

# Stanford SOCIAL INNOVATION<sup>Review</sup>

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***Realizing Democracy Supplement***  
**Reversing Income Inequality**  
By Jane McAlevey

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In the aftermath, UFR leaders worked closely with Senator Elizabeth Warren and other key elected leaders and partners, including Americans for Financial Reform, to introduce the Stop Wall Street Looting Act of 2019 to create guardrails for the industry. With the trail of private equity-driven retail bankruptcies that followed Toys “R” Us, from Shopko to Gymboree to Sears, it was clear that there needed to be federal regulation that curbed the industry’s worst practices and investment strategies. The Stop Wall Street Looting Act has provisions to mitigate these dangerous investment strategies and ensure that portfolio companies, consumers, workers, and investors are protected. This historic bill levels the playing field for those who have felt abused by private equity, whether it is retail workers facing job loss, public pension funds struggling to get greater fee disclosures, or those challenging private equity’s profiteering from immigrant detention facilities. The voice of working people who had been directly impacted has been critically important to the development of regulation that we hope will grow and evolve a more equitable business model that does not profit at the expense of people or the planet.

#### A BRAVE NEW WORLD

What ties all this and similar campaigns together is people using their collective voice to impact working conditions and corporate decision making on issues of existential importance, rewriting the rules so that they work for all of us. Teachers went on strike for increased pay, reduced class sizes, and expanded student programs. Tech programmers at Amazon used their voice as shareholders to push on sustainability practices. Wayfair tech workers demonstrated to protest their employer’s role in supplying furniture to immigrant detention centers. Nurses have long campaigned for quality patient care for those they serve and universal health care. Bank tellers and loan officers called for changes to compensation so that pay is not tied to extractive sales quotas, as well as a role in regulation. From teachers to bank tellers to programmers, working people are wielding their voices and power to challenge core decisions on how government and corporations—which could not function without their labor—are run.

These new movements will strengthen existing organizations and inspire new ones. They also create a moment for introspection and reflection to move forward: How can labor and movement organizations respond to this spike in interest and willingness? Can we translate that popularity into lasting power? How can working people rewrite

the rules of how we build and hold power where we work, win economic stability, and fundamentally transform the ways we govern corporations? How do we embrace the tremendous reach and energy of social media and digital tools and build infrastructure that institutionalizes them into lasting bases of power?

We can win only by unifying campaigns for power and democracy in the workplace to social movements. To create multiracial, participatory, and equitable institutions owned by working people, we need to question the fundamental principles and design of our current democratic and economic systems. ●

## Reversing Income Inequality

The Los Angeles teachers’ strike is a master class in using unions to build bases and secure progressive wins.

BY JANE MCALEVEY

When Margaret Thatcher infamously said, “And, you know, there’s no such thing as society. There are individual men and women and there are families,” she wasn’t making an observation. She was declaring a strategy to unmake a once-powerful working class. For several decades, at least since Thatcher and Ronald Reagan delivered severe blows to unions in their respective countries, it has been open season on workers. Academics and policymakers argue about how to preserve or restore a decent quality of life for workers—all for naught.

These endless debates about how to reverse income inequality and restore and strengthen democracy are a constant distraction from a more urgent need: workers who can organize together to form fighting organizations capable of effective mass collective action. Two of the most democratizing movements in US history—the union movement of the 1930s and 1940s, and the civil rights movement of the 1950s and 1960s—

both relied heavily on confronting a seemingly unshakable power structure with direct-action organizing. Both movements understood that challenging power required power-building strategies. The only strategic advantage that the non-elite have over billionaires and the political elite is population size. To win elections or policy or political support, those large numbers must create sustainable, demonstrable supermajorities capable of persuading corporations and the political elite to come to the negotiating table.

The best evidence that unions continue to be not only relevant but urgent is the explosion of labor strikes over the past 18 months. These include the multicity, multistate strike by low-wage immigrant workers against Marriott, the largest hotel corporation in the world; the uprising by 31,000 Stop & Shop workers in New England; and the enormous strikes in the education sector, like the one in Los Angeles. The victories have been uneven, but each strike either has stopped egregious corporate behavior or has led to progressive breakthroughs not seen in decades.

When it comes to the Los Angeles teachers’ strike, the policy wins are more enforceable than legislation because workers have secured the right to redress if employers try to evade implementation. More important, the teachers, students, and parents together built organizations capable of implementing their achievements. According to Alex Caputo-Pearl, an award-winning high school teacher of 22 years and president of United Teachers Los Angeles (UTLA), “We knew they’d never agree to our demands, including Green Spaces, creating an Immigrants Defense Fund [US Immigration and Customs Enforcement had been increasingly targeting schools], a big expansion of school nurses and guidance counselors, or our top demand to reduce the number of kids per class, unless and until we were out on strike with parents standing united behind the demands.”

Caputo-Pearl knew this because the students, the parents, and their teachers were pitted against a recently appointed school board superintendent who was a hedge fund billionaire with zero experience in the education field. Less than 60 days after his appointment in May 2018, Austin Beutner published a report titled “Hard Choices,” which declared that teachers were overpaid and overcompensated, and called for a 47 percent reduction in their benefits, which he declared to be “too generous.” This is in Los Angeles, where full-time workers live in their cars and buy gym memberships to shower. With per pupil spending in California ranked 47th in the nation, Beutner declared that teachers—who

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buy pencils, paper, and tampons for their students—were overpaid, setting the stage for what became the first strike in 30 years. The school board management had been steadily converting public schools in Los Angeles into private corporate charter schools, the largest and most steady expansion in the nation. Beutner's report was a declaration of his intent to defeat the teachers' union in a head-on confrontation. After all, teachers' unions were flat on their backs, right?

For the six months following the release of his report, under his direction the school board repeatedly attempted to get legal injunctions and used lawsuits and other tactical gimmicks to try to weaken and demoralize the teachers. What blocked him was a four-year effort of the best teachers who rebuilt their once-do-nothing union into a powerhouse organizing machine.

Each policy achievement was won contractually through the collective bargaining process. In

Los Angeles, many of the demands presented by the teachers' union were proposals that parent groups and the broader community had been trying to win for years, without success. Examples include forcing annual reductions in class size by capping student-teacher ratios; securing more wraparound services for low-income youth and youth of color by hiring more school nurses, librarians, and counselors; and making vast improvements in wages and health-care benefits for the mostly women of color workforce. The policy wins have also included specific measures that challenge direct and indirect racism, including banning so-called random searches, almost all of which target youth of color and ultimately direct them to the prison, not college, pipeline.

Ending random searches was a central issue in the negotiations. The teachers won an experimental ban on these racist practices in 30 schools, and the victory emboldened

the racial justice community and raised its expectations for a total ban across all 900 Los Angeles schools. To secure the district-wide policy, the teachers led a movement that translated their all-out worker strike into an all-out picket-lines-to-the-polls election for a vacancy on the school board—a campaign that had to begin on the heels of the strike. Despite exhaustion, by May, they had elected a progressive school board candidate, setting the stage for the June 2019 banning of searches that research shows were anything but random.

Another example of a remarkable achievement from the 100 percent out strike was the win for Green Spaces. Hedgefund bankers representing the corporate wing of the Democratic Party dug in their heels against the 34,00 teachers demanding improvements to the physical, emotional, and mental health of more than half a million students of color. Despite their resistance, the new contract calls for the school board to immediately form a Green Space Task Force that includes representatives from the LA Unified School District (LAUSD), UTLA (the union), and the City of Los Angeles. LAUSD will work with UTLA, the City of Los Angeles, the County of Los Angeles, and appropriate nonprofit partners to create—to the maximum extent possible—adequate green space for student physical activity.

According to the task force plan, green space will be constructed in order of priority: schools without any existing green space and not located near parks; followed by schools without any existing green space; and, finally, schools with small amounts of green space and communities with limited to no access to parks and recreation.

That was big, but the Green Spaces provision also calls for removing the metal bungalows used as classrooms on K-12 campuses across the district. The structures, which resemble shipping containers, are a manifestation of the disinvestment in America's public schools and the disinvestment in the American public. At one point, the city considered buying some used bungalows from the school district to use as shelters for the rapidly expanding homeless population, but it ultimately decided against the idea because the containers were in such poor condition. Yet they were deemed good enough for low-income kids to spend most waking hours in, allegedly learning the skills that would prepare them for life. The idea of equality of opportunity would be a joke if not for teachers fighting through their union, with their heart and feet, to make it so.

Los Angeles's progressive educators led a master class in how to rebuild strong, socially



ART BY NICOLAS LAMPERT

relevant unions, and how to expand their base by building solidarity with students, parents, and the broader community. It happened fast, and the results are a model for exactly what needs to happen nationwide. These victories required power, not merely “a voice.”

Good strikes force the very consensus building that America needs, and the sooner we reprioritize unions, the sooner we can reclaim democracy. ●

## Other People's Money

Better education about the role of effective governance ensures that markets and institutions serve society.

BY ANAT R. ADMATI

**T**he debates about our economic system are sometimes framed as a stark choice between market-based capitalism and government-controlled socialism. But the actual choices are much more complicated. Corporations, which control much of our economic activity today, owe their existence to governments. Although they do not vote in elections, the economic and political power of corporations and their impact on democracy are immense. The challenge arises from the tension between functioning democracy on one hand and narrowly defined business practices on the other hand. For the market economy to serve society in a democracy, more citizens must become educated about the forces that shape the system, including corporations and governments, and the key role of effective governance in determining the outcomes.

In his famous 1970 essay “The Social Responsibility of Business Is to Increase its Profits,” Milton Friedman championed “free-market capitalism” where managers should “make as much money as possible while conforming to the rules of society.” He presumed

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that businesses operate in an environment of “open and free competition without deception and fraud,” but he failed to discuss whether or under what conditions this assumption is true. In fact, markets are unlikely to become competitive and devoid of deception and fraud on their own, and capitalism cannot deliver on its promise without effective governments.

Friedman warned against “the iron fist of government bureaucrats” that the concerns of chief executives about corporate social responsibility would bring back. But a key role of government is to enable markets and to protect stakeholders when market forces fail to do so properly. The civil servants (“bureaucrats”) who Friedman mentioned derisively are essential for enforcing contracts, ensuring competition, administering justice, protecting rights, and dealing with fraud and deception when conventions, accepted business practices, or cultural norms fail to hold actors accountable to socially acceptable behavior. Governments also maintain infrastructure and provide important services, including public safety, benefits that many ignore or take for granted. If governments fail to design and enforce appropriate laws for individuals, businesses and markets, then it no longer follows that managers who solely focus on making as much money as possible are fulfilling their social responsibility.

The critical issues lie not in the size of government, but rather in the quality, integrity, and effectiveness of the individuals and institutions that act on its behalf. To fully realize the benefits of democracy, political systems and government institutions must embody the collective choices of all citizens, and the rules of the game must be designed and enforced to serve the social good.

These days, well-functioning democracies are few and far between. Democracy itself appears to be in retreat around the world, and trust in private and government institutions, particularly in the United States, is low. In a 2018 poll conducted by Harvard University’s Institute of Politics, nearly two-thirds of Americans ages 18–29 expressed fear for the future of democracy in America, and in a 2018 Gallup Poll, only 25 percent of Americans expressed “a lot” or “a great deal” of confidence in big business. Public trust in the US government seems to be at a near historical low. Unfocused anger with “the system” can be misdirected by demagogues and lead us away from the right solutions. To

tackle effectively the lack of trust and the distortions in our prevailing economic system and in our democracy, we must first diagnose their underlying causes.

The problems plaguing democracy and capitalism are largely rooted in the complex interactions between corporations, governments, and individuals. These interactions are fraught with conflicts of interest, wide gaps in information and expertise, and the potential for abuse of power. Effective governance is key. How do we ensure transparency to hold the powerful accountable in the private and public sectors? How do we prevent conflicted experts and narrow interests from having excessive impact, particularly on issues that appear complex and confusing to nonexperts and the public? Ultimately, how can we trust those with power in corporations and in government institutions who have important impact over our lives to avoid abusing their power and causing harm?

Corporations and governments have numerous points of contact. Some interactions are primarily transactional: when corporations sell goods and services to government bodies, including essential services such as prisons, security forces, transportation, weapons, health care and medicines, for example. Some corporations act as private watchdogs, providing credit ratings and financial audits to private and

### Particularly insidious challenges to democracy arise when corporations become involved in the writing of the rules that apply to everyone, including themselves.

government entities. Financial institutions are involved in funding governments as investors and intermediaries. Consultants offer advice to governments as well as to corporations. Media corporations inform the public about government bodies as well as on private sector corporations. In all these engagements, conflicts of interests and information gaps create numerous opportunities for abuse of entrusted power. Corruption can occur even if nobody breaks laws.

Particularly insidious challenges to democracy arise when corporations become involved in the writing of the rules that apply to everyone, including themselves, or interfere with