Tabb, W. K. (July / August 2006). The power of the rich. *Monthly Review.*

Two trends dominate today's world political economy. The first is growing inequality. The second is slower economic growth. Both trends have important consequences, which flow from the increased power of capital in a globalized world. The hegemony of the capitalist class is not new, but in any specific conjuncture, how its power is exercised depends on how technological possibilities are deployed, the degree of ideological clarity of the working class (broadly conceptualized), and the political activity of factions of the ruling class itself. In looking at the power of the rich in the United States, I will discuss not so much structural power but contingent developments of George W. Bush's presidency.

William Domhoff, when he famously asked "Who Rules America?", noted that class and power are terms that make Americans a little uneasy and that concepts such as "ruling class" and "power elite" (the term popularized by C. Wright Mills) immediately put people on guard. The very idea that a relatively small group might dominate government as well as the economy went against the American grain, he wrote. We prefer to talk about interest groups. Nonetheless, in his view a cohesive ruling class "has its basis in the large corporations and banks, plays a major role in shaping the social and political climate, and dominates the federal government through a variety or organizations and methods...."[1] Domhoff made clear that he understood that this class system is an open and changing one and that our political system is a democratic one, that there are opportunities for social mobility, and that ordinary people are not powerless. Class domination in his view did not mean total control but the setting of the terms under which other classes and groups operate. The existence of a ruling class of the very rich does not mean that voting does not matter or that under certain circumstances this elite cannot be constrained. That all seems right to me.

While Domhoff was focused on the social cohesion of this elite and Mills on the various pillars of its rule in the military, corporate, and political spheres, other analysts have stressed the way capitalists in different sectors and industries compete for influence to forward their narrower sector or specific firm interests. This understanding of the competing factions of the ruling class has its classic formation in *Federalist* Number 10, where James Madison wrote, "The most common and durable source of factions has been the various and unequal distribution of property....A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes actuated by different sentiments and views." Debate among classical political economists, for example Malthus, who stressed the primary role of land owners, and his friend Ricardo, who defended the manufacturers as being the primary class whose interests should come first, took for granted such divisions. It was left to the last of the principal classical economists, Karl Marx, to introduce and champion the third great class existing under capitalism and to suggest that oppressed and exploited as the working class was it was destined to overthrow the class system.

Class power is less acknowledged today, even if its central importance remains evident to those who would look beyond their noses for its influence on how we produce and distribute the social product and on what kind of democracy we have. What is new is the conjunctural specifics of class formation and the exercise of the power of the rich, for, as political philosophers from Aristotle to Harold Laski and C. B. Macpherson have told us, political power is the handmaid of economic power.

In my remarks I will focus on the United States in our own time but will bear in mind, as Kevin Phillips has written, that "From the nursery years of the Republic, U.S. government economic decisions in matters of taxation, central bank operations, debt management, banking, trade and tariffs, and financial rescues or bailouts have been keys to expanding, shrinking, or realigning the nation's privately held assets."[2] The specifics of the way the Bush administration and the Republican Congress are changing tax laws—such as who is favored and who is hurt—carry echoes which have been heard down through our nation's history and have taken on resonance analogous to the Gilded Age and the Roaring Twenties, other periods when conservative ideology and politics held sway and rapid increases in inequalities were produced by deregulation and

variants of laissez faire policy and Social Darwinist thinking. But in all periods, we have had a government of the rich that has acted in the interests of the rich.

Let us discuss the economics of the investment theory of politics through which such power is exercised. Office holders and aspirants to high office are themselves typically wealthy individuals. One could examine any point in history and find this to be the case. Today "representatives" overwhelmingly come from careers in banking, law, or business and retire from public office to lobby for these and other interests, just as generals go on to second careers as military contractors. To pursue national office requires a personal fortune of one's own, rich friends, or patrons. There are 100,000 people in this country who give virtually all the money spent in political campaigns, and no one wins high office without assembling sufficient financing.

Once in office elected officials tend to get far richer than they were when they entered politics. They are cut in on various deals. They become unusually successful investors. Empirical investigation reveals that in any given year between 1993 and 1998 senators who played the stock market did remarkably well. It turns out they were prescient in anticipating the market's movements up and down, purchasing a particular stock before it took off like a rocket and dumping stocks just in time. Consider a landmark study in the *Journal of Financial and Quantitative Analysis,* which took eight years to complete because there was no data base from which the scholars could work and they had to develop one, gathering and examining data manually. They found that the stock portfolios of a random group composed of tens of thousands of households underperformed the market as a whole by 1.4 percent annually. Corporate insiders beat the market by 6 percent. But the senators (including their spouses and children) beat the market by 12 percent a year.[3] The study reminds one of the findings of U.S. Senate Banking Committee counsel Ferdinand Pecora who in 1933 exposed how J. P. Morgan had reserved shares for certain clients—FDR's secretary of the treasury, the chairmen of both the Republican and Democratic National Committees, and others. It also brings to mind Mark Twain's observation that "if your congressman comes back to your state to run for re-election and is not a millionaire, he is a fool and should be turned out of office."

Lobbyists, of course, also shower funds on those who vote their way. The Center for Public Integrity tells us that in 2003, lobbyists spent $2.4 billion (and they estimated for 2004 at least $4 billion), which was about twice as much as was spent on campaign finance in the same period. Roberta Baskin, the center's executive director said "Our report reveals that each year since 1998 the amount spent to *influence* federal lawmakers is double the amount of money spent to *elect* them." (Emphasis in original.)[4]

While such spending by corporations has usually been pragmatically bipartisan, paying off whomever might advance the material interests in question, in today's political climate in which Republicans control all three branches of the federal government, we have the K Street Project, an attempt by Republicans led by Tom DeLay (who is currently having some serious legal problems due to corruption and alleged law breaking beyond the accepted limits and has agreed to resign his House job) to force lobbying organizations to hire only Republicans or suffer the consequences.

This drive toward one-party government is thankfully in some trouble because of ineptitude and overreaching. Unfortunately, the other major party has not been able to use the numerous scandals afflicting Republican office holders and lobbyists to advance its own prospects. When people ask why this is so and say the Democrats make a pathetic opposition party, they forget that Democrats must appeal to the rich to fund their campaigns too and cannot stray from serving these interests. Bill Clinton was able to win, in significant measure, thanks to investment bankers, high-tech entrepreneurs, and Hollywood money, as well as Democratic core supporters among urban-based constituencies in retail and real estate, and among wealthy non-WASPS. Today as the Bush gang stumbles from one embarrassment to the next, the lack of effective opposition party politics is astounding. The Democrats have chosen the issue of "competence." They campaign on the platform that they can run the system better and hope that this mild promise will attract voters and bring rich individuals and corporations to back them. They do not promise jobs, pensions, health care, or other aspects of personal security for American workers, nor an end to the war in Iraq. They accept corporate globalization and the political priorities of the rich.

Political parties need votes, but they are not simply vote maximizers. Parties are better understood as blocs of investors that back candidates who represent their interests. Public policy is shaped by the interplay and jockeying of these blocs, since most voters are unorganized, often minimally informed, hostile to the political process, and so prone to emotional appeals on issues of only glancing interest to the investor class. Public opinion on issues of interest to this investor class has weak influence on outcomes.

While there is some muted talk of cleaning up corporate America, it is to these same corporations that politicians must go hat-in-hand for contributions. Those most eager to give and generous in their giving tend to be the individuals and corporations looking for handouts from elected officials or seeking protection from legal trouble, as any look at the contributors who have upped their giving shows. The contradiction is blatant. Politicians may seek popular support by responding to public outrage, but they do not bite the hand that feeds them. Since pro-business policies are necessary, much is off-limits for legislative debate. Seriously regulating corporations or forcing the rich to pay their taxes might please most voters but would effectively de-fund those who propose such an agenda. Such initiatives are not likely unless alternate funds become available from working-class movements and renegade wealthy folks or popular mobilization can make up with activism what it lacks in financial assets.

The idea of citizen sovereignty has much in common with the marketplace ideology of consumer sovereignty, which posits that buyers determine what producers offer. In the idealized market model, consumers have perfect information of what their choices are, the attributes of all alternative products on offer, and the prices charged by all sellers, and there are so many sellers that none can have influence over the market price. Further, it is assumed that individual consumers know what they want and are not influenced by peer pressure or advertising. In this simplistic model, the distribution of income goes unquestioned, even though some consumers have far more dollar votes than others. Public goods and merit goods, which comprise the social wage and contribute substantially to individual standards of living, are ignored if they cannot be sold through the private market—unless people are mobilized to demand what they understand is theirs by right. Government is viewed as inefficient and presumed to need to be made as business-like in its use of market incentives as possible. A business-like government is one premised on a capitalist view of limited functions, subservient to the class interests hegemonic in a social formation.

Even as this class-serving understanding of the function of the state is promulgated, the growing share of national income accruing to the rich is fostered by government policies, tax cuts skewed in their direction, and subsidies for favored industries from oil to military contractors to the banking industry and Wall Street more generally. When the market goes down, government pumps it back up. The Federal Reserve guarantees the famous “Greenspan Put,” now perhaps to be known as the Bernanke Bounce, of lower interest rates as needed, and it promotes speculation by assuring against downturns—since it is ever ready with bailouts, whether of third world debt to private banks or special treatment for investors.

When Ronald Reagan said, “What I want to see above all is that this remains a country where someone can always get rich,” his base understood him to say, “where those already rich can get vastly richer.” George W. Bush’s “ownership society” expands this idea and builds on the supply-side “analysis” that lower taxes and lower marginal rates provide greater incentives for investors and others to work harder, since you get to keep more of what you earn leading to more growth. The ideology claims that tax cuts cause “us” all to grow rich; that trickle-down economics benefits everyone. Since the result is in fact growing inequality and lower real income for the working class than would be the case under more equitable arrangements, the rich extend honorary memberships. Just as white plantation owners told poor whites in the South that race was what counted not wealth, a tactic that traveled well to other parts of the country, the ruling class tells the petit bourgeoisie, “we are all capitalists together. Let us protect ‘our property.’” The Republican Party has also skillfully mobilized the anger of the petit bourgeoisie faced with harsh competition and resentful of the large corporations and the rich elite. In this vein, in the 2004 campaign George W. Bush criticized John Kerry’s proposal to eliminate tax cuts for the wealthy, saying that “the rich

in America happen to be small business owners." Further, Bush said that "the very rich people figure out how to dodge taxes anyway."[5]

Meanwhile, when addressing his big contributors, Bush was more inclined to say, as he did fundraising for the 2000 election to a very different gathering, "This is an impressive crowd—the haves and have-mores. Some people call you the elite. I call you my base."[6]

Bush is hardly the first U.S. president to serve this base. But in the years since the demise of Keynesian social policy and the rise to dominance of neoliberal globalization, capital has successfully made greater demands on both labor and the state. Between 1979 and 1989, the proportion of the nation's wealth held by the richest 1 percent of Americans nearly doubled, from 22 percent to 39 percent. A decade or so later, the discussion was in terms of what was happening to the richest 0.1 percent of the population. In 2002, 145,000 taxpayers, the top one-thousandth of the American people, enjoyed 7.4 percent of the nation's income, a percentage twice their share in 1980. In running for reelection, Bush said that most of the tax cuts of his first term went to low- and middle-income Americans. In fact, more than half (53 percent) will go to the top 10 percent over the first fifteen years of these cuts and more than 15 percent to the top one-thousandth of Americans. The *only* taxpayers whose share of taxes declined in 2001 and 2002 were those in the top 0.01 percent of the distribution. As of 2005, under the Bush tax cuts, the 400 taxpayers with the highest income (the "poorest" of these had an annual income of $87 million) paid income and FICA (social security) taxes at the same percentage of their income as those making between $50,000 and $75,000 a year. Another way to look at these growing inequalities is to consider that between 1950 and 1970, for every additional dollar earned by the bottom 90 percent, the top 0.01 percent (one ten-thousandth of Americans) rose by $162. From 1990 to 2002, for each additional dollar earned by the bottom 90 percent, the top 0.01 percent got an extra $18,000.[7]

Since the income of the bottom 90 percent is not growing, U.S. markets can only stimulate demand through the creation of debt, both personal and public. Companies have high profits but are not investing. They are cutting costs to raise profits, since sales are not rising due to inadequate domestic demand. What is happening is that as income becomes more and more unequal, so too does political influence grow for the elite of the super rich who are increasingly able to recast the state to accommodate their narrow interests. Given the money it takes to be heard on the political scene, their power grows and democracy withers.

While Wall Street and the president proclaim that all investors, half of all Americans, benefit from these tax cuts, this is a calculated lie. Ordinary investors with 401(k) plans, other pension plans, and mutual fund holdings were already tax exempt. They do not benefit from the change. It was the very rich, including the Wall Street CEOs with their compensation packages running into the tens of millions a year, who save hundreds of thousands, and for some, a million dollars or more a year in such tax cuts. Data on the effects of extending capital gains and dividend tax breaks are available from the careful and well-respected Citizens for Tax Justice based on an Institute on Taxation and Economic Policy tax model. It turns out that the vast majority of Americans would receive nothing from an extension of these special tax rates. Seventy-eight percent would get no tax cut, and an additional 10 percent would get less than $100. Most (53 percent) of the benefit would go to the richest 1 percent of Americans.

How do the rich get such favored treatment? The answer is to be found in the logic of the investment theory of politics. Groups like the Committee for Growth raise huge amounts from the super rich with the purpose of intimidating politicians who would deny them more and more tax cuts. Grover Norquist, leader of the well-funded Americans for Tax Reform, whose aim is to shrink government down to the size where he can "drown it in a bath tub," has extracted a pledge never to raise taxes out of countless politicians as the price of support from the anti-tax forces.

Under the regime of global neoliberalism, the goal of lowering costs everywhere serves the interests of both national capital and smaller entrepreneurs. The latter hated the government redistributional programs of the earlier Keynesian era that lowered the cost of job loss and made workers uppity—they are always interested in putting greater pressure on the working class. Internationalized capital, which had earlier accommodated to the welfare state and trade unions in the interests of domestic peace, can now threaten labor, which is immobile and at a greater

disadvantage, with disinvestment. Its greater mobility gives it increased power over the state as well. With this major reuniting of factional interests, the Republicans gain strength while New Democrats look for ways to follow New Labour in jettisoning trade union influence. In such a context the basic rule of investor politics comes home to roost.

As Thomas Ferguson writes, "on issues affecting the vital interests that major investors have in common, no party competition will take place."[8] It is not that the issues of interest to these investors will be the only ones discussed. The point is for the candidate favoring the vital interests of the investors to win. This leads to candidates giving prominence to all manner of issues, from gay marriage to abortion, which may not be of central concern to investors but are calculated to ensure victory, and to mud-slinging and negative advertising based on false and malicious claims. The point is winning so that investor objectives can be legislated. The big campaign givers are those whose wealth depends on the government, such as military contractors, or those who want to change government regulations, like the securities and energy sectors, as well as everyone from tobacco to those on the receiving end of asbestos lawsuits. Some individual contributors are driven by ideology. The wealthy individual contributors overwhelmingly support Republicans, and the most ideologically right wing invest heavily in pursuing extremist politics. This group, which has shown itself willing to back radical right candidates opposing more moderate Republicans in primaries, has the money and clout to intimidate.

While rich investors know well what is in their interest, and devote serious resources to influence outcomes, ordinary voters often lack incentives to be informed. Many are influenced by the repetition of the messages paid for by the rich that "taxation is bad, tax cuts are good," and some learn to parrot the ideology adopting antigovernment positions. Some are convinced that the government taxes the hard-working people and gives money to "welfare." Some, while they understand that the state favors the rich, conclude "government" is the enemy and so oppose taxation, helping the wealthy escape both the taxation and regulation that could be imposed by popular movements contesting for greater leverage over the state.

Given the resources and interests of this elite, they are more than willing to help along the careers of those who will be useful to them. One need look no further than the example of George W. Bush to see this process in action. Bush was able to enter the oil business thanks to money extended by rich individuals interested in helping him along. He pretty much failed in the oil business but was repeatedly bailed out. His insider sale of Harken Energy has gotten some attention because it was the source of his first serious income. In 1989 he invested $606,000 as part of a syndicate that bought the Texas Rangers baseball team, borrowing the money and repaying the loan with the proceeds from selling Harken stock before the company collapsed, a classic insider trading arrangement. The city of Arlington then was kind enough to build the Rangers a new stadium with public funds. His popularity as a public owner of the team, family connections, and associated good PR allowed Bush to run for governor of Texas "on the theme of self-reliance rather than reliance on government," as Paul Krugman recounts in his telling of Bush's career successes. The Rangers were sold for triple the price paid. Bush's share came to $2.3 million, but his partners voluntarily gave up some of their shares so Bush received 12 percent of the gain or $14.9 million—a $12 million gift to a sitting governor.

The buyer of the Rangers was a man named Tom Hicks. This last detail may seem arcane, but bear with me a moment. Quoting again from Krugman:

> The University of Texas, though a state institution, has a large endowment. As governor, Mr. Bush changed the rules governing the endowment, eliminating the requirements to disclose "all details concerning the investments made and income realized," and to have "a well recognized performance measurement service" assess investment results. That is, the government officials no longer had to tell the public what they were doing with public money, or to allow an independent performance assessment. Then Mr. Bush "privatized" (his term) $9 billion in university assets, transferring them to a nonprofit corporation known as Utimco that could make investment decisions behind closed doors.[9]

In effect, the money was put under the control of Utimco's chairman, Tom Hicks, allowing millions of dollars to be invested in private funds managed by Hicks's business associates and major Republican Party donors who received large fees for making bad investments. This is not just a matter of corrupt dealings but a tale of how the rich profit from influence over office holders and how they groom our country's leaders, who may not themselves have their own fortune, even when as in the case of George W. Bush they come from an elite family.

As to the normal workings of the system, we need not rehearse Tom DeLay and Jack Abramoff. Rather, the individual abuses call attention to the structural power of the rich and the systemic corruption of politics in the presence of great inequalities of wealth. This is the continuing issue. Bush is interesting for the naked openness with which he uses his office and his success in doing so. As *The Economist* has written, "George Bush's relationship with his business supporters could hardly be more straightforward. Business people give him huge piles of money. In return he cuts their taxes and shreds red tape."[10] But again this is not only about George Bush. A decade ago, David Sanger of the *New York Times* wrote, "Ever since Bill Clinton came to office, he has done more for the Fortune 500 than virtually any president in this century...."[11] In the summer of 1995, the *Chicago Sun Times* disclosed that in a letter signed by the Democratic Party co-chairs (Christopher Dodd and Donald Fowler) a menu of meal-deals was offered: a $100,000 contributor would get two meals with President Clinton, two meals with Vice President Gore, a slot on a foreign trade mission with DNC leaders, a daily fax report, and an assigned DNC staff member to assist with "personal requests." Other lesser inducements were offered for $50,000, $10,000 and $1,000.

Clinton, a New Democrat, was pro-business (of course), pro-trade, and anti-union. Since many Silicon Valley entrepreneurs who the Democrats counted on were pro-choice and pro-environment, he was these things also. The Clinton White House and the New Democrats in Congress supported the high-tech agenda of more visas for high-tech workers, tax credits for R&D, support for trade with China, a moratorium on Internet taxes, and so on. However as *Mother Jones* reported, Vice President Gore's post-convention "populism" drove techies to the Republicans, who finally raised almost as much from this sector as the Democrats.[12]

Wall Street was crucial to Clinton. The Republicans noted this and made privatization of Social Security a lead issue, and in so doing they reaped Wall Street's gratitude. Many point out that Bush failed in his efforts to privatize Social Security. True. But Wall Street rewarded the effort. Sixty-seven names on the *Mother Jones* list of the 400 biggest contributors are security brokers and investment managers who poured money into Republican coffers. They would benefit by the fees earned from all of the new monies in the proposed private retirement accounts. The push to set up private accounts for retirement, and indeed for health care, are ideologically appealing to the Republican anti-government base and to the companies that would directly benefit from selling and managing these accounts. It is also a brilliant economic wedge issue, attacking the Democrats on what has been one of their popular strengths. For the Democrats, support from labor unions, which most strongly oppose Social Security privatization, is important. For New Democrats to walk away from such core commitments of the traditional party is difficult.

In 2000, Bush's strong backers were Sunbelt, especially Texan, oil and contractor contributors and cronies of the governor. By 2004, big bucks were coming especially heavily from Wall Street, which on June 23, 2004, offered up $4 million in one night. E. Stanley O'Neal, the chairman, CEO, and president of Merrill Lynch, and Stephen Lessing, managing director of Lehman Brothers, were two of the first "Rangers," the top bundlers of $200,000 or more. Other leading Wall Street figures were "Pioneers," who bundled $100,000 or more. This support represented a change from 2000, when two weeks before he was sworn in, Bush held a business leader forum in Texas with dozens of CEOs but none from Wall Street. In a 2002 economic summit in Waco the same was true. By 2003, Wall Street had surpassed all other groups in contributing to Bush. The administration thereafter was a more enthusiastic advocate of "pro-investor policies" which cut in Wall Street for favored treatment. Such a shift was inevitable. If we look at the statistical tables from the *Economic Report of the President 2006* (table B-91: Corporate profits by industry, 1959-2005), in 2003, for corporate profits for domestic industries, we see the financial sector enjoyed $313 billion in profit that year, compared to $534 billion for all non-financial sector firms, a remarkable change from the

days when one thought of finance as lubricating manufacturing (a sector which earned only $119 billion in profits in 2003). Profits accruing from corporate activities in the rest of the world were $176 billion, and by third quarter 2005 these were $223 billion. Imperialist demands on host governments assisted such penetration and promoted greater profits for U.S.-based transnationals.

Let me conclude by putting some of these aspects together. The investor theory is clear enough in its predictions that issues of interest to the majority of citizens will be ignored if the rich contributor class does not want them considered. Likewise, issues of interest to the rich will be put forward and reinforced in media discussion even though they lack popular support. The legislation that results, as shown in the case of tax policy in the foregoing discussion, seems to confirm a correlation between investments and government policies favoring investors. The rise of income inequality, while it has many causes, has been powered by federal taxation policies of bought politicians and ruling-class represent tatives who hold control of the federal government. The last conclusion is that simply voting for Democrats may not essentially change what needs to be changed. Only when elected officials face a well-organized and mobilized popular opposition do they pause in simply voting for what the rich want.

Notes

1. G. William Domhoff, *Who Rules America Now?* (New York: Simon & Schuster, 1983), 1.
2. Kevin Phillips, *Wealth and Democracy: A Political History of the American Rich* (New York: Broadway, 2002), 214.
3. Deborah Brewster, “Senators’ Stocks Beat the Market by 12%,” *Financial Times,* February 25, 2004; *Washington Spectator*, “Senators Beat the Stock Market—and Get Rich—With Insider Information,” January 1, 2006.
4. Center for Public Integrity, “Lobbyists Double Spending in Six Years,” April 7, 2005, http://www.publicintegrity.org.
5. Associated Press, “Bush Brings Campaign Across the Potomac,” August 9, 2004.
6. Robert McNatt, “Up Front,” *Business Week*, November 6, 2000, 12.
7. David Kay Johnston, “Richest Are Leaving Even the Rich Far Behind,” *New York Times*, June 5, 2005.
8. Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems* (Chicago: University of Chicago Press, 1995), 28.
9. Paul Krugman, ”Steps to Wealth,” *New York Times*, July 16, 2002.
10. *The Economist,* “A troubled marriage,” May 17, 2003, 27.
11. David E. Sanger, “The Big One: Washington’s Political Earthquake,” *New York Times*, September 24, 1995.
12. http://www.mojones.com.