Introduction

Technological change and economic globalization are beneficial to the American economy as a whole but impose substantial costs as well. How those benefits and costs are distributed is determined by the country's political institutions. Globalization can become a source of economic renewal and advance for the people of this country. But the converse is also possible. And what is worse, at present that appears to be the more likely outcome. The inequality built into our politics makes it all too probable that technological advances and continued economic growth in today's poor countries will worsen the already too deep economic and social fissures present in American society.

The thesis presented in this book is that our political system is too biased toward the interests of wealthy campaign contributors to respond fairly to the problems that emerge from the new global economic order. My argument is that the kinds of policy interventions that could offset deepening domestic income inequality require an egalitarian politics, something that we sadly lack today. The systematically unequal political process present in the United States cannot be expected to produce a just response to the inequities associated with globalization. The late John Rawls, the eminent theorist of justice, explains why this is so:

> the liberties protected by the principle of participation lose much of their value whenever those who have greater private means are permitted to use their advantages to control the course of public debate . . . eventually these inequalities will enable those better situated to exercise a larger influence over the development of legislation. In due time they are likely to acquire a preponderant weight in settling social questions, at least in regard to those matters upon which they normally agree, which is to say in regard to those things that support their favored circumstances.[1]

An egalitarian political system would be one in which each voting-age citizen is able, if he or she wishes, to exercise meaningful political influence. The problem is that no one I know of has theorized about the financing of such a system. How much money would such a system cost, who would pay for it, and how would those funds be distributed? There is, of course, an abundant and useful journalistic and scholarly literature on the American system of privately funded elections, much of which emphasizes the political inequalities that are built

[1] John Rawls, *A Theory of Justice* (Cambridge MA: Harvard University Press, 1971), p. 225.

into it. But to my knowledge, no academic literature exists that analytically investigates the consequences of alternative systems of political finance and assesses the financing requirements of an egalitarian political system.

Because of this void, little theoretical guidance is available to assist those who seek to make the political process more equal. With that the case, even Rawls was cautious in suggesting how to proceed. Because, Rawls writes, "at present the requisite historical experience and theoretical understanding may be lacking . . . we must advance by trial and error."[2] Even so, however, he argues that the private funding of political campaigns is not adequate to the task.

Though Rawls does not attempt to provide a blueprint by which to achieve political equality, he does indicate that "one guideline" required to achieve that goal is the need "to keep political parties independent of large concentrations of private economic and social power." To achieve that objective, Rawls writes, "society must bear at least a large part of the cost of organizing and carrying out the political process and must regulate the conduct of elections." A system of publicly financed election campaigns is necessary, according to Rawls, to ensure that "all citizens, whatever their social or economic

[2] John Rawles, *Political Liberalism* (New York: Columbia University Press, 1996), p. 328.

'position'" have "a fair opportunity to hold public office and to influence the outcome of political decisions."[3]

The argument presented here is fourfold. The first claim is that the current political system has failed and likely will continue to fail to provide a countervailing offset to the increasing domestic income inequality driven by technological change and globalization. The second is that it is possible for policy interventions to offset such advancing inequality. The third claim is that the kind of egalitarian politics that Rawls calls for is necessary to legislate such policies. That, in turn, requires the public financing of election campaigns. Obviously, therefore, the fourth claim is that a radical reform of the American political system is needed, one that reduces the role of private wealth in funding our political system. We need to pay for election campaigns publicly. Such a reform will occur only if a grassroots movement on its behalf creates sufficient political pressure to compel its adoption.

Structurally, this book is divided into seven chapters. In Chapter 1, I discuss how technological change and globalization have produced a strong tendency toward income inequality throughout the developed world. In Chapter 2, I examine the extent to which political processes in Europe have been successful in offsetting income inequality and contrast the

[3] John Rawls, *Political Liberalism* (New York: Columbia University Press, 1996), p. 327.

relatively poor performance of the United States in this regard. Chapter 3 then takes up the question of the financing of election campaigns in the United States. In it, I discuss the policy biases that result from our political system, dependent as it is upon private political contributions. Chapter 4 discusses the history of campaign funding in the United States and the recent efforts at reform. In Chapter 5, I look at the attitudes Americans have toward their government and what would be required for them to reverse their stance of mistrust and hostility toward the public sector. Chapter 6 is concerned with the extent to which the public funding of elections could advance the cause of a more egalitarian politics, and considers challenges from both the right and the left to such a reform. This serves as a prelude to the concluding discussion in Chapter 7 that explores the political work necessary to achieve a deepening of the democratic content of American politics.

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The Economics of Income Inequality

Since 1980, income inequality has increased throughout the developed world. This pattern is reported in Table 1.1 where gini coefficients for twelve developed countries including the United States are displayed for both 1980 and 2000.[1] Between those years, income inequality grew in ten of those nations.

This table also reveals that the growth in income inequality that occurred in the United States during these years exceeded that of any of the other eleven countries, with the exception of the United Kingdom. As a result, this country, already experiencing in 1980 the dubious distinction of possessing the most unequal distribution of income, saw its status in this regard worsen over this period. Our gini coefficient of 0.368 in 2000 was one-third higher than the mean for the other eleven

[1] The gini coefficient is a frequently used measure of income inequality that is computed by estimating the extent to which low-income households receive less than their proportionate share of the national income and high-income households a greater share. The higher the coefficient, the greater the inequality.

nations. What this means is that the poor in the United States received one-third less of the national income and the rich one-third more than was the case elsewhere.

A country's distribution of income results from two distinct and separable processes: the functioning of its markets and the functioning of its political system. The market-determined distribution of income itself emerges from what happens in labor markets and what happens in financial markets. In labor markets, inequality exists among households because the wages that people receive in exchange for their labor differ according to the demand for and the supply of the varying skills they possess. This inequality is reinforced and intensified by the payment of property income in the form of interest, dividends, and rent – payments made to individuals by virtue of their owning assets such as stocks, bonds, and buildings. Because these financial assets tend to be disproportionately owned by a narrow segment of the population, the distribution of property income tends to increase the income inequality that emerges from labor markets.

Systems of taxation and social programs, adopted in the political process, alter this income configuration. Almost invariably, these programs and policies in combination increase the share of the national income that goes to poor and middle-income households and thus decreases the share that goes to the rich. In general, that is, taxes and social programs reduce income inequality. The gini coefficient is lower

Table 1.1. Changes in the gini coefficient, circa 1980–2000

Country	1980 Gini	2000 Gini	Change in Gini
United Kingdom	0.270[a]	0.345[b]	+0.075
United States	0.301[a]	0.368	+0.067
Sweden	0.197[c]	0.252	+0.055
Belgium	0.227[d]	0.277	+0.050
Finland	0.209[e]	0.247	+0.038
Austria	0.227[e]	0.260	+0.033
Australia	0.281[c]	0.311[f]	+0.030
Norway	0.223[a]	0.251	+0.028
Germany	0.244[c]	0.264	+0.020
Canada	0.284[c]	0.302	+0.018
France	0.288[c]	0.288[f]	0.000
Netherlands	0.260[g]	0.248[b]	–0.012

[a] 1979.
[b] 1999.
[c] 1981.
[d] 1985.
[e] 1987.
[f] 1994.
[g] 1983.

Source: Gary Burtless and Christopher Jencks, "American Inequality and Its Consequences" in Henry J. Aaron, James M. Lindsay, and Pietro S. Nivolo (eds.), *Agenda for the Nation* (Washington, DC: The Brookings Institution, 2003), p. 76.

when those forms of public policies are taken into account than when they are not.

In principle, the rise in inequality observed in Table 1.1 could have resulted from changes either in market or political processes. It might have been the case that equality-promoting social and economic policies remained unchanged, but the income generated in labor and financial markets became increasingly concentrated in high-income households. Alternatively, there might have been stability in the pattern of income emerging from markets, but there could have been a retreat from government policies promoting equality. And of course, it is possible that the shift to greater income inequality occurred because of changes in both. Market rewards might have become more unequal, and there might in addition have been a shift away from government policies benefiting low-income individuals.

The available evidence strongly suggests that the widespread increase in income inequality that we have observed occurred primarily because of changed market outcomes, not because of altered government policies. In a 1997 article covering most of the period of concern here, Peter Gottschalk and Timothy M. Smeeding compared the changes that occurred in the distribution of income emerging from markets (described as "market income inequality") with the changes in the distribution of income after taxes and social programs were taken into account (the "disposable income inequality"). What they were interested in observing was the extent to which the changes that occurred in one corresponded to the changes that occurred in the other. If the two were closely related – if the growth in market income inequality approximated the growth in disposable income inequality – the inference was that the latter was probably caused by the former. Overall inequality grew because of what happened in markets; government policy was not responsible. If, however, disposable income inequality grew more than market income inequality, this was taken as evidence that government policies to reduce inequality had become less effective.

What Gottschalk and Smeeding found was that in almost all of the countries included in their study, the growth in market income inequality and the growth in disposable income inequality closely tracked each other (Table 1.2). That is, in nine of the twelve countries, observed changes in the way incomes were paid in markets were similar to the changes that occurred in the incomes households received. The experience in the United States corresponds to this pattern. In this country, both market income inequality and disposable income inequality increased by about 30 percent between 1980 and 1993.

Of the three countries where there was a divergence between market income inequality and disposable income inequality, in two of them, Germany and Finland, disposable income inequality grew less than market income equality, indicating that in those countries public policy had become increasingly effective in achieving egalitarian outcomes. Only in Great Britain is there evidence of a decreased public policy commitment to reduce inequality. In that country,