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The Agenda for Shared Prosperity

Edited transcript for the
"ROBERT REICH ON *SUPERCAPITALISM*" forum

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Speakers and Presenters:

Robert Reich, Professor of Public Policy at the Goldman School at U.C. Berkeley, who has served in three national administrations, most recently as Secretary of Labor under President Bill Clinton, and authored 10 books, including *Supercapitalism*. He is also co-founder of both *The American Prospect* and the Economic Policy Institute

Edward Kennedy, U.S. Senator (D-Mass.) who is, among many duties, senior Democrat on the Health, Education, Labor and Pensions Committee in the Senate and a member of the Congressional Joint Economic Committee

Harold Meyerson, Editor-at-Large of *The American Prospect*, author, and columnist for many publications, including the *New York Times* and the *Washington Post*

Lawrence Mishel, President of EPI

HAROLD MEYERSON: Welcome to the indispensable Economic Policy Institute, and welcome from the *American Prospect* magazine. A hundred years ago, my forbearers—the progressive journalists—started catching on to a phenomenon in capitalism called interlocking directorates. They found the same people on the same boards, and the same people founding kindred institutions. We're here today to hear from an interlocking director of the left, Robert Reich, who is one of the three co-founders of *American Prospect* along with Bob Kuttner and Paul Starr, and one of the founders of EPI. He's generally an indispensable figure on the American left and in American liberalism for quite some time and, in fact, more so now.

We are also honored to have introducing Bob Reich, the person who has really been the North Star of American liberalism for decades and, in fact, more indispensable now than he's ever been, Sen. Ted Kennedy. We're in the season of *American Prospect* founders publishing books on economics. We are here to hear Bob Reich talk about his new book and in about 50 days, Bob Kuttner will have his book on economics. And in the issue of the *American Prospect* after the one that comes out on Monday, the two Bobs will go at it in our pages. So I recommend that. I don't know if it's Bob vs. Bob or what. I wanted to have it illustrated by the guy who did "Spy vs. Spy" but he's no longer with us. In any event, we are delighted to be part of this event, and I want to hand the proceedings over to the President of EPI, Larry Mishel.

LAWRENCE MISHEL: Well, thank you all for coming. This is part of our public forums on the Agenda for Shared Prosperity. We believe that the economy is not working for

working people. We think they also know that conservative policies have contributed to the lousy economic performance.

So it's now time for us to move forward and present to the American public how we can make things better, and we can. Part of that is to hear some great ideas from Bob Reich today. Of course, we have the liberal lions from Massachusetts. One moved to Berkeley, and we're glad to welcome them both. My job is to say a word or two about Sen. Kennedy who for 45 years has been a major force for good in just about every area of policy that we can care about—civil rights, helping to shape the economy for working people, unions, education opportunity, fighting for universal health care, sound science, and a decent, humane, and sensible foreign policy, for which we've got a long way to accomplish. So without further ado, here is Sen. Kennedy.

SEN. EDWARD KENNEDY: Thank you Larry and thank you so much for your presentation on the Employee Free Choice Act. We had the hearings not long ago, and once again you spoke for working families and for the middle class. We're very, very appreciative. Thank you for all of your leadership and thoughtfulness and passion about the issues of our time.

I'm here for a very simple reason, and as someone involved in politics, I'm amazed at Bob Reich for many, many different reasons. He is the one person that, if you're talking to bloggers, you have to wait because Bob Reich is talking to them. If you're trying to get on NPR, you have to wait in your interview because

Bob is already there. If you're trying to form a new website, there's no room. Bob's got that, and he's got the podcast locked up as well. I'm lucky if I get on WBZ in Boston. He's ahead of us all.

In a very serious way, we're all students of Bob Reich, and we welcome that opportunity, all of us who have had the opportunity to learn from this extraordinary intellect and this extraordinary man of passion. When I think of Bob Reich, I think of those wonderful words that President Kennedy used to quote: "A political party has to stand for something." Woodrow Wilson stated it, and too often our party has not.

Bob Reich is always one who is calling us back to our moorings and always setting the course for what this country really should be about. America is not just a land, it's an ideal. And all of us of our generation and time have an important responsibility to make sure that we're going to fulfill that kind of dream that was given to us by our founding fathers.

I've worked very closely with him when he was the Secretary of Labor. He was a passionate advocate in terms of the increase in the minimum wage. We waited 10 years after Bob Reich was out of the Labor Department before we were able to get it increased again, but he was someone then. Even when there were voices of restraint and talking that we ought to resist that increase, Bob was able to prevail. One of the first positive actions that took place during that Democratic administration was the Family and Medical Leave [Act].

My friend Chris Dodd was the spokesperson in the United States Senate, but we had run into a long, hard, and difficult fight. Bob Reich was there to make sure that it was going to move as one of the first pieces of legislation during the Clinton administration on issue after issue. In terms of workers' safety and workers' rights, he was always there.

He came within a whisper of leading Massachusetts as our Democratic governor. He's irrepensible, irresistible not only in his viewpoints but also in his appeal. He has a ground swell of support that I think all of us who know him and love and respect him can well understand.

Oliver Wendell Holmes said, "We should share the actions and passions of our time or risk not to have lived." This gentleman here has shared the actions and passions of our times. He's passionate about the middle class. He's passionate about working men and women. He's passionate about this country, and we as a country, as a society, as a political structure—the Democratic Party—we are indeed fortunate to have him.

His last book about how the liberals were going to win got a lot of snickers and a lot of laughs, until the Democrats did win. But he never, never rests on his laurels and he keeps reminding us of the path that needs to be followed in the future if this country is really going to be the kind of America that all of us want it to be.

Supercapitalism is the book. Bob Reich is the man, and now is the time. Let's give him a warm welcome.

ROBERT REICH: There are few people left who are true heroes, not only of the left and the progressive left and the liberal left, but of America wherever you are, and I just want to say Ted Kennedy is that hero and thank you. In fact the only downside of moving from Massachusetts to California is that Ted Kennedy is not my senator any more. But I got out to California. I realized he is still my senator not literally, but in terms of beliefs and goals and what the agenda ought to be.

By the way, I want to urge those of you who are from Cambridge, Mass., or even from the center left or from the left of Washington, that if you want to really see what the left can do, come to Berkeley, Ca. The big debate in Berkeley is between the far left and the ultra left, and it's interesting to behold.

Anyway, here we are. Now I want you to know that the Economic Policy Institute and *The American Prospect* and this whole institutional structure we have is the establishment left in Washington, if there is such a thing. I'm proud to be part of it. Harold Meyerson, Larry Mishel and so many of you have been part of this infrastructure, which is critically important.

Years ago when we got together, many of us said we've got to build the Economic Policy Institute. We've got to have a magazine that reflected the values and the policy values of a lot of us. Many people out there said, "Well

why do you need all of that?" We said, "Well, you know, the other side has the Heritage Foundation and there are all sorts of magazines and policy institutes. And we have to make sure that there is a sensible voice on the progressive side that stands for the values that we all share." And now there is.

And we can thank you and these gentlemen and others for making it possible. Looking out at you, how many of you were my former students? I think all of you were. A lot of you. Look, I want to talk a little bit about *Supercapitalism*, and then I would like to take your questions and then I would love to sign your books.

What do I mean by "supercapitalism?" I mean a form of capitalism we now have that is supercompetitive, in which consumers and investors have gotten increasingly better and better deals over the last 30 years. Now it is true there are perturbations on the stock market, and it is true that consumers don't always get the best deals they can get. But nevertheless, over the last 30 years, consumers and investors increasingly have gotten more and more choice, more and more options, and more and more information on comparative products, prices and quality. All of that has given consumers and investors more power relative to producers.

Now I know some of you have been looking very, very closely at the degree of market power that most companies have in the United States. And most of you have found that even though a lot of conglomerates are getting bigger and bigger,

the actual degree of market power they have, that is the power to set prices, is diminishing.

This is why, incidentally, Allen Greenspan in the 1990s felt that it was possible to allow the economy to grow so fast as to reduce employment down to 4% without igniting inflation. It was because competition was so intense among companies that they would be very reluctant to increase prices.

That same power of intense competition reduced the power of unions which Allen Greenspan also understood, and that is why it was possible to reduce unemployment to 4% without igniting inflation. Because of that same competition, I say sadly and reluctantly, we went from about 35% of the American workforce unionized in 1955 to fewer than 8% of the private sector unionized today.

There wasn't much power any longer, neither on the employer's side in terms of raising prices nor on the workers' side in terms of demanding and getting wage increases. Power was shifting, and has shifted to consumers and investors.

Now something else has been going on, and you are aware of it. Over the past 30 years the gap between rich and poor has grown. In fact the gap between the rich and everybody else has grown. It is often said and it is true that the gap we now experience has not been experienced in this country since the 1920s.

Other data I have seen recently suggest we have not seen this kind of gap since the 1890s. Now what is the policy response to all of this, these two great trends I've described to you? One trend is for more and more power for consumers and investors, and less and less power in terms of market power for corporations.

The second trend is widening inequality to the extent that most of the economic gains are going to the very top. The Census Bureau just two weeks ago showed that median household income is still below what it was adjusted for inflation in the year 2000. The only households who were doing better than they did in the year 2000 are the top 5%.

What's the policy response? By the way, what's the policy response now that the economy is, and I believe it is, drifting toward recession? Well I debate about every week on Larry Kudlow's CNBC program with him, Steve Moore and others who disagree with me. They're yelling programs. I go on and I yell and somebody yells back. I don't even know what I say at the end of these programs. They just yell, and in fact sometimes the producers in my ear say, if there's a lull or it's kind of too civil, "Yell more. Keep the audience interested." So I yell.

But behind the yelling is the notion, and again this is sort of the prevailing supply side view that what you need to do as the economy is going toward recession you need to provide or maintain tax cuts for the rich.

Now here's the problem with that. With tax cuts, the rich are not going to stimulate the economy. Why? Because if they are rich, they are already spending as much as they want to spend. That is the meaning of being rich. You're always spending as much as you want to spend.

The only people who are actually going to spend more if they get a tax cut are people who are of very moderate means. And that means that if we are going to do a tax cut—and we should I believe—we can't rely on the Fed. We can't rely on a rate cut right now because the credit crunch is related not so much to interest rates being too high as to too many financial intermediaries being so frightened because they don't know how much risk they have taken on, and they have no way of knowing because the sub-prime mortgages have been ground up like sausage meat in everything else that the financial intermediaries have.

So if there is going to be a preventative measure against a recession we need a tax cut for poor and working-class people. What's the biggest tax that most poor and working-class people have to pay? It's the payroll tax. So why not a temporary payroll tax holiday?

The first \$15,000 on income would be exempt for the next year, let's say, from the payroll tax. That's fair and equitable: Put money directly in peoples' pockets. We don't have to wait for the Fed.

A lot of Democrats are still unfortunately born-again fiscal conservatives. Herbert Hoover economics still haunts some reaches of the Democratic Party in terms of fiscal conservatism. At a time when we're heading into a recession, that's crazy. There used to be two pedals on the economic machine. One was monetary policy. The other was fiscal policy, and let's not forget that fiscal policy is still very important.

Now the other fallacy, with regard to not only the Kudlow yelling program but also much of the debate I get into, is people say that average wages are going up. What are you worried about? Why are you worried about a recession?

When you hear economists talk about averages watch your wallets. Shaquille O'Neal and I have an average height of six foot one. You see, averages are pulled up by the top. If you really want to know what's going on, it's median, not average, and that's where the Census comes in. Median wages are going nowhere. They've gone nowhere for a very long time. Why are people in trouble? Why is national savings so low? Why are there record levels of mortgage, bank, and credit card debt?

Why are people in trouble if their housing prices are going down? People are in trouble if their housing prices are going down because they've been getting home equity. That was the last measure that a lot of middle-class and working-class people had if they were going to keep their standard of living up.

Because their wages are stagnant they want to maintain their standard of living. You have two wage earners per household. They're working more hours. The only thing that they can do to maintain their standard of living is to pull money out of their homes. They can't do that if home prices are leveling off or declining.

Right now, we are seeing housing prices drop, on an annualized basis, 4% a year. We have not seen this since the Great Depression. I want to be upbeat in this upbeat room, but I just want to say that the thinking about supply-side economics, the thinking about average wages going up, and the degree of being out of touch that we find among conservative supply-side economists is staggering.

Unfortunately, they have an audience here in Washington.

The way you keep the economy going over the long term and build the economy and build economic growth is you invest in people. Sen. Kennedy is probably the primary exponent of this view: bottom-up economics, not supply-side, top-down. There's no trickle down, folks. That's one thing we have learned. We learned it in the Reagan administration when supply-side economics became vogue for the first time. We have learned it even to a worse extent from the Bush administration tax cuts.

There is no trickle down. If the rich are not going to expend their extra money, they are certainly not necessarily going to invest it in the United States. It is a global economy. They're going to invest it wherever in the world they can get the best deal. It is trickle out, not trickle down.

Now in *Supercapitalism*, I examine the consequences of an economy where income and wealth disparities are widening and where power has shifted to consumers and investors and away from us as citizens. What do I mean by that?

Let me give you an example. You all know as I do that CEO pay is out of control. But the dominant idea on Wall Street as to how to control CEO pay is to give investors, shareholders, more power over CEO pay. I contend that's going to do nothing because investors basically don't mind CEO pay going up. Investors have, apart from the last few months, done very well.

CEO pay since the late 1980s has risen, adjusted for inflation, six-fold. What's happened to Wall Street: an increase in the Dow on average six-fold. Now is that bad? No. From the standpoint of investors it makes sense.

If you look across the economy, stars—whether they be in sports or in motion pictures or in corporations—are getting extraordinary amounts of money. In the 1940s with the Hollywood star system and big motion picture companies, you had people like Clark Gable earning \$400,000 a year. Translated into current prices, that's more like \$850,000 a year. But Tom Hanks makes \$20 million dollars a film. Now this is not to defend Tom Hanks or to defend any CEO. I'm just saying that from the standpoint of the people inside the institutions that are paying that kind of money, it is worth it to them.

If we want to control CEO pay and do anything about the widening gap between the very rich and everybody else, the most logical way to do that is to increase the marginal tax on the highest incomes and then utilize that extra tax to invest in education, job training, and all sorts of ways that people can become more productive.

The highest marginal tax during the Eisenhower administration—I'm not suggesting by the way, we go back to the 1950s in any way—was 91%. The Kennedy administration reduced it to 78%, then 76%. But right now, we're talking about the highest marginal tax rate being in the United States on people who are in the top 1 or 5 percent, the only people who have done better, is 35%. But if you happened to be a private equity manager and you are actually making most of your money off capital gains, you're paying 15%.

And go back to the average working person who is not only paying a lot of taxes—payroll taxes, sales taxes, property taxes. The average working person is paying more in taxes, if you look at the total tax bill, than the person who is making a billion dollars a year. As an equity fund manager or a hedge fund manager, it makes no sense from the standpoint of economics or equity.

I see people in this room nodding in agreement. When I am in a room where people are nodding in agreement, I ask myself, "Why am I telling you what I'm telling you?" You all know what I am talking about. Also in *Supercapitalism*—maybe you will not nod in agreement. I want to get you to the point where you're

not nodding in agreement so we can have a debate about it—I am worried about corporate social responsibility and doctrine of corporate social responsibility.

I have believed for years and I have preached the doctrine of corporate social responsibility. I think it is important for corporations to try to be socially responsible, absolutely. At the margin, I think it makes some difference. But here is my concern. We've got to the point where corporate social responsibility is uttered by every corporation. Every corporation is saying it's being socially responsible, being green, being good to its employees, worrying about children, and being charitable.

Under "supercapitalism," corporations are much more intensely in competition with each other than ever before and barriers to entry really are lower than they've been ever before. Certainly in the history of modern capitalism companies cannot sacrifice shareholder returns or good consumer deals for the sake of some public good. If we believe they are, we may be kidding ourselves, and therefore we may be indirectly subverting democracy and politics because that's where rules are made to determine what it is that companies ought to be doing.

Let me give you some examples. Not long ago Google, Microsoft, and Yahoo were condemned for helping the Chinese attempt to suppress human rights in China. And there was a great deal of concern about it, and executives of those companies—Google and Microsoft and Yahoo—were paraded up on the Hill, and some members of Congress condemned them in moral terms. So it was kind of a

perp walk of executives, just like we saw tobacco executives and oil company executives. They come up there and they are blamed and members of Congress scold them. And then they leave and nothing happens. The public is of the view that moral condemnation of companies for being bad corporate citizens—just like its opposite, which is praising companies like Starbucks or Ben and Jerry's or whatever for being good corporate citizens— is somehow enough.

My point with you is that praising or blaming companies does nothing. It may have a slight effect on their public relations budgets but it has no effect at all on their behavior because companies are not moral beings. Companies are pieces of paper. Companies are not people. Companies are contracts.

The anthropomorphic fallacy that has invaded all of our brains is that there are things called companies that have morals, that can be praised or blamed, and that should do this or should do that. We have campaigns against certain companies. This is all or much of it is a frolic and detour around politics and around the hard work of establishing the rules of the game for what companies ought to do. Ted Kennedy is one of the champions in terms of understanding that regulations are necessary to make capitalism work and to save capitalism from itself.

We need to understand that there are social consequences to what “supercapitalism” creates, whether it's global warming or lower wages or unstable jobs or widening inequality or draining main streets because big box retailers are taking customers away.

Now none of this is necessarily requiring that we as consumers and investors sacrifice a great deal. Given the widening disparities of income and wealth, we have to examine carefully who pays what costs. But nonetheless these social negatives and social consequences of “supercapitalism” do need a response. We cannot simply depend on the morality of companies, and their concern for their public image, in changing their ways.

Finally let me say this. Washington, D.C., where many of you work and where we are gathered today, is a place where I’ve spent half of my adult life. I came here in the 1970s, and I’m gonna confess something to you I’ve never confessed publicly before. My first job in Washington was in the Ford administration and I worked for Robert Bork. I actually rather liked him. I mean we didn’t agree on many things. We disagreed on the first, second, fourth, fifth, eighth, and ninth amendments to the Constitution, for example.

Then I worked at the Federal Trade Commission in the late 1970s. Then, Washington was—and I don’t mean to denigrate—a rather sleepy and a little bit of a seedy town. Sometimes when I was at the Federal Trade Commission lobbyists wanted to take me to lunch, and in order to get rid of them I’d say, let’s go across the street.

There was a little lunch place on Pennsylvania Avenue some of you may remember called Barneys, and it was known for the inedible quality of its

sandwiches and the abundance of its cockroaches. Then after the lobbyists and I went to Barneys, I'd never see the lobbyists again.

Washington is a different town. It glitters. When I came back in the 1990s, it was an Emerald City: beautiful, beautiful restaurants, hotels, and magnificent edifices. The five counties surrounding Washington are now among the 20 richest counties in the United States.

Where has all the money come from? Why are there now over 35,000 registered lobbyists in Washington whereas when I came to Washington there were 7,000? Why are we seeing campaigns in an arms race? This is going to be the first presidential campaign in which both sides have way more than a billion dollars in their campaign treasuries.

Why have we seen democracy as overrun as we have seen it? Because, you see, my bottom line in *Supercapitalism* is that we all are not just consumers and investors. We are also citizens with responsibilities as citizens and to practice citizenship. The only way we actually use democracy to set some limits on "supercapitalism," as we must, is if democracy allows us a voice as citizens.

Unlike that not quite golden age between 1945 and 1975, when the great political scientists of the era like Robert Dahl, the late Nelson Polsby, and others showed pluralism, we had interest groups, but they were overlapping interest groups. They were represented in Washington, but because we belonged to many different

interest groups, we all tended to be represented. And because labor had 35% of the workforce in 1955—although now fewer than 8% of workers in the private sector are unionized—there was at least some countervailing power.

As someone else, John Kenneth Galbraith, used to say “we’ve lost countervailing power. We’ve lost pluralism.” The interest groups here now, if they are not corporate, are very small and very meek. So the question is how do we get capitalism to stop overrunning democracy?

I have some ideas in the book. I’m happy to talk to you about them. But what I want to stress with you is that we are all consumers. Most of us are investors. The side of our brains that are consumers and investors are doing wonderfully well, relatively speaking. The side of our brains, the lobes that are citizen lobes concerned about the common good, have very little expression and very little possibility for weighing and balancing consumer and investor interest against citizen interests. We and our voices are being drowned out.

That to me is the number one challenge we face. If you are concerned, and many of you are concerned about global warming or widening inequality or health care or any number of things you are dedicating yourselves, I applaud you. But until we get our democracy, back we can’t do any of these things. That must be the number one goal. Hope you enjoy the book. Thank you very much.

Q & A SESSION

QUESTION: Bob, my question is to take what you said to one more level of specificity about corporations. As you know, despite the description of corporations as vehicles of investors and consumers and the supercapitalist pressures, there are some corporations that are particular targets of activism, Wal-Mart in particular.

With Wal-Mart, I want you to give us your thought process on to what degree Wal-Mart is subject to those pressures and to what degree Wal-Mart is the cause of those pressures. Do they have an autonomous role in setting prices and such, and then what about campaigns such as those that are directed at Wal-Mart?

REICH: Let there be no mistake. I do not like or approve of Wal-Mart's employment practices. I would much rather Wal-Mart paid a living wage. I'd much rather Wal-Mart provided more of its employees with health insurance. I certainly have absolutely no patience with any corporate illegality, or any breaking of the rules by any corporation. And finally, I would much rather Wal-Mart were unionized. I think many of the problems that we see at Wal-Mart and any other company that is not unionized is because frankly workers do not have a voice. So having said all that, the question is how to get Wal-Mart to be a better citizen?

Now is a campaign against Wal-Mart designed to get Wal-Mart to be unionized? I'm all in favor. Maybe that's the underlying premise and underlying goal. But if it's to get Wal-Mart to be a better citizen without regard to Wal-Mart's

competitors like Target, to the fact that Wal-Mart is providing very low wages and that's pretty good for a lot of relatively poor people that shop at Wal-Mart, or to all of the economic pressures impinging on Wal-Mart, it seems naïve to me.

So rather than go after Wal-Mart or any other specific company (apart from a labor organizing drive) I would much rather put our efforts into setting the rules of the game so that all big box retailers, or indeed all companies, were playing by rules that all Americans felt better reflected our citizen values.

Q: I'm not sure about your just values, but one of the things I did in your book was look at the mantras you kept chanting in terms of issues, like the primary purpose of capitalists is to get better deals for consumers and for investors. Early in the book you link them together as having power as you mentioned. But why do you say better deals for consumers when the consumer interest falls in the same categories as the ones you pooh-pooh? That is they're only trying to get better deals for consumers not because that's their job but because they make profit and that this happens to be it, and so you link them together.

The other mantra that was chanted over and over again—I counted, by the way, over thirty times you discuss in the book the job of capitalists, of consumer support and investors—is that the silver bullet for dealing with this is laws, regulations and getting capitalists out of the business of democracy. I started chuckling when Willie Sutton was asked why do you rob banks and he said, “Because that's where the money is”.

You're asking a capitalist to get out of that business, but that's where the spigot is to unleash the money for them. And to expect them not to be interested in that seems to violate the very thing that you keep talking in the book. You kept saying several times capitalist have no other alternative. They've got to deal with that it seems to me. They've got such enormous resources. To buy back democracy from capitalists is a pretty tough deal.

A: It's a tough deal, and I was not aware that I had repeated the same thing 30 times. That's awful. But I must feel strongly about it if I said it 30 times. But you're absolutely right. My thesis is that we've got to separate the functions of democracy and capitalism—that's what *Supercapitalism* is all about.

There is a function for companies, and that function is to show a profit and the way they show a profit is ideally that they do better and provide better deals for their consumers. Because we are consumers and a majority of us through our 401(k)s are investors, that's good for us. That's what we want them to do as long as they play by the rules.

That raises the question of what should the rules be and that raises the question of how we rescue democracy from the arms race, and it has become an arms race in Washington. For example, Google—and I don't want to pick on Google, but Google is on my mind because I live in Googleland—came to Washington in 2004 after it became public and it hired a platoon of lawyers, lobbyists and public

relations professionals. Why? Because its major competitors, Microsoft and Yahoo, were here with their own platoons of lobbyists and lawyers and Google understood that there were going to be issues of trade, intellectual property, and taxation. If Google wasn't here, its rivals might dominate the debate and put Google at a competitive disadvantage.

So we have seen over the last thirty years an arms race in Washington based on the same premise of supercompetitive capitalizing that has generated benefits for us as consumers and investors. But as citizens it's not generating benefits for us if it's taking over politics. That's why what I'm doing in the book is trying to realign our understandings of what we as citizens need to do instead of trying to change the behavior of Google or Wal-Mart or any other company in the marketplace, which I don't think we can do.

I used to believe that consumers could have a great deal of influence by putting our moral philosophies and citizenship values behind our dollars in purchasing. But there's a collective goods problem there in the sense that, if I sacrifice a good deal as an investor or consumer because I have some moral value I want to uphold, I have no way of guaranteeing that other consumers and investors will make the same sacrifice without there being a legal change.

Therefore I may be reluctant to make that sacrifice alone. I don't want to be a sucker. That's why if we shift our values and frame of reference to cleaning up

democracy, it seems to me we have a much better shot at improving the functioning of our system and having our citizen values actually be effectuated.

Q: A lot of the focus of your talk has been on inequity between the people at the top and the middle class. I'd like to shift it to the people at the bottom. You know poverty has been level but poverty at 50% of level has raised significantly. You've got 15 million people that are below 50% of poverty. Even in the booming 90s, people with disabilities lost ground in terms of earnings and employment opportunities. My question is where do those people at the bottom, where these inequities are creeping in, fit in this equation?

REICH: Well, there are various things that we as a nation can do to help people at the bottom, not just by raising the minimum wage but also expanding the earned income tax credit, investing more in preschool and early childhood education, which shows a huge return, social return, for poor kids, and improving the quality of schools. I could give you a whole list.

But we're not doing these things. Why are we not doing these things? It's partly because we don't have collectively the money to do them. Why don't we have the money? Well, we're spending the money not only on entitlements but also on a war that seems to have no end—\$400 billion to \$600 billion a year. But we also don't have the money because, according to the Census Bureau, the only people who have actually had higher median wages and higher median household

incomes adjusted for inflation that they did in 2000 are people in the top 5%. This is why I keep going back to the inequities in our society.

We can't do much about the poor. We can't help the middle class until we address this widening gap, and most of the money and much of the wealth is concentrated at the top. Now some people come back to me and they say, "But what about charity? Aren't people at the top enormously charitable?"

Look at Bill Gates and look at others. Charity is at record levels, that's true: \$200 billion dollars a year on average over last few years. Charity is nice, but only 10% of charitable dollars go to the poor. Most charitable dollars are going to museums, symphonies, art galleries and universities—places where, not incidentally, the rich hang out.

That's not bad. I'm all in favor of art and universities and everything else. But if what you are talking about is helping the poor, what we need to do is change the rules of the game. Make sure that there is money for the poor. Make sure that we expand the earned income tax rate and so on. How do we do that? Well, we have to get democracy back. That's where all the paths lead.

Q: What are some of the specific policy recommendations you would have to renew democracy, and how would you help strengthen these small, weak interest groups and encourage our cooperation as opposed to sort of competing against each other for resources?

REICH:

One of my specific recommendations—in the book I use campaign finance reform as an example—is to have the equivalent of a blind trust so anybody consistent with their First Amendment rights can contribute whatever they want to a candidate but the candidate can never know who contributed what. You see my point? You can't have a quid pro quo if you don't know what the quid for the quo is. There are many other ideas in the book. With regard to interest groups that are not simply representing corporations, why not have a check off on our tax forms that allow us to basically direct, say, \$1000 to the interest group, 51C-3, that we want to? Thereby, we're providing a funding source, whether we're on the left or the right, for those interest groups so they don't have to just fight against each other for the crumbs that they have if they are public interest groups.

There are many other ideas in the book. But what I want to do is emphasize that none of these ideas are actually going to reach fruition unless all of us understand that the most important objective must be to rescue democracy and thereby rescue the side of our heads that are citizens rather than consumers and investors.

We must not be so naive as to assume that people are not citizens as investors. We are citizens and we are investors. When we shop for the lowest flight cut rate airline we can get, we are undermining the wages of unionized employees in the airline industry. When I shop online for books or I buy a book at a chain in the airport I am indirectly affecting Main Street and independent bookstores. We are all complicit in this way and we can't expect us as individuals to bear the full

weight of putting into practice our citizen values. That's where we have to clean up democracy so that becomes once again the vehicle whereby rules of the game are established.

Global warming is another example. Everybody talks a good game about global warming. Well, we're gonna have to pay a price for global warming. Now we can argue about equitably who should bear most of the burden and most of the price of avoiding global warming, because it's a hefty price tag. No candidates to my knowledge are talking about the cost associated with either a carbon tax or a cap in the trade system because the consumer and investor in us is so well practiced at being consumers and investors, we don't want to think about the cost.

But the fact of the matter is the citizen in us may say the cost is worth it, but I would like to understand what the tradeoffs are. I want politics that is going to be honest in terms of the tradeoffs between my citizen values and my consumer investor values.

Q: I just graduated from school so I'm gonna ask a little bit of an academic question. But I'm interested in the intellectual roots of your argument, and there seems to be a tension with what I gleaned from the book and from what you're saying now on this notion that we need to bring our values into the economic sphere. You said you used to believe more in that. But then you also talk about this divide in the brain between the citizen side and the corporate side. So I'm just wondering, is this religious? Is the solution really just about creating more laws to regulate or

is it about changing our general consciousness, and where did you pull from in drawing that distinction?

REICH:

I think that my goal in writing this book is to help us delineate the appropriate spheres of democracy and capitalism. We have in this country a conceit that really comes from the middle decades of the 20th century, and that conceit was that capitalism and democracy naturally went together, hand in glove. If we had capitalism we would automatically have democracy. Our foreign policy has been based on this conceit. Our foreign policy toward China, for example, has been based on the notion that as China becomes capitalist, it will inevitably become democratic.

The fact of the matter is there is no longer a natural or inevitable connection between capitalism and democracy. In fact, China may be the embodiment of a new form of capitalism that we might call authoritarian or totalitarian capitalism. Singapore is as well. We don't know. I just want us to understand that they are separate and distinct processes. One responds to the good deals we as individuals want. The other responds to ideally what we want together.

Now on to the intellectual roots. I was very influenced by Albert Hirschman, an economist and political scientist at Princeton. He wrote a book years ago called *Exit Voice and Loyalty*. And Albert Hirschman's idea, essentially logical and intuitively plausible, is that the easier exit becomes from any situation, the easier it is for us to become—not in Hirschman's words but in my words—consumers

and investor and the harder it is for us to exercise voice. In my terms, the harder it is for us to actually engage in and practice citizenship. If we are just consumers and investors we lose the habits of citizenship. You know half my life I've been in academics so I don't mind being academic about it.

The habits of the heart that Thomas Jefferson understood were really the habits of citizenship. In so many almost unconscious ways we are practicing consumerism and investor practices and not citizenship practices. My students at Berkeley just last week finished what they call shopping week, shopping for courses. I say to them you're not consumers. They say they're shopping. Students shop for universities. In fact we've even talked about a university education as an investment, a private investment.

It used to be a public good. It is a public good. Education is a public good before it's a private investment. But you see how our minds, the language, the entire milieu in which we are finding ourselves has strengthened the consumer and investor side of our beings and undermined the citizen side of our beings. Now my daughter recently graduated Berkeley and, believe me, she's a consumer.

Q: You mentioned the growing economic inequality. Frequently we hear in response to concerns about economic inequality the concept of economic mobility and especially the opportunity of mobility in the context of a democratic society. I'd like to hear you comment on the issue of economic mobility, and what evidence

there is and so forth. And also perhaps relate that as well if you can to the mobility of people to move into and up through the political system.

REICH:

The widening inequality of income and wealth would be a less serious problem if people could fairly rapidly move up the ladder even though some others would be moving down. Obviously and logically, if inequality is moving toward wider inequality for everybody who moves up there's gonna be somebody moves down. But that kind dynamism would soften the hard edges of a class system that is becoming harder-edged.

The reality is simply this. There are two major barriers now to economic mobility up the ladder that were not there before. Hence, there is not nearly as much upward mobility as we used to have. One barrier to upward mobility is the simple fact that middle-class manufacturing, unionized jobs that are low skilled with high wages are not there any longer. They were in the middle. So the middle rungs of that ladder are missing. If you don't have adequate education, if you don't have parents who can afford to send you to wherever you need to go, and if you don't have the connections that upwardly mobile upper-middle-class kids often have through their parents, it's very hard to move up. That's number one.

Number two, as the ladder itself elongates, there's a wider distance you have to traverse from the bottom to the top. So even if we have the same degree and speed of mobility up the ladder—and we don't—you couldn't go as far.

Those two barriers are very important. There is a third, and I probably should mention it, and that is poverty is more and more concentrated geographically than it was before. There are entire towns, entire school districts, and entire regions in some cases that are poor.

Because of the concentration of poverty it is harder and harder for people to get out. There are just not social connections that permit people to link up with one another of a different class. It's hard for young people who are poor to even see examples of success around them because they are in a highly concentrated poverty area where there are not that many examples of success, and many of the social problems that come with poverty are concentrated as well.

In any event, I hope you continue—and I see so many of you who I worked with before—to keep on doing what you are doing. Keep on fighting the good fight. Buy the book. Be inspired by it. But keep on doing what you are doing. Thank you all.

END OF TRANSCRIPT