THE BROOKINGS INSTITUTION
BROOKINGS CAFETERIA: HOW TO FIX CAPITALISM FOR AMERICA'S WORKERS
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(MUSIC)

DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews. From slow wage growth, to increasing numbers of men out of the labor market, to rising inequality and rising compensation for CEOs, today's capitalism may not be working for workers. What can or should be done? In May, *The Guardian* newspaper addressed the problem in a series titled *How to Fix Capitalism: Nine Expert Solutions for America's Broken System*.

In today's episode of the podcast, two of those experts, Isabel Sawhill and Steven Pearlstein, join Richard Reeves in the Brookings Podcast Network studio to discuss their ideas about how to help workers in today's economy. And, in a new feature on the Brookings Cafeteria, during the conversation, Reeves calls up experts to ask them for one solution on how to help workers and fix capitalism. Then, our experts in the studio discuss the idea.

First, about our in-studio guests. Richard Reeves is the John C. and Nancy D. Whitehead Chair, a senior fellow in Economic Studies at Brookings, Director of the Future of the Middle Class Initiative, and co-director of the Center on Children and Families.

Isabel Sawhill is a senior fellow in Economic Studies and author most recently of *The Forgotten Americans: An Economic Agenda for a Divided Nation.*

Steven Pearlstein is a business and economics columnist for the *Washington Post* and Robinson Professor of Public Affairs at George Mason University. His recent book is titled *Can American Capitalism Survive?*

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REEVES: Thanks, Fred. So, we're here to talk about the way in which contemporary capitalism isn't really working for workers, not as much as it used to and perhaps not as well as we want it to. And, we have a series of expert ideas on how to help workers today. What is it that we can actually do to help workers in today's economy?

We're going to be calling some of those experts to get their own ideas and then discussing them. But, I'm thrilled that two of the experts who've contributed to the series are with me in the studio, my colleague Belle Sawhill --

SAWHILL: Hi, Richard.

REEVES: -- and Steve Pearlstein.

PEARLSTEIN: Thanks for having me.

REEVES: So, thanks, both, for coming in. Let's just frame the problem. I want this to be a conversation mostly about solutions, what we do. But, let's just take a moment to think about the nature of the problem. Most of this is pretty well known to people like you in the field, but, just to sort of level set, we know that the share of national income going to workers has dropped. The numbers kind of vary, but from, say, 65 percent to about 57 percent more recently, so less of the share of national income going to workers in the first place.

We know that wages in the middle of the distribution, certainly for men, are flat, and they're maybe even falling a little bit -- 1.4 percent for white men, 9, 8 percent for black and Hispanic men, rising a bit for women in the middle of the distribution. But, really, the only big wage gains are at the top.

We're seeing more Americans working flexibly, not knowing necessarily what their schedules are, and we're seeing rising wage in equality, with really the big increases in wages going to those at the top. And, these are trends that were accentuated by but preceded the recession. And, so, over all, it looks as if the kind of connective tissue between market growth and kind of what's happening to workers is if not broken it's at least being stretched. Steve, is that a fair assessment? If so, why is that happening, do you think?

PEARLSTEIN: Well, there's lots of reasons, and it's gone on for decades. Trade, globalization, technology are all culprits, but there have been changes in the laws and the rules by which businesses operate and by which economies operate and also changes in the norms, the social norms, within firms and between firms, that have changed the way companies behave, the way workers behave.

REEVES: So, it hasn't happened out of thin air, in other words. It's been a choice --

PEARLSTEIN: No, and to think about it as some sort of regular conspiracy that was hatched in think tanks and then migrated to public policy is overstating the case, which is not to say that changes in policies haven't contributed to it. But, to think of it all as a conspiracy on the part of the ubercapitalists to do this, I think, sort of misses the point, which is not to say that we can't and shouldn't do something about it. But, it helps if you don't start with the idea that there's a conspiracy out there.

REEVES: Right. So, even if capitalism is not working, it's not because there's a capitalist conspiracy against workers. Belle, I know you've done a lot work in this area, too. What concerns you the most? Do you think that's the right analysis to start with, that this -- not delivering for workers? And, how do you view the problem?

SAWHILL: Well, I think everything you said at the outset is exactly right. The facts are clear about the labor share, about wages, about labor force participation, especially amongst men, dropping very sharply over decades now. And, I think that getting into the deeper reasons gets us into a very interesting conversation. I certainly don't pretend to know the answers, but I think it goes beyond simple tweaks to public policy.

I totally agree with Steve that this is not some kind of conspiracy. It's not the capitalists or the owners of capital or CEOs or anybody else are evil people. But, I really do think we need to think harder about the relationship between a private sector economy and government and then finally the non-for-profit sector and everything else.

So, the balance between private sector capitalism and government that sets certain guardrails and provides certain benefits and safety nets, I think, has been distorted and left behind in recent decades. And, so, I am concerned about that. I think we need to take this more seriously, not just tweak one program or another.

REEVES: And, you're obviously worried about it at quite a deep level. You think this is a deep problem? It's a problem at the level of political economy rather than just --

SAWHILL: I think it is a problem at the level of political economy, and I think it has huge implications for our democracy. So, I don't think we can any longer separate what's going on in the economy and what's going on in our political system. They are late and we should worry about whether democracy as we have known it can be sustainable in the U.S. and in many other advanced countries if we don't do something a little differently.

REEVES: Great. Thank you both for that. What we're going to do is actually kick some ideas around for what we can actually do now to help workers practically. We're going to be talking about these ideas. I'm going to be drawing ideas out of the two of you, but we're also going to make a few calls. We're going to call some of the people who have contributed to this series and just get them, very briefly, to outline what's their one idea to help workers. I think everybody knows it's going to take more than one idea, but we've invited people to say, if you could do one thing what would it be?

And, then, after we've heard from them, we're going to discuss it for a bit before making a few more calls. Let's just get as many calls in as we can and then kick their ideas around. So, first of all, we're going to give a call to Jim Ziliak who is Professor of Economics at the University of Kentucky who has an idea to help workers.

ZILIAK: Jim Ziliak here.

REEVES: Hey, Jim, it's Richard Reeves here from Brookings.

ZILIAK: Hey, Richard.

REEVES: I'm calling you from the studio. I've got Belle Sawhill and Steve Pearlstein with me and wanted to hear your idea for how to help the American worker.

ZILIAK: Well, I recently wrote a policy proposal for the Aspen Economic Strategy Group where I proposed a series of ideas to address the disemployment problem that kind of pervades rural American men. And, some of those policies focus on bringing jobs to people, and others focus on bringing people to jobs. And, the idea that I put forth in the Guardian piece was one of the people-to-jobs ideas, and that's the notion of a commuter credit.

So, transportation is about 20 percent of the typical rural American budget, just behind housing, in terms of fraction of expenditure. And, for many of these workers, there is not many employment opportunities nearby, and, so, it's a substantial cost and barrier to work for people in especially more remote parts of our country. Transportation is very expensive. And, the only option to get to work is through your car.

REEVES: So, you're proposing a commuter credit which would effectively subsidize people to physically get them from home to work, for at least, I think, --

ZILIAK: That's right.

REEVES: -- a 12-month period? Is that right?

ZILIAK: Yeah. So, the idea is the focus would be on people who are currently out of the labor force and to provide a temporary credit for up to 12 months to help facilitate the transition from out of work to work. And, the credit would operate out of the local workforce development board, unemployment office, depending on how it's structured in the particular individual's state. And, it would also be primarily targeted to those individuals that find meaningful employment, employment that's at least a wage of minimum wage or higher and ideally offering at least 30 hours of employment per week.

REEVES: Okay. Thank you very much for that, Jim.

ZILIAK: You're welcome.

REEVES: Take care. Bye now.

ZILIAK: Bye-bye.

REEVES: Okay. So, a commuter credit. Jim actually wants to very practically help people physically get from home to work. He's very worried about rural unemployment. He thinks the physical act of getting to work is important. And, it's a reasonably generous subsidy, if I understand it correctly. Steve, your response?

PEARLSTEIN: I'm not a big fan, I have to say, -- two reasons. First of all, though it is painful and disruptive, I think the movement of people to where the jobs are -- and that's a dynamic process, it's always changing, always has been -- is actually a healthy thing. And, I don't think that as a matter of public policy we ought to try to throw sand in the gears that way.

But, the second thing is that if you're going to do something like this, I like better the idea, that is quite an old one, -- Bob Reich, when he was Secretary of Labor and the Clinton administration had it, which is just to change the unemployment program, so that if you become unemployed, a pot of money becomes available to you and you can use it for a variety of things.

REEVES: Right.

PEARLSTEIN: You can use it to move. You could use it to pay for commuting. You could use it to upgrade your skills. You could use it for a limited variety of approved purposes. And, I wouldn't want to put all my eggs in one basket versus the other. I'd rather structure it that way and give the flexibility.

REEVES: Rather than having a very targeted thing --

PEARLSTEIN: Right.

REEVES: -- on that specific problem. You'd rather be more generous to want to employ people generally and let them decide how to use it (Inaudible).

PEARLSTEIN: Right. But, go to back to my first point, I don't think as a matter of public policy we ought to be in the business as a government of saving rural communities. I think that we're getting pretty strong market signals about the viability of communities, and I don't think that we should basically be building up sea walls to prevent those pressures from happening. I think we need to respect what the market is telling us about geography.

REEVES: Well, that's a very big issue, as you know, Belle. And, in your own book, *Forgotten Americans,* you've talked about people being left behind. People are moving less. Some people don't necessarily want to move to kind of find a job. And, we're seeing growing inequality geographically as much as anything else. I think that's what Jim is trying to get at, which is to help people get to jobs without having to move. What was your reaction to the idea?

SAWHILL: My reaction is that, first of all, it's a very innovative proposal. It's not something I'd run into before. So, I want to congratulate Jim on that front. And, secondly, I do think that we are increasingly aware of the place-based disparities in our society, and I'd like the fact that this is one way to address them.

I think it is easier to move people to the jobs than it is to move jobs to the people. And, my understanding of this proposal is that's exactly what it would do. We're not trying to create economic development zones in rural areas, which, as Steve directly points out, we can probably never save, but we are trying to help the people who live there find a way to get to better opportunities.

I also do have some concerns about proliferating targeted categorical programs. We've done too much of that in the past. And, we have food stamps, and we have energy assistance, and we have housing assistance, and we have child care assistance. And, the proliferation of separate programs for separate purposes as opposed to letting people decide what they need to use the money most for is a bit problematic.

REEVES: Can be sort of overengineered in the sense that --

SAWHILL: A little overengineered.

REEVES: Yeah. I mean, it's --

PEARLSTEIN: And, inefficient.

REEVES: Yeah, it can become inefficient.

PEARLSTEIN: Because you need a bureaucracy for each --

REEVES: To run every credit.

PEARLSTEIN: Not only to check on everybody and to make sure the money is being used well and come up with regulations. And, you wind up giving away 20 percent, 25 percent of the money rather than just giving people money --

REEVES: Mm-hmm.

SAWHILL: Yeah.

PEARLSTEIN: -- or giving them a pot of money that they can choose from a variety of things.

SAWHILL: As conservatives correctly point out, there is quite a lot of error and fraud in the current earned income tax credit, and this, I think, would just add to that burden that Steve's talking about. And, we would have error rates and we would have some outright fraud and worry about all of that.

REEVES: So, it's obviously a temptation if you're a policymaker in a think tank or anywhere to say I want good thing A, so let's have a tax credit for good thing A, whatever it is. It always sounds like a good idea, but then you end up with lot of different tax credits for lots of different, good things, a very complex system.

And, essentially, the government's really in this business of trying to sort of micromanage these cash flows to different people for kind of different purposes, but, because (Inaudible) child care tax credit, the earned income tax credit, and so on. But, take that to its logical conclusion, and aren't you starting to make the sort of universal basic income argument, Belle, there? If you really think we need to avoid that, don't be too overly fine-tuned about the money, then why not just give people a check?

SAWHILL: Well, I am not a fan of universal basic income. I think Steve has written in his book --

by the way, very excellent book -- that he's more in favor of it. My concern about it is that we are a society in the United States that believes really strongly in work, and we like assistance that's work conditioned. We worry about people staying home and taking their UBI and doing nothing.

So, I want to honor that value in our society. I think the reason the earned income tax credit has been so successful is because it does provide people with general assistance. It's not earmarked but it is conditional on work. And, if we're concerned about falling labor force participation and stagnant wages, it seems like the right way to go.

REEVES: you want to keep incentivizing work.

SAWHILL: I want to keep incentivizing work.

REEVES: And, that sounds like that's both good political reasons in the sense that that's where the current sort of central gravity is, but that also you think it's good policy, because you're worried about incentives --

SAWHILL: I think it's both good politics and good policy. Exactly.

PEARLSTEIN: And, I agree with that, and that's why I structured, in my very amateurish UBI proposal -- I structured it so basically every adult would get $6,000, $3,000, however, would be contingent on the fact that they are working, or in a state of temporary unemployment, so that there would be essentially a work requirement. So, it's less basic if you work. In a sense, it's very basic if you don't work --

PEARLSTEIN: That's correct.

REEVES: -- and all that sort of (Inaudible).

PEARLSTEIN: And, there's a big incentive to take advantage of the whole thing and work, and this could be used to replace some of our categorical programs. I don't think you could replace all of them, but you could replace many of them. And, I picked the number, honestly, 3,000 and 6,000 somewhat out of the air. I did a little arithmetic. I didn't fully --

REEVES: They're all very round numbers.

PEARLSTEIN: But, maybe, depending on how many of the other programs get eliminated, you might go up or down with that, but that was just a sort of rough cut to give people a sense of it.

REEVES: Okay. Good. Let's get another idea on the table. We're not going to make another call. Someone else has contributed to this series -- Oren Cass. Oren is a Senior Fellow at the Manhattan Institute, and he's the author of his own book, which I think came out roughly the same time as both of your two books, too. His book is *The Once and Future Worker: A Vision for the Renewal of Work in America*. So, let's give Oren a call now.

CASS: Hello. This is Oren.

REEVES: Hi, Oren. It's Richard Reeves here from Brookings.

CASS: How are you doing?

REEVES: I'm doing well. Thanks. I'm in the studio and we're gathering lots of ideas to help workers. I know you've got a big, bold idea to help American workers. Can you tell us what it is?

CASS: Sure. I like to talk about what I'd call a wage subsidy, which is the idea that we should essentially put extra money in low-wage paychecks. Just like we take money out with payroll taxes, we could put money in. And, so, we could encourage people to take those jobs, we could encourage businesses to offer them, and we could get more money to those households at the end of the day.

REEVES: And, how generous are you planning to be here? If I'm a low-paid worker, how much would I benefit from it, and, relatedly, roughly how much do you think this is going to cost?

CASS: Well, I think we would start with setting a target wage, which is the level above which you don't get a subsidy anymore. And, so, I would pick a target around $15 an hour, and then the subsidy would make up half the difference between what you're earning in the market and that target. So, if your job pays $9 an hour, that's $6 below 15. So, you would get a $3 an hour wage subsidy. So, your pay would go from $9 an hour up to $12 an hour. And, then obviously, as you get closer to 15 in your own pay, the amount of subsidy declines toward zero.

And, a plan like that would cost on the order of $200 billion or $250 billion a year. By comparison right now, we spend about $70 billion on the earned income tax credit which tries to do something similar through the tax code.

REEVES: But, this would be significantly more generous and, therefore, more expensive than the existing system, just to be clear.

CASS: That's right. And, really, the way in which it's more generous is who it covers. The earned income tax credit is very generous if you're someone who has multiple children, but if you're a single worker, you get almost nothing. And, so, this would be a similar level of support for families, but it would bring all workers up to a similar level.

REEVES: So, it's really about broadening it as much as it is deepening it, if I understand it. Great. Thank you very much. I really appreciate your time.

CASS: Yeah. My pleasure.

REEVES: So, here we have someone who's from a free market think tank. I think he is quite critical on his own, but we shouldn't worship the gods of economic growth. So, he's not a market fundamentalist, I think, to use a term that you've both used. But, nonetheless, it is striking that someone from kind of the perspective he's bringing -- he's talking about big subsidies. He's talking about spending a lot of government money to top up the market wages of lower-income workers.

Belle, I know you're going to have views on this, because you have a similar proposal yourself. So, we'll kind of get into some of the details, I think. But, Steve, how do you kind of react to this, just as an overall proposition, that basically what we need to do is just start spending a whole bunch more of taxpayers' money to give to other workers?

PEARLSTEIN: I agree. I think it's justified because of the structural changes in the economy, not as a result of public policy -- there are reasons for thinking about public policy -- but for reasons having to do with technology and globalization that have made wages more unequal, mostly having to do with skills and education. And, the winners should subsidize the losers in some respects for this. So, I agree with it.

Here's my caveat. I don't think it should be -- and I suspect Oren believes it should be a replacement for the minimum wage. I think these two things should work in conjunction with each other. I think we should continue to have a minimum wage that goes up with inflation and that provides another flaw.

And, why do I say that? Because, if you do a wage subsidy and you don't have a minimum wage, then what happens is the entire cost is passed on to the taxpayer. Whereas, if there's a minimum wage, the firm has a commitment to paying some of the cost of -- and I'm going to use words that I don't exactly agree with -- to pay people above what the market says you must pay them.

And, I say that understanding -- and people should understand -- that there's no free lunch in the minimum wage. Somebody pays the difference between the marginal productivity and the minimum wage, and that's either other employees at the firm, its consumers in terms of higher prices, or it's the owners of the firm in terms of lower profits and it's some combination of those three. But, I think that having the subsidy somewhat hidden the way the minimum wage does is actually good politics.

REEVES: Okay. Just to be clear on this minimum wage point, as you brought it up, are you thinking about federal, are you thinking about state and local? Because, we've seen a huge increase in the number of workers who are actually covered by minimum wage. It's just happening city by state, state by state, which might make more sense.

PEARLSTEIN: I think it does make sense. I think there should be a federal minimum and then I think there should be a local minimum that may be higher. And, I think the way we're doing it now is right. I think I probably would raise the federal one, but I wouldn't raise it to $15.

REEVES: Right.

PEARLSTEIN: I wouldn't even probably at the moment raise it to 10. But, I might raise it something close to 10.

REEVES: At least track inflation, perhaps, over time or something.

PEARLSTEIN: Correct.

REEVES: Okay. Belle, let's come back to the specific way that we do top up the wages of workers. First of all, we've got a proposal here that -- a significant amount should go into it to broaden as much as deepen support. So, to bring in those who don't have children, that's the big shift in, if you like, the philosophy behind the policy, right, because previously it was not helping "working families." Now, it's about helping workers, which is a big shift in policy.

So, first of all, obviously I'd like to get your views on that and a broadening of it, and then perhaps on how you'd design it. What's the best way for it to happen? Because, I think, to a lot of people there's lots of tax credit proposals out there. And, also talk a bit about your own ideas for a worker tax credit and how it's different to or similar to Oren's.

SAWHILL: Right. Well, on the broader question first, I think what we've seen is an evolution in this country from a focus on welfare assistance for families, in which family poverty levels were the basis on which we provided people assistance, including originally the earned income tax credit. It is very much designed around family income, the number of children, whether the parents are married or not. And, so, it's a family-oriented system growing out of the welfare system but focused more on work than the old AFDC program or the current TANF program.

Now, we're going a step further. Oren is going a step further, I'm going a step further, and some others as well. We're saying, no, families do deserve some assistance. Obviously, we need antipoverty policies. We need a safety net. But, that's not our major concern. Our major concern is that employees, regardless of their family situation, are not being paid enough. And, if we want to encourage work and we want to reward it, we have to do better.

In the long run, that's going to be through education and training and a lot of other policies. But, in the short run, what we can do right now is boost people's wages, through either a wage subsidy or a tax credit that accomplishes exactly the same thing.

REEVES: Tell us about the difference between those two. Because, for those who are outside of this debate, you say wage subsidy, I say credit. No one really knows the difference. What are the practical differences between these approaches?

SAWHILL: Well, the sort of backstory here is that Oren and I were part of a working group or a task force for about a year, debating these issues, and he was arguing for subsidies on the spending side to do this topping up of people's wages, and I was arguing for doing it with tax credits. But, otherwise, we were in a similar place. And, I kept saying to him isn't it interesting that you as a conservative want a new spending program, and I as a somewhat more liberal person want a new tax program.

REEVES: Well, maybe that means it might happen. If that's --

SAWHILL: But, I think the more important point was we did tend to agree. And, now, as you just heard on the phone, is really talking about a negative payroll tax, which is what I'm talking about as well. The difference between us is, first of all, like Steve, I do want to increase the minimum wage. Oren definitely does not.

Second, I do not want to replace the current EITC with a wage credit. I think that that would not be fair to all of the families with children, particularly single parents at the bottom of the income distribution who've come to rely on that support. And, that's a good and popular program. So, I see this as a supplement, not a replacement for the EITC.

Then, thirdly, I take it further up the income scale. He stops at $15 an hour. My proposal would take wage credits up to around $40,000 a year or about $20 an hour. So, my proposal is more generous than he is. Although, it turns out that their costs were not that dissimilar.

REEVES: Right. So, you are more generous in the sense of going further up, and you want to build on the EITC rather than replace, and so on. But, there's a deeper issue here which is the extent to which we think the labor market has structurally changed in a way that is going to require this ongoing, possibly increasing, support from government to help workers of different kinds.

You just said a moment ago, Belle, in the long run, skills and training, right? Well, we've been saying that for a very long time, haven't we? The long run turns out to be really long indeed. But, I interpreted what you said earlier to say, actually, no, something's changed in the political economy and that, actually, we might need to get used to the fact that the source of subsidies are not a temporary holding pattern while we wait for our wonderful retraining programs to kind of kick in 20 or 30 years from now but maybe more of a permanent feature of kind of capitalistic economies. Is that your view, or do you look forward to a future where you don't need to do this anymore?

SAWHILL: My concern about capitalism is not that the market isn't working and doing efficient allocation in the way it's supposed to. My concern about capitalism is that it's bled into our political system through dark money, what I call not just supply-side economics but now supply-side politics, which has followed from tax cuts that have been so popular ever since Reagan was president in the 1980s and then have been pursued further under Bush, and more recently under Trump, obviously. And, I think that this is what's responsible for a lot of the concentration and policymaking that is not helping the working class or the middle class.

So, I'm concerned about that aspect of it. And, that's going to require antitrust, it's going to require political reform, it's going to require a lot of the things that both Steve and I focus on in our two books, which is nudging the private sector, using tax incentives to encourage employers to share profits with their workers.

Steve has specific proposals in that arena. I have specific proposals in that arena in my book *Forgotten Americans.* And, I do think that we need to not just have government working on this, we need to nudge the private sector in some new directions, and we need to restructure it in various ways.

REEVES: I want to ask you the same question, Steve, or just to comment on anything that's happened before. Is this permanent? Semi-permanent?

PEARLSTEIN: Yes. Yes, I think we have to understand that, because of technology and globalization, we are probably going to have to do that, not because it's economically more efficient, although it may be, but because it is a necessary precondition for having trust in each other and in our institutions to establish the kind of social capital -- we're all in this together -- that is necessary for successful capitalism and for successful democracy.

And, so, we've seen what happens when things get too unequal, when people feel as if they've been left behind, as if people feel as if we're not all in this together and they're being left out. We see what happens in terms of this populism of the left and right, and we see in government destruction. In the end, it won't be good politically and it won't be good economically. So, it's a necessary part of, yes, this post-industrial economy.

REEVES: And, you say as an ongoing one, I just want to push you a little bit more on that. Because, you can see there's a bit of a paradox, that in the most advanced economies of the world, people on left and right are arguing for a more activist government, not just on the half of the poorest but increasingly for working class and middle class citizens, too.

So, you've got these very rich countries where the political consensus is moving towards the government needs to do more. Whereas, I think in the long span of history, you might have thought that would go the other way, that increasingly with market growth you just wouldn't need such government intervention, especially for those in the working and kind of middle class. I'm hearing you say that actually that's not how capitalism is working out.

PEARLSTEIN: No, it's not. And, remember, that our sense of well-being and satisfaction and fairness is a relative thing, the middle class that you say today is doing so badly. The truth of the matter is they're living better than the middle class was in the 1950s and sixties that we think of as the Golden

Era.

So, as this society gets richer, all of our expectations go up, and we can't deal only in absolutes. I mean, economics is always about an economic policy, a little bit about absolutes, but a lot about relative standing. And, there's a fair amount of evidence that shows that relative standing is very important, not only for satisfaction but for health and trust and things like that. So, we have to be conscious of both of them.

REEVES: And, that's why inequality might matter in and of itself.

PEARLSTEIN: That's correct.

SAWHILL: Yeah. Can I build on that theme?

REEVES: Sure.

SAWHILL: Because, I think it's really important, this relative perspective, because Steve is exactly right about that. And, I think one of the reasons that inequality is a bigger and more important issue for the sustainability of our society is because it gets at relative differences, whereas economic growth is all about just having more material goods. And, we have plenty of material goods in the aggregate. The problem is how they're distributed.

And, a lot of our policies in recent years, like the big tax cuts that we've just seen, are aimed at improving growth. But, ask yourself how much that's going to help as long as all of the growth continues to go to the very top of the income distribution.

REEVES: We are definitely going to get into that with one of our other experts. So, we're going to call another expert. We're going to call Heidi Shierholz who is the Director of Policy at the Economic Policy Institute.

SHIERHOLZ: Hi, this is Heidi.

REEVES: Heidi, it's Richard Reeves here from Brookings.

SHIERHOLZ: Hi, how are you doing?

REEVES: I'm doing very well. Thank you. Well, you're on air. So, you get the chance to share your idea about how to help workers in contemporary capitalism. And, I think -- I don't -- to lead you a little bit, based on what you've written, but, do you think it's as much about myth busting as is it about policy virtuosity? Is that fair?

SHIERHOLZ: Yeah, I do. I think that the first thing we have to do is get people to understand that the economy that we have, which, as we all know, has been characterized by rising inequality and largely stagnant wages for most workers in recent decades is the economy we chose. It was not inevitable. The economy is not like the weather. We could make different choices that would generate a fairer, more prosperous economy going forward.

And, I think one of the things that makes it hard to bust that myth is that there really is this huge industry of economists -- and I'm an economist, so I'm sort of throwing my people under the bus -- but there's really an entire industry of economists and other economic commentators who make it their mission to sort of "explain" that things like rising inequality, while perhaps unfortunate, are the result of natural forces, like automation or globalization, and there's basically nothing we can or maybe really even want to do about it. But, that is just patently false.

Our rising inequality is not just the natural outgrowth of a modern economy. It's the result of deliberate policy choices that have shifted power from workers to their employers.

REEVES: Before we actually get to policy, you think there's some precondition of having a decent policy debate, is to get past this idea, because naturally-occurring market economy with supply and demand, curves crossing, and equilibrium, and so on, do you think there's a fundamental problem in the way we even think about the economy? You're a policy director, right? You work in a policy institute and you're talking like an anthropologist or something similar. It's always, right, yeah, we have to change the culture before we can change the policy. Is that right?

SHIERHOLZ: Well, I think it will certainly help the path for those policies. I mean, you think of just the minimum wage. When you talk about raising the minimum wage, there's just this cadre of economists who come out and say, look, if we raise the minimum wage, oh, I'd like to do that, too, you know, but you're going to end up hurting the very people you're trying to help.

And, pulling out these models that say you increase the minimum wage and it's going to cause job loss, models that are based on crazy assumptions of perfect competition where workers are paid their marginal products and that go against what is found empirically, when you actually look at the data and see what happens when you raise the minimum wage, there's a massive literature, empirical literature on that, that finds that increases in the minimum wage that we have seen have raised wages without causing meaningful job loss, that make policymakers nervous about making these changes that will actually help lead to a very prosperous but fair economy.

REEVES: Great. Thank you very much, Heidi. I really appreciate it.

SHIERHOLZ: No problem. Cheers.

REEVES: Thanks. So, there we have a policy wonk and economists saying the way we think about economics is part of the problem. Steve, I'm going to invite you to come in in just a moment, because it's related, I think, to your own proposal in the series, around norms. But, Belle, this is something that you've been thinking about quite a lot recently, too, sort of the idea of market fundamentalism, our mindsets. If you mind me describing you as kind of a recovering economist, in some ways, around these issues, and now into these issues, which is how we think about this is almost like as important as what we end up doing. And, that's really what Heidi's pushing on.

SAWHILL: I think she is pushing on that, and I think that I am a recovering economist in the sense that I have always been taught and have believed strongly in the market model. But, I do think that it is flawed in many, many ways that most economists actually recognize. But, when those ideas get into the public sphere and into public discourse, they get simplified and they do suggest things, like, oh, everybody's wage is equal to exactly what they're producing. And, we know, as Heidi said, from lots of empirical studies, that that's simply not true.

So, it's just not the case that we should always rely on markets and that any interference, like the minimum wage, is going to make people worse off. It's just the calm -- almost a religion amongst some economists and some private sector leaders that markets always know best. And, markets don't always know best. And, I did write a short piece on this recently for Brookings and a longer paper that, if anyone is interested, is called *Capitalism and the Future of Democracy.*

REEVES: So, Steve, I'm going to turn to you on this idea of the political economy of it and the market fundamentalism. My end view is that things may start to go wrong when we stop talking about political economy and instead talk about economics. That's roughly the shift from the nineteenth century to the twentieth century, which is to take economics out of this political and kind of cultural context and start using the word science. And, that's sort of become part of the problem there that is not situated in these kind of broader questions, and it can lead to some of the problems that Heidi and Val have referred to. Is that fair? Are you also a recovering economist in that sense, or have you never been --

PEARLSTEIN: I've never been one --

REEVES: In that way, in that sense?

PEARLSTEIN: I just play one in podcasts.

REEVES: Me, too.

PEARLSTEIN: But, I agree wholeheartedly. In fact, I sort of became a teacher of economics, even though I'm not an economist, for just that reason, to try to show that there's a lot we can learn from the traditional economic model but that there's lots of ways in which it doesn't describe reality, and we have to understand that. And, one way it doesn't is that it sort of assumes a way a lot of the public policies that we have -- it assumes all other things being equal, like public policy, this change will have this effect. Well, all other things being equal, but all other things are not constant, and they're changing, including the policies, all the time.

To give you a small example, one of the things, in fact, most of the inequality researchers ignore is the fact that we deregulated in the United States transportation and communications -- airlines, trucking, railroads, telephones. That was it in those days, communications and telegraph. All those industries, because they were highly regulated -- which means the prices were regulated, who could be in the business was regulated, whether you could charge for luggage was regulated -- everything was regulated -- they tended to be unionized and highly paid. In fact, they were probably overpaid, which is why in the end of the day we deregulated it, because all these services were too expensive.

Well, when we deregulated, all those wonderful jobs, those wonderful middle-class jobs, suddenly were not so wonderful, because competition forced the pay of the telephone linemen down and the stewardess down and the pilots down, and that was a very real choice that we made. We chose to favor consumers over workers.

REEVES: And, you think it was the wrong choice?

PEARLSTEIN: No. I think it was the right choice.

REEVES: Right.

PEARLSTEIN: But, --

REEVES: But, it had consequences.

PEARLSTEIN: -- let's understand that it had consequences. Don't say that we allowed the market to operate in a more marketlike way and there were winners and losers and we pretended that we didn't need to do anything about the losers. And, over time, those jobs are becoming better again, but for at least a generation they went down. And, that's just one example.

REEVES: Let me push you a bit on your own specific proposal. The market logic isn't just a broader cultural phenomenon. It also penetrates into companies, into institutions. And, you talk about the institutional norms and how companies themselves and the leaders of companies have come to say, well, we've paid what you're worth, I get paid gazillions, you get paid a lot less, and that there aren't really kind of social norms around profit sharing in the sense of the company itself --

PEARLSTEIN: Right.

REEVES: -- as an enterprise of shares. So, say a bit more about your particular proposals to try and shift that norm.

PEARLSTEIN: So, it used to be that executives believed that the success of the company should be shared with all of their workers. And, in fact, the major corporations were equalizers of pay. They probably overpaid their janitors to oversimplify, and they underpaid their computer programmers and their top executive --

REEVES: You're using market logic to describe under and over here.

PEARLSTEIN: Yes, I am. What they could get in the open market, it had a tendency to compress. And, that was part of the culture of a company.

REEVES: And, you think they need a nudge now.

PEARLSTEIN: And, they need a nudge back. So, how can we nudge them back? Well, one way to nudge them back is to say, look, there are all sorts of tax advantages for stock buybacks, which are now running rampant in corporate America. The tax code treats beneficially, giving CEOs big pay. We could say we could continue to do that, but only if your company has a minimum level of profit sharing with frontline workers.

And, I wouldn't want to have only one model of that. I think we could probably, through regulation, create all sorts of models that would satisfy that. But, if you want these tax advantages, you have to be a company that shares in the good times. And, by the way, when the company doesn't make any profits, they don't share. There's nothing to share.

REEVES: There's nothing to share.

PEARLSTEIN: Right. Okay. So, there's --

REEVES: You can't only share it with the people at the top is your point.

PEARLSTEIN: Yes, and you can't only share the good times and not the bad times. When there are no profits to share, well, that's it. Sorry. Your pay will go down.

REEVES: So, if you want tax advantage and you want to be treated well by the tax system, you have to share profits. And, you describe it as a nudge. I think some people might describe it as a bit more than that, maybe more of a poke or quite a push.

PEARLSTEIN: But, I actually think that the bigger nudge is going to come as a matter of social norm. that is to say young workers don't want to work for a company that is a rapacious profit maximizer that only cares about its shareholders. And, I think, actually, in the competition for talent it's the workers who will demand if a company isn't one of those companies then they're not going to get the best workers. And, I think that probably is a better way to enforce this rather than just the nudge from government. I'd rather it be both.

REEVES: Okay. Belle, did you want to weigh in on that?

SAWHILL: I want to, first of all, remind us that back in the good old fifties, sixties, seventies, unions were much stronger. And, so, it wasn't just that corporations had better social norms, it was that there was bargaining power that mattered. And, I am not sure we can bring unions back. There has been a lot of effort to defang them, or worse, and weaken them, including in a recent Supreme Court case. But, there's no question in my mind that they made a difference, and I think even some conservatives, like our friend Oren Cass that we just spoke to, has suggested that we bring back worker councils. So, I think we should experiment with all this kind of thing.

On the issue of whether or not we can raise wages without disturbing market efficiency, there's a lot of evidence that, actually, if you raise wages it improves productivity. So, it's not just that people are paid what they produce, it's that they will produce more when they feel like they're being fairly paid and fairly treated and are engaged in the enterprise.

Larry Summers did a famous study about when Henry Ford raised his wages a lot back in the 1930s, and it shows that productivity and profits at the company went way up. Economists call this efficiency wages. The more contemporary example, which both Steve and I have written about, is a company called Gravity. And, the head of Gravity decided that he was going to pay all of his workers $70,000 a year, or at least $70,000 a year. Everybody thought he was going to go out of business and everything was going to collapse. It didn't. It's still going strong.

REEVES: Does it only work when everyone's not doing it? If everyone does it. That's an interesting (Inaudible).

SAWHILL: There is a first-mover issue here. If you're ahead of the crowd, you will get benefits, that if you're the last person to do it, you won't.

REEVES: Right.

SAWHILL: But, I think we should rely on that to begin to change the system. As Steve just said, younger workers do care about what their companies offer, and whether they feel everyone in the enterprise is fairly paid, and whether there are decent benefits, whether there's paid leave, for example, and whether there are health benefits. And, companies that don't provide those benefits are not going to attract the best workers. So, that is a competitive factor that we should take advantage of.

REEVES: I'm glad you mentioned unions, because I think this issue about power in the labor market is hugely important, and (Inaudible) like two stories as to what's happening to workers. There's the productivity story -- they're just not productive enough, we need more training and skills. And, there's a power story which is, it's really just about how much power they can exercise within or across firms to get a bigger share of it.

My mind senses that the power story is now a bit more compelling than the productivity one. It's not that they don't both matter, but when you're down to 5 percent trade union membership now in the private sector, I think, then I think we're clearly talking about a different world in terms of the power relationships. And, it is interesting to see people even, kind of left and right, talking about worker councils or other ways to try and give more power to workers, absent those traditional forms of exercising power to kind of unions. I don't know if that's the right answer, but, I'm increasingly thinking it's the right question.

SAWHILL: I think you really put it very well. But, I want to just add that one of the reasons that I think people like myself and Steve think we need to work on the private sector side of this is because government is so mistrusted right now that the idea that we're going to go to the far left and have very big, expensive, new government programs to solve some of the problems is probably not realistic, given the lack of confidence in government.

REEVES: Okay. We better make our next call, and our last call, actually. We're going to call Heather Boushey who runs the Center for Equitable Growth and has also contributed a long piece to the series.

BOUSHEY: Hi, this is Heather.

REEVES: Heather, it's Richard Reeves at Brookings.

BOUSHEY: Hey, Richard, how are you doing?

REEVES: I'm doing really well. How are you?

BOUSHEY: Good. Good, good, good.

REEVES: So, I'm calling you from the studio. It's very exciting. We're calling people up to get their ideas for how to help workers and contributors to *The Guardian* series on broken capitalism. You yourself have written a long piece for that series, containing some bold ideas and one particularly bold idea, which is to think the whole way we think about progress, if that's not overstating the case. Would you mind just describing that for us briefly, if I've set you up fairly?

BOUSHEY: Yes, certainly. One of the challenges with talking about the economy or understanding what to do to help workers and their families is, how are we understanding what's happening in the economy? How do we connect the dots between economic outcomes and real families all across the United States or within any given country?

And, the indicator that we rely on most often to tell us how well our economy is doing is gross domestic product, and it's this indicator that comes out every quarter, it's revised, and, so, you have -- it comes out almost every month, including revisions. And, it gives us this aggregate sense of whether or not the economy is growing or shrinking and what sectors of the economy aren't changing. But, what it doesn't tell us is how and whether that growth is actually being distributed to people all across the country.

And, so, we have been working with a number of economists who want to dig deep into gross domestic product and pull out where those incomes are going to. So, if the GDP goes up by 2.5 percent, how much of that went to folks in the top 1 percent and how much of it went to workers and their families. And, that's a game-changing way to think about the economy and a really exciting new idea.

REEVES: So, distribution GDP, effectively, isn't it? If I understand it correctly, there is some legislation already on the books which is encouraging government agencies to do this. But, if I understand you correctly, you don't think that's enough. We need to do more than just encourage government agencies to do it. Do you think it should be something that we should be obliging the government to be publishing?

BOUSHEY: I definitely think that we should be not only obliging but making sure that there's funding for a small group of economists and statisticians, to make sure that they implement this. There was text in the legislation that opened up the government this winter. This encourages the Bureau of Economic Analysis to do this kind of distributional national accounts, so that we would know who gains when the economy grows. But, they didn't providing any funding for it, and they didn't say that the Bureau of Economic Analysis actually had to do it.

So, it's an important first step, but certainly we'd really like to see Congress tell the Bureau of Economic Analysis, who gives us the GDP numbers, we'd like Congress to tell them, hey, you can do this, the techniques are available, we want you to actually deliver on that and to provide that funding so that they have the staff and resources to do this. And, it's a small amount of money. I mean, in the whole federal budget -- I mean, it's around (Inaudible), but it's really important that you actually have those experts that can do the statistics and gather the data.

REEVES: So, it needs to go from being a nice to do, if you feel like it, to a must do in order for us to really know what's going on.

BOUSHEY: A hundred percent.

REEVES: Okay. Great. Thank you so much for your time, Heather. I appreciate it.

BOUSHEY: Thank you.

REEVES: So, we probably shouldn't be surprised that someone who runs the Center for Equitable Growth is in favor of a measure of equitable growth. But, she's down on the way we kind of worship at the kind of shrine of GDP now. Growth in and of itself is not enough, and we need to be thinking about it much more inclusively. And, her piece has some very nice breakdowns of how you can think about growth and how it happens kind of distributionally.

That seems like a small change, and it seems like a really boring, like wonky thing to do. Oh, I know, let's change them. It's not going to go on a bumper sticker very easily, is it? What we need to do is reform the way we measure GDP so that it's more inclusive. When do we want it? Now.

But, nonetheless, clearly, Heather has come to believe that that's another kind of upstream change we need to make, that it's almost not just an economic challenge but an epistemological challenge, in the sense that we need to change our knowledge about this. How do we know what we know about what's going on in terms of reforming GDP? Belle, I'm going to get you to respond first to her idea.

SAWHILL: Well, I like this idea. A long time ago I was working in the government and we had a conversation about starting something called a social report that would be the parallel to the economic report of the President that's required by law, and we tried to do something along these lines.

But, as Heather says, we need to do it. We need to have the money for it. And, I think that it could make a difference. I think that journalists like Steve would pick up on new data in this arena and publicize it widely, and this would create more public discussion, and all of that would be good. But, it's not an either/or. I mean, obviously this is just one mechanism for bringing more attention to these issues.

What I find really gratifying is that there is just a lot more discussion amongst all of us about the need to focus much more attention on the distribution of our income.

REEVES: Okay. Steve.

PEARLSTEIN: So, recently the founder of the largest hedge fund in the United States, maybe the world, Ray Dalio wrote an essay saying he and other capitalists better get serious about reforming capitalism or else we're going to have a revolution. And, it got a lot of attention. But, he had a nice phrase in there, and he said capitalists aren't very good at dividing the pie, and socialists aren't very good at growing the pie.

And, I would just add a word of caution here. This idea is fine. I have no problem with it. But, the idea that we don't need to worry, because it's become a sort of liberal totem, that we don't care about growth anymore because growth doesn't benefit me and my people. If it doesn't benefit the bottom half, what do I care about growth? You care about growth. Trust me, you care about growth.

And, if you want to see what happens to countries that don't care about growth, you can go to Italy, got to France. They just have not had that (Inaudible), and they are not as prosperous. The average person is not as prosperous as the average person in the United States.

So, growth is something that shouldn't be the only factor, but it does matter. Increasing productivity does matter.

REEVES: I mean, there's a danger, of course, is that we create straw men or straw women --

PEARLSTEIN: Right.

REEVES: -- in this debate. There's a bunch on the left who don't care about growth, just equality, and a bunch on the right who don't care about equality, just growth. And, the real debate is, at the margins some are in the middle, right?

PEARLSTEIN: Right.

REEVES: So, the question becomes would we rather have 2 percent economic growth that was shared around, that did very well on this inclusive growth index, because it meant the bottom half were growing by at least two, maybe a bit more, and the top half by less, or would we rather have 2.5 percent economic growth with the bottom half only getting 1.5 and the top getting kind of four. And, that might be a real choice, because it might be the things you have to do to distribute, actually will affect growth. And, so, it's at the margin. It's where are you putting your weight, basically? Is that fair when you think about it, Belle?

SAWHILL: I think that's exactly the right way to put it. Let me give you another specific example. We earlier talked about the minimum wage. So, the Congressional Budget Office did a very comprehensive study of all the literature on the minimum wage and how it affects people, and they found that something like half a million people would be disemployed if we had a $10.10 minimum wage. But, they found that something like 30 million people would have been greatly benefited. So, it's a tradeoff.

REEVES: Right.

SAWHILL: And, people who are sort of market fundamentalists all said, oh, this is terrible, we can't afford to have half a million people who are not going to get jobs because of a higher minimum wage and didn't think about the 30 million who were going to be much better off, whereas people on the left said, hey, that's a fair trade. No policy is perfect. Every policy has some downside.

REEVES: It's a problem.

PEARLSTEIN: Richard, I would say, by the way, this idea that there's a tradeoff between equality and growth, for much of our history and for most countries that is a tradeoff. But, I would also argue, as I do in my book, that we in the United States have gone beyond that point where, in fact, if we had more equal distribution we would not have to give up growth. In other words, we are on the wrong side of a tipping point.

And, it's not just me who thinks this. The economists at the IMF and the OECD have concluded the same thing. That is, they have said there is scope for policy changes in the United States to make things more equal that will not impinge on growth, because they have become so unequal that, in fact, that is negative to growth. And, we could, by making things a little more equal, more like Germany, more like Denmark, countries like that, that we would both have a bigger pie and have it be divided more equally.

REEVES: So, you don't have to argue that more equality will boost growth. You just simply have to argue that it won't damage growth, given our current level of inequality and our current level of economic development.

PEARLSTEIN: In the United States.

REEVES: Right. Yeah.

PEARLSTEIN: I would not make that argument in Italy.

REEVES: No. And, you might not make it in large parts of the world.

PEARLSTEIN: Right.

REEVES: And, we shouldn't forget that market-driven growth has lifted a billion out of poverty in the last 20 years, and so on and so forth. So, I think you're both in the position -- and this is actually where I wanted to finish this conversation -- where you are both market skeptics, I think it would be fair to say, that you've retained a strong belief that market-driven growth is still pretty good. But, right now it faces some big problems in this country, and we shouldn't fall into the trap where we just think markets will solve everything. And, you're considering between the two of you some pretty radical interventions to try and improve capitalism.

So, my other question is, how confident or optimistic are you that, looking forward from this very difficult position, that I think many people feel like we're in now, 10, 20 years from now, that we will be able to reform and improve capitalism in such a way that it does start to feel as if it's delivering on its promise again? Just look forward 10, 20 years. Belle, are you optimistic? Do you think things are going to get better, or do you think they're going to have to get worse before they do?

SAWHILL: Really, I have no idea, and I don't think anyone does. So, right now, I think things are not looking so good. I'm quite concerned about the direction in which the United States and many other advanced countries are headed. I think that we are often pursuing government policies that are actually bad for both growth and inclusiveness.

So, there are sort of gross issues here, gross policy issues, in which the answer should be clear and in which we're not even doing that, and here we are debating about tradeoffs at the margin. But, I do think that the political system has to come first. If we don't have a strong democracy, which does not necessarily mean a lot of government involvement, -- I'm not arguing here for either socialism or even social democracy necessarily. I'm arguing for a government that knows what it's doing, that intervenes in modest ways but in much smarter ways than it's doing right now.

I like the old metaphor -- it comes out of political science -- which is, the market is like the fingers on your hand, very flexible. Government is like the thumb, very powerful but very clumsy. So, we need both and we need each one to do what they do best, but we, above all right now, need smarter government and don't have it.

REEVES: We have to fix the thumb if we're to get the fingers working properly, if that doesn't distort the metaphor too much.

SAWHILL: That's excellent. I like it.

REEVES: It's like poles fixing politics first. Steve, you end up, I think, in a reasonably optimistic position. At least that's my reading of your work, that this can be fixed, we can do better, but that we'll have to make some pretty big political decisions in order to do that.

PEARLSTEIN: And, I agree with Bill that the first thing is to fix the political dysfunction and the polarization, because, otherwise, you can't mediate those conflicting interests to come up with a policy. I mean, we here in this studio can have a nice discussion about the minimum wage or UBI or labor law or antitrust law, but the truth is, what are they doing in Congress? Zero. So, we have no capacity to make these policies, and we need to restore that.

I think we are probably before the dawn comes the darkest time, and we are probably in the darkest time right now, the Trump administration, and the dysfunction of Congress. And, the fact that we're having this conversation, the fact that these conversations are going on around the country and people are serious about it, they know that there's a problem. We don't agree about it. There's still a lot of radical factionalism on the left and the right.

But, I think we're beginning to understand that we need to compromise, we need to make some decisions, and that the current course is not acceptable. When the business community, which is increasingly saying this is not acceptable, I think that's a sign from the capitalist community that they know some serious reform is necessary. And, I think they're willing to engage in that.

REEVES: So, the alarms are getting louder. The ideas are flowing thick and fast, an increased sense that we will need to act and that we need to find the institutions and the culture and the people, perhaps, in our politics that can actually help us to rise to this challenge, to restore capitalism's promise to workers as well as to those who are at the top of the distribution.

And, on that note, all I can do is to thank all of you who are listening. I'd like to very much thank Steve and Belle for joining me in the studio and all of those who allowed me to interrupt their time in the office by calling them up. If I could mandate you to buy Steve and Belle's books, I would. So, I'll have to suffice with a nudge, strongly nudge you towards buying their books, checking out our work on the Brookings website -- the Future of Middle Class Initiative, *The Guardian's* Broken Capitalism series. Please stay in touch.

DEWS: Isabel Sawhill is author of *The Forgotten Americans: An Economic Agenda for a Divided Nation*, about which we did a podcast interview in October 2018. Steven Pearlstein is author of *Can American Capitalism Survive?* Richard Reeves is author of *Dream Hoarders: How the American Upper Middle Class Is Leaving Everyone Else in the Dust, Why That Is a Problem, and What to Do about It*, published by the Brookings Institution Press. He was also on the show last year to talk about his book.

You could find the Future of the Middle Class Initiative on our website, Brookings.edu/middleclass, and *The Guardian* series on how to fix capitalism ran on its website in May, theguardian.com.

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