How to Address Economic Inequality

We need bold new, enlightened public policy as it relates specifically to labor and capital. While cutting corporate loopholes, we must simultaneously cut onerous corporate tax rates. Yet, those tax cuts must come *only* if equivalent capital equity (stock) is shared with workers. To solve income inequality, rather than self-centered capitalism or more of failed government redistribution, we need to direct our attention towards "inclusive capitalism" leading to economic democracy - the most fundamental thing individuals and governments MUST do to shrink income inequality and grow personal and national prosperity.

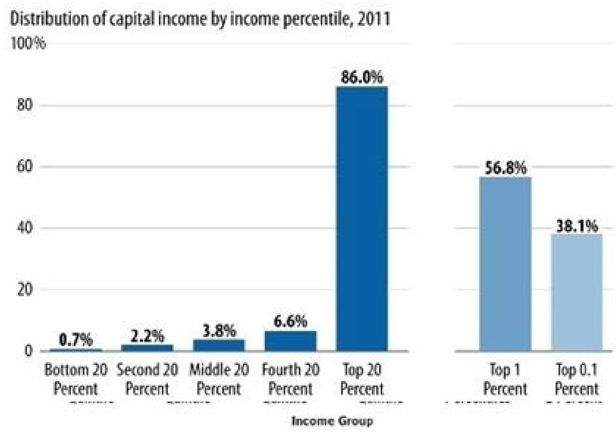

Figure 1. Capital Income Distribution Income

- Capital Wealth Ownership

The Urban Institute-Brookings Institution Tax Policy Center put out a report, "The Economics of Inequality" Distribution of capital income-by-income percentile, 2011. The chart above shows the top 20% of households receives 86% of all capital gains and all capital income leaving just 14% for everybody else. **Capital ownership is elemental to today's inequality.**

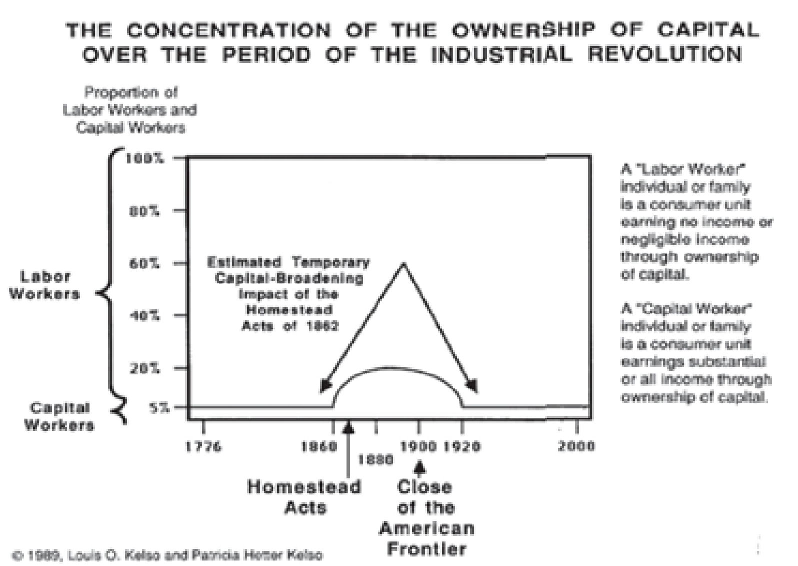

Figure 2. Concentration of the ownership of capital over the period of the industrial revolution.

Despite the marketing claims that Wall Street is owned by all of us, the evidence indicates otherwise. The public markets of Wall Street remain the preserve of exclusive capitalism. The chart above (see fig. 2) shows that in the period from colonial days to modern times, the ownership of labor power and the ownership of capital in fact *don't change*. There was a little bump up after the Homestead Act, which was a deliberate policy to get capital into the hands of people who weren't born with it, in what was still an agrarian age. Otherwise, as the chart shows, nonresidential capital has been owned by the top 5 percent. This is the real force that regularly brings about catastrophic cycles of unrest and blows the lid off society that we must concern ourselves with immediately.

This lack of broad-based capital ownership is the real force bringing about these catastrophic cycles of social unrest. When you consistently have 5 percent of the people owning the capital that provides 90 percent of the input into production, *you have a recipe for revolution*. And we have reached the limits of redistribution. We have run out of money to paper over the problem! The nearly $20 trillion national debt is now at an unsustainable level. We must find a better way forward.

Even with much talk about minimum wage increase we never seem to face the more pressing fact that today nearly 50% of Americans own ZERO capital income. The problem often is that as technology advances, more and more income is earned by these capital assets. We urgently need a revised system to compensate for the decline in demand for traditional labor employment-based methods of wealth creation. Everyone increasingly needs to become a "capitalist" to face today's and tomorrow's economic realities.

Moreover, there is a bonus to a more inclusive capitalist approach. The National Center for Employee Ownership (NCEO) documents that companies who offer some form of shared equity in addition to better corporate performance, also report 5%-12% in HIGER WAGES.

- Changing Roles of Labor and Capital in Income Production

We are employing an 18th century economic model that's failing to address a 21st century technological capital vs. labor reality. Technology is the key driver of how economic power is dispersed. In 1776, the dawn of the industrial revolution labor *was* 90% of productive power and capital 10%; now labor is 10% of production and capital 90% - completely reversed! Yet today our wage only labor force is generally **disconnected** from wealth producing, technology driven capital. And our political and economic systems have not kept pace with technological change.

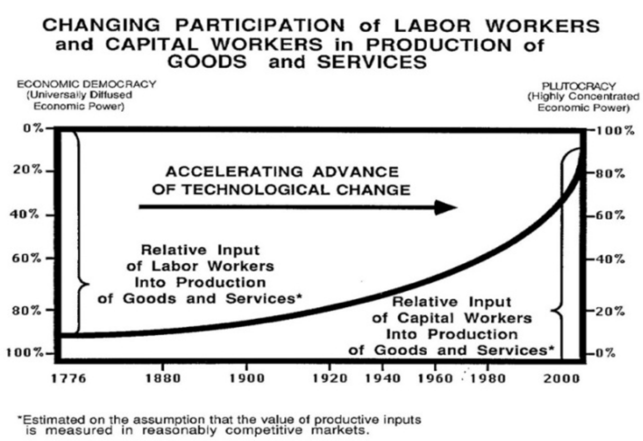

Figure 3. Changing Role of Labor and Capital and Technological Change

- Growing Income Disparity by Income Group

The Congressional Budget Office (CBO) on Income Inequality recently put out a report that shows real after-tax income of the top one percentile has risen about 275%, and the pre-transfers/pre-tax income share of the top one percent has increased most profoundly. However, the wealth in the rest of the populace, especially in the lower four quintiles is stagnant, if not declining.

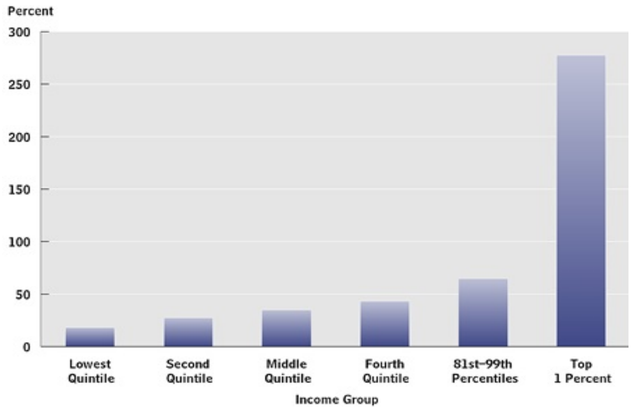

Figure 4. Ownership of Income by Income Group

Today roughly 90% of wealth producing capital is owned by just 10% of the population and it's getting worse daily. Unless we move toward principles of economic democracy expeditiously, massive social unrest is inevitable. The time to act is now.

- Tax Treatment IRS Section 162(m)

  The fact that that capital appreciation is a powerful driver of wealth is irrefutable and well known by the top echelon. Witness section **162(m) of the IRS Code** included in the Omnibus Budget Bill. It capped salary deductions above $1 million, but provided for unlimited "incentive pay" in the form of equities. The deduction from stock options alone from July 2007 to June 2008 totaled over **$86 billion**.

The goal should not be to limit equity as an incentive to the top levels of corporate management. It simply needs to be expanded so all companies are incentivized to offer it to all workers at all levels.

- Corporate Inversion/Shifting Income Overseas

Corporate inversion is one of the many strategies companies employ to reduce their tax burden. One way that a company can re-incorporate abroad is by having a foreign company buy its current operations. Assets are then owned by the foreign company, and the old incorporation is dissolved.

Moreover, Reuters just reported the 500 largest American companies hold more than **$2.1 trillion in accumulated profits offshore** to avoid U.S. taxes and would collectively owe an estimated $620 billion in U.S. taxes if they repatriated the funds.

We must cut the corporate tax rate and make America a more hospitable place for business. However, we must make this urgent most positive change correctly.

SOLUTION:

The Founding Fathers had three (3) central principles/legs of a stool: Low Taxes; Limited Government and Broad-Based Capital Ownership. Most, especially some conservatives seem to have forgotten the last one! And without the last one it is impossible to sustain the first two.

Mandating business is not necessary. Once new intelligent, **inclusive capitalism public policy** is put in motion its success will feed on itself as the best and brightest will naturally flow to businesses that offer equity. More and more businesses will be greatly enticed to adopt positive change that will be good for workers, good for business and good for society as a whole – Everybody Wins.

We suggest bi-partisan proposals for solving income inequality with a special emphasis on Urban and Rural Enterprise Zones (UEZs) and (REZs). Shared capitalism is a proven solution used by most in the enormously successful Silicon Valley like Microsoft, Apple, Google, etc. It also works in hundreds of very successful medium to small private companies; massive companies like P&G, GM, UPS, Amazon and regional giants like Publix Supermarkets and industry leaders like Exxon/Mobile, Bloomberg, Southwest Airlines, etc.

Inclusive capitalism is a bi-partisan, proven solution to economic inequality already enjoyed by over 10,000 businesses and nearly 15 million workers. It urgently needs to be built on and expanded exponentially.

Key Proposal: The USA presently has the highest corporate tax rate in the world at 35%. This is a completely counterproductive/anti completive tax that severely suppresses both employment and GDP growth. Moreover, it is avoided via a myriad of loopholes and/or passed on to consumers in the form of higher prices. It is a stupid way to try to raise revenue.

Cut the 35% corporate tax rates if and only if all, or a portion of those saved funds are shared with their employees in the form of stock equity.

Tax Policy **- 100% tax credits [UEZs & REZs] and 50% tax credits in all other areas.**

Direct incentive for employer: Either 50 percent, or 100 percent tax credit (for distressed areas) of the value of employer stock contributed to employees' compensation. A contribution is made either directly or indirectly, such as to a trust or an ESOP, for eventual distribution to employees who now pay the tax on this new source of income.

It will take an aggressive, simple-to-understand offer of **100 percent tax credits in urban and rural enterprise zones [UEZs & REZs] and 50 percent tax credits in all other areas** to get the kind of massive conversion to a system needed to change the social order for the better.

This is desperately needed to spur broad based property ownership (capital) to the middle class and lower classes. It will also encourage development in blighted neighborhoods through tax relief to entrepreneurs and investors who launch businesses in these areas. This will permanently improve the lives of the middle class and especially the underprivileged poor, lifting today's "culture of despair and anger" on a MASSIVE SCALE THROUGH THE **PRECISELY FOCUSED** AMAZING POWER OF CAPITALISM!

Profit Sharing: Companies could have the option of including a cash profit sharing plan as part of this tax credit not to exceed 50 percent of the total available tax credit.

The tax credit would only be available to firms that share profits widely among employees. Moreover, the benefit for any single company in a given year would be capped to prevent an excessive credit for very large corporations.

Profit sharing would have the potential to provide employees with more short term compensation with longer term compensation coming in the form of equity sharing.

[Naturally these are broad strokes with plenty of give available. For example, we propose a very aggressive 1 to 1, dollar for dollar corporate tax cut and equity/profit sharing. We recognize that may have to be modified to a 2 to 1 tax cut to equity/profit sharing, or some version thereof to gain the needed bipartisan support to make it law. Whatever will move the ball toward greater income and especially capital wealth for all.]

Lending Policy **-** Incentivize banks via **50% interest exclusion** to make “employee friendly” loans to corporations that want to set up ESOPs.

Lending Policy:
Premise: Incentivize banks to make these kinds of “employee friendly” loans to corporations that want to set up ESOPS.

Interest exclusion of 50 percent: This provision in the original ESOP legislation allowed a bank or other financial institution to exclude 50 percent of the interest income on qualifying ESOP loans from the lender’s taxable income. The purpose of this provision was to greatly encourage banks and other lenders to make ESOP loans to facilitate the transfer of a portion of equity to workers.

Properly structured, these prudent proposals can result in **no loss in revenue to the federal treasury.**

In the information age, the new American (and worldwide) reality is you simply cannot get ahead on wages alone! You must acquire technologically driven, income producing capital. Broad-based property ownership was a central idea of the greats like Abraham Lincoln and our Founding Fathers. Today, we can bring dramatic, lasting improvement to the lives of the poor and middle classes on a substantial scale through the new, justly targeted power of “Inclusive Capitalism.”

Suggested Links:
http://www.nbcnews.com/nightly-news/video/chobani-ceo-giving-employees-an-ownership-stake-in-yogurt-empire-674292291768
http://www.politico.com/agenda/story/2016/1/employee-ownership-bernstein-000030
http://thecitizensshare.com/
https://www.youtube.com/watch?v=hUjbT3bgBbE
http://www.huffingtonpost.com/joseph-blasi/what-chobanis-employee-st_b_9815020.html
www.THE3rdWAYbook.com