# **Capitalists, Arise: We Need to Deal With Income Inequality**

By PETER GEORGESCU

AUG. 7, 2015

I’M scared. The billionaire hedge funder Paul Tudor Jones is scared. My friend Ken Langone, a founder of the Home Depot, is scared. So are many other chief executives. Not of Al Qaeda, or the vicious Islamic State or some other evolving radical group from the Middle East, Africa or Asia. We are afraid where income inequality will lead.

For the top 20 percent of Americans, life is pretty good.

But 40 percent are broke. Every year they spend more than they have.

While so many people are struggling, even those on the higher end of the middle class have relatively little after paying the bills: on average, some $1,300 a month. One leaky roof and they’re in trouble.

If inequality is not addressed, the income gap will most likely be resolved in one of two ways: by major social unrest or through oppressive taxes, such as the 80 percent tax rate on income over $500,000 suggested by Thomas Piketty, the French economist and author of the best-selling book “Capital in the Twenty-First Century.”

**We are creating a caste system from which it’s almost impossible to escape, except for the few with exceptional brains, athletic skills or luck. That’s why I’m scared.** We risk losing the capitalist engine that brought us great economic success and our way of life.

Ken Langone and I both feel very grateful to this country, and we have been meeting with chief executives, trying to get action on inequality.

This country has given me remarkable opportunities. I am an off-the-boat immigrant, having arrived in the United States as a teenager from Romania in 1954. I had been separated from my parents when I was 7 because they had traveled to the United States and could not return to Romania when it was taken over by the Soviet Union. When I was about 10 I was placed in a hard-labor camp along with my 15-year-old brother. With the help of the American people and the intervention of President Dwight D. Eisenhower, we were reunited with our parents after five years in the camp. Through kindness and compassion, I was invited by the headmaster of Phillips Exeter Academy to attend his school. From there I went to Princeton and the Stanford Business School.

During more than 50 years in the marketing, advertising and public relations business, I was helped by many kind people to fulfill the American dream.

Ken Langone was the first in his family to finish high school and attend college. His grandfather made a living in Italy with his hands. He has been successful in business as well as in philanthropy. New York University Hospital became the NYU Langone Medical Center.

**Would young people like Ken and me get those opportunities now? I don’t think so.**

Who will be courageous enough to start the ball rolling? The most obvious choice is our government. But the current Congress has been paralyzed.

We business leaders know what to do. But do we have the will to do it? Are we willing to control the excessive greed so prevalent in our culture today and divert resources to better education and the creation of more opportunity?

Business has the most to gain from a healthy America, and the most to lose by social unrest or punitive taxation. Business can start the process in two steps. **First, invest in the actual value creators — the employees. Start compensating fairly, by which I mean a wage that enables employees to share amply in productivity increases and creative innovations.**

**The fact that real wages have been flat for about four decades, while productivity has increased by 80 percent, shows that has not been happening. Before the early 1970s, wages and productivity were both rising. Now most gains from productivity go to shareholders, not employees.**

Okay, it's not all bad that a bunch of CEOs recognizing widening inequality as a problem. But this proposal's (predictably) about what's in...

**Second, businesses must invest aggressively in their own operations, directing profit into productivity and innovation to boost real business performance**. Today, too many corporations reduce investment in research and development and brand building. As a result, we see a general decline in the value of their brands and other assets. To make up for those declines and for anemic revenues, businesses buy back their stock (now at record levels) and thus artificially boost earnings per share.

Someone must break the ice; someone must lead. Companies including Home Depot, Costco Wholesale, Whole Foods, Publix, Qualcomm, Starbucks and Gravity Payments are taking small steps, and compensating employees more. These are the green shoots we need. Similar changes must be made by many more businesses.

As Ken and I talk to business leaders and try to drum up support for our cause, we find almost unanimous agreement on the nature of the problem and the urgent need for solutions. That’s the good news. Our concern is action. We have been told by chief executives that to pay employees more fairly, they need more support from their boards, from prominent business leaders, from the media and even from the government, to combat the intense market pressure to maximize short-term shareholder returns.

So while we celebrate those who do the right thing, how can we move more businesses and chief executives to act now? We really don’t want civil unrest or an 80 percent tax rate to jar us into action.

There is a way to start. Government can provide tax incentives to business to pay more to employees making $80,000 or less. The program would exist for three to five years and then be evaluated for effectiveness.

The benefits would be huge. People would have more money to spend, and many would no longer need government help. That would mean a reduction in entitlements.

Finally, that other America, the one that hasn’t been able to climb out of debt, will know that help is coming — not as an increase in government support, but as a fairer way to share in the hard work and incremental value a business generates. As has been proved again and again, shareholders also win, because satisfied employees produce better results.

Is this idea simply pie in the sky? Not really. Senator Mark R. Warner, Democrat of Virginia, is working on a somewhat similar bipartisan plan to introduce in Congress. I don’t know yet what it would cost. But not acting would be far more costly. The urgency is clear. A fair and responsible free enterprise system is still the best engine ever invented to create opportunity and a higher standard of living.

PETER GEORGESCU is the chairman emeritus of Young & Rubicam, who is at work on a book about the death of the middle class.