nonwhite. In the intervening years, cash welfare has been winnowed away to almost nothing despite relatively stable rates of poverty. As the Center for Budget and Policy Priorities (CBPP) reports, “between 2006 and 2017, the number of families in poverty fell by 8 percent (from about 6 million to about 5.6 million) while the number of families receiving TANF fell by 34 percent (from 1.9 million to less than 1.3 million).”

Since this shift in the 1990s, the federal government has embraced tax credits as its principal way to transfer income. In 2017, the combined federal and state expenditures on TANF amounted to $31.1 billion, only $7.1 billion (23 percent) of which was used for cash assistance to needy families; the rest went to work, education, training, and child care programs. By contrast, in the same year, the Earned Income Tax Credit (EITC) was responsible for $68 billion in income support for low-wage earners. Almost all EITC benefits accrue to workers in the lowest 40 percent of the income distribution, but the distribution of benefits within that 40 percent is an important matter. The Child Tax Credit (CTC), which benefits a larger swath of wage-earning families, distributed $52 billion in 2017.
These fully refundable tax credits are now the main means of transferring income to the nation’s poor and working classes. (Only Social Security transfers more income and lifts more out of poverty.) And unlike TANF, the EITC and CTC are distributed as tax credits by the IRS, avoiding much of the administrative bloat associated with other means-tested transfer programs.

The EITC was established under Gerald Ford as part of the Tax Reduction Act of 1975. Originally a small, temporary 10 percent credit for a family’s first $4,000 in income, the EITC was made permanent by Jimmy Carter in 1978. It has since been expanded by Ronald Reagan in 1986, George H. W. Bush in 1990, and Bill Clinton in 1993—the last round of which was the first expansion to provide a nominal credit to childless adults. The CTC was established in 1997. Both George W. Bush and Barack Obama reduced the credit’s “marriage penalty” (under which jointly filing couples receive smaller benefits). Obama lowered the amount workers needed to earn before receiving the maximum tax credit.28

The EITC’s bipartisan history and its somewhat stealth status as a tax expenditure rather than an appropriation has protected it from attacks on other parts of the welfare state. The EITC is designed to incentivize and reward work. If a worker doesn’t earn any income, the EITC doesn’t provide any benefit. As a worker’s income grows, the EITC increases, eventually reaching a plateau. The benefit then gradually phases out at higher incomes. This system—a phase-in, a plateau, and a phase-out—generates the telltale “trapezoidal” shape9 associated with these income-based tax credits: up, flat, down. The amount of EITC you earn per dollar of income also depends on how many children you have. In 2018, the credit maxed out at $3,461 for a single-child family; it maxed out at $6,431 for a family of three.30

Unlike other tax credits, the EITC is fully refundable for those who meet the earnings threshold—meaning that, if the value of a worker’s EITC exceeds their tax liability, they receive the difference as a refund.10 Because the lowest earners also have the lowest income tax burden, the refundability of the EITC is crucial to its redistributive capacity. The CTC, however, is only partially refundable; in 2019, working families can receive a refund equal to 15 percent of their earnings above $2,500.12

Together, according to the Center on Budget and Policy Priorities (CBPP, a liberal think tank), the EITC and CTC lifted 8.9 million people (including 4.8 million children) above the poverty line in 2017, and made an additional 20.2 million people less poor.31

The positive effects of the EITC may go beyond poverty reduction. Income gains from the EITC and CTC, research suggests, yield benefits for children at every stage of life.34 EITC has been linked with better prenatal care, reduced maternal stress, and improved infant health.35 Children who have benefited from tax credit expansions have higher odds of finishing high school and attending college—and even tend to earn more as adults. Proponents say the EITC’s anti-poverty effects maybe be understated by head-count poverty numbers.16 That’s because the EITC is also designed to encourage participation in the labor force, and thereby boost incomes. The upward slope of the phase-in subsidizes wages, making work more rewarding, and—theoretically—encouraging people to work more. For years, research backed up this assumption.37

There are three concerns, however. For one, the trapezoidal shape of the benefits curve means that the neediest families—those earning no wages—are structurally excluded from the benefit. Of the 40.6 million Americans living in poverty, only one quarter participate in the labor force.9 Several studies have proven that the nonworking population is primarily composed of children, students, the elderly, the disabled, the sick, and caregivers. The EITC, thus, continues to be captured by 1990s-era myths about the deviance of the nonworking poor—in a way that compromises its ability to combat deep poverty.

Second, any EITC-induced increase in the nation’s labor supply may drive wages down. In this way, a large portion of the value of the EITC is actually captured by employers, who are able to pay reduced wages. In simple terms, the EITC may encourage workers to enter and remain in low-
paid jobs that would be insufficient if not for the tax credit. Economist Jess Rothstein has found that employers capture thirty cents of every dollar spent on EITC.\textsuperscript{39} Subsidizing low-wage employers is not what anti-poverty champions of the EITC intend for the program, but that’s what it does.

And third, new research has called into question the labor force participation effects of the EITC.\textsuperscript{40} Princeton economist Henrik Kleven has found that phased-in income tax credits don’t necessarily increase the labor supply—and that most of the research “proving” they did was based on a single event: the expansion of the EITC in 1993 and a subsequent increase in labor force participation by single mothers. Kleven found little evidence of major labor supply effects in the wake of other expansions of the EITC or the establishments of EITC in various states.

If Kleven’s research is correct,\textsuperscript{41} then the justification for excluding the nonworking poor from benefits—that the EITC instead encourages them to work—is based on mistaken assumptions. In other words, if trapezoids don’t succeed at encouraging work, then all they really do is cruelly deprive the most needy populations of income transfers and perpetuate the toxic distinction between “deserving” and “undeserving” poor.

Settling the empirical question of whether or not the EITC encourages work will take time, debate, and research. A study of a municipally funded EITC for childless adults (including noncustodial parents) indeed found a modest increase in employment rates.\textsuperscript{42} But even if Kleven is wrong, there are other ways to increase labor force participation that do not punish the poorest Americans (as covered in the next section).

What we already know is that the EITC and CTC fail to reach those with the most need. That is a problem which we can and should fix now.

\textbf{Reform Proposals for the EITC and CTC}

Multiple members of Congress and presidential candidates have recently proposed expansions to the EITC, coupled with proposals to make fully refundable and eliminate the phase-in for the CTC—effectively turning the credit into an unconditional child allowance for low-income families.

Senate Democrats, led by Sherrod Brown (OH), Michael Bennet (CO), Dick Durbin (IL), and Ron Wyden (OR), have rallied behind the Working Families Tax Relief Act (WFTRA), which would expand the EITC by 25 percent for families with children and quadruple the credit for childless workers. It would also modestly boost the CTC and make it fully refundable, meaning low-income families would benefit from the credit even if they don’t earn enough to incur income tax.\textsuperscript{43} The American Family Act provides a bigger child allowance to more lower- and middle-class families, paying $3,000 per year, or $250 per month, per child ages 6 to 16; and $3,600 per year, or $300 per month, per child ages 0 to 5. It wouldn’t begin to phase out until $130,000 a year in income for single parents and $180,000 for married couples.\textsuperscript{44}

Senator Kamala Harris (CA) has proposed the LIFT the Middle Class Act, which would expand the EITC to benefit much of the middle class in addition to the working poor. It features a much steeper phase-in—providing a dollar of credit for each dollar of income until maxing out at $3,000 for individuals and $6,000 for couples—a longer plateau and a more gradual phase-out. A proposal by Senator Sherrod Brown and Representative Ro Khanna (CA), the Grow American Incomes Now (GAIN) Act, is more modest: it proposes doubling the EITC for households with children, and increasing it considerably for the childless poor. By maintaining the trapezoidal shape ($0 credit for $0 in earned income), both of these proposals still exclude the nonworking poor.\textsuperscript{45}

Representative Bonnie Watson Coleman (NJ) has introduced the EITC Modernization Act, which would make the EITC available to students and caregivers at a base rate of $100 month\textsuperscript{46} —effectively providing a small basic income for those eligible. Polling by liberal think-tank Data for Progress found substantial support for expanding EITC to caregivers and students, “including among a majority of Republicans, two-to-one support among independents,
and overwhelming support among Democrats.” These proposals recognize the enduring political value of tying tax credits to work effort, but seek to broaden the definition of work to include unpaid labor.

**Direct Transfer through Basic Income**

By eliminating the phase-in for the CTC and making it fully refundable, the Working Families Tax Relief Act (WFTRA) and the American Family Act provide a small guaranteed income to families with children—regardless of whether they earn wages. This sort of universal or near-universal benefit—both proposals phase out at high incomes—is a crucial poverty-reduction tool in almost every other rich country (almost all of which have lower rates of child poverty than the United States).

Though work requirements (or trapezoidal phase-ins) have been the vogue in Washington for decades now, policy proposals have recently resurfaced for guaranteeing income regardless of work. It’s not difficult to redesign the EITC to benefit nonworking people as well: simply start the phase-in at $500 (or whatever amount), so that everyone or almost everyone gets it regardless of income. In effect, this would mean adding a small guaranteed income to the EITC.

Plans for guaranteed income—sometimes called universal basic income (UBI), minimum income, or a negative income tax (which differ in their particulars)—have been tossed around Washington for decades, often with bipartisanship. Milton Friedman, Martin Luther King, Jr., and Daniel Patrick Moynihan have all entertained the idea of or advocated for basic income at various times. Richard Nixon almost passed one.

In his 1971 State of the Union address, Nixon listed his plan to “place a floor under the income of every family with children in America” as his top legislative priority. But the same myths about the inherent indolence of the poor, perpetuated by conservative figures such as Charles Murray and George Gilder—and the last-minute intervention by an Ayn Rand-obsessed advisor—convinced Nixon to abandon the idea of a guaranteed income in favor of workfare. Basic income has, to some degree, reemerged as a boutique policy idea, embraced by techno-utopians in Silicon Valley and certain strains of democratic socialists alike. The policy advantages of basic income over means-tested welfare (such as TANF) and a phased-in tax credit (such as EITC) are various. Unlike TANF, a basic income program wouldn’t need to be administered by an army of caseworkers—responsible for ensuring not only that poor people receive cash, but also that they are behaving well, seeking work, avoiding drugs, and pursuing stable relationships. Unlike the EITC, a basic income—or a guaranteed child allowance, for that matter—could be targeted to help the poorest members of society, not just those who can work. And unlike both programs, a basic income—by not distinguishing between “deserving” and “undeserving” poor—could put us on a pathway to abandoning the pernicious myths about the moral deprivation of the neediest members of society.

The potential benefits of a basic income are not necessarily limited to eliminating poverty. As many proponents have put it, a basic income gives people the power to say no. “A UBI reduces personal dependency on exploitative employers, overbearing welfare administrators, and domestic partners, and guarantees that no one is completely left behind and excluded from society,” writes Maximilian Kasy of Harvard and Data for Progress. And basic income can be considered remuneration for the socially valuable work that typically goes unrewarded under capitalism—the arts, caring for children and the elderly, civic participation, and so on—without having individuals prove they are engaged in that work.

The idea of a guaranteed income is not as far-fetched as it seems. Every Alaskan already receives an annual dividend—typically between $800 and $2,000—from the Alaska Permanent Fund, a sovereign wealth fund (more on those in the final section of this paper). Kasy recently proposed a modest basic income plan under which individuals with no income would receive the highest net benefit (of $7,000). As income increases, under Kasy’s plan, a larger and larger portion of the basic income is taxed back—in this way, Kasy’s plan is indistinguishable from a negative income tax.
Some basic income supporters, especially those of a libertarian bent, intend to pay for the benefit by eliminating all other social welfare programs. (Venture for America founder and presidential candidate Andrew Yang, for example, proposed a valued added tax (VAT) in addition to projected savings from cutting other government spending on the symptoms of poverty—incarceration, homelessness, sickness.) The major fear with this approach is that the basic income proposed would be insufficient, and yet the cuts to social programs would become permanent.

Research conducted by economists Jessica Wiederspan, Elizabeth Rhodes, and Luke Shaefer suggests the United States could adopt a household-based negative income tax sufficient to wipe out poverty altogether for the combined cost of the EITC, food stamps, TANF, school meal programs, housing subsidies, and Supplemental Security Income (a program for the elderly). There would be winners and losers in this scenario (for example, EITC disproportionately benefits low-income families just above or below the poverty line; they’d get less help under the proposed negative income tax), but the study suggests eliminating poverty through income transfer is not out of reach—even assuming no additional revenue from more progressive taxation, wealth taxes, or a VAT.

Basic income’s conservative opponents say it will decrease work incentives, and allow some to freeloade on the labor of others. Basic income also has opponents on the left. Seth Ackerman, executive editor at Jacobin, has argued that basic income creates “arbitrary classes” of able-bodied people who do not work, while others do. Others argue that a basic income would provide cover for companies to hire still more independent contractors and part-time workers—undermining living wages—without facing wider backlash from the precariously employed. A basic income, these critics suggest, is hush-money paid to the masses dislocated by neoliberalism and automation.

The research on the effect of variously sized basic incomes on labor market participation is inconclusive. An encouraging study of the Alaska Permanent Fund found that “possible reductions in employment seem to be offset by increases in spending that in turn increase the demand for more workers.” Proponents argue it is worth considering whether some degree of nonparticipation in work is worth the benefit of alleviating poverty and providing a floor—of basic material comfort and dignity—for all low-income families. Moreover, as will be discussed in the next section, it may be possible to correct the perverse labor market effects of generous income transfers in the form of active labor market policy and other regulations.

### Government Creation of Good Jobs

In his 1944 State of the Union address—his last—Franklin Delano Roosevelt introduced an Economic Bill of Rights, the first of which was a “right to a useful and remunerative job.” Two years later, Congress passed the Employment Act of 1946, which first established full employment as a national goal. Though FDR and some advisors had hoped to establish a permanent federal employment program—a post-crisis successor to the New Deal’s federal jobs programs (such as the Works Progress Administration and Civil Conservation Corps)—they were thwarted.

But the dream of a job guarantee has lived on through the civil rights movement. Coretta Scott King continued to champion genuine full employment legislation after her husband’s death, her work contributing to the inclusion of a Job Guarantee Office in an early version of what would become the Full Employment and Balanced Growth Act of 1978 (known as the Humphrey–Hawkins Act).

Today, the idea of federally guaranteed jobs is experiencing a renaissance. Its proponents reject the mainstream economic hypothesis that unemployment cannot fall below a certain rate without generating debilitating inflation. Today’s unemployment rate of around 3 percent doesn’t account for millions of workers who have stopped actively seeking a job, or those “inadequately employed in temporary, seasonal, or other precarious employment situations.” Today’s “full employment” leaves 6.7 million Americans unemployed, and 5 million in part-time work who would prefer full-time. Furthermore, the number of black unemployment is at least twice as high as white unemployment.
Supporters of a guaranteed jobs program—which now include three presidential candidates—generally point to a few key benefits of the policy: (1) it would eliminate involuntary unemployment, regardless of the economic cycle; (2) it would restructure the labor market by establishing a minimum floor of wages and benefits that the private sector would have to exceed to attract workers; (3) it would provide macroeconomic stabilization by maintaining employment and buying power during downturns; and (4) it would provide socially useful goods and services—especially those that are undervalued by the free market.

Since 2017, the Center for American Progress (CAP) and CBPP (both center-left think tanks) have rolled out detailed proposals for a federal jobs guarantee, joining economists such as Pavina Tcherneva and Stephanie Kelton (associated with Modern Monetary Theory), who have long advocated for such a program. A proposal from Mark Paul, William Darity, Jr., and Darrick Hamilton (commissioned by the CBPP) calls for a minimum annual salary of $24,600, mean salary of $32,500 (both indexed to inflation), retirement plans, paid family and sick leave, one week of paid vacation per three months worked, and health insurance for full-time workers. They estimate an annual cost of $543 billion—or just under 3 percent of GDP—to create 9.7 million full-time positions. CAP’s “domestic Marshall Plan” doesn’t call for eliminating involuntary unemployment altogether, but rather for setting the target employment-to-population (EPOP) ratio for prime-age workers without a bachelor’s degree at the year 2000 peak of 79 percent. This, CAP says, would require the creation of 4.4 million jobs and cost $158 billion per year.

These ideas have found a voice in Washington: Senators Kirsten Gillibrand (D-NY), Cory Booker (D-NJ), and Bernie Sanders (I-VT) have included a job guarantee in their presidential platforms. Booker backs a pilot program in fifteen urban and rural areas—offering every adult living there a $15-an-hour job with paid leave and health benefits. Sanders has proposed an immediate, large-scale implementation: a nationwide job guarantee at a living wage for every American worker “who wants or needs one”—orchestrated by twelve regional offices who would approve proposals for public works projects from all over the country.

Though they are not mutually exclusive, jobs guarantees and the basic income proposals are often juxtaposed in liberal policy debates. Job guarantee supporters say that income that doesn’t encourage work is harmful, because the deleterious effects of unemployment go beyond insufficient income to include “higher mortality and suicide rates, social isolation and a permanent decline in well-being.” Moreover, in a nation that values work, the stigma associated with idleness is impossible to overcome. Basic income supporters counter that the sense of fulfillment and sense of purpose that Americans acquire from work drops as you go down the income and skill scale—a lawyer, for example, may feel her job is an important part of her identity; a fast food worker may not.

Jobs guarantee skeptics question whether socially necessary public works jobs are feasible as an employment of last resort. Where will the jobs come from? Many jobs cited as possible jobs guarantee projects—climate mitigation and resilience work, infrastructure projects, child care, emergency medical technicians, and so on—require training and skills that the perpetually unemployed are unlikely to have. Moreover, a jobs guarantee program would expand during down cycles and contract when the economy is booming; if the unemployed are to be put to work as caregivers during a downturn, will we accept a sudden shortage of caregivers as workers flee to better jobs when the economy picks up? If the jobs aren’t really going to be socially useful—if instead they’re “make-work” jobs—a jobs guarantee begins to look more like a regressive form of workfare, or, more precisely, as Matt Bruenig of People’s Policy Project has put it, “an activation cost for an unemployment benefit.” If the government thinks climate mitigation and free child care are important projects, critics say, why wait for an economic crisis to fund them?

Critics of the jobs guarantee point to its high cost and complain that the private sector would struggle to compete with higher-paying public sector jobs (this, of course, is precisely the point for supporters of a jobs guarantee.
who intend for the program to establish a floor). But conservatives and liberals have both wondered whether the government is equipped to undertake such a huge and complicated administrative project. The jobs guarantee would signal a revolutionary change in the relationship of the U.S. government to the job market, requiring a new set of bureaucratic skills, expertise, and infrastructure to implement.

Does a hybrid of these ideas—a basic income and a jobs guarantee—make more sense? Perhaps a huge investment on the scale needed for a jobs guarantee could be better spent as a combination of subsidies for private sector work, targeted and tailored programs for populations facing significant obstacles in the job market (such as the formerly incarcerated), more generous unemployment benefits (or a negative income tax), and more active labor market policy to connect the unemployed with existing jobs. The ELEVATE (Economic Ladders to End Volatility and Advance Training and Employment) Act, introduced this year by Senator Ron Wyden (D-OR) and Representative Danny Davis (D-IL), for example, would create a new funding stream for states to implement subsidized employment programs (for both private and public sector jobs) and other active labor market policies. Josh Bivens of the Economic Policy Institute has recommended a so-called public option for employment as an alternative to a full-on job guarantee—targeted at “unemployment hotspots”—that can be implemented after the nation achieves full employment via monetary and fiscal policy.

Returning to the issue of cost, economic journalist David Dayen has noted that we already spend $214 billion per year on economic development subsidies and corporate tax cuts, supposedly intended to spur job creation. That money could be much more efficiently and equitably spent directly creating good jobs. What’s more, a jobs guarantee appears to be a remarkably popular idea: in polling by Civis Analytics and Data for Progress, a majority of residents in every state support a job guarantee.

**Redistributing Wealth and Power**

Numerous studies have correlated the decline in private sector union membership with the rise of extreme inequality. Workplace democracy ensures that when a company prospers, a greater share of that prosperity is distributed downward. Without more worker control over the distribution of economic prosperity—in other words, public control over wealth and the means of generating it—our economy will continue to provide lavish comfort for the wealthy while demanding punishing work from the rest of us.

But if unions aren’t about to make a huge comeback, it’s worth considering how more economic democracy might be fostered in their absence. One way to do that is to democratize ownership. Democratic ownership allows workers to capture a greater share of economic growth—growth that has more typically gone to wealthier stockholders in an age of wage stagnation.

One approach to ensuring more broadly distributed wealth is “codetermination.” Under codetermination, corporations are required to share power between shareholder representatives and employee representatives. Germany, one of the world’s most successful capitalist nations, has required 50 percent employee representation on supervisory boards of large corporations since 1976. (The rest of EU countries require some degree of codetermination.) In that time, despite fears to the contrary, German companies have managed to simultaneously attend more closely to concerns such as job security and wages while maintaining growth in real per-capita GDP at slightly higher rates than the United States.

As Justin Fox wrote for Bloomberg, “Germany also has a higher employment-population ratio and life expectancy, and lower income inequality, than the U.S.—not to mention a national government debt of 64 percent of GDP and falling, compared with the U.S. debt that is 105 percent of GDP and rising.”

“In contradistinction to U.S. corporate boards that prioritize short-term boosts to share value,” writes George Tyler, a former deputy assistant U.S. treasury secretary and senior
World Bank official, “codetermination boards establish investment policies that nurture long-term firm prosperity and bolster local and national communities.”

Elizabeth Warren (D-MA) has introduced the Accountable Capitalism Act, which broadly seeks to shift corporations away from the “shareholders-first” mentality and toward the concept of “corporate citizenship”—an obligation for large corporations to consider the interests of all stakeholders in their decision-making. One way she proposes doing that is establishing 40 percent codetermination on major corporate boards. Warren’s bill, introduced with Senator Tammy Baldwin (D-WI), has backing from one-third of Senate Democrats.

Another more direct way of increasing economic democracy is by embracing more public ownership. Thomas Hanna, research director at The Democracy Collaborative, has advocated for the nationalization of distressed banks during the next recession to redirect the financial sector toward serving the public good. Hanna has also called for more public ownership of other parts of the economy—especially those rooted in human need—and democratization of the many already publicly controlled utilities in the United States.

Legislation backed by Senators Sanders and Gillibrand has recently brought employee stock ownership plans (ESOPs) and other cooperatively owned corporations back into the progressive conversation. Both forms promote more democratic corporate ownership, but through slightly different mechanisms. While cooperatively owned businesses are governed by a board of worker-owners, ESOPs are employee benefit plans under which company stock is sold to a trust co-owned by the company’s employees. Usually, in ESOPs, when vested employees resign or retire, they receive the value of their shares as a lump sum (or can roll them over to another retirement account).

In principle, ESOPs give workers an ownership stake in the company, strengthening worker power, boosting their incomes, and creating greater corporate transparency. Some studies have found wage boosts associated with ESOP participation. Others argue that ESOPs encourage stability and more enlightened stewardship. Whereas typical corporations prioritize short-term profits, strong dividends, and high compensation packages for the CEOs, worker-owners might consider the impact on job security, the environment, and the community.

The proposal that worker-owners would change corporate behavior requires that workers with an ESOP actually have decision-making power—which has not always been the case. Furthermore, unions sometimes have been wary of ESOPs, fearing that workers whose retirement accounts are bound up with company profits are less likely to strike or threaten to strike. A 2008 paper produced by the Federal Reserve Bank of New York concluded, “ESOPs create incentives for unions to become weaker bargainers.”

Proponents of collective ownership models hope that some of the 2.3 million businesses privately owned by baby boomers in the United States will be sold to their workers when their owners reach retirement age within the next ten years. About 12 percent of the U.S. workforce is employed at worker-owned enterprises of some sort. Some research suggests these companies are better at weathering economic downturns; other studies find employee ownership boosts profits. An oft-cited model of cooperative ownership on a large scale, the Mondragon Corporation—headquartered in the Basque region of Spain—brings in $13 billion in revenue each year from 105 cooperatives employing 75,000 employees worldwide.

Despite evidence of their efficiency and profitability, co-ops face obstacles. They tend to have a harder time accessing finance, since lenders can’t take control of the company if their investments go bad. To combat this, legislators have put forward bills to enable the U.S. Business Administration to make loans to intermediaries that help finance worker buyouts. Senator Sanders, for example, has called for a U.S. Employee Ownership Bank to “provide low interest loans, grants, and technical assistance, to help workers purchase businesses through a majority-owned employee stock ownership plan or a worker-owned cooperative.”
Another means of bringing more capital under public control is establishing a sovereign wealth fund (SWF). Matt Bruenig is perhaps the most vocal U.S. advocate of this approach, modeled on the SWFs owned by many Nordic social democracies.88 A national SWF could be established along lines similar to Alaska’s state-level Permanent Fund. The government would place money and assets into the fund; a public entity would manage those assets to generate investment returns; and those returns would be used to fund social spending or returned to the populace as dividends. Bruenig suggests various taxation schemes: a VAT, a financial transactions tax, a one-time market capitalization tax, or a higher inheritance tax to seed the funds, which would be one of the more straightforward (though still politically challenging) ways to reduce wealth inequality.

Conclusion

The policy goal should not be only to raise incomes for all, but also to guarantee the freedoms that adequate income provides. It is worth repeating the lines from the 1966 “Freedom Budget for All Americans,” composed by A. Philip Randolph and Bayard Rustin, which proclaims:

For the first time, everyone in America who is fit and able to work will have a job. For the first time, everyone who can’t work, or shouldn’t be working, will have an income adequate to live in comfort and dignity. And that is freedom. For freedom from want is the basic freedom from which all others flow.89

For a long time, supporters of economic redistribution have been on the defensive. A four-decade history of retrenchment—the Reagan-era attacks on “welfare queens,” the demonization of the “undeserving poor,” and the subsequent bipartisan embrace of stingy and punishing workfare—has constrained our political imaginations. Our reliance on tax credits, which stealthily redistribute considerable income but reifies the notion that non-workers are undeserving of aid, is the product of this myopia and fear.

The “Freedom Budget” calls on us to imagine beyond the narrow political constraints of the present. Rather than accepting the terms of the debate inherited from an era of harsh austerity, we might start by identifying the policies that would enable every person in America to benefit from boom times and be cushioned in times of economic strife. The policies discussed above are popular with large swaths of the public; they’ve been successful in other countries and in other eras of American life; and they are within the capacity of the world’s wealthiest nation to implement.

Big and bold ideas can be galvanizing. Bernie Sanders and Cory Bookers’ job guarantee, Kamala Harris’s generous EITC expansion, Elizabeth Warren’s codetermination plan—these proposals indicate that the Democratic contenders for president appreciate that sometimes the political power necessary to instantiate our vision of the world can be cultivated by naming our goals, no matter how far-fetched they may seem under present circumstances. Sanders’s 2016 call for a single-payer health plan, dismissed by mainstream politicians at the time, has now led to the embrace of Medicare-for-All by a huge swath of Democrats—demonstrating that unapologetic advocacy for ambitious policy goals can shift the window of discourse.

The government can guarantee a decent standard of living for every American, but doing so requires leadership. We have the policies to eliminate poverty; what we don’t have is political leaders asserting, with conviction, that there is no distinction between a “deserving” and “undeserving” poor person. We have the resources to provide a job to everyone who wants one; what we need are more politicians defending the role of government—of the public—in charting a course for our economy.

And there is urgency. The healthy and thriving economy daily championed by the Trump administration is a façade behind which a huge number of American families continue to struggle with low wages, underemployment, financial stress, and destitution. In other words, the working people who are generating prosperity and growth are not enjoying its benefits. We have the tools to change that.
Notes

12 Ryan Nunn and Jay Shambaugh, “If real wages aren’t rising, how is household income going up?,” Brookings Institution, October 4, 2018, https://www.brookings.edu/blog/up-front/2018/10/04/if-real-wages-arent-rising-how-is-household-income-going-up/.
22 Since TANF was created in 1996, the number of poor families benefiting from the program has fallen precipitously. In 1996, for every 100 families with children in poverty, 68 received TANF benefits, in 2017, just 23 did. This TANF-to-poverty ratio (TPR) has fallen more rapidly in red states (and states with large African American populations), which have imposed stricter work requirements and shorter term limits. In sixteen states, the TANF-to-poverty ratio is 10 or less. In these states, only a tiny fraction of the neediest families receive cash assistance under the program designed to help them. In forty-six states, there are more families living in deep poverty (incomes less than 50 percent of the poverty line) than there are families receiving TANF. Meanwhile, families have seen the purchasing power of their benefits plummet. In most states, TANF benefits are worth at least 20 percent less—adjusted for inflation—than they were in 1996. In every state, TANF benefits leave family incomes at or below 60 percent of the poverty line.
23 Because of TANF’s diverse statutory aims—not just providing financial aid, but also promoting marriage, preventing out of wedlock pregnancies, and encouraging two-parent families—many states choose to spend their grants on dubious programs designed to preserve the patriarchal family rather than on cash assistance, further reducing the monetary value of benefits for the needy. Despite the fantasies that continue to be propagated of spending for the poor, no one is living large off their welfare benefits—they’re barely surviving.
33 The term fully refundable refers to the fact that the full value of the credit is available to those who have no tax liability. By contrast, only $1,400 of the $2,000 per child tax credit. However, there is an earnings threshold for the EITC, so
that only workers who earn above a prescribed amount can get the full credit.


36 On the other hand, because EITC focuses its benefits on those with earnings near the poverty line, the headcount poverty may overstate the impact of the EITC. For example, $20 million investment in families facing deep poverty (less than 50 percent of the poverty line) would yield a lower decrease in headcount poverty than a $20 million investment in the EITC, that doesn’t mean the former investment has any less of an impact on alleviating human suffering. Measuring poverty reduction by headcount, therefore, contributes to the assumption, in many policy circles, that the EITC is much more efficient than direct cash transfers to the neediest.


56 “State of the Union Message to Congress,” January 11, 1944, www.fdlibRARY.marist.edu/archives/address...text.html.


60 Janelle Jones, “Black unemployment is at least twice as high as white unemployment at the national level and in 12 states and D.C.” Economic Policy Institute, October 30, 2018, https://www.epi.org/publication/2018b2-unemployment_state_race_ethnicity/.


