Inequality solutions seen as urgent

Chuck Collins: anti-inequality campaigner

Jonathan Kent, Business Editor

Widening economic inequality can eventually lead to social collapse — but a mix of policy changes and private-sector initiatives can change that trajectory.

That is the view of Chuck Collins, an author who has long worked to tackle the issue of a growing wealth gap between the rich and the rest, who was speaking to a business audience in Hamilton yesterday.

Mr Collins is from a privileged background, having been born into the family that started the Oscar Mayer meat empire, and gave away his $500,000 inheritance to charity at the age of 26.

He is the author of Born on Third Base: A One Percenter Makes the Case for Tackling Inequality, Bringing Wealth Home, and Committing to the Common Good.

Speaking at a Bermuda Chamber of Commerce breakfast event at the Hamilton Princess yesterday, held in conjunction with the Bermuda Community Foundation, Mr Collins said: “If we don’t intervene in these inequalities, then a generation from now, we will be in an economic and racial apartheid society that will fundamentally lead to social collapse. That’s if we don’t intervene thoughtfully in the current trajectory.”

Mr Collins gave a speech before appearing on a panel focusing on the inequality issue with Nathan Kowalski, chief financial officer of Anchor Investment Management, and Craig Simmons, senior economics lecturer at Bermuda College.

Mr Collins said there was some nervousness that policies designed to narrow the wealth gap would hurt the economy, but he argued there was a “business case” to be made.

“These inequalities undermine democracy, social mobility and public health,” Mr Collins said. “It exacerbates existing wealth divides and it’s bad for the economy and it undermines the cherished notion of equality of opportunity.”

Responses to inequality should be about “raising the floor”, he said — ensuring a strong safety net for all and implementation of a living wage.

Some businesses who had chosen to pay a “living wage”, even when competing against rivals who did not, had seen financial benefits, Mr Collins said.

These included a reduction in turnover of staff and a consequent fall in training costs, as well as workers not having to take a second job, leading them to be more energetic and engaged at work to the benefit of customers.

Some businesses had taken this a step further with employee ownership schemes. Yoghurt maker Chobani was 20 per cent worker-owned, for example.

He said there was a misleading narrative that people deserved their economic status, whether rich or poor.

“Some people think the statistics are a reflection of deservedness — that some people work hard, take risks, innovate and deserve what they get. The corollary of that is that people who are struggling deserve to be where they are as well. I call that the myth of deservedness.

“That story gets in the way of us realising that these inequalities are driven by inequalities largely delinked from personal effort.”

He gave the example of Martin Rothenberg, a multimillionaire entrepreneur whose company developed voice recognition software, who spoke strongly in favour of estate taxes in the US.

Mr Rothenberg said he had grown up poor, but went to a high school with a strong science programme. And he used to go to a public library that was open in the weekends and evenings, where he could study. His college education was fully subsidised.

Mr Rothenberg pointed out that “someone else” had paid for his education, the library and the “free ride” through college, and for the college education of the computer science graduates he had hired.

Quoting Mr Rothenberg, Mr Collins said: “If you abolish the tax on inheritance, you effectively say I don’t have any responsibility to pay back the society that made it almost entirely possible for me to get where I am. A good society recycles opportunity and I have the moral obligation to pay back.”

Mr Collins added: “It’s about telling the story of how we got to where we are. There are plenty of ‘I did it alone’ stories. I would suggest that there is no individual wealth without a robust commonwealth.”

He added that the need to act boiled down to the question: who is Bermuda for? “If it’s for everyone here, we have the imperative to wrestle with responses to inequality,” he said. “It needs policy changes and it needs private-sector innovation.”

Mr Kowalski said Bermuda was on the “wrong end of the spectrum” in terms of inequality. The income of the highest decile was close to nine times that of the lowest decile — even worse inequality than Mexico on that score.

Employment data show that the highest-earning group had seen their employment income rise about 2.5 per cent annualised since 2008, above the 1.7 per cent inflation rate, while the lowest earners saw their income rise at 1.6 per cent per annum, suggesting a widening wealth gap.

However, he said inequality solutions, such as a living wage, should be carefully thought through.

The hotel industry, one of the lower-paying sectors, employs 1,124 expats and 504 Bermudians, according to the latest employment data, he said.

“In this case at least, it would not affect Bermudians, it would impact guest workers,” he said. And he warned of the danger of rising costs.

“We are beholden to foreign investors in terms of funding our debt,” Mr Kowalski said. “We have a small tax base of about 15 per cent of our GDP, about $1 billion. If we start escalating costs, how do we pay for that?”

He suggested looking at ways to reduce Bermuda’s high cost of living, as well as raising incomes. “We should look at both sides, rather than one side. My concern is that if costs get too high — and we’ve seen this in certain areas — that job goes away and that person doesn’t get paid at all.”

Mr Simmons suggested two policy initiatives that could be implemented quickly — one of which was earned tax credits. For example, he said, someone earning under $20,000 would have their salary matched by the government. The proportion of tax credit would fall as income increased, up until $60,000, over which there would be no credit.

Such a policy “could benefit thousands of people”, Mr Simmons said.

Asked how it would be paid for, Mr Simmons said a more progressive payroll tax, with the $750,000 cap being raised or eliminated over time, with further support from a general services tax.

Second, Mr Simmons suggested publicly funded charter schools, whose students were chosen by lottery. The schools would have autonomy and targets they would have to reach in order to get paid, giving teachers “skin in the game”, he said.

Mr Simmons added: “If you go down the road of a minimum wage, please don’t let politicians decide what the minimum wage should be.”

He preferred the UK model, which involves technocrats deciding the number, based on clearly defined criteria.

And he added that business people should work with Bermuda College to ensure the curriculum was relevant to the modern economy.