



REALIZING POSSIBILITIES

OF THE | CONNECTED ECONOMY

Innovative Ideas
To Tackle Extreme
Inequality and Drive
Enduring Prosperity

by Mark Gomez





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The Haas Institute for a Fair and Inclusive Society brings together researchers, community stakeholders, policymakers and communicators to identify and challenge the barriers to an inclusive, just, and sustainable society and create transformative change. The Institute serves as a national hub of a vibrant network of researchers and community partners and takes a leadership role in translating, communicating, and facilitating research, policy and strategic engagement. The Haas Institute advances research and policy related to marginalized people while essentially touching all who benefit from a truly diverse, fair, and inclusive society.



The **Leap Forward Project** at the Haas Institute is dedicated to facilitating the research and development of innovative ideas to tackle extreme inequality and drive enduring prosperity. We work collaboratively beyond silos with community organizations, labor unions, issue advocates and think tanks and provocative thought leaders.

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IN THIS ESSAY

PART 1

The Connected Economy is Half Built

We are blessed with unimagined progress and remarkable prosperity. That progress and prosperity suggests what is possible. We are frustrated, but make no mistake about it—we can all thrive.

We're in a Formative Political Period

We are between what was and what will be. Liberalism has passed into the night. Conservatism is unraveling. What's next is up to those who have been excluded from the prosperity they make possible.

PART 2

Tinkering Sparks Significant Gains

For a generation, progress-minded activists have tinkered with old Liberal efforts to fight poverty. Their work has proven that renewed progress is possible. We can do far better than merely moving people out of poverty.

Bringing Together New Thinking

Progress-minded activists have reimagined how we see the economy, talk about the economy, measure the economy, and inspire people to change the economy.

PART 3

The Prosperous Rely on Miserly Paid Workers

Tech firms focus on what they do best. To prosper, they rely on contractors to do what they do best, and to keep their workers happy, they rely on local restaurants, shops and services to do the same.

A Targeted Universal Strategy

Everyone that works can enjoy economic security. Prosperous regions need to set better wage standards, and prosperous industries need to contribute to the wages of less prosperous industries.

The Back Will Lead Us into a New Era of Prosperity

We will realize the possibilities of the Connected Economy only when those who have been held back the longest—African Americans and immigrants—finally have their hard work rewarded.

Preface

What do we want out of life? Are we fulfilling our hopes and dreams for ourselves and for those we love? And if not, what can we do about it? Too often, we race ahead to engage in analysis before reminding ourselves where we are trying to go. So let's begin this essay at the beginning.

We aspire to a better life. We work hard. We pursue our passions. We want little more than to enjoy our friends and family. We want to be a part of something bigger than ourselves, to feel like we belong. As best we can, we take care of our loved ones and we contribute to the communities we call home.¹

We came here, to wherever home is today, not merely to escape what was, but to prosper—to enjoy the good life. We came from the other side of state, from across the country, and from around the world. We have progressed, though never as far as our dreams. And even though we did not fulfill our dreams, we still believe that we should do better than our parents.²

For the first time in generations, that very American Dream of progress seems fanciful to most. Yet many of us—especially the newcomers—are determined not to accept a lesser fate. We refuse to be held back by anyone.³



Introduction

THIS IS A SPECULATIVE, HOPEFUL, ESSAY. It's a California story, informed by a generation of community and labor activism that took flight after the overwhelming passage of anti-immigrant Proposition 187.⁴ Its writing finished just weeks after the stunning passage of a \$15 wage standard in The City of Angels.

We are today at a moment of unrealized possibilities, blessed with a remarkably prosperous economy and a formative period in our politics. Within this generation, those who have been held back the longest—African Americans and immigrants—will lead our economy forward into a new era of enduring prosperity. Their leadership will strengthen an embattled aging white middle class.

This is neither a policy agenda nor a history of what went wrong. Nor is it an analysis of our economic crisis. This is a brief essay—a try to develop ideas—with very modest goals.

Part 1. It suggests an innovative framework of analysis—a way to think about our Connected Economy, a way to think about political change.

Part 2. It focuses on the unheralded work of a generation of progress-minded activists who fought to lift workers out of poverty, and who reimagined the way they organized—crafting new narratives, invoking cognitive frames, and thinking bigger.

Part 3. From its understanding of the connected economy, this essay retools two old school policies as an example how we can build on the possibilities of this moment in time.



We came to
the places
we call
home today,
precisely
because we
yearn for
progress.

A 2006 march in Los Angeles to protest anti-immigration legislation.
Photo by REUTERS/Lucas Jackson

We Are Stuck

WE LIVE IN A TIME in which most of us are stuck—and in a time of unimagined progress and remarkable prosperity. That progress and prosperity suggests what is possible for us to accomplish in the years to come.

Unrealized Possibilities

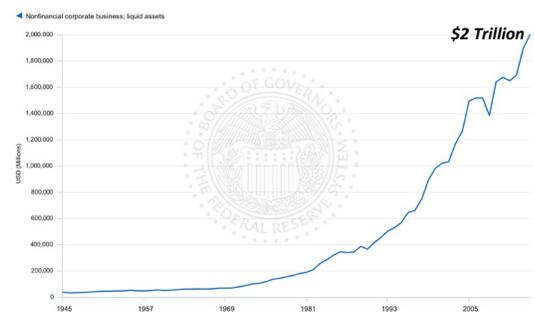
Tech start-ups are transforming our lives in ways that we never imagined. We text dear friends, keeping up with each moment of their day. We chat with beloved grandparents halfway around the world. We order just about anything we can desire and have it delivered tomorrow—well, some of us who can afford to do. To many, it seems to be an age of fantastic progress.⁵

America's corporations are remarkably prosperous. It's not just historic corporate profits, or even fantastic CEO pay. Corporations are sitting on \$2 trillion in cash—an unprecedented sum. The cash is piled high in the tech and finance clusters of California. It is indeed a “winner take all economy” where the dealer has dealt most of us out.⁶

Despite this progress and prosperity, our economy is not moving most of us forward. Fewer jobs pay enough for families to thrive and more and more jobs pay so low that families are struggling to make ends meet. The facts are by now familiar—the middle class is shrinking, the working poor are being paid less, and only the richest of the rich are better off.⁷

It is no surprise, that when so many jobs don't pay enough for families to afford the basics, families can't spend enough to get our economy really moving again. Families have less money to spend at local businesses and local

CEOs Let Vast Sums Sit Idle



Source: Federal Reserve Accounts of the United States, liquid assets from “Flow of Fund Accounts”, Table L. 102

businesses have less money to hire local people. People and businesses either get by with less or go in debt. This economy of extreme inequality is not an economy of enduring prosperity. We can do better.⁸

The Mass-Middle and Upper-Middle Class

If we are to progress again, it is important to recognize the progress made by those who came before. Before the Second World War, the vast majority of people struggled day-to-day to get by. The nation's middle and upper-middle class alone enjoyed "economic security" and "the good life." They were significant politically, but small in number. In 1950 they were just 27% of us.

In 1970, the middle classes were some 63% of us. Within a single generation, just 20 years time, everything changed. To their ranks were added the sons and daughters of immigrants. Those once deemed unfit for democracy made themselves the foundation of our democracy. This mass middle class drove a generation of unprecedented prosperity.

The go-go prosperity of the post-war years slowed by the 1980s. The mass-middle class increased very modestly—from 64% to 69%. That said, it was significant that more and more middle class folks moved forward into the upper-middle class. Over two generations, the "mass upper-middle class" increased from 6% to 27% of us.⁹

Workers output had slowed, but it was still increasing. Yet, businesses did not increase the wages of their more miserly paid workers. Those struggling—the poor and near poor in the language of economists—in 1980 were 31% of us. As the Great Recession hit, in 2008 they were still 31% of us. The middle class has since shrunk a little—but it is not disappearing.

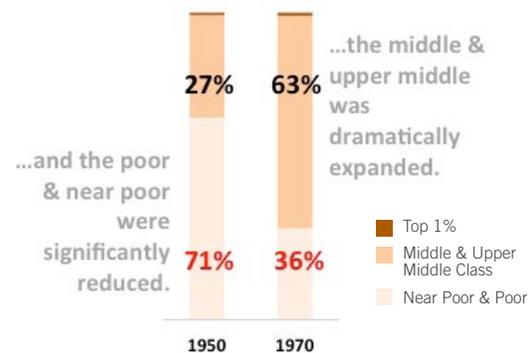
The Connected Economy

In the 1980s as Conservatives began their revolt against the Liberal welfare state, tech rebels led their own insurgency against the establishment's corporate hierarchy. Over two generations, tech clusters would connect regional and global economies. This connected economy is in a sense half built—it is creating great gadgets and it is also creating havoc in people's lives.

Tech rebels were too restless to wait for their ideas to be recognized by senior managers. Instead, they walked away from corporate career paths to start up their own firms. They believed a good idea could come from any of their fellow engineers, regardless of experience. As a result, they valued both hard-nosed competition and collegial collaboration. Competition and collaboration made the connected economy possible.¹¹

Tech rebels disassembled corporate hierarchies and replaced them with networks of connected firms. They focused their start-up's energies on its own core competen-

In a Single Generation...



Source: Author's analysis of data from Reynolds Farley, University of Michigan.

cies. They left it for other firms to do what they did best. At first, the firms clustered together in suburban industrial enclaves. Over time, more and more production work was spread across the globe.

Tech rebels learned to actively manage their network partners. They mimicked the “visible hand” of corporate hierarchies. Firms were vibrantly connected—little was left to the uncertainty and chaos of the free market. They set clear and detailed standards. Results were closely and constantly monitored and staff worked closely together on an ongoing basis.¹²

Tech rebels managed the treatment of their contractor workers far less actively. When challenged by labor activists, executives often denied responsibility for contractors’ miserly wages. Unmonitored contractors frantically cut costs to win accounts. Tech rebels slowly responded by taking cautious steps to improve labor standards across their regional clusters and global value chains.¹³

Formative Political Period

Generations ago, the old corporate economy was like the Connected Economy is today. It generated fantastic prosperity. Yet that prosperity was unstable because it was not fully shared with those who made it possible. Over the course of a generation, rejecting the old politics of federal inaction, innovative New Dealers rewrote the rules of the economy.

We are today again between an old and a new kind of politics. Conservatives have failed on their own terms. Their “go it alone” politics and low-pay economy has been overwhelmed by the tech rebels’ inspiring Connected Economy. In the years to come, those for whom the Conservatives’ economy is not working have the chance to realize the possibilities of the Connected Economy.¹⁴

We have become accustomed to progress—at least in some parts of our lives. And we are not willing to accept less in those parts of our lives that matter most. We came to the places we call home today, precisely because we yearn for progress. No one will inspire us with anything less.

The Road from One Era to the Next

A NEW ERA. Each era begins with a critical election, when the old out of power party takes the wheel and takes the country as fast as they can along a new road forward. After an election or two, the economy gets going again.

SLOWS REFORM. A few elections later, the now out of power party takes the White House again, but they do not reverse course, they merely slow the pace of change. The economy seems to be humming along, but the road is getting worn.

A SECOND WIND. Then the party in power gains its second wind, they quicken the pace of change again. Invariably they seem to have gone too far.

WHAT’S NEXT? Then the out of power party dramatically takes office, galvanizing a new electorate seemingly ready to take the country down a new road. Yet, they do not really have a new road map. And the road is now bumper than ever.

END OF ERA. Each era ends with a critical election, when the establishment party is defeated in landslide. Though out of power, it takes an election or two for them to realize that they are no longer the establishment.

We Are Here

A New Era	Slows Reform	A Second Wind	What’s Next?	End of Era
FDR	Ike	JFK	Nixon	Reagan
Reagan	Bill Clinton	W	Obama	???
The Critical Election	The Out of Power Party	The Party in Power	The Out of Power Party	The Critical Election

So, what is the way forward? How can we capture people's imaginations again? We are in a sense still in a stretch of road between a defeated Liberal past, an unraveling Conservative present, and a progress-minded future. In short, this is a formative period for what is next, for the politics that will finish building the Connected Economy.

Critical presidential elections are the demarcation posts that signal we have moved beyond the road behind us, and onto the road ahead of us. We are still waiting for our era's Franklin Roosevelt, our era's Ronald Reagan. Era-changing elections are the result of a decade or more of innovation.

Innovative political organizers mobilize a new electorate—those heretofore excluded from politics and those who had been a part of the other party's coalition. Innovative policy makers set aside their own once-radical ideals, tweak older established ideas, and boldly advance new out of the box ideas. Innovative communicators step beyond speaking to activist insurgents' issues and find a voice that speaks to more inclusive ideals.¹⁵

Building a New Political Era

President Obama, like President Nixon generations ago, has innovatively organized a new electorate. And he has spoken deeply to millennials' inherent openness. They are uncomfortable with "the haters." They embrace inclusion of those who have been traditionally "othered," whether they are people of color or women or lesbian, gay, or transgendered people.

And he has spoken deeply to millennials' frustrated aspirations. They are held back with debt they incurred paying for college to better themselves. They patiently waited through the Great Recession, moving in with friends or back with parents, taking jobs they imagined themselves over qualified for.

Yet President Obama, again like President Nixon generations ago, remains unable to move beyond the era within which he came to power. He rescued powerful banks deemed too big to fail, but failed to protect ordinary people from predatory banks. He proposed healthcare reform similar to that recommended by Conservative think tanks and passed by a Republican Governor. And despite the President's insistence that there were no red states and blue states, he could not craft a common narrative that moved us past our deep divisions.¹⁶

It remains for progress-minded activists now in the decade

What's in a Name? Political Eras Explained

Labels make sense. They explain in just a word a complex set of ideas.

I grew up in the Liberal Era.

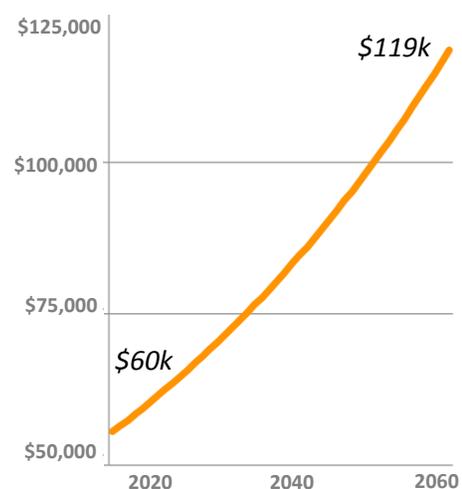
I have lived through the Conservative Era.

I believe a new political Era is now taking shape.

Liberals fought for freedom—freedom from want, freedom from persecution, freedom from illegitimate authority. Conservatives fought to preserve what was—to preserve a strong middle class, to preserve our nation's leadership of the world.

Now a new generation has become accustomed to progress, to fantastic improvements in our lives. It seems progress-minded activists will now shape the Connected Economy to ensure our prosperity will endure, that all those who have been held back will finally leap forward.

Projected Real U.S. Per Capita GDP Growth (2014 DOLLARS)



Sources: 2014 <http://www.statista.com/statistics/263601/gross-domestic-product-gdp-per-capita-in-the-united-states/> and for historical trend: <http://visualizingeconomics.com/products/exponential-growth>



to come to continue to build the new era. We need to tweak old policies and design new ones to not merely react to “market forces” but to find the invisible sweet spot that works for business and its workers—and for all of us. And we need to craft an inspiring new narrative that moves us past a stubborn cynicism and boldly imagines how we can transform people’s lives again.

Progress-minded activists in this new political era have the chance to get our economy back on track. By tackling extreme inequality we can again generate enduring prosperity. Since 1790, our real per capita GDP—an imperfect but still important measure of our prosperity—has increased annually at 1.7%. From today to 2060, by realizing the possibilities of the Connected Economy, real per capita GDP can be more than doubled to nearly \$119,000—more than enough for all of us to enjoy economic security and the good life.



Progress Again

WHILE MOST OF US ARE STUCK, for the past generation progress-minded activists have begun to reimagine Liberalism. In response to Conservatism, most activists did what they do best—they fought back, they reacted. In time a few activists began to tinker with existing policies and change the way they organized. The framework they have developed suggests a path forward into a new political era.¹⁷

The Minimum Wage as a Standard

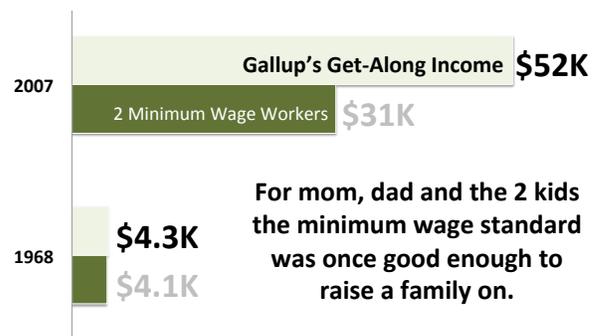
In establishing the federal minimum wage, New Deal Liberals intended to ensure workers could attain a decent living. The wage standard was one of several policy innovations that helped to create the new mass-middle class.

Shocked by the Great Depression's chaos, industrialists panicked. To keep their factories humming, they fired workers and slashed wages. With less and less in their pockets, workers spent less and less. With less and less of their factories' products selling, industrialists fired workers and slashed wages again.

The shortsightedness of these industrialists drove the economy still further backward. Businesses leaders had proven they alone could not curtail ruinous competition. The federal minimum wage was established through the aptly named Fair Labor Standards Act. The legislation was intended to impose a wage standard for nervous industrialists and a decent standard of living for struggling workers.

The federal minimum wage was ultimately shaped by political deals with and against the Jim Crow South. Minimum wage advocates demanded a wage standard in part to protect

No Longer Enough



Source: Shawn Fremstad, April 2010, Center for Economic and Policy Research, A Modern Framework for Measuring Poverty and Basic Economic Security.



Those who have
been held back will
now strengthen the
Connected Economy.

the New England textile industry from the more miserly wages of their Jim Crow competitors. The established federal wage standard effectively slowed the industrial development of the south for a few decades.¹⁸

While southern textile workers were temporarily disadvantaged, southern farmers were advantaged. Jim Crow senators and congressional representatives used their political muscle within the New Deal coalition. They successfully excluded farm and domestic workers—jobs primarily held by African-American workers—from the federal standard.

In the years to come, a greater share of workers would be protected by the minimum wage standard. African Americans left behind the brutality of the Jim Crow south for a better life and better wages in northern and western cities. Yet over time, an increasingly non-Liberal Congress allowed the minimum wage standard to fall further and further behind what people thought it took to get by. The once decent wage standard became very much a minimal wage.¹⁸

Tinkering with Wage Standards

In response to corporations driving wages backwards to an ever diminishing legal minimum, beginning in the 1980s, progress-minded activists began tweaking old Liberal efforts to fight poverty. They skillfully built on their limited power, to make sure miserly paid workers were now included in the private deals that businesses were making—improving wages standards, fighting for living wages across regional industries through unions and local ordinances.

Activists argued the federal poverty threshold no longer measured what it took to get by. They crafted a myriad of new standards for a myriad of audiences—the basic family budget, the self-sufficiency standard, the assets and opportunity index, and many more. In each case, on paper and in real life, they moved people who were struggling to make ends meet forward. None of these standards or indexes has yet captured the public's imagination to replace the old poverty measure.²⁰

Labor activists campaigned for and attained living wage standards from sectors that could pay better—from bustling hotels close to airports, to niche contractors awarded work by local and state governments, to prominent developers seeking approvals to build mega so-called revitalization projects. Across the country, through their political power, miserly paid workers gained a greater share of the prosperity they helped to create. To be frank, these gains were important but limited in number of workers impacted.

Tinkering Enables Significant Gains

Who Made Gains?	How Much Did They Gain?	How Many Gained?
Silicon Valley's unionized contract janitors (2000)	\$4,600 over 3 years	5,500
San Francisco's Minimum Wage Workers (2003)	26% one year increase	54,000
LAX Hotel Workers Union & Non-Union (2008)	\$2,100 average first year	2,200
Seattle's Minimum Wage Workers (2014)	57% increase larger employers w/n 3 yrs	100,000

Source: Silicon Valley data author's records; S.F. IIR UC Berkeley, "Economics of Minimum Wages"; LAX data LAANE, "Lost Revenue, Soaring Wages"; Seattle data U of W, "Who Would be Affected".

And union activists organized industry-wide organizing campaigns to take wages out of competition. Justice for Janitors took on cutthroat non-union contractors by challenging politically powerful and prosperous office owners. Though they gained power by organizing their industry, in labor markets overwhelmed with miserly paid workers, newly organized union janitors did not have enough economic power to move forward into the middle class.²¹

Independent homecare workers created a “public authority” so that they could negotiate together as a union. They built up enough political power to lift care standards—improving both hours worked and wage standards. Yet, in an era in which local governments mimicked wage cutting corporations, elected officials were not confident enough to better wages to a truly decent standard.²²

Finally, after years of the federal government’s infrequent increases in the U.S. minimum wage, activists in prosperous cities improved local wage standards. Dramatic increases in the San Francisco minimum wage a decade ago demonstrated that legislators’ caution was excessive. A more decent wage standard could help workers and businesses alike. Finally, Seattle acted boldly and established a \$15 per hour wage standard. The minimum wage no longer seemed so ridiculously small.²³

We are markets—
our passions and
our prejudices,
our vision and our
short sightedness.

Step by Step a New Political Era

Over the last generation, progress-minded activists have begun to change the way we organize—reimagining the way we see the economy, measure the economy, talk about the economy, and excite people about changing the economy.

Seeing the Economy - We Are Prosperous. If we are to prosper we need to recognize that we are prosperous. We can do far better than old Liberal goal of helping people move beyond poverty. It is worth repeating—there is more than enough money in our economy to ensure everyone that works enjoys economic security, if not a taste of the good life.²⁴

As Liberals we lived for crisis. We recited alarming statistics. It seemed as if every year life was getting worse. We eventually convinced ourselves that there was not enough to go around. As a result, we focused solely on redistribution—we only gained if “they” lost. And we relentlessly critiqued growth convinced it would not benefit those who have been held back for too long.

Is it surprising to anyone we still struggle to inspire anyone? This Liberal cynicism is just not our story. We aspire to achieve a better life. We need as progress-minded activists to again embrace that sense of possibilities. We should proudly articulate a progress-minded prosperity vision—one in which when we gain everyone gains. We should not let anyone to hold us back from fulfilling these lofty aspirations.²⁵

Talking About the Economy - We Are The Market. If we are all to prosper we need to recognize that we all shape markets. We are a country of deal makers. Giant corporations make deals with small businesses. National business makes deals with state government regulators. Local community activists make deals with downtown businesses. Unions make deals with businesses.²⁶

We all make deals—unless we have been refused a seat at the table. How good a deal we



can make depends on the power we have. Yes, some people are better at making deals. But it's better to have lots of money. Money is power. Those who have the power make the best deals. This is common sense.

But math goes only so far. Markets are not defined by scientific laws that we all must blindly follow. This is not physics. We are markets—our passions and our prejudices, our vision, and our short sightedness. We make the market's structure. We make its structure, if we have a seat at the table and if we have the power to do so. The economy exists so we can all prosper.²⁷

Measuring the Economy—It's Our Data. If we are to prosper, we need to recognize the data we all share should benefit us all. The data we have is antiquated. It is from a Liberal era that has faded into the night. We long ago acknowledged that the Gross Domestic Product does not measure the parts of our lives that matter most. It is becoming more and more obvious that cost of living cannot comprehend how much better life is becoming.²⁸

We need to connect together all parts of our lives. Business has already led the way forward. It is time to catch up. Yes, we need to protect privacy. We need to connect household data, to worker pay data, to industry payroll data, to industry revenue data, to sales tax data, to product data, to geography.²⁹

This data is critical to understand how to strengthen the connections that make enduring prosperity possible—it is critical for CEOs, for workers, and for policy makers. It is data that helps us understand how to make our economy more prosperous. We finally have computers powerful enough to readily analyze this data. And we finally have cheap enough computers to make the data instantaneously available to all of us.

Exciting People to Change the Economy—Our Inspiring Story. If we are to prosper, we need to recognize that Liberal communications tricks do not speak to people. Imagining that no one cares about our issues, Liberals seek to agitate people. Imagining that no one will listen to what we say, Liberals spin endless new messages from each day's headlines. Imagining that everyone disagrees with us, Liberals brainstorm a different rap for every audience.

When we tell a different story every day, is it any wonder no one trusts us? We need a single story—a story that speaks to people's lives. We need a compelling story that allows others to see themselves in our lives. We need an honest story about setbacks and progress. We need an artfully told story that weaves together the colorful threads of our lives into a common narrative.³⁰

This is a story that we will tell at church or at the bar. It is not a story anybody taught us. It is the story that defines us. It should be story that guides us in our work as economists, as legal experts, as policy makers, as union and community leaders. If we are to speak to people again, its time to put aside the jargon of bygone eras—sorry Herbert Croly, Saul Alinsky and John Maynard Keynes.³¹

Data is critical to understand how to strengthen the connections that make enduring prosperity possible.



Bringing Together New Thinking

What can we learn from a generation of progress-minded activism? While the middle class was forced backwards, these service workers took significant steps forward. To leap forward, we need to step back and think big again. It is critical to understand how our prosperity relies on the efforts of those who have been held back. It is critical to understand how we can inspire people heretofore who have been deeply divided.

First, we need to better understand the connections between industry clusters and regional economies and global value chains. Many miserly paid workers work for industries with small profit margins. Many of these workers do work that prospering industry clusters and their better paid employees rely on. We need targeted strategies to ensure prospering industries and employees more fully contribute to the efforts of workers they rely on.

We can't reform any single industry without restructuring the overall economy. There are simply too many miserly paid workers for a relatively small set of workers to move forward on their own. Targeted strategies for prosperous industry clusters will put more money into struggling communities. These targeted strategies will not succeed unless universal strategies like wage standards reset the wage structure.

Second, we have not captured people's imagination promoting "*minimum wage*" increases. The few workers these efforts would have benefited were not inspired by the offer of crumbs. Most other workers knew it would not benefit them at all. Big numbers generated by fancy Keynesian multipliers to demonstrate large impacts inspired no one. Most folks concluded we were interfering with the "free market."

Our cynicism is holding us back. Despite the sea of poverty surrounding them, modest numbers of janitors, hotel workers, and homecare workers have all been able to make significant progress. Their collective power—when they banded together in a union—was critical. So too was their determination that no one could hold them back. Their determination inspired \$15 wage standard campaigns. Now their efforts may well be another chapter in California's story of progress and prosperity.

We need a compelling story that allows others to see themselves in our lives.



The Back Leads

3

IN THE YEARS TO COME those who have been held back the longest—African Americans and immigrants—will lead our economy forward. We will finally realize the possibilities of the Connected Economy by ensuring economic security for everyone whose work we rely on.

We are not putting forward another policy agenda. Instead we take a step back to more fully explore the framework developed by progress-minded activists in regard to wage and income policies. An agenda to achieve enduring prosperity would need to build on this analysis to consider a wider array of issues. We look here at wages and income only. Crafting a full agenda would also require us to look at other economic issues including assets, and the high costs of housing, healthcare and education, and many other issues.

Enduring Prosperity

We live in a time of unrealized possibilities. The tech elite, most no longer rebels, have built the foundations of the Connected Economy. They have remade the world in ways we could not imagine. They have connected us together across regions and around the world. They have taken apart old stifling corporate hierarchies. They have indeed “changed everything.”

The Connected Economy is half built. Too many are weakly connected to our new prosperity. They do the vital work that makes the creative work of others possible. It's these workers who grow the food the more prosperous eat. They clean up after them at the office late at night. They take care of their kids. They cook their lunch, dinner, and breakfast day after day. They make them feel at home at their hotels during a business trip.

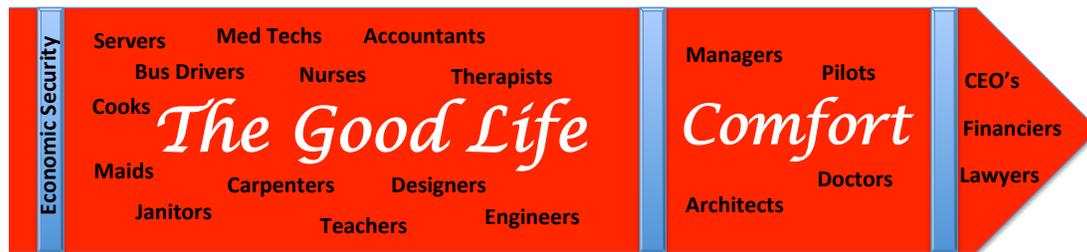
The better off rely on these workers. The work of these workers gives life to the prosperous regions. Yet these workers are not paid enough to live prosperous lives of their own. Given the remarkable prosperity of the Connected Economy, they are indeed paid miserly wages. Given how important their work is, the better off need to more fully contribute to the well-being of these workers.



If prosperity is to endure, it needs to flow throughout the regions that give these clusters life.



The Back Leads Us Forward



Realizing the possibilities of the Connected Economy will transform California. With enough money to take care of their families, these workers will keep businesses busy in vast numbers of struggling and modest neighborhoods. In areas like the Bay Area, where poverty is dispersed, a significant impact will be felt across the entire region. In areas where poverty is concentrated, such as Fresno, a significant impact that occurs in a few areas will lead an impact across the entire region.³²

A decent income would mean a better life for all races—nearly 2 million Latino households, more than a million white, approaching a half million Asian and more than a quarter million African American. It is worth emphasizing this central point—those who have been excluded from our prosperity will finally be included. In the years to come, as the state becomes ever browner, these revitalized groups will drive our enduring prosperity.³³

Realizing the possibilities of the Connected Economy will finally indeed change everything. We can enjoy the prosperity we each contribute to. Our daily lives will no longer be divided between those who struggle to make it and those who have made it.

As we have seen, the old corporate economy was driven by the creation of a mass-middle class. Hard working sons and daughters of immigrants, many of who bravely banded together in industrial unions, were finally accepted as part of the so-called corporate family.

The Connected Economy will be driven from “the back of the pack.” Only by allowing those who have been held back the longest to finally move forward will we all enjoy enduring prosperity. When all jobs pay enough for families to enjoy the basics, those families spend enough to drive our entire economy forward.³⁴

If we realize the possibilities of the Connected Economy, no one needs to struggle to get by. When everyone can make ends meet, there will no longer be a lower class. Without a lower class, there will be no middle. Everyone will be a part of the economy. Every worker will be respected for what they contribute. The middle class economy will then finally give way to a more apt metaphor.³⁵

Work will be transformed. Miserly paid workers quit work a lot. Life is chaotic. And when a worker needs to be a good mom or dad, or good neighbor, it is not a hard choice. There is another bad job to be had. It is not surprising that at your local fast food spot, there will be a whole new crew of workers a year or even six months from now. That is a 100% turnover rate.

Breakthrough studies demonstrate that paying service workers significantly better wages dramatically reduces alarming turnover rates. Reduced turnover rates substantially cuts hiring costs. Better wages nearly pay for themselves. Better wages force managers and executives to treat workers as more valuable parts of the team.³⁶

Not surprisingly better pay makes workers feel more like they belong. It increases their buy in—feeling like part of the team, they figure out how to provide better service. Reduced turnover means workers are no longer forever quitting one meaningless job for another. It gives them greater stability—stability that allows them to provide for themselves and their families.³⁷

A Targeted Universal Wage and Income Strategy

Because of weak connections, remarkable prosperity is stuck in the heart of California's creative clusters. If that prosperity is to endure, if we are to thrive as a state, that prosperity needs to flow throughout regions, as well as across regions. We look here at wages only. As noted previously, a full agenda would require a look at other economic issues.

We are suggesting in this essay a framework that seems to be possible. We do not here propose policy details. We intend instead to spark a debate on the framework. To finish building the half built Connected Economy progress-minded activists are going to have to wrestle with hard questions, questions that challenge ideas dear to the hearts of our Liberal predecessors.

We are proposing a targeted strategy to reach a universal goal. The universal goal is to assure everyone who works attains economic security if not a taste of the good life. To attain the universal goal we need to target the prosperous regions and industries that rely on these miserly paid workers.³⁸

Other analysts have suggested combining the minimum wage with a retooled Earned Income Tax Credit. One path-breaking study even suggested this as a means to ensure those that work could attain economic security. We take a similar approach, building on the connected structure of the economy.³⁹

Our proposed two pronged targeted universal strategy is:

- a state wage standard high enough to drive the economy without causing unemployment with premiums for prosperous regions;
- a retooled state EITC high enough for households to attain economic security paid for by highly prosperous industries across the states diverse regions.

California's regional tech clusters are remarkably prosperous. A measure of prosperity is per capita GDP—for each person, the value of all goods and services the economy produces. San Jose's per capita GDP is 67% above the state of California's GDP, while San Francisco is 45% above. This trend is similar to other states with tech clusters. Seattle's per capita GDP is 28% above the state of Washington and Durham's per capita GDP is 64% above the GDP of North Carolina.⁴⁰

The remarkable prosperity of these regions suggests they can pay an increased minimum wage standard. However, California's other less prosperous regions cannot necessarily afford as advanced a minimum wage standard. Wages that would work for less prosperous regions, it is critical to note, would not be enough to drive the economy in

more prosperous regions.⁴¹

It is critical to note that in neither California’s more prosperous nor less prosperous regions can we increase the minimum wage enough for families struggling to get by to attain economic security. In miserly paid industries like fast food and retail, corporate chains can and should pay wages far better than a decent minimum wage. Other small businesses could not. This suggests that any one or even two strategies by themselves will not be sufficient to meet our goal.⁴²

From City to Regional Wage Standards

Despite the incredible energy of the \$15 movement, there are simply too many cities (hundreds in fact) to increase the minimum wage city by city. Many city leaders are balking at increasing their minimum wage while neighboring cities do not. City by city efforts are already establishing a confusing array of standards.

The state of California needs to establish greater wage standards in our prosperous regions. What regions should have a greater wage standard? Go back to what drives extreme inequality—regions with prosperous industries and or with lots of higher income people. For prosperous industries, we looked at those with markedly better pay. For higher income people we looked at per capita personal income, which includes more than just wages.⁴³

Our initial analysis breaks the state into four regional sectors. The state’s basic wage standard would apply to 41 counties. The remaining 17 counties are categorized into three regional sectors. There are a number of counties that have higher personal income that we have not designated as more prosperous.⁴⁴

This is an initial take at categorizing the state’s regions. There may be better ways at getting at where the prosperity is in the economy’s regions. Undoubtedly the dearth of readily available public data holds back this analysis.

In 1968, California’s minimum wage was nearly \$12. As we have seen, as miserly paid workers lost political power, the wage standard was allowed to fall further and further behind our state’s prosperity. In California where the economy is forever becoming more prosperous, it is certainly not enough to merely keep pace with rising prices. To keep the economy moving forward, everyone needs to share more fully in the prosperity they contribute to.⁴⁵

Prosperous Regional Sectors with Wage Premiums

Sector	Region	County	Front Industry % of Pay	Per Capita Personal Income
1	Bay Area West	Marin	41%	\$93,407
1	Bay Area West	San Francisco	60%	\$80,014
1	Bay Area West	San Mateo	56%	\$74,582
1	Bay Area West	Santa Clara	39%	\$66,535
2	Bay Area East	Alameda	32%	\$54,683
2	Bay Area East	Contra Costa	35%	\$61,638
3	Sacramento	El Dorado	28%	\$54,533
3	South CA	Los Angeles	34%	\$44,474
3	Bay Area Other	Napa	13%	\$54,807
3	South CA	Orange	31%	\$52,342
3	Sacramento	Placer	24%	\$52,544
3	Sacramento	Sacramento	30%	\$41,837
3	South CA	San Diego	36%	\$49,719
3	South CA	Santa Barbara	27%	\$47,862
3	Bay Area Other	Santa Cruz	23%	\$52,442
3	not included	Solano	11%	\$42,354
3	Bay Area Other	Sonoma	17%	\$47,879
3	South CA	Ventura	22%	\$48,837
3	not included	Yolo	19%	\$41,811

Source: Industry weekly pay from California Employment Development Department; per capita personal income from U.S. Bureau of Economic Affairs. Front Industries in terms of weekly pay are: Mining, Information, Management of Companies & Enterprises, Finance and Insurance, and Professional and Technical Services

Prospering Industries Tower Over Economy

In this map, the front industry percent of total pay is represented by spikes: San Francisco has the highest percent of total pay at 60%, followed by San Mateo at 56%, while there are 13 counties that have a 0% total pay or lack data.



Moving forward now, we need to understand how we can make up for wages being held back for decades. We have become accustomed to small increases in the minimum wages—moving just 5% or so of workers forward. To drive our economy forward again, we will have to be far more daring. Los Angeles leaders are suggesting moving nearly 40% workers forward.⁴⁶

Moving forward in the future, we need to devise a better adjuster than the cost of living. It is not necessarily clear that the adjuster should be productivity. Output in industries with many low wages is simply not increasing rapidly enough. Until we devise a better adjuster, it is absolutely critical to create a mechanism to readjust the wage standard level periodically.

At middle of the American Century fantastically prosperous auto, steel, mining and aviation companies made possible the dramatic expansion of the middle class. Today, the dramatic expansion of upper-middle class twenty-something tech workers makes possible economic security for service workers.

It makes it possible, but it does not pre-ordain. It is possible if we strengthen the connections that bind together our economy. It is possible as long these open-minded tech leaders—who refuse to tolerate “the haters”—accept their moral responsibility to the people whose fates they are intertwined with. They rely on legions of cleaners, bus drivers, serv-

ers, sales people, and other service workers for their prosperity and their happiness.

Wage premiums for prosperous regions is a first step. It would ensure that tech firms shared some of their prosperity with workers throughout their region who helped make that prosperity possible. It would put far more money in the pockets of working people throughout the state than the current state-wide standard.

That said, we can not increase the minimum wage enough to ensure families attain economic security. The corner store's productivity, particularly in inland regions, is simply not racing forward as fast as the Connected Economy's gazelles. These gazelles may well have to contribute to the wages of workers at the corner store. Ultimately, the corner store will only prosper when the entire community prospers.

Retooling a State Earned Income Tax Credit

President Nixon established the Earned Income Tax Credit (EITC) in hopes of ending AFDC. It was a “formative period” policy—a mixture of Conservative interest in rewarding work with the Liberal interest in helping the poor. Years later, President Ronald Reagan began the Conservative era vilifying “welfare queens” and “racializing” welfare but it was President Bill Clinton who “ended welfare as we know it.” Today EITC is acclaimed as the program that lifts more people out of poverty than any other.⁴⁷

Invariably, Conservatives propose increasing the EITC as an alternative to increasing the minimum wage. They believe an increased minimum wage would hurt the family-owned corner store. Many Liberal-minded folks respond that big box chains can afford to pay better. This Conservative-Liberal debate highlights the very real structural issue in prosperous states like California.

Our proposal gets past this apparent grid-lock. We suggest moving the wage standard forward in each region as much as we can without causing unemployment. And unions will need to step up their organizing of prosperous industrial sub-sectors like fast food to drive forward these miserly paid workers' wages. In this case, the EITC would not subsidize corporations who could afford to pay better. The EITC would contribute to wages in industries that could not allow workers to attain economic security. This retooled EITC would be set high enough to ensure everyone who works full-time would attain economic security.

And here is the critical point. We are arguing that the EITC should be paid by the very prosperous corporations that rely on these workers, yet use their power in the economic structure to contribute less than they should, and that effectively drive up costs—think skyrocketing rents—for these people.

VISIONS FOR THE CONNECTED ECONOMY



“What can we reasonably expect the level of our economic life to be a hundred years hence?”

*John Maynard Keynes, 1930
Economic Possibilities for our Grandchildren*



“Progressives should... learn to build a politics that embraces the dreams of people... a politics that understands desire...”

*Stephen Duncombe,
Re-Imagining Progressive Politics
in An Age of Fantasy, 2005*



“Let us ask ourselves—if our children should live to see the next century... [w]hat progress will we have made?”

President Barack Obama, 2008



“How can we think about, talk about, and give birth to a society in which everyone belongs?”

john a. powell, 2015



THE NEXT ERA

Progress, Prosperity, and the Connected Economy

THE CONNECTED ECONOMY IS FANTASTICALLY PROSPEROUS. Yet it is not generating increasing prosperity for most of us. It has allowed people to pursue their passions. Yet it has not produced the stability people need in their lives and for our economy to sustain its prosperity. That is our challenge as progress-minded activists—it is time to finish building the half built Connected Economy.

We are already beginning to build a new political era. We have learned how to mobilize millennials, African Americans, and immigrants who yearn for something better. We have begun to tinker with more ambitious ideas. We must do more than tinker. It is time to take a step back and to leap forward.

The America we will make is still in the future—a decade off or more. It does not quite make sense to us yet. It, no doubt, seems fanciful. Who would have thought that \$15 made sense? This is no time for paralyzing caution. What is our progress-minded prosperity agenda? How can we speak to people’s sense of possibilities? How can we inspire people again?

For our economy to continue to move forward, the middle class will have to become a chapter of our history. There will be no “middle class” between those who struggle and the richest of the rich when we all prosper. Those who we have held back the longest—African Americans and immigrants—will now make history and lead us forward into a new era of enduring prosperity. ■



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