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How Silicon Valley Could Solve—Instead Of Cause—Income Inequality

The self-styled brightest minds of our generation don't seem to want to touch one of the greatest challenges of our time.

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02.16.16 | 6:00 AM

In a world where the richest 1% owns half the wealth in the entire world, inequality is one of the defining issues of our times.

Along with politicians, scientists, and activists, Silicon Valley's finest have had plenty to say on the subject over the years. And while there have been some innovative ideas, one persistent line of reasoning keeps rearing its ugly head.

> Inequality has reached a level where it is socially toxic and needs to be reduced in its own right.

The argument, made most recently in a blog post by venture capitalist and Y Combinator cofounder Paul Graham, is that inequality gets too much of a bad rap. Contrary to the popular narrative, not only is there nothing inherently damaging about inequality, but any political agenda that tries to make rich people less rich holds back natural, exponential growth in productivity and distracts attention from tackling real problems like poverty. Where inequality is concerned, the focus should be on rooting out wealth created through "bad" practices (e.g. high-frequency trading) and then on learning how we can all collectively imagine a healthy society in which there is great variation in wealth created by good behavior, such as is found in Silicon Valley startups.

This isn't a new argument. It's been popular since the 1990s, when it formed the centerpiece of the "3rd Way" thinking of Bill Clinton and Tony Blair. As Peter Mandelson, one of Tony Blair's inner circle famously put it, "I'm intensely relaxed about people getting filthy rich as long as they pay their taxes." More recently, Bill Gates has also echoed much of its logic in his defense of some immense wealth, as long as that wealth is in the hands philanthropists and tech gazillionnaires. And now that Graham has resurrected the argument yet again (and gotten plenty of positive plaudits from his tech entrepreneur brethren), it's a useful foil to explore what this whole line of reasoning gets so wrong. And, particularly, how it sells Silicon Valley short.

Before we dive into the limits of this argument, though, one very important point: No one is arguing for full equality. The debate is one of degrees, and particularly extremes. This is important because it's sloppy—but pretty common—to suggest, as Graham does, that arguing for less inequality is arguing for full equality;

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everyone having the same of everything. That's plainly nonsensical. What we're actually debating is equity (fairness and justice) and whether inequality (as a symptom of basic inequities) has reached a level where it is socially toxic and needs to be reduced in its own right.

READING THE SYSTEM

According to Graham: "If you want to understand economic inequality—and more importantly, if you actually want to fix the bad aspects of it—you have to tease apart the components. And yet the trend in nearly everything written about the subject is to do the opposite: to squash together all the aspects of economic inequality as if it were a single phenomenon."

This is pretty close to a perfect description of how not to understand system dynamics. To put it bluntly, if it feels like squashing everything together, you're doing it wrong.

"Systems thinking" can be contrasted with "analytical," or "reductive' thinking." In the words of Fritjof Capra, one of the world's pioneers on systems thinking: "Analysis means taking something apart in order to understand it; systems thinking means putting it into the context of a larger whole."

When capital flows constantly through a system, there is no disconnect between money that pools and money that spreads.

Graham makes a classic mistake of using analytical thought to try to explain systemic forces. He looks at individual parts of a machine on the assumption that if you get each part working, the whole machine will operate better. Systems thinking, by contrast, looks at relationships between the various parts rather than the parts themselves. It sees patterns, energy flows, feedback loops, and understands that systems behave according to rules that transcend the workings of the individual parts. And that it is from the integrity of the whole that realities emerge.

A genuine systems analysis would, for example, never suggest that, "to understand economic inequality in a country, you have to go find individual people who are poor or rich and figure out why." It would, rather, encourage standing back, and recognizing that when capital flows constantly through a system, there is no disconnect between money that pools and money that spreads; that it is the rules and incentives built into the systems that govern its flow and patterns. Suggesting that "if the rich people in a society got that way by taking wealth from the poor, then you have the degenerate case of economic inequality where the cause of poverty is the same as the cause of wealth" is a good example of where analytical thinking leads you astray, by artificially separating poverty and wealth. They are both, in truth, emergent realities of the same economic system and it is vital that we learn how to understand the relationships, which can only be done by thinking systemically.

If you can't differentiate between systems and analytical thinking, we should approach any conclusions you draw about a system as vastly complex as the economy with extreme caution.

THE REAL IMPACTS OF INEQUALITY

The very heart of the Silicon Valley case is the idea that inequality is not inherently damaging. Far better to let large variations of wealth accumulate without constraint, and instead focus on where it doesn't —where there is poverty—because, as Graham puts it:

> "When the city is turning off your water because you can't pay the bill, it doesn't make any difference what

water was getting turned off."

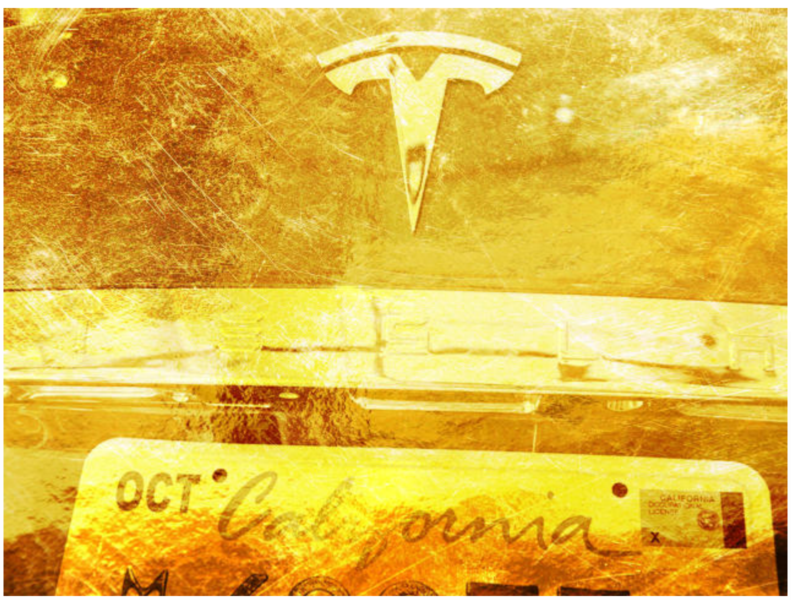
This is a ringing example of where he uses analytical thinking to misdiagnose systemic forces. What he's implying in this analogy is that the only relevant consideration is the relative wealth of two individuals at the moment a bill needs to be paid. The number of variables left out dwarf those being considered many times over. One simple example would be race. The median wealth of black households in the U.S. is an astonishing 4.5% of that of white households. This, in turn, points to that other glaringly important variable: political influence. As this 2014 Princeton study showed, America is an oligarchy, run by a small group of wealthy and influential individuals; any resemblance to a democracy is merely an illusion. Racial inequality means that African Americans have a lot less of the only political currency that really matters for securing the equal opportunity they so obviously lack right now: actual currency. Graham's analogy denies these factors entirely. And you can understand why, given that analytical thinking, with its instinct to squash things together, simply can't cope with multiple variables.

But more importantly, if he's wrong about the fact that there is nothing inherently damaging about extreme variations in wealth, his entire argument falls apart.

Anyone arguing that income inequality is not damaging to a society is unequivocally wrong.

So let's be absolutely clear: Anyone arguing that income inequality is not damaging to a society is unequivocally wrong.

To be as brief as possible: there is ample evidence, from a library of studies both within and between countries all around the globe, that shows how inequality is strongly correlated with practically any social problem you might like to choose. High levels of inequality are correlated with lower life expectancy, child well-being, educational attainment, social mobility, waste recycling, and, ironically enough for Silicon Valley investors, inventiveness and innovation. It also correlates to higher rates of infant mortality, obesity, mental illness, use of illegal drugs, teenage pregnancy rates, homicide, fighting and bullying among children, imprisonment rates, and levels of mutual trust between citizens. Richard Wilkinson's TED talk is a good introduction to the aggregated evidence, or there are plenty of individual studies that could be looked at.



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THE RESULT: STUNTED AMBITION

Perhaps the worst aspect of Graham's argument is in what it could do to Silicon Valley's own sense of potential. Let's unpack an example where Graham is asking

Silicon Valley to stop imagining and where we would suggest they have only just started.

Over the past two decades, Silicon Valley has sparked a sea change in the methodology of how products and services are brought to market, moving away from a model in which products are created through a closed-door, top-down, expert-biased process (the passive consumer model) and toward a crowdsourced, user-driven model in which end-users help to shape and create the products they consume (the engaged "prosumer" model). Companies have come to recognize that, to gain an edge over their competition, they must regularly engage end-users in testing assumptions and generating insights into what consumers want. Industry articles commonly note that every dollar spent on involving end-users in the product design process brings in between $2 and $100 in return.

In other words, many of the rich entrepreneurs of Silicon Valley have built their wealth on the backs of the ingenuity of millions of consumers. In fact, this methodology is one of the cornerstones of the dogma of Graham's company, Y Combinator: constantly beta-test ideas with end-users to "build something people want."

The problem is that there is a self-imposed limit on how far people like Graham are willing to extend the principle of co-creation. And that limit is exactly the line at which wealth is shared. If you garner insights from millions of consumers to build superior products, but do not extend the principle of co-creation into re-imagining how the resulting wealth will be managed and shared, then co-creation risks becoming extraction. It simultaneously propels us into the future with wildly innovative products, while keeping financial flows and economic structures locked in the Gilded Age.

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The real challenge for Silicon Valley is to imagine ways to contribute to the creation of a new system, in which the principles of co-creation are fully embraced in all stages of product development and marketing, rather than using it only to imagine, create, and test the product, and keeping most financial return locked away in an extremely small number of extremely large bank accounts. This means seeing beyond the sort of argument Graham makes, which keeps thinking in a business-as-usual, extractive mode, and rejects the principle of systemic equity out of hand.

An equitable system would probably produce fewer individual fortunes in the tens of billions, but that's a far cry from producing no rich people whatsoever. Equity does not mean absolute equality, old-style socialism or, god forbid, Soviet style communism. Anyone who tries to convince you it does is being disingenuous, chronically unimaginative, or plain selfish.

So we challenge Graham and his peers to a slightly different question: Stop trying to imagine how a society with great wealth variation could find a way to be healthy (not least because that would require imagining away all the evidence). Instead, can they imagine ways to create a more equitable society? Can they innovate ways to extend their cutting-edge operating principles across our entire system? Learning from the innovation of visionary new investment groups, such as The Working World, which is challenging and overturning the very fundamentals of how our existing investment systems works—and generating impressive financial returns from doing so—could be a great place for Silicon Valley to start.

> Stop trying to imagine how a society with great wealth variation could find a way to be healthy.

What if Silicon Valley entrepreneurs leveraged their unique capacity to buck the trends of history, and innovate how we can transform a sudden rise of the ultra-wealthy, into a sustained source of wealth, well-being and equity for the long-haul; one which invites and enables all people to take part and feel genuine co-ownership, from the CEO, to the Uber driver who contributed a brilliant new idea, to those cleaning the buildings of the Valley's corporate campuses and serving programmers' free meals?

In other words, we challenge Silicon Valley to outperform the system.

Why should Silicon Valley rise to this challenge? Because it can. It has great power, and therefore, to quote Peter Parker, great responsibility. It is a place of visions, of imaginations let loose. Surely, the ultimate and most creative challenge for any driven, intellectually curious person alive today is to improve life not just for themselves, or the people they rely on for their success, but for everyone. Tackle this, and you can still ride the wave of exploding ROI while helping transcend the old economy with all its inequities and inequalities.

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For more information about Cea and Rimington's research initiative on the potential of user-driven design in the social sector, check out: UnpackImpact.org

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