POST-ELECTION

# Rethinking the Foundations of the Next Progressive Vision: Confronting the Central Challenge of Wealth

*Gar Alperovitz*

Now that the dust has settled on the 2004 election, it is important to stand back and confront some deeper questions about where we might be going over the next decade and beyond. Pendulums have a way of swinging in history—especially if social and economic pain increases. Conservatives may have power today, but this is hardly the end of history. The Civil Rights, feminist, environmental, and anti-Vietnam War movements were quietly brewing beneath the surface in the dark days of the 1960s before they exploded into public awareness. There is no reason to believe our own time in history is without such promise as well.

Some things are obvious, and, indeed, have become conventional wisdom among progressives: We need to sharpen and better frame our message, devote increased attention to grass-roots organizing, expand upon the fund-raising successes of the last two years, and find ways to clarify and deepen the moral and spiritual basis of a meaningful politics. If we are ever to deal successfully with the great social and economic issues facing the nation, however, it is increasingly clear that progressives will have to rethink some fundamental assumptions at the very core of the political economic system—especially those concerning control of the nation's extraordinary wealth.

Fortunately, though few have noticed, a profound rethinking process is well underway. Moreover, just below the radar of conventional media concerns, there are also signs—particularly at the state and local level—of related practical and political developments which are likely to take us beyond the dead-ends facing many traditional progressive political strategies.

At the heart of virtually all serious visions of the good society is the simple idea that a nation's wealth should benefit all its people. The great progressive visions of the past varied in the way that they suggested this be achieved, but the principle was always clear: Socialism, for instance, held that the state should own and control wealth on behalf of the people. "Guild socialism" held that the workers—the vast majority of society—should own and control wealth (usually by owning their own enterprises). Of especially great interest were Jewish thinkers like theologian Martin Buber who urged that "communities" should own and control wealth: They and their followers produced what for many decades was a vibrant practical illustration of the principle in action: the kibbutz.

In the West the once great progressive traditions largely abandoned the principle of wealth ownership by "large publics" (states) or "small publics" (workers, communities, etcetera). Instead, they accepted the idea that wealth should mainly be owned by individuals—and that the common good should be achieved through redistributive public programs. Americans came to call the resulting welfare state paradigm "liberalism" and Europeans called it "social democracy"—an overarching approach based on private wealth ownership plus "taxing and spending."

That the traditional paradigm is now failing is evidenced by the difficulties facing a wide range of progressive policies and by the growing fiscal crisis. Nor are the massive cutbacks simply a product of the Bush era: Top income tax rates have been radically reduced over the post-World-War-II era—from 91 percent in the Eisenhower, Kennedy and early Johnson period to 35 percent now. Corporations that paid 35 percent of the federal tax bill in 1945 paid only 7.4 percent last year.

The extraordinary decline of unions from 35.5 percent of the labor force in the 1950s to a current 8 percent in the private sector has only added to the difficulties facing traditional progressive political strategies—and to the problems created by globalization, on the one hand, and Republican exploitation of race in the "southern strategy," on the other.

Paralleling the decline in the overarching trends has been the massive concentration of income. The top 1 percent now garners for itself more income than the entire bottom 100 million Americans. Almost one-third of all African American children are now being raised in poverty. In African American female-headed households the figure for children under six is a chilling 54 percent.

*Gar Alperovitz is Lionel R. Bauman Professor of Political-Economy at the University of Maryland. This essay is drawn from his new book* America Beyond Capitalism*, recently published by John Wiley & Sons.*

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Even more stark is the concentration of wealth. Leaving aside home and auto ownership, the top 1 percent of wealth holders now owns just under 50 percent of all capital available for economic investment. A mere 0.2 percent at the very top made more money on stock and bond sales in the most recent study than everyone else in America. (This is a nationwide estimate: median African American financial wealth is a mere 3 percent of white financial wealth.)

The long trends and medieval income and wealth patterns have helped generate a fundamental reconsideration of traditional tax and spend strategic assumptions. One group of those involved in the rethinking process has come to urge a modern version of workers owning wealth. Writers here range from radical economist Samuel Bowles to former Chief Counsel of the U.S. Senate Finance Committee Jeff Gates. Bowles and others emphasize the efficiency gains that occur when workers have an ownership stake. "The political potential in this area became obvious to me," Gates recalls, "when, over the span of a two-week period... I was asked to provide speech material for both Republican Senator Jesse Helms and Democratic Presidential candidate Jesse Jackson."

Other groups, like that working with African American economist Jessica Gordon Nembhard and Curtis Haynes Jr., have built on the ideas of W.E.B. DuBois to urge a renewal of neighborhood cooperative wealth ownership as an answer to the economic difficulties of the central city. Here the core idea of "community" has become a primary theme.

An interesting and varied group of thinkers has gone much further and developed nationwide forms of ownership—but in a manner that also respects the market. The late Nobel laureate economist James Meade proposed investment of large-scale capital through a public trust similar to the agencies which now commonly manage the investment of public pension funds. In his proposal the "beneficial ownership" of capital would be passed on to the public in the form of a "social dividend," distributed free of tax to every citizen.

A related, more radical idea is the "coupon socialism" proposal of Yale economist John Roemer. Again, the public would accumulate capital through a variety of means. Then every adult would receive an equal endowment of voucher-like "coupons"—non-transferable dollars—which would entitle the bearer to purchase corporate stock through a new form of mutual fund. The resulting profits again would be distributed to the investors (i.e., to all adults) thereby providing a new income stream from the now widely distributed public ownership of capital.

The late Louis Kelso, a conservative investment banker, proposed a related, individualist way to achieve widespread public wealth ownership. Kelso realized that one of the main reasons his rich clients were able to multiply their ownership of stocks and bonds was that their existing wealth provided them with collateral that allowed them to borrow money for further investment. They could also hire experts to manage the investments. If the poor had access to collateral and experts, Kelso reasoned, why could they not also make money by investing borrowed funds?

Kelso proposed that a new Capital Diffusion Insurance Corporation (CDIC) be established to guarantee loans so as to allow individuals to buy a diversified and professionally managed portfolio of stocks. The portfolio would remain in escrow until dividends repaid the loan, at which time the individual would take full ownership, thereby gaining a "second income" with the help of the government-backed or collateralized ownership of capital.

Still another proposal is that of political economist Leland Stauber. In this case, again the market would also provide investment discipline. However, municipal governments instead of individuals would receive income flows from the investments and use the revenues to support public services.

Such ideas may seem utopian to some. However, just below the surface of public attention, an important on-the-ground developmental process has been quietly underway, which suggests the various wealth-related ideas are much closer to real world possibilities than many imagine. For instance, though few have noted the fact, there are already some 11,000 significantly employee-owned firms operating in communities throughout the United States.

Most of these firms are organized as Employee Stock Ownership Plans (ESOPs), a corporate form which allows

important tax benefits. The number of ESOP-style firms increased from 1,600 in 1975 to 4,000 in 1980, to 8,080 in 1990 and, as noted, to roughly 11,000 now. The number of worker-owners involved rose, correspondingly, from a mere 248,000 in 1975 to roughly 8.8 million now—a number greater than the membership of private sector unions in the United States.

A form of wealth ownership designed to benefit the "small public" of the neighborhood is the non-profit entity called the Community Development Corporation (CDC). Here the main thrust is housing development and ownership in low-income neighborhoods. Some CDCs also own supermarkets, and some—like New Communities Corporation in Newark—employ large numbers of inner city residents in enterprises which funnel profits back into community services. CDCs have grown from a handful thirty-five years ago to an estimated 3500 to 4000 (and possibly many more), and can now be found in every part of the nation.

Another strategy through which wealth is directly put to work on behalf of the local public involves municipally owned enterprises. A decade ago David Osborne and Ted Gaebler devoted a chapter of their classic book, *Reinventing Government*, to the emergence of new forms of municipal businesses. As they observed: "Pressed hard by the tax revolts of the 1970s and 1980s and the fiscal crisis of the early 1990s, entrepreneurial governments are increasingly... searching for nontax revenues."

Once more, though the media has largely missed this story as well, many cities—under both Republican and Democratic mayors—now engage in real estate development and directly own and lease profitable property instead of helping developers and then trying to tax back the benefits. Publically owned hotels are also common (big chains are more than happy to sign management contracts to handle day-to-day administration). In Glasgow, Kentucky the municipally owned utility offers residents electricity, cable, telephone services, and high speed Internet access—all at costs lower than private competitors. Tacoma, Washington's broadband network Click! also offers individuals and private companies Internet and cable service, as does Cedar Falls, Iowa.

Perhaps the most significant public wealth efforts are at the state level. Public pension funds now commonly put capital to work on behalf of state housing and job creation. The California Public Employees' Retirement System (CalPERS) has been a leader in demanding greater corporate accountability. Retirement Systems of Alabama (RSA), which manages pension investments for state employees and teachers, has aggressively invested in numerous state industries, in some cases also using its assets to help worker-owned firms.

An even more interesting use of wealth on behalf of the public—one which echoes themes of some of the most far-reaching new ideas—is that of the Alaska Permanent Fund. A significant portion of revenues from oil development is allocated to the Fund for further investment. Earnings provide annual dividends to residents of the state. In 2000, a high payout year, each individual state resident as a matter of right received dividends of just under $2000 (i.e., almost $10,000 for a couple with three children).

It is worth noting that inequality in Alaska is among the lowest of any state, and—unlike every other state and the nation as a whole—Alaska registered a decline rather than a rise in inequality during the 1980s and 1990s. Recent research suggests that Permanent Fund operations played a central role in producing the gains.

Directly converging with the various public-benefitting wealth-owning efforts is a quietly growing revolution in how traditional tax strategies are conceived and targeted. At the beginning of the Bush era few Democrats wanted to risk proposing tax increases—despite the fact that, once in office, the Administration quickly pushed through $1.35 trillion in tax cuts largely favoring the rich, thereby squandering a massive surplus and limiting all future public programs. One of the first to urge a new approach was Gene Sperling, Bill Clinton's politically sophisticated former economic adviser.

Sperling urged holding off "full repeal of the estate tax, and the second and third stage of the [Bush] tax cut for those in the top 2 percent"–so that funds could be made available to close at least half the Social Security deficit. The proposal would save more than $1 trillion and would insure that 98 percent of Americans would still "get their full tax cut."

For a while only liberals like the late Paul Wellstone and Ted Kennedy put forward proposals aimed at taxing the top 2 percent, but soon even centrist Democrats like Joseph Lieberman offered sharply targeted proposals focused on the top elites. By the fall of 2003 virtually every Democratic Presidential candidate had proposed one or another variation on the same general theme—including, of course, John Kerry.

A refocusing of tax policy is also well underway at the state level in various parts of the country. Californians approved Prop 63 in November, an initiative that taxes those making over $1 million to provide funds for mental health services. This past year New Jersey approved taxes on those making over $500,000 to provide offsets to regressive property taxes. Even the conservative Virginia Republican Senate last year voted for increased taxes on those making over $100,000 and $150,000.

Almost certainly populist strategies like these, which target the top 2–3 percent elite and benefit the vast 97–8 percent majority will increase in number and force. One reason is that they allow progressives to achieve their goals without attacking and alienating the middle-income suburbs.

Equally important is that they point to a major new development in American life. The super-elite—the people Paul Krugman, Kevin Phillips and others have termed the

new "plutocracy"—increasingly live in a very, very different world from most Americans, and in a radically different culture. It is a world where homes cost $5–10 million and where $5,000 grills, $14,000 Hermes Kelly handbags, $17,500 Patek Philippe wristwatches, and $100,000 luxury automobiles are commonplace. As we have come to learn, the world of the new plutocracy is also a world of routine white-collar corruption.

Above all, the world of the super-elites is a world in which wealth ownership has become extremely concentrated—far more so than is commonly understood. Although many Americans own small amounts of stock, the ownership of wealth—particularly financial wealth—is now overwhelmingly concentrated at the top. We have noted that a mere 1 percent owns almost 50 percent of America's main financial assets. A similarly tiny 1 percent group owns 68 percent of unincorporated business assets. An only slightly larger elite group—the top 5 percent—owns just under 70 percent of financial wealth and more than 80 percent of unincorporated business assets.

"The rich have always been different from you and me," Krugman observes, "but they are far more different now than they were not long ago—indeed, they are as different now as they were when F. Scott Fitzgerald made his famous remark." Political scientist Alan Wolfe adds: "There are really only two classes in America now: the top 2 percent and everybody else."

An even more radical shift in taxation strategy is also slowly gaining ground: the direct taxation of wealth itself, not simply income. Yale law professors Bruce Ackerman and Anne Alstott have proposed a 2 percent tax on wealth—and Ackerman has documented the Constitutional basis for such an approach. Another law professor, Leon Friedman, has proposed a 1 percent tax on wealth owned by the top 1 percent. Kevin Phillips and Jeff Gates (among many others) have urged that wealth taxation be put on the American agenda. Robert Kuttner adds that a wealth tax is, "by definition, the most progressive way to raise revenue, since it hits only the very pinnacle of the income distribution." A large group of multi-millionaires has launched a campaign opposing elimination of taxes on inherited wealth—paid only by the top 2 percent—as "bad for our democracy, our economy, and our society...." Even Donald Trump has proposed a one time 14.25 percent net-worth tax on Americans with more than $10 million in assets.

Most European nations have long levied general taxes on wealth. Economist Edward Wolff suggests that America follow suit with a wealth tax based on the current modest Swiss effort—an approach which involves marginal rates between 0.05 percent and 0.3 percent, after exempting the first $100,000. Wealth taxation rates in ten other European countries are much higher—often between 1 and 3 percent–and would generate much larger revenues if applied here.

Taxation of wealth, of course, has long been central to the American tax system for the kind of wealth most Americans own—their home. Taxation of real estate, moreover, is based upon the value of the asset in general, not the value of an individual's equity: An owner of a $200,000 home will be taxed on the full value of the asset, even if her actual ownership position (with a mortgage debt of, say, $190,000) is only one-twentieth this amount.

Broader wealth taxation of the kind increasingly being discussed—a "property tax on wealth"—would likely exempt home ownership and middle class levels of other assets, and focus primarily on large-order elite concentrations.

What is striking is the political convergence of these major trends: On the one hand, the development of a myriad of politically viable wealth ownership efforts which benefit small and large publics. On the other, new tax policies which target those at the very, very top who in fact currently own the lion's share of wealth. Taken together with the new thinking, the skeletal outlines of a potentially highly important long-term paradigm seem clearly to be emerging.

Most of the new on-the-ground developments—and virtually all the new "direct" wealth-related efforts around the country—are occurring at the state and local level. This truth underscores a critical matter of perspective for those concerned with longer term progressive renewal: In any empire, power is always concentrated and most difficult to challenge at the center. Where power commonly builds over time is at the periphery—where the pain is greatest. At the national level, in fact, there is every reason to believe that things are likely to get worse before they get better. It is at the state and local level—the "laboratories of democracy"—that much of the foundational work for later national application will inevitably be done.

There are many things which a serious movement for change must affirm—from the environment to wide-ranging civil rights, from the war to civil liberties, from social policy to spiritual renewal. In most areas, progressives have long been clear about what needs to be done, and they have gained moral and political strength from their clarity. The emerging new work suggests we may also be on the verge of developing a coherent a vision of how to augment and perhaps ultimately move beyond traditional strategies for dealing with the huge economic imbalances at the very core of the American political-economic system.

Any serious strategy must "walk on two legs." Wherever feasible we need to embrace traditional progressive strategies to achieve whatever can be achieved by such means. At the same time, we need to take up the challenge suggested by the wealth-related rethinking and on-the-ground development work.

There have been several large-order political realignments in American history from before the Civil War to beyond the New Deal. If we are able to confront the central challenge of wealth, our next realignment could well become the most important—and the most meaningful. ❏