

# INCREASING PUBLIC POWER TO INCREASE COMPETITION:

## A FOUNDATION FOR AN INCLUSIVE ECONOMY

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### Executive Summary

The United States needs an economy grounded in justice and morality, where everyone, free of undue resource constraints, can prosper. To achieve this, citizens ought to have universal access to undeniable economic rights, such as the right to employment, medical and health care, high-quality education, sound banking and financial services, or a meaningful endowment at birth (Paul, Darity, Hamilton 2018). Currently, our system provides these rights primarily through the “free market” by private providers, but these private companies often fail to meet the following criteria:

- **Quantity:** Are goods adequately supplied?
- **Quality:** Are the goods high quality?
- **Access:** Do people have adequate access to these goods?

Because of the failure of America’s markets-first approach to policy, the federal government should intervene by introducing public options that provide these essential goods and services in direct competition with private firms. Doing so will set “floors” on wages and quality and “ceilings” on price for private actors who are intent on providing important economic rights at a cost. In employment, this might mean providing a federal jobs guarantee (FJG); in financial services, this could mean access to bank accounts and safe, nonpredatory loans. Throughout this issue brief, we explore what public options might look like in employment, health, housing, education, and financial services. We argue that in these sectors, public options are necessary to combat high-cost, low-quality provision by private actors and ensure universal and better-quality access to all Americans.



## Introduction

In what follows, we seek to reassess the rules of the relationship between the state and market competition. We propose that state agencies become direct challengers with the private sector in the provision of goods, services, and opportunities that should constitute fundamental economic rights for all Americans. These “public options” are of critical value for those individuals with the least resources—those who are most vulnerable to the price rationing associated with private market competition.

In advancing an economic bill of rights for the 21st century (Paul, Darity, and Hamilton 2018), the authors identified several domains that ought to be available to all Americans as a fundamental benefit of citizenship. The report outlined economic rights to employment, to adequate food, clothing, shelter, and recreation, to medical and health care, to security in old age, to a quality education, to “sound banking and financial services,” to a safe and clean environment, and to “a meaningful endowment at birth.”<sup>1</sup>

These domains were identified by judiciously applying the principles embodied in President Franklin D. Roosevelt’s Economic (or Second) Bill of Rights, the United Nations’ Universal Declaration of Human Rights, and Reverend William Barber II and the Poor People’s Campaign call for the creation of the moral economy.<sup>2</sup> As described by both President Roosevelt and Reverend Barber, an economic justice framework is the foundation for a moral economy, or an economy that works for the many not the few, where everyone has access to the goods and services that are necessary to live a life of dignity. The authors of this issue brief contend that achieving the ethical aims of a moral economy requires the implementation of economic rights that is anchored by public options in domains that are essential for individual and family well-being.

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On January 11, 1944, President Roosevelt outlined an economic Bill of Rights that declared that all Americans have the “right to a useful and remunerative job in the industries or shops or farms or mines,” the “right to earn enough to provide adequate food and clothing and recreation,” the

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<sup>1</sup> The list is not exhaustive, but we have focused on those economic rights most closely associated with previous discussions of fundamental social entitlements.

<sup>2</sup> There also are strong parallels with the World Bank’s short-lived commitment to a “basic needs” standard (Streeten 1979) for prioritizing funding projects in developing countries.



“right ... to a decent home,” the “right to adequate medical care and the opportunity to achieve and enjoy good health,” the “right to adequate protection from the economic fears of old age, sickness, accident, and unemployment,” and “the right to a good education” (Roosevelt 1944). While the “right to adequate protection from the economic fears of old age, sickness, accident, and unemployment” has been implemented, at least in part, by the Social Security system, the other rights outlined by President Roosevelt have not yet materialized in American law and policy.

Similarly, the United Nations’ Universal Declaration of Human Rights details a similar list of social obligations to secure dignity and economic security for all persons in Articles 23 through 26. These include “the right to just and favorable remuneration,” “the right to leisure, reasonable work hours, and periodic holidays with pay,” “the right to a standard of living adequate for health and well-being of [ones]self and of [their] family, including food, clothing, housing and medical care...,” and “the right to education” (United Nations 1948).

Most recently, Reverend William Barber II and the renewed Poor People’s Campaign have amplified the call for dignity and economic security with their mantra that “economic justice is a moral imperative” (Hamilton 2017). Correspondingly, they have enumerated a set of policies that will create a moral economy, parallel with the rights designated in both the economic bill of rights and the Universal Declaration of Human Rights (Poor People’s Campaign 2018).

The idea of a universal set of rights evokes how fundamental the provision of these goods and services—in a context of judicially enforced rights—are for achieving a baseline level of human dignity. In this issue brief, we turn to public provision—by having government challenge the private sector as a direct provider of goods, services, and opportunities—as one route by which these rights, and ultimately a moral economy, can be achieved. Specifically, the state should serve as *guarantor* and *supplier* of employment, an income above deprivation levels, health insurance, high-caliber education from grade school through college, sound banking and financial services, and a birthright to a financial asset.

***We are calling for the public sector to competitively provide goods, services, and economic opportunities in sectors that are indispensable to the pursuit and attainment of human decency with healthy and fulfilling lives.***

To be clear, we *are not* calling for a comprehensive public takeover of all productive activities in the United States. We *are*, however, calling for the public sector to competitively provide goods, services, and economic opportunities in sectors that are indispensable to the pursuit and attainment of human decency with healthy and fulfilling lives. Private businesses will not be prohibited from offering any of these goods and services; but in order to have a customer base for



these products, they will be induced to compete and will have to at least match the quality and price of the public offering.

## Reviving Market Competition to Promote Well-Being

We argue that in the context of vital goods and services that rise to the designation of an economic right, neither of the conventional approaches to competition—the public choice or “laissez-faire” school of economics or regulation—has demonstrated consistent success in achieving the fundamental moral goal of universal and quality access in these domains. Instead, we recommend a different form of government involvement—one in which government intervention increases competition as a direct rival to the private sector—as the best pathway forward to achieving or improving quantity, quality, and access for economic rights. In our proposal, the government will compete directly with the private sector. To the extent that public sector competition is effective, private firms that introduce inadequate products and services or that reduce output intentionally to raise prices on customers and profit margins for the firm will be displaced.

### *Why Rival the Private Sector?*

As social scientists, we understand that market forces, guided by appropriate rules and institutions, can be very effective in the innovation, improvement, and provision of goods and services. However, private firms alone have never delivered goods in the necessary quantity, quality, or access to achieve the set of fundamental economic rights we have outlined above. Private firms are inherently motivated by profit maximization rather than ensuring the adequate provision of basic goods and services. In fact, as Sabeel Rahman has noted, private actors are increasingly dominant in markets that provide fundamental goods: “[P]rivate actors possess the means to undermine the public value of essential goods and services upon which many businesses, communities[,] and individuals depend” (Rahman 2018).

Rahman argues that there are three criteria for when robust public intervention in markets is necessary:

- First, when a focus on power disparities, accountability, and public values, such as nondiscrimination or equal access, rather than a narrow focus on efficiency or market failures must be prioritized;
- Second, when an identification of firms that pose a unique threat because of their (private) control over goods and services that comprised a vital social necessity is required; and



- Third, when a policy (re)orientation towards structural mechanisms that would, through changes in firm structure or through regulatory oversight of the sector itself, assure that private actors would work towards, or even uphold, the public good.

In this issue brief, we apply this analysis to crucial human infrastructural goods that are deeply important for equality and the social good, such as health care and education.

For these sectors, we argue that for essential goods, public options are often a better tool than private options alone to ensure that everyone has adequate access to the goods and services that are necessary for individual agency and social well-being. Public options, when introduced into a private market, will provide a “floor” for the bare minimum that any individual should be afforded. Through competition, public options can put upward pressure on private firms (and indirectly regulate profit-seeking private actors) to provide better goods and services in the range of policies that we define as universal economic rights.

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In a society like the United States, the government is inherently beholden to the interests of the people—and certainly more so than private actors are. The government has a fiduciary and moral responsibility to the American people, and it is better positioned to provide goods that constitute economic rights. The public sector, by sovereignty and the sheer nature of its size, has the resources to change the way that infrastructural goods are delivered in the marketplace, and push private actors in a better direction (Rahman 2018, 120).

Pure public provision on its own may not be able to stay on the cutting edge of providing the highest-quality goods and services. Just as private actors need incentives to better fulfill the quality, quantity, and access metrics when promoting the public good, we recognize that private actors innovate as well; the public benefits from private market innovation and, in many cases, a more efficient delivery of goods and services. Conversely, there are sectors, such as some natural monopolies like railways and utilities, where government intervention might be preferable because sunk costs and increasing returns are such that there is only one real effective provider. In these cases—where the good is both crucial for a flourishing and equitable society and there is only room for one player in the market—we would be in favor of public ownership or government intervention.



## Exploring the Need for Public Options

In this issue brief, we evaluate the delivery of economic goods and services that establish economic rights on three dimensions: quantity, quality and access.

- **Quantity:** Are goods adequately supplied?
- **Quality:** Are the goods high quality?
- **Access:** Do people have adequate access to these goods?

We consider these criteria as a linchpin to evaluate the need for public intervention to counter the private sector in key sectors of the economy, such as the labor market, health care, housing, education, and financial services. If private actions alone are inadequate in fulfilling the three criteria above, then we assert that public options for the provision of these essential goods and services are necessary for establishing a dignified and healthy life that we believe everyone deserves—and in which the government has a responsibility to facilitate.

## Conventional Pathways to Market Competition

Conventionally, the role of government in increasing market competition has taken two antithetical forms: 1) a withdrawal of government from service provision via privatization and the subsidization of the private sector or 2) a significant role as a regulatory authority that manages either industry structure or firm conduct (Vickers 1995, 2).

Proponents of privatization or subsidization treat government involvement in the supply of any type of good or service as an exercise of monopoly power that crowds out desirable practices from private firms. For instance, the public choice school of thought claim that public education constitutes a form of state monopoly epitomizes the perspective underlying the first approach (Buchanan, Tollison, and Tullock 1980). By treating government presence as intrinsically monopolistic, the public choice school justifies the private provision of education by making the redundant argument that a decreased role for government increases competition.

In contrast, the regulatory approach to enhance competition is intended to attack the presence of monopoly or monopsony<sup>3</sup> power in the private sector. It does so in the two ways mentioned above: by altering the structure of an industry, typically by compelling highly concentrated

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<sup>3</sup> Monopsony means that there is only one buyer in the market, and that buyer controls the way goods and services are procured (Steinbaum 2018).



enterprises to divest ownership of some of their operations, or by altering the conduct of firms by establishing price ceilings and/or other types of behavioral standards.

The regulatory approach has customarily been used to improve the performance of financial markets, for instance. Regulators attempt to prevent the sharing of “insider information” and other forms of collusion, set capital and reserve requirements for banks, and, at times, separate commercial and investment banking. The difficulty is that the ingenuity of financial managers, incentivized by the profit motive, leads them to routinely introduce innovations that enable them to circumvent the constraints established by regulation; thus, regulation does not ensure a reduced global risk of crisis in the financial system nor does it provide security for individual customers (Loizos 2014).

Price regulation has its limitations as well. For example, consider the deficiencies of minimum wage or “living wage” laws (i.e., the income necessary for a worker to provide basic needs for themselves and their family). The effective minimum wage for those who are jobless is zero. And for those with employment, minimum wage laws do not assure all workers sufficient hours to generate non-poverty incomes or an adequate benefits package.

The fact that neither privatization nor the regulatory routes are sufficient to meet the quantity, quality, and access standards is also borne out by the example of education. Indeed, the demands inherent to the public choice approach—to “marketize” education by relying on “parental choice” (i.e., the idea that school quality would rise as a result of student sorting associated with parental choice (demand) and school selectivity (supply)), the introduction of charter schools, and the use of vouchers—display little evidence of improving educational quality for the vast majority of American young people (see, e.g., Fitch and Hulgín 2018).

In a comprehensive review of the experiences of multiple cities with voucher schemes, Martin Carnoy (2017) finds that greater competition from the private sector has not improved student outcomes in traditional public schools, nor has it improved outcomes for all students in the districts’ systems. Carnoy (2017) reports the following disturbing data from Milwaukee, Wisconsin, a metropolitan area with a voucher system established in 1990—the longest running in the United States:

The black students who make up roughly two-thirds of Milwaukee’s student body are the main recipients of vouchers. Their academic performance is thus important in assessing the overall impact of choice in the district.... Black students in Milwaukee have lower eighth-grade math scores than students in every city but Detroit [ Mich.]—notably, another urban district with a high level of school choice. In reading, Milwaukee’s black eighth-graders do even more poorly. They score lower than black eighth-graders in all other 12 city school districts....



Moreover, at its extreme, a completely privatized school system in which access is reliant on a willingness and ability to pay is inconsistent with the “moral security” standard asserted by President Roosevelt, the United Nations, and Reverend Barber. Inevitably, regardless of their willingness, individuals with low resources face affordability challenges when it comes to paying for a high-quality education. Hence, access is denied.

In general, the regulatory approach to improve market outcomes has been stymied by a number of factors (Scherer 1990). Among these is the lack of a reliable norm for the optimal level of concentration in an industry; indeed, under a wide set of conditions, there is ambiguity over whether raising or lowering the number of firms in an industry actually makes the sector more competitive (Matsumara and Okamura 2015). Regulatory approaches also can be stymied by outright capture, when theoretically independent agencies are corrupted by special interests (Chopra and Morgan 2018).

More importantly, it remains uncertain whether reducing the degree of private competition in an industry will raise quantity, quality, and access to the sector’s product. No matter how either approach characterizes enhanced competition, the general problem is that neither guarantees that an increase in competitiveness improves industry performance with respect to quality, quantity, and access. Notably, neither approach achieves the mandate of guaranteeing essential goods and services as a fundamental right of citizenship.

Therefore, we advocate an alternative route toward increasing competition. We recommend creating a public option in the essential areas listed above that constitute economic rights that are best achieved by government action. Increased competition that results in a boost to quality, quantity, and access to goods, services, and opportunities can be achieved by the state functioning as the private sector’s competitor. We examine how this might be done in the specific cases of employment, health insurance, housing, education, financial services, and young adult trust accounts—economic goods that facilitate individual capability, self-determination, and dignity.

## Federal Job Guarantee

In the US, having access to work is a fundamental step on the pathway to economic and social security—indeed, FDR identified the right to employment as the first article for his proposed second bill of rights referenced above. Despite this, the current unemployment rate remains in the vicinity of 4 percent and the underemployment rate—which includes discouraged workers, or those who have withdrawn from the labor force altogether because of pessimistic prospects for finding employment, and workers who are employed part-time—continues to exceed 12 percent (Sherman 2018). Even in periods of economic expansion, the number of job openings never has been sufficient to accommodate the total number of unemployed and underemployed, and even those who have employment struggle to make ends meet.



Moreover, patterns of discrimination and exclusion mean that people of color routinely are excluded from full participation with fair wages in the labor market. The public choice frame of economics, consistent with its glorified view of the benefits of “free” market activity, theorizes that “rational-agent” employers compelled by market incentives would arbitrage away bigoted firms who discriminate based on non-productivity-linked cursory characteristics, such as race, ethnicity, and gender. However, this theory is not consistent with empirical evidence. Jacqueline Agesa and Darrick Hamilton (2004) examined hundreds of industries in the US and did not find a substantive relationship between the degree of industry concentration and race-based labor market discrimination. Historically, market-based economies do not generally experience declines in the extent of race-based labor market discrimination over time—as the public choice frame would predict—in the absence of government anti-discrimination measures (Darity and Mason 1998).

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Regardless, whether or not one considers the penalties associated with race and/or gender, the quality of many jobs across the country is grossly inadequate, providing low pay, little to no benefits, and irregular work hours (Mabud and Forden 2018). We propose a federal job-guarantee (FJG)—a universal public option for employment—as a solution to the problem of quantity, quality, and access as they relate to the supply of jobs. Under a FJG, the federal government would compete directly with the private sector, particularly at the low end of the labor market.

A FJG is a policy where the federal government acts as a guarantor of employment for all. The existence of a federal job guarantee will insure that every American 18 years of age or older has access to decent work at decent pay. Each public sector job would offer safe and reasonable working conditions, pay above the poverty level, and provide benefits, including health insurance and pension security.

A system that provides a guaranteed public option for work therefore would set a floor for the compensation that must be offered by the private sector. The government in competition with the private sector would dictate the minimum salary and benefits package for all employees across the US. Regulations like minimum wage or living wage laws, which are not directly applicable to the unemployed, will become less essential if the effective national wage standard is set by the public option for employment; and the concern that a minimum wage would yield unemployment would be misnomer if everyone, de facto, is guaranteed a job. A FJG program would also have to be designed to ensure that federal jobs would not displace public sector union jobs.



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With compensation from the public sector set above hardship levels, pay from the FJG should ensure that everyone has sufficient resources to procure adequate food, clothing, shelter, recreation, and health care. The existence of guaranteed employment at greater than subsistence earnings will keep people out of poverty, which, in turn, can facilitate reduction in expenditures on anti-poverty programs.

With the FJG in place and the private sector pressured to at least meet the compensation level and working conditions provided by the public employment option, there is a potential collateral effect that might result in a national health insurance program (or the equivalent of “Medicare for All”). While, by design, many employers will have to raise wages and benefits to compete with the provisions of a job guarantee program, they may eventually lobby for the federal government to take over the provision of health insurance altogether to avoid having to significantly raise their expenditures on benefits.

## Health Insurance

By ensuring that everyone has adequate health insurance via public provision, society would effectively remove the burden and stigma associated with finance at the point of delivery of medical care—a time at which the patient is most vulnerable. The removal of this burden and threat is consistent with the concept of the universal right to economic and moral security envisioned by President Roosevelt, the United Nations, and Reverend Barber.

Therefore, we advocate a system where the government provides universal health insurance, but individuals are not restricted from purchasing health insurance in the private market if they so desire. This proposal would not outlaw private plans; rather, individuals might choose to opt for private health insurance.

The competitive pressure of public provision would drive actors in the private market to provide insurance with a scope of coverage, premiums, and deductibles comparable to what will be offered by the public sector. With the advent of a high-quality and easily accessible health plan that is available to all, we anticipate that public provision would crowd out more expensive, lower-coverage private plans over time. We imagine that in this future world, the private insurance sector probably will be small and directed towards more luxury or non-essential cosmetic procedures. Eventually, this might become an efficient, single-payer plan with large risk pools and lowered administrative costs associated with scale. The overarching goal is to make certain that citizens will have access to high-quality health care with sufficient coverage to



ensure that critical claims are not denied.

Health insurance may be a case where public provisioning expressly precludes other private health insurance options of equivalent cost and coverage.<sup>4</sup> However, we argue that achieving a just health care system requires at *minimum* an approach that sets an appropriate public floor and ceiling to ensure adequate quality, quantity, and access to health care.

***Current health access, costs, and outcome concerns in the US are a powerful testament to the need for a structural change in the system.***

Whereas cost and profit considerations drive private insurers to ration quality, quantity, and access of medical care, such concerns would be recognized and met long before the point of delivery under a publicly provided mandate to health insurance coverage. Current health access, costs, and outcome concerns in the US are a powerful testament to the need for a structural change in the system:

Benchmarking US quality measures against those of similarly large and wealthy countries is one way to assess how (un)successful the US has been at providing care for its population; this also allows us to learn from systems that often produce better outcomes. The Organization for Economic Cooperation and Development (OECD) has compiled data on dozens of outcomes and process measures. Across a number of these measures, the US lags behind similarly wealthy OECD countries (those that are similarly large and wealthy based on GDP and GDP per capita) (Cox and Gonzales 2015a). In some cases, such as the rates of all-cause mortality, premature death, death amenable to health care (Sawyer and McDermott 2019), and disease burden (Cox and Sawyer 2017), the US is also not improving as quickly as other countries, which means that the health care gap is growing (Cox and Gonzales 2015b).

The proposal presented in this paper is not equivalent to a public takeover of the financing of the American health care system. Rather, the critical consideration is whether or not this approach provides adequate quantity, quality, and access to ensure that, in the domain of something as vital as health care, everyone can partake with human decency in the pursuit and attainment of healthy and fulfilling lives. Such provisions should be politically guaranteed as an economic right and not be left solely to the whim of private market forces and for-profit motives. National health insurance must be adequate to ensure all Americans a decent standard of health care.

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<sup>4</sup> Such an assessment is beyond the scope of this paper.



## Housing

Because housing costs remain prohibitively high for many families across the country, even incomes from a FJG are unlikely to be sufficient for all to obtain adequate shelter. Americans whose incomes are 30 to 50 percent of the median in the area in which they live “[account] for the largest share of renters reporting overcrowded conditions and physical housing problems such as toilet breakdowns, exposed electrical wiring, heating equipment breakdowns lasting six hours or more[,] and the presence of rats in the unit” (Lew 2016). These statistics for households that actually have a home underestimate the scope of housing inadequacy, since they do not include, for example, the presence of mold or a property’s crumbling roof or foundation (Lew 2016). The inadequacy of private market forces to provide adequate housing for all leads us to another vital arena in which the public sector should compete directly with the private sector: the provision of a *universal guarantee of decent housing*.

Current US policy involves the dispersal of communities that formerly lived in public housing complexes (e.g., high rises that have been leveled). The professed claim is that subsequent to this dispersal, market forces will ensure that former residents settle in mixed-income neighborhoods. The best evidence suggests that many of those who have been displaced from older-style public housing have consistently not received adequate shelter (Lees, Butler, and Bridge 2012). Moreover, the other prong of this strategy, the provision of vouchers to support homeownership among the poor, has not proven effective either. The fundamental problem is that public housing has been a means-tested entitlement rather than a universal entitlement.

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Though the federal government already engages in many activities to promote adequate quantity, quality, and access to affordable housing, we propose that the federal government also become a direct supplier of residential properties of acceptable quality at prices that put downward pressure on prices offered by the private sector. Our proposal would ensure that house prices would be kept in check and that low-income residents would be able to afford adequate housing.

## Education

The ways in which the state can establish quality education for all can be different for higher education and K-12 schooling. With respect to guaranteeing access to higher education, the



federal government could cover tuition, fees, and room and board for all students attending public colleges and universities—and possibly forgive debts associated with existing government subsidized education loans (Fullwiler et al. 2018). From the standpoint of improved access, these steps would promote greater inclusion and mitigate disparities across financially insecure groups. It has been estimated that tuition-free higher education at public institutions would produce one million additional Black and Latinx college graduates (Paul, Aja, Hamilton, and Darity 2016).

Tressie McMillan Cottom’s (2017) pioneering work on for-profit colleges and universities, along with the work of Kristin Seefeldt (2017) in a separate study, highlights how the profit model of these institutions expend high advertisement budgets to induce demand from vulnerable groups alongside education products that often lead to high student debt, low labor market returns, and non-degree completion.

Analogous to Medicare for All, a public option for a debt-free college education would remove the financial burden and social and psychological stigma associated with student debt at the point of delivery of the service. Again, at the point of delivery, a highly motivated student with low resources will be most vulnerable to exploitative and exaggerated messages from the for-profit education sector, whose fiduciary responsibility is to maximize profits for their shareholders (Cottom 2017).

For public schooling at the K-12 level, a starting point for improving quality would be to reverse the drain on public school resources that has been associated with the public choice school’s privatization movement. While legitimate complaints about public schooling—such as declining student academic performance—gave ammunition to privatization efforts, the solution should not be to destroy the public school system. Not only should more resources be devoted to bolstering public schools, but there should also be much greater standardization of funding, practices, and metrics for success—all of which should be determined at the federal level. Federal standardization would mitigate some of the concerns with the current model of decentralized financing: uneven and inadequate quantity, quality, and access. More centralization of standards and finance both within and across schools to assure that the slogan “no child left behind,” should no longer be an empty rhetoric but can and should be a fully implemented (and fully funded) mandate.

## Financial Services

In *Phishing for Phools* (2015), Nobel Laureates George Akerlof and Robert Shiller critique the “greater good” presumption, or the consumer benefit, from market transaction by describing how the profit motive incentivizes sellers to manipulate consumers so that they purchase their products whether or not they are useful to the consumer. The authors single out the financial



services industry as one that has keenly exploited limited information on the part of borrowers through deceptive practices.

The result of this malfeasance—albeit in many cases not strictly illegal—is large and frequent economic swings, which in a downturn put economies at risk of financial collapse. To address this moral hazard and consumer vulnerability, Akerlof and Shiller recommend reforms that enhance consumer knowledge and reinforce regulation of the industry. Here, we go further: We recommend that the public sector becomes a direct provider of basic accounts and financial services more broadly.

Further evidence of impropriety by the financial industry is identified by Jonathan Morduch and Rachel Schneiderman (2017) in their *Financial Diaries* project. The authors document the susceptibility to predatory finance that asset- and income-insecure individuals experience.

As a result of income and expense volatility, households with few assets and low incomes are compelled to turn to high-cost and unconventional finance alternatives, such as payday loans and auto title loans, to address household budgetary shortfalls. The Financial Diaries project indicates that in most cases the consumer is aware that these are inferior financial products, but as a “last resort,” after exhausting virtually every other means, they have no alternative but to turn to exorbitantly high interest rate “debt traps” loans. Ultimately, these consumers become indentured borrowers, having to pay higher and higher interest balances and fees until they eventually default on the original principle (Hamilton and Darity 2017). The sad irony is that those that can least afford it in times of dire need end up paying the most for financial services.

While the Federal Reserve (the Fed) Board system is, in fact, a public bank apparatus, it does not provide consumers with basic customer accounts or lending services. Some have suggested that the Fed should provide these services for everyone. Morgan Ricks, John Crawford, and Lev Menand (2018) have proposed a public banking system that would allow everyone to access banking services through the Fed, including the privileged terms that banks enjoy. Legal scholars Robert C. Hockett and Saule T. Omarova (n.d.) write that such a proposal “reverses the core presumption that has long defined and permeated the study of finance and financial policymaking: [R]ather than falsely portraying private actors as sole suppliers of the finance capital that fuels economic growth, we show that it is the sovereign public that ultimately generates and underwrites capital flows in a modern financial system.”

University of Georgia law professor Mehrsa Baradaran (2018) and Roosevelt Fellow Mark Paul and Loyola Marymount University economist Thomas Herndon (2018) have made the case for the public sector to compete with the private sector in the provision of financial services. They argue that the government should establish a new public banking system and/or expand the postal system to provide banking services, offering consumers the opportunity to hold checking



and savings accounts with minimal fees and to obtain smaller loans at non-exorbitant interest rates. Public and postal banking could eliminate predatory lending practices, including payday lenders and pawn shops, which target the nation's most vulnerable borrowers.

## Birthright to Financial Capital

The magnitude of wealth inequality in America is staggering. Data from the Survey of Consumer Finances (SCF) indicates that the top 1 percent of wealth holders own 40 percent of the nation's net assets; the top 0.1 percent own 23 percent of the nation's net assets, a share equivalent to the bottom 90 percent (Kuhn, Schularick, and Steins 2018). The racial gulf in wealth is no less than shocking. The most generous estimates have the median black household possessing 10 cents for every \$1 of net worth held by the median white households. Additionally, the typical American household, white or black, does not have the ability to cover \$500 in unexpected expenses without acquiring additional debt (Pichee 2017). Nearly half of homeless Americans have jobs, but the combination of low pay and no wealth makes it impossible for them to purchase shelter (Culhane 2010).

An Urban Institute report (Braga, McKernan, Ratcliffe, and Baum 2017) found that even after assessing family income, parental educational attainment, occupational status, and other related factors, there major differences in outcomes for young people based on their family's wealth remain. They also found that young people coming from high-wealth families (i.e., families with a net worth greater than \$223,500) were one and a half times more likely to finish two or more years of college than young people from low-wealth families (i.e., net worth lower than \$2000). In families where parents did not complete college, young people from low-wealth families were two times less likely to display upward mobility than those from high-wealth families.

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To address these daunting disparities, the public sector could provide each young American with a government funded trust, the amount of which would be determined on the basis of their family's wealth position: the larger the parental wealth, the lower the trust; the lower the parental wealth, the larger the trust. The objective of this plan would be to establish more egalitarian access to wealth—the paramount ingredient for economic security and financial agency—irrespective of a family's financial position into which a young person is born. In essence, we are advocating a public option for capital finance established at birth. A birthright to a public-provided endowment could offset some of the effects of private processes for accumulating wealth, such as vulnerability to job loss or exposure to environmental hazards and other health risks, that load heavily on intergenerational transfers of resources and lead to the



intensification of wealth concentration (Feiveson and Sabelhaus 2018).

These accounts would be held in a public trust and reserved until the child reaches young adulthood to serve as “seed capital” that can be used to purchase a wealth-generating asset, such as a home, a new business, or a debt-free college education—assets that appreciate over a lifetime. A public guarantee of capital finance for each young person, accessible upon entry into young adulthood, would create a mechanism for a direct confrontation with the social impact of wealth inequality.

## Conclusion

Consistent with FDR’s vision for a second bill of rights, there are a set of goods and services that are so critical for individual life, liberty, and self-determination that their quantity, quality, and access should not be jeopardized by corporate behavior driven by a profit-maximizing fiduciary responsibility to firms’ shareholders.

To be clear, it is not our intent for the state to exclude private options. However, it is our intent for public options to directly compete with and crowd-out inferior private options that do not ensure a universal and adequate base level of quality jobs, medical care, housing, schools, financial services, and a monetary endowment.

Making the federal government the agent of increased competition will give it the power to be the agent of higher levels of well-being, health, and opportunity—for all. This will increase competitiveness within and across the US economy. And increasing competitiveness in this way will make the nation’s economic system more effective in meeting the basic needs of the American people.



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