Who Really Rules the United States?
Class, Wealth, and Power

Folks:

For most of you, this will be a fairly long (three-part) reading. From the perspective of studying for the test, the first two parts are for the most part straightforward. About the third part (comprises two sections), which is choke full of statistics: so, how would you go about studying this material for this class? To begin with, I am not interested in how well you can memorize statistical data in this part of the reading. What I would like you to do, instead, is to figure out the main points Professor William Domhoff is making concerning the distribution of wealth, income, and power in this country on the basis of the statistical data he presents. I also want you to study the graphs and tables. What do they tell us?

The fundamental issue in this reading is not that all wealth and income inequality can ever be eliminated in a capitalist society (even if one wanted to for reasons of social justice), but rather how the wealthy and the powerful *unfairly* bend the rules of the game—involving the perpetration of class warfare on the masses (the working/middle classes)—to produce an ever-widening gap in wealth and income that in the long run hurts the *objective interests* of everyone (including the wealthy themselves—most ironically) from the perspectives of both *procedural democracy* and *authentic democracy*.

In Part Three, Section II of this document, I want you to accord special attention to the relationship between class and race in this country, and the pernicious role of those who I call pseudo-intellectuals (the "mercenaries" of the capitalist class). Those of you taking my World Civ classes should have no difficulty figuring out how this reading relates to the rise of industrial capitalism in Europe and the critical questions of wealth, power, and domination (in the context of class struggles) that arose as a result of the quest by the working classes for democracy and social justice; that is, questions that still haunt *all* capitalist societies to this day, including this one. I hope this reading will help to blow away some cobwebs from your brains with respect to the ideology of *meritocracy* and the so-called *American Dream*.

People, I also want you to notice that because Professor Domhoff is severely challenging the corporate capitalist propaganda that the unconscionably huge disparities in wealth and income in this country is a natural outcome of "meritocracy" at work, he provides citations to back up what he is saying almost every inch of the way. Always remember the golden rule: if you challenge dominant thinking you must back it up with evidence—otherwise you may be accused of being a fraud. (NOTE: See the course glossary for some of the terms used in this preamble.)

Part One

Source: http://www.deathandtaxesmag.com/218858/the-duh-report-study-says-america-is-an-oligarchy-not-a-democracy/

In Politics by Robyn Pennacchia Apr 15, 2014

The 'Duh' Report: Study says America is an Oligarchy, not a Democracy

Someone, fetch me my smelling salts! A new study conducted by Princeton and Northwestern Universities is showing that, although America is always going on about how it is a Democracy, it is, in fact, an Oligarchy. Or, rather, it is a Plutocratic Oligarchy, meaning that the vast majority of decisions are made to benefit a small amount of very rich people.

The researchers studied 1,779 policy changes made between 1981 and 2002, and judged them based on what the super rich people wanted, versus what the median voter wanted, versus what powerful lobbies wanted. Shockingly, the rich people and their lobbies got their way the vast majority of the time, with the median voter really only getting what he or she wanted when it was in line with the wishes of the affluent.

Despite the seemingly strong empirical support in previous studies for theories of majoritarian democracy, our analyses suggest that majorities of the American public actually have little influence over the policies our government adopts. Americans do enjoy many features central to democratic governance, such as regular elections, freedom of speech and association, and a widespread (if still contested) franchise. But we believe that if policymaking is dominated by powerful business organizations and a small number of affluent Americans, then America's claims to being a democratic society are seriously threatened.

So, basically what this study is saying is that, quite honestly, your vote doesn't count for shit, and although apparently we're supposed to be under the assumption that lobbying groups speak for us, the people, and that the rich people who purchase our elected leaders have our best interests at heart, they do not. Big surprise.

After analyzing various kinds of governments, the researchers came to the conclusion that the term that best represents our current situation is Economic Elite Domination (or, you know, plutocracy).

"Economic Elite Domination theories do rather well in our analysis, even though our findings probably understate the political influence of elites. Our measure of the preferences of wealthy or elite Americans – though useful, and the best we could generate for a large set of policy cases – is probably less consistent with the relevant preferences than are our measures of the views of ordinary citizens or the alignments of engaged interest groups. Yet we found substantial estimated effects even when using this imperfect measure. The real-world impact of elites upon public policy may be still greater."

Given that this study only measured policy changes that were enacted between the years 1981-2002, it is highly likely that things are even worse now than the study suggests. Certainly, rulings like Citizens United and McCutcheon are going to have a profound effect on our oligarchical situation here, and it's going to become even more profoundly ridiculous that any of us thinks we have a say in our government. Which, let's face it, with the electoral college it already kind of is.

Do I have a solution for this? Not really. I'd like to go the Ralph Nader route and eliminate private money in public campaigns entirely. I'd like to eliminate PACs, corporate contributions and soft money. I'd like to get rid of Citizens United and McCutcheon. I just don't think a rich person ought to have any more say in government than a poor person does, and that includes having the opportunity to finance the politician he or she supports. But alas, these ideas are merely pipe dreams. Perhaps we ought to suck it up, admit we have a classist society and do like England where we have a House of Lords and a House of Commoners, instead of pretending as though we all have some kind of equal opportunity here.

Folks: If you would like to read the original article that this item summarizes click here.

Part Two

Source: http://www.counterpunch.org/2014/04/15/the-contradictions-of-the-american-electorate

Why Do Most US Voters Prefer Politicians Who Disagree with Their Values and Policies? The Contradictions of the American Electorate

by ERIC ZUESS April 15, 2014

Pollingreport.com has the results of hundreds of recent polls on just about every political subject imaginable; and the results on the vast majority of the polling questions produce liberal responses.

For example, when the Pew Research Center polled during Feb. 12-26 on the question "Do you think the use of marijuana should be made legal or not?" 54% said "Yes," and only 42% said "No."

When Quinnipiac University polled during March 26-31 on "Do you approve or disapprove of the way the Republicans in Congress are handling their job?" 18% said "Approve," but when that same poll asked "Do you approve or disapprove of the way Democrats in Congress are handling their job?" 30% said "Approve."

When Bloomberg polled on March 7-10 on "In thinking about the gap between the rich and everyone else, do you think it would be better for the government to implement policies designed to shrink that gap, or better for the government to stand aside and let the market operate freely even if the gap gets wider?" a bare plurality of 45% chose "Government implement policies," while a bare minority of 43% chose "Let market operate freely."

When that same poll asked, "please tell me if you favor or oppose the idea" of "Raising the minimum wage to $10.10 over the next three years," 69% chose "Favor," and only 28% chose "Oppose." When that same poll asked about, "Extending unemployment benefits beyond the current term," 52% chose "Favor," and 45% "Oppose."

When the CNN poll asked on January 31-Feb. 2, "Do you think the policies of Barack Obama and the Democrats, or George W. Bush and the Republicans, are more responsible for the country's current economic problems?" 34% blamed "Obama, Democrats, while 44% blamed "Bush, Republicans."

When that same poll asked, "Do you think abortion should be legal under any circumstances, legal only under certain circumstances, or illegal in all circumstances?" only 20% chose the Republican position, "Aways illegal." 51% chose the Democratic position, "Sometimes legal. And 27% chose the position "Always legal," which would go beyond both the Supreme Court's Roe-Wade decision and the Democratic Party's position.

When the Gallup poll on March 7-10 asked "Do you think the U.S. government is doing too much, too little, or about the right amount in terms of protecting the environment?" 47% said "Too little" (the Democratic position) and only 16% said "Too much" (the Republican position: "Drill, baby drill!").

When the CBS/NYT poll on Feb. 19-23 asked, "In general, do you think laws covering the sale of guns should be made more strict, less strict, or kept as they are now?" 54% said "More strict (the Democratic position), and only 9% said "Less strict" (the Republican position).

However, on a few issues, Americans choose the conservative position:

For example, when the Quinnipiac poll on 28-31 July 2013 asked "Some states have a law that says a person is legally entitled to fight back with deadly force if they feel threatened, even if they could retreat instead. Do you support or oppose this law for your state?" 53% chose the Republican position, "Support," and only 40% chose the Democratic position, "Oppose."

On the vast majority of polled questions, Americans show that they favor the liberal or Democratic position, and oppose the conservative or Republican position.

If the public were rational, Democrats would overwhelmingly control the U.S. Government. Even on polled support or self-identification by voters regarding the two Parties, Democrats have always had a lead, usually a substantial lead. On 8 January 2014, Gallup bannered "Record-High 42% of Americans Identify as Independents: Republican identification lowest in at least 25 years," and reported that, "Republican identification fell to 25%, the lowest over that time span. At 31%, Democratic identification is unchanged from the last four years but down from 36% in 2008."

However, Republicans win most "elections"; and most predictions for this November are for Republicans to win control in the Senate and expand their control in the House. Why is this?

On January 10th, Gallup bannered, "Liberal Self-Identification Edges Up to New High in 2013," and reported that 38% of Americans self-identified as "Conservative," and only 23% self-identified as "Liberal." 43% of Democrats said they were "Liberal," but 70% of Republican self-identified as "Conservative." Ever since Ronald Reagan, conservative self-identification is much stronger.

For decades, most voters self-describe as "Conservative" and yet most voters also self-describe as "Democrat," though those two identities oppose each other, and though Americans are actually overwhelmingly liberal on the issues.

So, perhaps one explanation for Republicans winning most political contests is that most Americans are voting their ideological self-identity instead of their Party self-identity and their actual policy-positions and policy-values — which are liberal. If that's so, then one might say that the conservative mystique ever since the time of Ronald Reagan overwhelms voters' Party affiliation and policy-positions and thus determines their actual voting, more than anything rational actually does.

Perhaps part of this conundrum is also a result of Americans being heavily inundated with conservative propaganda from the aristocracy, who are overwhelmingly conservative.

For example, a study, to appear in the Fall 2014 issue of the academic journal *Perspectives on Politics*, finds that the U.S. is no democracy, but instead an oligarchy, meaning profoundly corrupt, ruled by an aristocracy, so that the answer to the study's opening question, "Who governs? Who really rules?" in this country, is:

"Despite the seemingly strong empirical support in previous studies for theories of majoritarian democracy, our analyses suggest that majorities of the American public actually have little influence over the policies our government adopts. Americans do enjoy many features central to democratic governance, such as regular elections, freedom of speech and association, and a widespread (if still contested) franchise. But, …" and then they go on to say, it's not true, and that, "America's claims to being a democratic society are seriously threatened" by the findings in this, the first-ever comprehensive scientific study of the subject, which shows that there is instead "the nearly total failure of 'median voter' and other Majoritarian Electoral Democracy theories [of America]. When the preferences of economic elites and the stands of organized interest groups are controlled for, the preferences of the average American appear to have only a minuscule, near-zero, statistically non-significant impact upon public policy."

To put it short: The United States is no democracy, but actually an oligarchy.

The authors of this historically important study are Martin Gilens and Benjamin I. Page, and their article is titled "Testing Theories of American Politics." The authors clarify that the data available are probably under-representing the actual extent of control of the U.S. by the super-rich:

"Economic Elite Domination theories do rather well in our analysis, even though our findings probably understate the political influence of elites. Our measure of the preferences of wealthy or elite Americans – though useful, and the best we could generate for a large set of policy cases – is probably less consistent with the relevant preferences than are our measures of the views of ordinary citizens or the alignments of engaged interest groups. Yet we found substantial estimated effects even when using this imperfect measure. The real-world impact of elites upon public policy may be still greater."

Nonetheless, this is the first-ever scientific study of the question of whether the U.S. is a democracy. "Until recently it has not been possible to test these contrasting theoretical predictions [that U.S. policymaking operates as a democracy, versus as an oligarchy, versus as some mixture of the two] against each other within a single statistical model. This paper reports on an effort to do so, using a unique data set that includes measures of the key variables for 1,779 policy issues." That's an enormous number of policy-issues studied.

What the authors are able to find, despite the deficiencies of the data, is important: the first-ever scientific analysis of whether the U.S. is a democracy, or is instead an oligarchy, or some combination of the two. The clear finding is that the U.S. is an oligarchy, no democratic country, at all. American democracy is a sham, no matter how much it's pumped by the oligarchs who run the country (and who control the nation's "news" media). The U.S., in other words, is basically similar to Russia or most other dubious "electoral" "democratic" countries. We weren't formerly, but we clearly are now. Today, after this exhaustive analysis of the data, "the preferences of the average American appear to have only a minuscule, near-zero, statistically non-significant impact upon public policy." That's it, in a nutshell.

And that's why most Americans are actually liberals who call themselves conservatives and who vote for conservative politicians that favor policies and values those voters actually oppose.

Are most voters mental zombies who are actually manipulated by oligarchs? That seems to describe today's American "democracy."

Eric Zuesse *is an investigative historian and the author, most recently, of They're Not Even Close: The Democratic vs. Republican Economic Records, 1910-2010, and of CHRIST'S VENTRILOQUISTS: The Event that Created Christianity.*

Part Three: Section I

WhoRulesAmerica.net
Power, Politics, & Social Change

SOURCE: http://www2.ucsc.edu/whorulesamerica/power/wealth.html

http://whorulesamerica.net/power/wealth.html

Introduction

by G. William Domhoff
(University of California at Santa Cruz)

Who Rules America?, the book upon which this website is based, presents detailed original information on how power and politics operate in the United States. The first edition came out in 1967 and is ranked 12th on the list of 50 best sellers in sociology between 1950 and 1995. A second edition, *Who Rules America Now?*, arrived in 1983 and landed at #43 on the same list. Third and fourth editions followed in 1998 and 2002, and the fifth edition came out in 2006.

The sixth edition of *WRA* was published in 2010, and is available at Amazon.com (and other bookstores). This new edition has information on the rise of Barack Obama, his campaign finance supporters, and the nature of his administration. The last chapter focuses on the potential for serious challenges to class and corporate dominance. It does not have answers, but it raises the key questions and states the possibilities, noting that the strategies and tactics adopted by activists are an essential part of the power equation.

Questions and Answers

Q: *So, who does rule America?*

A: The owners and managers of large income-producing properties; i.e., corporations, banks, and agri-businesses. But they have plenty of help from the managers and experts they hire. You can read the essential details of the argument in this summary of *Who Rules America?*, or look for the book itself at Amazon.com.

Q: *Do the same people rule at the local level that rule at the federal level?*

A: No, not quite. The local level is dominated by the land owners and businesses related to real estate that come together as growth coalitions, making cities into growth machines.

Q: *Do they rule secretly from behind the scenes, as a conspiracy?*

A: No, conspiracy theories are wrong, though it's true that some corporate leaders lie and steal, and that some government officials try to keep things secret (but usually fail).

Q: *Then how do they rule?*

A: That's a complicated story, but the short answer is through open and direct involvement in policy planning, through participation in political campaigns and elections, and through appointments to key decision-making positions in government.

Q: *Are you saying that elections don't matter?*

A: No, but they usually matter a lot less than they could, and a lot less in America than they do in other industrialized democracies. That's because of the nature of the electoral rules and the unique history of the South.

Q: *Does social science research have anything useful to say about making progressive social change more effective?*

A: Yes, it does, but few if any people pay much attention to that research.

Q: *Is WhoRulesAmerica.net connected to the site called "Who Rules America?" on natvan.com?*

A: No! That site (and many others with documents purporting to tell you "who rules America") is run by a white supremacist/neo-Nazi organization.

Wealth, Income, and Power

This document presents details on the wealth and income distributions in the United States, and explains how we use these two distributions as power indicators.

Some of the information may come as a surprise to many people. In fact, I *know* it will be a surprise and then some, because of a recent study (Norton & Ariely, 2010) showing that most Americans (high income or low income, female or male, young or old, Republican or Democrat) have *no* idea just how concentrated the wealth distribution actually is. More on that a bit later.

As far as the *income* distribution, the most striking numbers on income inequality will come last, showing the dramatic change in the ratio of the average CEO's paycheck to that of the average factory worker over the past 40 years.

First, though, some definitions. Generally speaking, *wealth* is the value of everything a person or family owns, minus any debts. However, for purposes of studying the wealth distribution, economists define wealth in terms of *marketable assets*, such as real estate, stocks, and bonds, leaving aside consumer durables like cars and household items because they are not as readily converted into cash and are more valuable to their owners for use purposes than they are for resale (see Wolff, 2004, p. 4, for a full discussion of these issues). Once the value of all marketable assets is determined, then all debts, such as home mortgages and credit card debts, are subtracted, which yields a person's net worth. In addition, economists use the concept of *financial wealth* -- also referred to in this document as "non-home wealth" -- which is defined as net worth minus net equity in owner-occupied housing. As Wolff (2004, p. 5) explains, "Financial wealth is a more 'liquid' concept than marketable wealth, since one's home is difficult to convert into cash in the short term. It thus reflects the resources that may be immediately available for consumption or various forms of investments."

We also need to distinguish wealth from *income*. Income is what people earn from work, but also from dividends, interest, and any rents or royalties that are paid to them on properties they own. In theory, those who own a great deal of wealth may or may not have high incomes, depending on the returns they receive from their wealth, but in reality those at the very top of the wealth distribution usually have the most income. (But it's important to note that for the rich, most of that income does not come from "working": in 2008, only 19% of the income reported by the 13,480 individuals or families making over $10 million came from wages and salaries. See Norris, 2010, for more details.)

This document focuses on the "Top 1%" as a whole because that's been the traditional cut-off point for "the top" in academic studies, and because it's easy for us to keep in mind that we are talking about one in a hundred. But it is also important to realize that the lower half of that top 1% has far less than those in the top half; in fact, both wealth and income are super-concentrated in the top 0.1%, which is just one in a thousand. (To get an idea of the differences, take a look at an insider account by a long-time investment manager who works for the well-to-do and very rich. It nicely explains what the different levels have -- and how they got it. Also, David Cay Johnston (2011) has written a column about the differences among the top 1%, based on 2009 IRS information.)

As you read through the facts and figures that follow, please keep in mind that they are usually two or three years out of date because it takes time for one set of experts to collect the basic information and make sure it is accurate, and then still more time for another set of experts to analyze it and write their reports. It's also the case that the infamous housing bubble of the first eight years of the 21st century inflated some of the wealth numbers. The important point to keep in mind is that it's the *relative* positions of wealth holders and income earners that we are trying to comprehend in this document. (To get some idea about absolute dollar amounts, read the investment manager's insider account that was mentioned in the previous paragraph.)

So far there are only tentative projections on the effects of the Great Recession on the wealth distribution. They suggest that average Americans have been hit much harder than wealthy Americans. Edward Wolff, the economist we draw upon the most in this document, concludes that there has been an "astounding" 36.1% drop in the wealth (marketable assets) of the median household since the peak of the housing bubble in 2007. By contrast, the wealth of the top 1% of households dropped by far less: just 11.1%. So as of 2012, it looks like the wealth distribution is even more unequal than it was five years ago. (See Wolff, 2010 & 2012 for more details.)

There's also some general information available on median income and percentage of people below the poverty line in 2010. As might be expected, most of the new information shows declines; in fact, a report from the Center for Economic and Policy Research (2011) concludes that the decade from 2000 to 2010 was a "lost decade" for most Americans.

One final general point before turning to the specifics. People who have looked at this document in the past often asked whether progressive taxation reduces some of the income inequality that exists before taxes are paid. The answer: not by much, if we count *all* of the taxes that people pay, from sales taxes to property taxes to payroll taxes (in other words, not just income taxes). And the top 1% of income earners actually pay a *smaller* percentage of their incomes to taxes than the 9% just below them. These findings are discussed in detail near the end of this document.

The Wealth Distribution

In the United States, wealth is highly concentrated in a relatively few hands. As of 2010, the top 1% of households (the upper class) owned 35.4% of all privately held wealth, and the next 19% (the managerial, professional, and small business stratum) had 53.5%, which means that just 20% of the people owned a remarkable 89%, leaving only 11% of the wealth for the bottom 80% (wage and salary workers). In terms of financial wealth (total net worth minus the value of one's home), the top 1% of households had an even greater share: 42.1%. Table 1 and Figure 1 present further details, drawn from the careful work of economist Edward N. Wolff at New York University (2012).

Table 1: Distribution of net worth and financial wealth in the United States, 1983-2010

Total Net Worth

	Top 1 percent	Next 19 percent	Bottom 80 percent
1983	33.8%	47.5%	18.7%
1989	37.4%	46.2%	16.5%
1992	37.2%	46.6%	16.2%
1995	38.5%	45.4%	16.1%
1998	38.1%	45.3%	16.6%
2001	33.4%	51.0%	15.6%
2004	34.3%	50.3%	15.3%
2007	34.6%	50.5%	15.0%
2010	35.4%	53.5%	11.1%

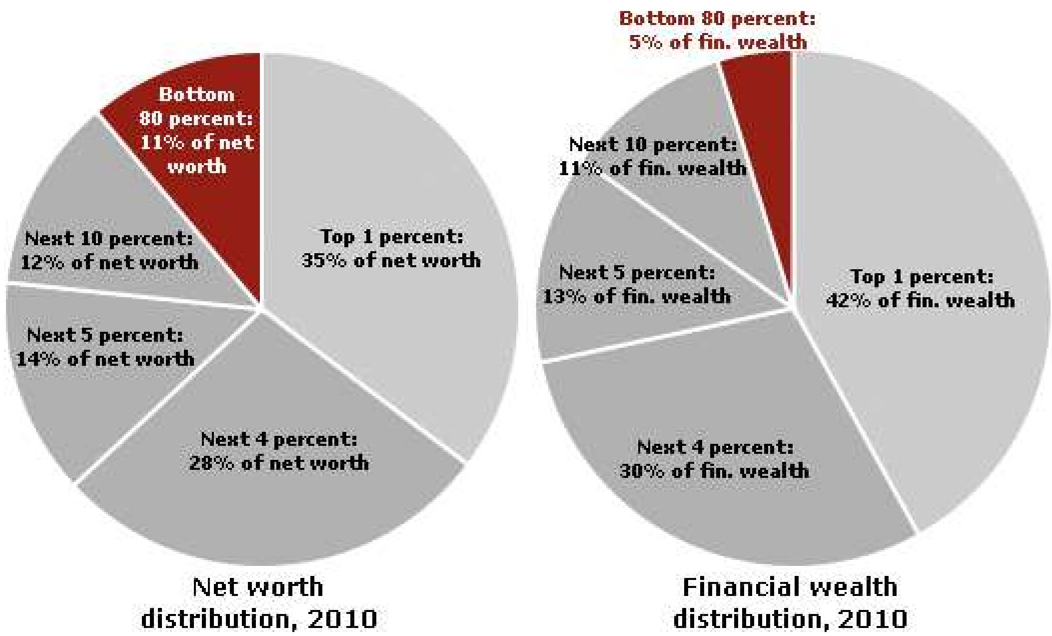
Financial (Non-Home) Wealth

	Top 1 percent	Next 19 percent	Bottom 80 percent
1983	42.9%	48.4%	8.7%
1989	46.9%	46.5%	6.6%
1992	45.6%	46.7%	7.7%
1995	47.2%	45.9%	7.0%
1998	47.3%	43.6%	9.1%
2001	39.7%	51.5%	8.7%
2004	42.2%	50.3%	7.5%
2007	42.7%	50.3%	7.0%
2010	42.1%	53.5%	4.7%

Total assets are defined as the sum of: (1) the gross value of owner-occupied housing; (2) other real estate owned by the household; (3) cash and demand deposits; (4) time and savings deposits, certificates of deposit, and money market accounts; (5) government bonds, corporate bonds, foreign bonds, and other financial securities; (6) the cash surrender value of life insurance plans; (7) the cash surrender value of pension plans, including IRAs, Keogh, and 401(k) plans; (8) corporate stock and mutual funds; (9) net equity in unincorporated businesses; and (10) equity in trust funds.

Total liabilities are the sum of: (1) mortgage debt; (2) consumer debt, including auto loans; and (3) other debt. From Wolff (2004, 2007, 2010, & 2012).

Figure 1: Net worth and financial wealth distribution in the U.S. in 2010



In terms of types of financial wealth, the top one percent of households have 35% of all privately held stock, 64.4% of financial securities, and 62.4% of business equity. The top ten percent have 81% to 94% of stocks, bonds, trust funds, and business equity, and almost 80% of non-home real estate. Since financial wealth is what counts as far as the control of income-producing assets, we can say that just 10% of the people own the United States of America.

Table 2: Wealth distribution by type of asset, 2010

Investment Assets

	Top 1 percent	Next 9 percent	Bottom 90 percent
Stocks and mutual funds	35.0%	45.8%	19.2%
Financial securities	64.4%	29.5%	6.1%
Trusts	38.0%	43.0%	19.0%
Business equity	61.4%	30.5%	8.1%
Non-home real estate	35.5%	43.6%	20.9%
TOTAL investment assets	50.4%	37.5%	12.0%

Housing, Liquid Assets, Pension Assets, and Debt

	Top 1 percent	Next 9 percent	Bottom 90 percent
Principal residence	9.2%	31.0%	59.8%
Deposits	28.1%	42.5%	29.5%

Life insurance	20.6%	34.1%	45.3%
Pension accounts	15.4%	50.2%	34.5%
TOTAL other assets	13.0%	37.8%	49.2%
Debt	5.9%	21.6%	72.5%

From Wolff (2012).

Figure 2a: Wealth distribution by type of asset, 2010: investment assets

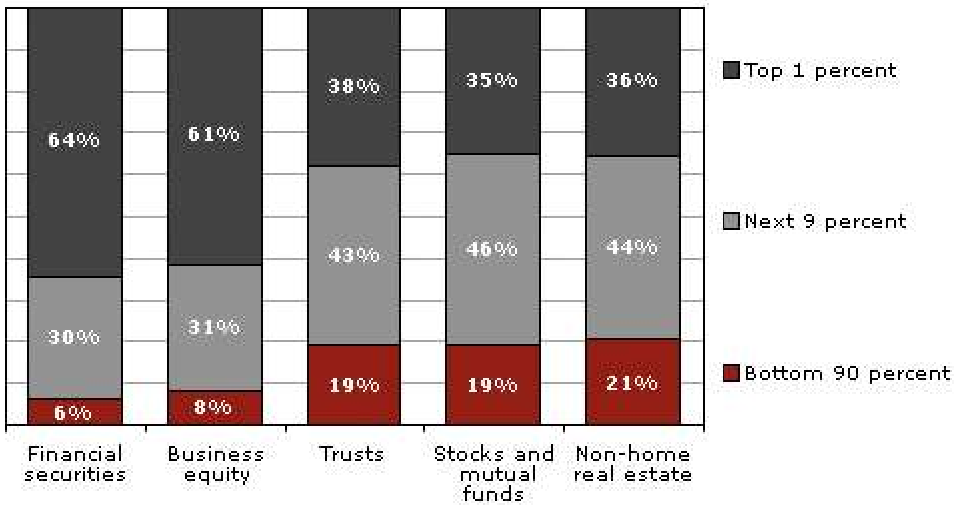
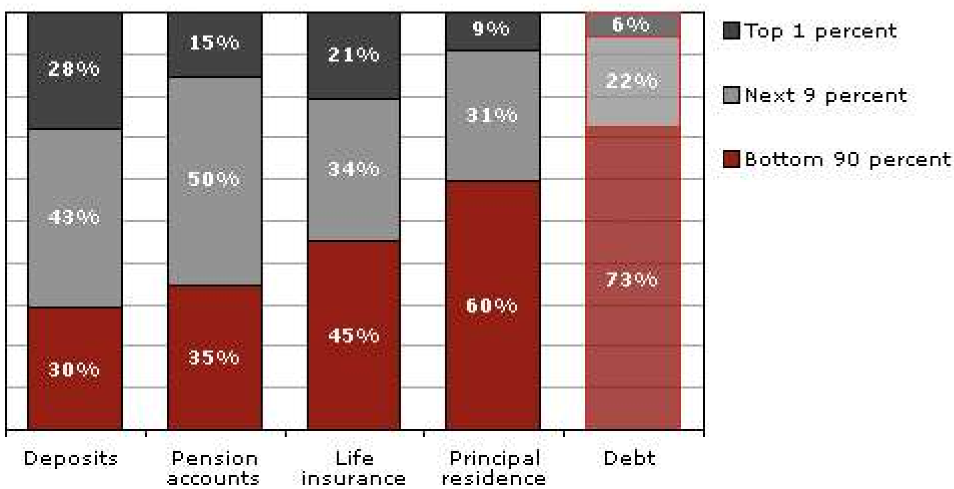


Figure 2b: Wealth distribution by type of asset, 2010: other assets



Inheritance and estate taxes

Figures on inheritance tell much the same story. According to a study published by the Federal Reserve Bank of Cleveland, only 1.6% of Americans receive $100,000 or more in inheritance. Another 1.1% receive $50,000 to $100,000. On the other hand, 91.9% receive nothing (Kotlikoff & Gokhale, 2000). Thus, the attempt by ultra-conservatives to eliminate inheritance taxes -- which they always call "death taxes" for P.R. reasons -- would take a huge bite out of government revenues (an estimated $253 billion between 2012 and 2022) for the benefit of the heirs of the mere 0.6% of Americans whose death would lead to the payment of any estate taxes whatsoever (Citizens for Tax Justice, 2010b).

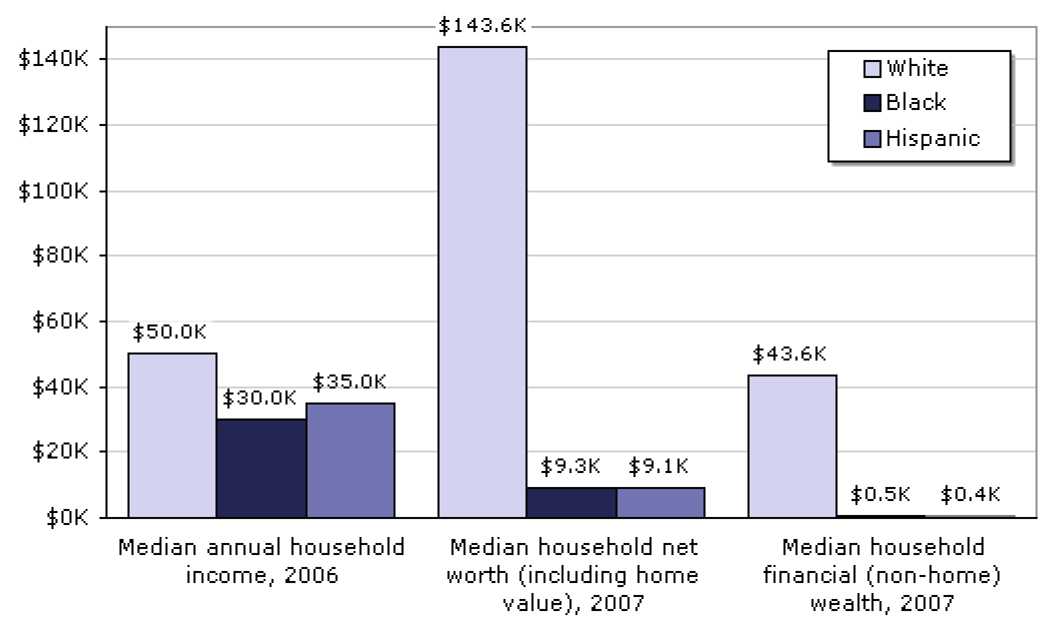
It is noteworthy that some of the richest people in the country oppose this ultra-conservative initiative, suggesting that this effort is driven by anti-government ideology. In other words, few of the ultra-conservative and libertarian activists behind the effort will benefit from it in any material way. However, a study (Kenny et al., 2006) of the *financial* support for eliminating inheritance taxes discovered that 18 super-rich families (mostly Republican financial donors, but a few who support Democrats) provide the anti-government activists with most of the money for this effort. (For more infomation, including the names of the major donors, download the article from United For a Fair Economy's Web site.)

Actually, ultra-conservatives and their wealthy financial backers may not have to bother to eliminate what remains of inheritance taxes at the federal level. The rich already have a new way to avoid inheritance taxes forever -- for generations and generations -- thanks to bankers. After Congress passed a reform in 1986 making it impossible for a "trust" to skip a generation before paying inheritance taxes, bankers convinced legislatures in many states to eliminate their "rules against perpetuities," which means that trust funds set up in those states can exist in perpetuity, thereby allowing the trust funds to own new businesses, houses, and much else for descendants of rich people, and even to allow the beneficiaries to avoid payments to creditors when in personal debt or sued for causing accidents and injuries. About $100 billion in trust funds has flowed into those states so far. You can read the details on these "dynasty trusts" (which could be the basis for an even more solidified "American aristocracy") in a *New York Times* opinion piece published in July 2010 by Boston College law professor Ray Madoff, who also has a book on this and other new tricks: *Immortality and the Law: The Rising Power of the American Dead* (Yale University Press, 2010).

Home ownership & wealth

For the vast majority of Americans, their homes are by far the most significant wealth they possess. Figure 3 comes from the Federal Reserve Board's Survey of Consumer Finances (via Wolff, 2010) and compares the median income, total wealth (net worth, which is marketable assets minus debt), and non-home wealth (which earlier we called financial wealth) of White, Black, and Hispanic households in the U.S.

Figure 3: Income and wealth by race in the U.S.



Besides illustrating the significance of home ownership as a source of wealth, the graph also shows that Black and Latino households are faring significantly worse overall, whether we are talking about income or net worth. In 2007, the average white household had 15 times as much total wealth as the average African-American or Latino household. If we exclude home equity from the calculations and consider only financial wealth, the ratios are in the neighborhood of 100:1. Extrapolating from these figures, we see that 70% of white families' wealth is in the form of their principal residence; for Blacks and Hispanics, the figures are 95% and 96%, respectively.

And for all Americans, things are getting worse: as the projections to July 2009 by Wolff (2010) make clear, the last few years have seen a huge loss in housing wealth for most families, making the gap between the rich and the rest of America even greater, and increasing the number of households with no marketable assets from 18.6% to 24.1%.

Do Americans know their country's wealth distribution?

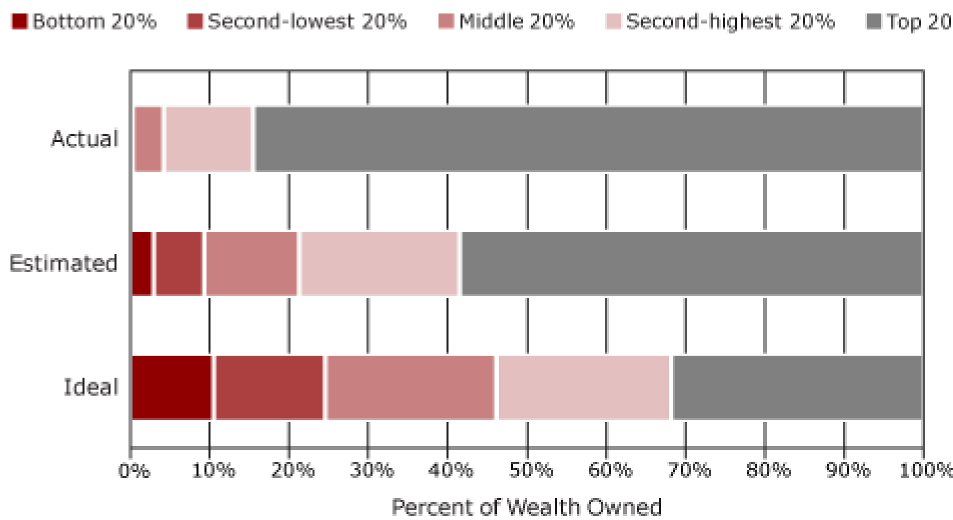
A remarkable study (Norton & Ariely, 2010) reveals that Americans have no idea that the wealth distribution (defined for them in terms of "net worth") is as concentrated as it is. When shown three pie charts representing possible wealth distributions, 90% or more of the 5,522 respondents -- whatever their gender, age, income level, or party affiliation -- thought that the American wealth distribution most resembled one in which the top 20% has about 60% of the wealth. In fact, of course, the top 20% control about 85% of the wealth (refer back to Table 1 and Figure 1 in this document for a more detailed breakdown of the numbers).

Even more striking, they did not come close on the amount of wealth held by the bottom 40% of the population. It's a number I haven't even mentioned so far, and it's shocking: the lowest two quintiles hold just 0.3% of the wealth in the United States. Most people in the survey guessed the figure to be between 8% and 10%, and two dozen academic economists got it wrong too, by guessing about 2% -- seven times too high. Those surveyed did have it about right for what the 20% in the middle have; it's at the top and the bottom that they don't have any idea of what's going on.

Americans from all walks of life were also united in their vision of what the "ideal" wealth distribution would be, which may come as an even bigger surprise than their shared misinformation on the actual wealth distribution. They said that the ideal wealth distribution would be one in which the top 20% owned between 30 and 40 percent of the privately held wealth, which is a far cry from the 85 percent that the top 20% actually own. They also said that the bottom 40% -- that's 120 million Americans -- should have between 25% and 30%, not the mere 8% to 10% they thought this group had, and far above the 0.3% they actually had. In fact, there's no country in the world that has a wealth distribution close to what Americans think is ideal when it comes to fairness. So maybe Americans are much more egalitarian than most of them realize about each other, at least in principle and before the rat race begins.

Figure 4, reproduced with permission from Norton & Ariely's article in Perspectives on Psychological Science, shows the actual wealth distribution, along with the survey respondents' estimated and ideal distributions, in graphic form.

Figure 4: The actual United States wealth distribution plotted against the estimated and ideal distributions.



Note: In the "Actual" line, the bottom two quintiles are not visible because the lowest quintile owns just 0.1% of all wealth, and the second-lowest quintile owns 0.2%.

Source: Norton & Ariely, 2010.

David Cay Johnston, a retired tax reporter for the New York Times, published an excellent summary of Norton & Ariely's findings (Johnston, 2010b; you can download the article from Johnston's Web site).

Historical context

Numerous studies show that the wealth distribution has been extremely concentrated throughout American history, with the top 1% already owning 40-50% in large port cities like Boston, New York, and Charleston in the 19th century. It was very stable over the course of the 20th century, although there were small declines in the aftermath of the New Deal and World II, when most people were working and could save a little money. There were progressive income tax rates, too, which took some money from the rich to help with government services.

Then there was a further decline, or flattening, in the 1970s, but this time in good part due to a fall in stock prices, meaning that the rich lost some of the value in their stocks. By the late 1980s, however, the wealth distribution was almost as concentrated as it had been in 1929, when the top 1% had 44.2% of all wealth. It has continued to edge up since that time, with a slight decline from 1998 to 2001, before the economy crashed in the late 2000s and little people got pushed down again. Table 3 and Figure 5 present the details from 1922 through 2007.

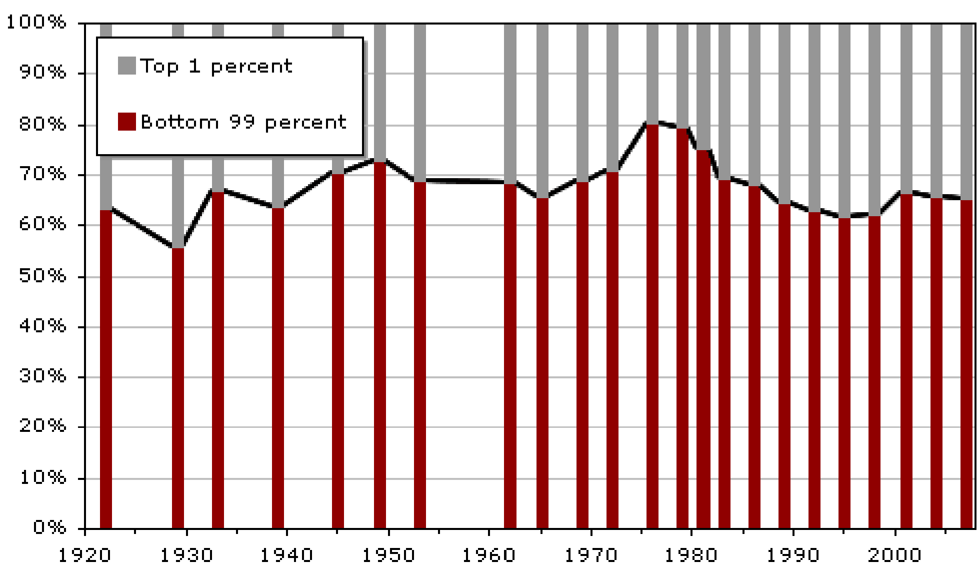
Table 3: Share of wealth held by the Bottom 99% and Top 1% in the United States, 1922-2007.

	Bottom 99 percent	Top 1 percent
1922	63.3%	36.7%
1929	55.8%	44.2%

1933	66.7%	33.3%
1939	63.6%	36.4%
1945	70.2%	29.8%
1949	72.9%	27.1%
1953	68.8%	31.2%
1962	68.2%	31.8%
1965	65.6%	34.4%
1969	68.9%	31.1%
1972	70.9%	29.1%
1976	80.1%	19.9%
1979	79.5%	20.5%
1981	75.2%	24.8%
1983	69.1%	30.9%
1986	68.1%	31.9%
1989	64.3%	35.7%
1992	62.8%	37.2%
1995	61.5%	38.5%
1998	61.9%	38.1%
2001	66.6%	33.4%
2004	65.7%	34.3%
2007	65.4%	34.6%

Sources: 1922-1989 data from Wolff (1996). 1992-2007 data from Wolff (2010).

Figure 5: Share of wealth held by the Bottom 99% and Top 1% in the United States, 1922-2007.



Here are some dramatic facts that sum up how the wealth distribution became even more concentrated between 1983 and 2004, in good part due to the tax cuts for the wealthy and the defeat of labor unions: Of all the new financial wealth created by the American economy in that 21-year-period, fully 42% of it went to the top 1%. A whopping 94% went to the top 20%, which of course means that the bottom 80% received only 6% of all the new financial wealth generated in the United States during the '80s, '90s, and early 2000s (Wolff, 2007).

The rest of the world

Thanks to a 2006 study by the World Institute for Development Economics Research -- using statistics for the year 2000 -- we now have information on the wealth distribution for the world as a whole, which can be compared to the United States and other well-off countries. The authors of the report admit that the quality of the information available on many countries is very spotty and probably off by several percentage points, but they compensate for this problem with very sophisticated statistical methods and the use of different sets of data. With those caveats in mind, we can still safely say that the top 10% of the world's adults control about 85% of global household wealth -- defined very broadly as all assets (not just financial assets), minus debts. That compares with a figure of 69.8% for the top 10% for the United States. The only industrialized democracy with a higher concentration of wealth in the top 10% than the United States is Switzerland at 71.3%. For the figures for several other Northern European countries and Canada, all of which are based on high-quality data, see Table 4.

Table 4: Percentage of wealth held in 2000 by the Top 10% of the adult population in various Western countries

	wealth owned by top 10%
Switzerland	71.3%
United States	69.8%
Denmark	65.0%
France	61.0%
Sweden	58.6%
UK	56.0%
Canada	53.0%
Norway	50.5%
Germany	44.4%
Finland	42.3%

The Relationship Between Wealth and Power

What's the relationship between wealth and power? To avoid confusion, let's be sure we understand they are two different issues. Wealth, as I've said, refers to the value of everything people own, minus what they owe, but the focus is on "marketable assets" for purposes of economic and power studies. Power, as explained elsewhere on this site, has to do with the ability (or call it capacity) to realize wishes, or reach goals, which amounts to the same thing, even in the face of opposition (Russell, 1938; Wrong, 1995). Some definitions refine this point to say that power involves Person A or Group A affecting Person B or Group B "in a manner contrary to B's interests," which then necessitates a discussion of "interests," and quickly leads into the realm of philosophy (Lukes, 2005, p. 30). Leaving those discussions for the philosophers, at least for now, how do the concepts of wealth and power relate?

First, wealth can be seen as a "resource" that is very useful in exercising power. That's obvious when we think of donations to political parties, payments to lobbyists, and grants to experts who are employed to think up new policies beneficial to the wealthy. Wealth also can be useful in shaping the general social environment to the benefit of the wealthy, whether through hiring public relations firms or donating money for universities, museums, music halls, and art galleries.

Second, certain kinds of wealth, such as stock ownership, can be used to control corporations, which of course have a major impact on how the society functions. Tables 5a and 5b show what the distribution of stock ownership looks like. Note how the top one percent's share of stock equity increased (and the bottom 80 percent's share decreased) between 2001 and 2007.

Table 5a: Concentration of stock ownership in the United States, 2001-2007

	Percent of all stock owned:		
Wealth class	**2001**	**2004**	**2007**
Top 1%	33.5%	36.7%	38.3%
Next 19%	55.8%	53.9%	52.8%
Bottom 80%	10.7%	9.4%	8.9%

Table 5b: Amount of stock owned by various wealth classes in the U.S., 2007

	Percent of households owning stocks worth:		
Wealth class	**$0 (no stocks)**	**$1-$10,000**	**More than $10,000**
Top 1%	7.4%	4.2%	88.4%
95-99%	7.8%	2.7%	89.5%
90-95%	13.2%	5.4%	81.4%
80-90%	17.9%	10.9%	71.2%
60-80%	34.6%	18.3%	47.1%
40-60%	52.3%	25.6%	22.1%
20-40%	69.7%	21.6%	8.7%
Bottom 20%	84.7%	14.3%	2.0%
TOTAL	50.9%	17.5%	31.6%

Both tables' data from Wolff (2007 & 2010). Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts. All figures are in 2007 dollars.

Third, just as wealth can lead to power, so too can power lead to wealth. Those who control a government can use their position to feather their own nests, whether that means a favorable land deal for relatives at the local level or a huge federal government contract for a new corporation run by friends who will hire you when you leave government. If we take a larger historical sweep and look cross-nationally, we are well aware that the leaders of conquering armies often grab enormous wealth, and that some religious leaders use their positions to acquire wealth.

There's a fourth way that wealth and power relate. For research purposes, the wealth distribution can be seen as the main "value distribution" within the general power indicator I call "who benefits." What follows in the next three paragraphs is a little long-winded, I realize, but it needs to be said because some social scientists -- primarily pluralists -- argue that who wins and who loses in a variety of policy conflicts is the only valid power indicator (Dahl, 1957, 1958; Polsby, 1980). And philosophical discussions don't even mention wealth or other power indicators (Lukes, 2005). (If you have heard it all before, or can do without it, feel free to skip ahead to the last paragraph of this section)

Here's the argument: if we assume that most people would like to have as great a share as possible of the things that are valued in the society, then we can infer that those who have the most goodies are the most powerful. Although some value distributions may be unintended outcomes that do not really reflect power, as pluralists are quick to tell us, the general distribution of valued experiences and objects within a society still can be viewed as the most publicly visible and stable outcome of the operation of power.

In American society, for example, wealth and well-being are highly valued. People seek to own property, to have high incomes, to have interesting and safe jobs, to enjoy the finest in travel and leisure, and to live long and healthy lives. All of these "values" are unequally distributed, and all may be utilized as power indicators. However, the primary focus with this type of power indicator is on the wealth distribution sketched out in the previous section.

The argument for using the wealth distribution as a power indicator is strengthened by studies showing that such distributions vary historically and from country to country, depending upon the relative strength of rival political parties and trade unions, with the United States having the most highly concentrated wealth distribution of any Western democracy except Switzerland. For example, in a study based on 18 Western democracies, strong trade unions and successful social democratic parties correlated with greater equality in the income distribution and a higher level of welfare spending (Stephens, 1979).

And now we have arrived at the point I want to make. If the top 1% of households have 30-35% of the wealth, that's 30 to 35 times what they would have if wealth were equally distributed, and so we infer that they must be powerful. And then we set out to see if the same set of households scores high on other power indicators (it does). Next we study how that power operates, which is what most articles on this site are about. Furthermore, if the top 20% have 84% of the wealth (and recall that 10% have 85% to 90% of the stocks, bonds, trust funds, and business equity), that means that the United States is a power pyramid. It's tough for the bottom 80% -- maybe even the bottom 90% -- to get organized and exercise much power.

Income and Power

The income distribution also can be used as a power indicator. As Table 6 shows, it is not as concentrated as the wealth distribution, but the top 1% of income earners did receive 17% of all income in the year 2003 and 21.3% in 2006. That's up from 12.8% for the top 1% in 1982, which is quite a jump, and it parallels what is happening with the wealth distribution. This is further support for the inference that the power of the corporate community and the upper class have been increasing in recent decades.

Table 6: Distribution of income in the United States, 1982-2006

	Income		
	Top 1 percent	Next 19 percent	Bottom 80 percent
1982	12.8%	39.1%	48.1%
1988	16.6%	38.9%	44.5%
1991	15.7%	40.7%	43.7%
1994	14.4%	40.8%	44.9%
1997	16.6%	39.6%	43.8%
2000	20.0%	38.7%	41.4%
2003	17.0%	40.8%	42.2%
2006	21.3%	40.1%	38.6%

From Wolff (2010).

The rising concentration of income can be seen in a special New York Times analysis by David Cay Johnston of an Internal Revenue Service report on income in 2004. Although overall income had grown by 27% since 1979, 33% of the gains went to the top 1%. Meanwhile, the bottom 60% were making less: about 95 cents for each dollar they made in 1979. The next 20% - those between the 60th and 80th rungs of the income ladder -- made $1.02 for each dollar they earned in 1979. Furthermore, Johnston concludes that only the top 5% made significant gains ($1.53 for each 1979 dollar). Most amazing of all, the top 0.1% -- that's one-tenth of one percent -- had more combined pre-tax income than the poorest 120 million people (Johnston, 2006).

But the increase in what is going to the few at the top did not level off, even with all that. As of 2007, income inequality in the United States was at an all-time high for the past 95 years, with the top 0.01% -- that's one-hundredth of one percent -- receiving 6% of all U.S. wages, which is double what it was for that tiny slice in 2000; the top 10% received 49.7%, the highest since 1917 (Saez, 2009). However, in an analysis of 2008 tax returns for the top 0.2% -- that is, those whose income tax returns reported $1,000,000 or more in income (mostly from individuals, but nearly a third from couples) -- it was found that they received 13% of all income, down slightly from 16.1% in 2007 due to the decline in payoffs from financial assets (Norris, 2010).

And the rate of increase is even higher for the very richest of the rich: the top 400 income earners in the United States. According to another analysis by Johnston (2010a), the average income of the top 400 tripled during the Clinton Administration and doubled during the first seven years of the Bush Administration. So by 2007, the top 400 averaged $344.8 million per person, up 31% from an average of $263.3 million just one year earlier. (For another recent revealing study by Johnston, read "Is Our Tax System Helping Us Create Wealth?").

How are these huge gains possible for the top 400? It's due to cuts in the tax rates on capital gains and dividends, which were down to a mere 15% in 2007 thanks to the tax cuts proposed by the Bush Administration and passed by Congress in 2003. Since almost 75% of the income for the top 400 comes from capital gains and dividends, it's not hard to see why tax cuts on income sources available to only a tiny percent of Americans mattered greatly for the high-earning few. Overall, the effective tax rate on high incomes fell by 7% during the Clinton presidency and 6% in the Bush era, so the top 400 had a tax rate of 20% or less in 2007, far lower than the marginal tax rate of 35% that the highest income earners (over $372,650) supposedly pay. It's also worth noting that only the first $106,800 of a person's income is taxed for Social Security purposes (as of 2010), so it would clearly be a boon to the Social Security Fund if everyone -- not just those making less than $106,800 -- paid the Social Security tax on their full incomes.

Do Taxes Redistribute Income?

It is widely believed that taxes are highly progressive and, furthermore, that the top several percent of income earners pay most of the taxes received by the federal government. Both ideas are wrong because they focus on official, rather than "effective" tax rates and ignore payroll taxes, which are mostly paid by those with incomes below $100,000 per year.

But what matters in terms of a power analysis is what percentage of their income people at different income levels pay to all levels of government (federal, state, and local) in taxes. If the less-well-off majority is somehow able to wield power, we would expect that the high earners would pay a bigger percentage of their income in taxes, because the majority figures the well-to-do would still have plenty left after taxes to make new investments and lead the good life. If the high earners have the most power, we'd expect them to pay about the same as everybody else, or less.

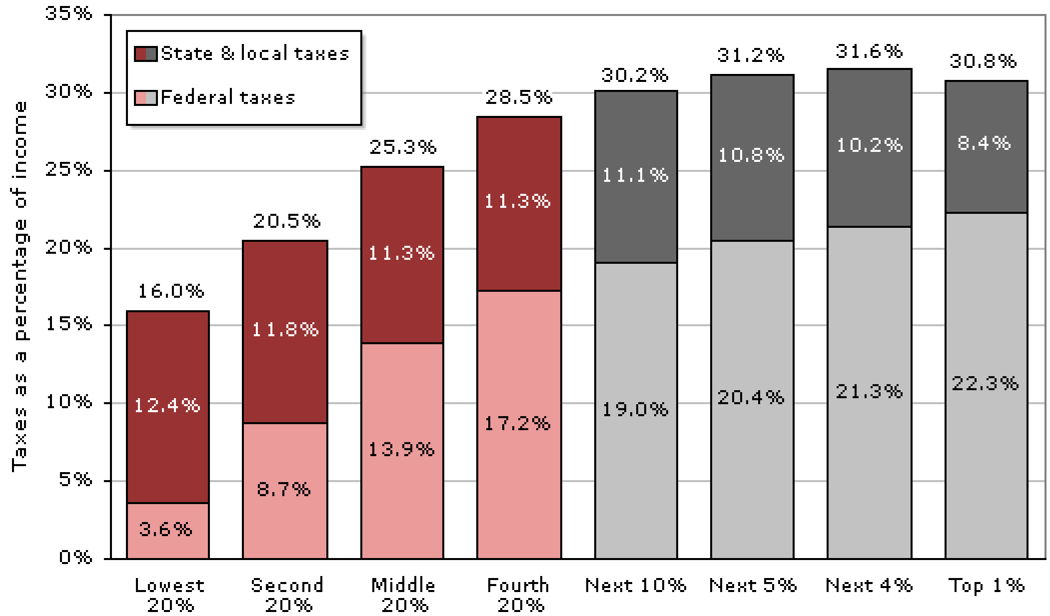
Citizens for Tax Justice, a research group that's been studying tax issues from its offices in Washington since 1979, provides the information we need. When all taxes (not just income taxes) are taken into account, the lowest 20% of earners (who average about $12,400 per year), paid 16.0% of their income to taxes in 2009; and the next 20% (about $25,000/year), paid 20.5% in taxes. So if we only examine these first two steps, the tax system looks like it is going to be progressive.

And it keeps looking progressive as we move further up the ladder: the middle 20% (about $33,400/year) give 25.3% of their income to various forms of taxation, and the next 20% (about $66,000/year) pay 28.5%. So taxes are progressive for the bottom 80%. But if we break the top 20% down into smaller chunks, we find that progressivity starts to slow down, then it stops, and then it slips backwards for the top 1%.

Specifically, the next 10% (about $100,000/year) pay 30.2% of their income as taxes; the next 5% ($141,000/year) dole out 31.2% of their earnings for taxes; and the next 4% ($245,000/year) pay 31.6% to taxes. You'll note that the progressivity is slowing down. As for the top 1% -- those who take in $1.3 million per year on average -- they pay 30.8% of their income to taxes, which is a little less than what the 9% just below them pay, and only a tiny bit more than what the segment between the 80th and 90th percentile pays.

What I've just explained with words can be seen more clearly in Figure 6.

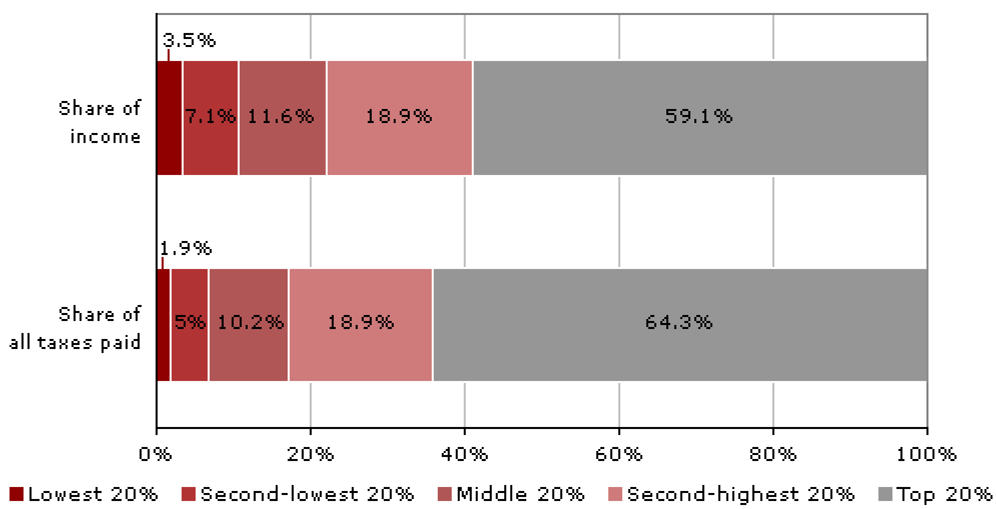
Figure 6: Share of income paid as tax, including local and state tax



Source: Citizens for Tax Justice (2010a).

We also can look at this information on income and taxes in another way by asking what percentage of all taxes various income levels pay. (This is not the same as the previous question, which asked what percentage of their incomes went to taxes for people at various income levels.) And the answer to this new question can be found in Figure 7. For example, the top 20% receives 59.1% of all income and pays 64.3% of all the taxes, so they aren't carrying a huge extra burden. At the other end, the bottom 20%, which receives 3.5% of all income, pays 1.9% of all taxes.

Figure 7: Share of all income earned and all taxes paid, by quintile



Source: Citizens for Tax Justice (2010a).

So the best estimates that can be put together from official government numbers show a little bit of progressivity. But the details on those who earn millions of dollars each year are very hard to come by, because they can stash a large part of their wealth in off-shore tax havens in the Caribbean and little countries in Europe, starting with Switzerland. And there are many loopholes and gimmicks they can use, as summarized with striking examples in Free Lunch and Perfectly Legal, the books by Johnston that were mentioned earlier. For example, Johnston explains the ways in which high earners can hide their money and delay on paying taxes, and then invest for a profit what normally would be paid in taxes.

Income inequality in other countries

The degree of income inequality in the United States can be compared to that in other countries on the basis of the Gini coefficient, a mathematical ratio that allows economists to put all countries on a scale with values that range (hypothetically) from zero (everyone in the country has the same income) to 100 (one person in the country has all the income). On this widely used measure, the United States ends up 95th out of the 134 countries that have been studied -- that is, only 39 of the 134 countries have worse income inequality. The U.S. has a Gini index of 45.0; Sweden is the lowest with 23.0, and South Africa is near the top with 65.0.

The table that follows displays the scores for 22 major countries, along with their ranking in the longer list of 134 countries that were studied (most of the other countries are very small and/or very poor). In examining this table, remember that it does not measure the same thing as Table 4 earlier in this document, which was about the wealth distribution. Here we are looking at the income distribution, so the two tables won't match up as far as rankings. That's because a country can have a highly concentrated wealth distribution and still have a more equal distribution of income due to high taxes on top income earners and/or high minimum wages -- both Switzerland and Sweden follow this pattern. So one thing that's distinctive about the U.S. compared to other industrialized democracies is that both its wealth and income distributions are highly concentrated.

Table 7: Income equality in selected countries

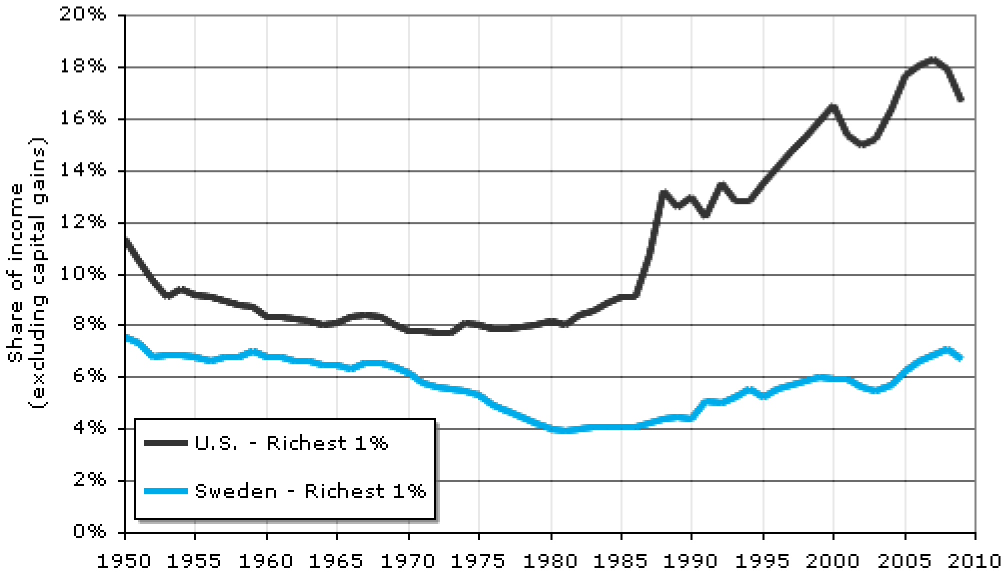
Country/Overall Rank	Gini Coefficient
1. Sweden	23.0
2. Norway	25.0
8. Austria	26.0
10. Germany	27.0
17. Denmark	29.0
25. Australia	30.5
34. Italy	32.0
35. Canada	32.1
37. France	32.7
42. Switzerland	33.7
43. United Kingdom	34.0
45. Egypt	34.4
56. India	36.8
61. Japan	38.1
68. Israel	39.2
81. China	41.5
82. Russia	42.3
90. Iran	44.5
93. United States	45.0
107. Mexico	48.2
125. Brazil	56.7
133. South Africa	65.0

Note: These figures reflect family/household income, not individual income.

Source: Central Intelligence Agency (2010).

The differences in income inequality between countries also can be illustrated by looking at the share of income earned by the now-familiar Top 1% versus the Bottom 99%. One of the most striking contrasts is between Sweden and the United States from 1950 to 2009, as seen in Figure 8; and note that the differences between the two countries narrowed in the 1950s and 1960s, but after that went their separate ways, in rather dramatic fashion.

Figure 8: Top income shares in the U.S. and Sweden, 1950-2009



Source: Alvaredo et al. (2012), *World Top Incomes Database*.

The impact of "transfer payments"

As we've seen, taxes don't have much impact on the income distribution, especially when we look at the top 1% or top 0.1%. Nor do various kinds of tax breaks and loopholes have much impact on the income distribution overall. That's because the tax deductions that help those with lower incomes -- such as the Earned Income Tax Credit (EITC), tax forgiveness for low-income earners on Social Security, and tax deductions for dependent children -- are offset by the breaks for high-income earners (for example: dividends and capital gains are only taxed at a rate of 15%; there's no tax on the interest earned from state and municipal bonds; and 20% of the tax deductions taken for dependent children actually go to people earning over $100,000 a year).

But it is sometimes said that income inequality is reduced significantly by government programs that matter very much in the lives of low-income Americans. These programs provide "transfer payments," which are a form of income for those in need. They include unemployment compensation, cash payments to the elderly who don't have enough to live on from Social Security, Temporary Assistance to Needy Families (welfare), food stamps, and Medicaid.

Thomas Hungerford (2009), a tax expert who works for the federal government's Congressional Research Service, carried out a study for Congress that tells us about the real-world impact of transfer payments on reducing income inequality. Hungerford's study is based on 2004 income data from an ongoing study of a representative sample of families at the University of Michigan, and it includes the effects of both taxes and four types of transfer payments (Social Security, Temporary Assistance to Needy Families, food stamps, and Medicaid). The table that follows shows the income inequality index (that is, the Gini coefficient) at three points along the way: (1.) before taxes or transfers; (2) after taxes are taken into account; and (3) after both taxes and transfer payments are included in the equation. (The Citizens for Tax Justice study of income and taxes for 2009, discussed earlier, included transfer payments as income, so that study and Hungerford's have similar starting points. But they can't be directly compared, because they use different years.)

Table 8: Redistributive effect of taxes and transfer payments

Income definition	Gini index
Before taxes and transfers	0.5116
After taxes, before transfers	0.4774
After taxes and transfers	0.4284

Source: Congressional Research Service, adapted from Hungerford (2009).

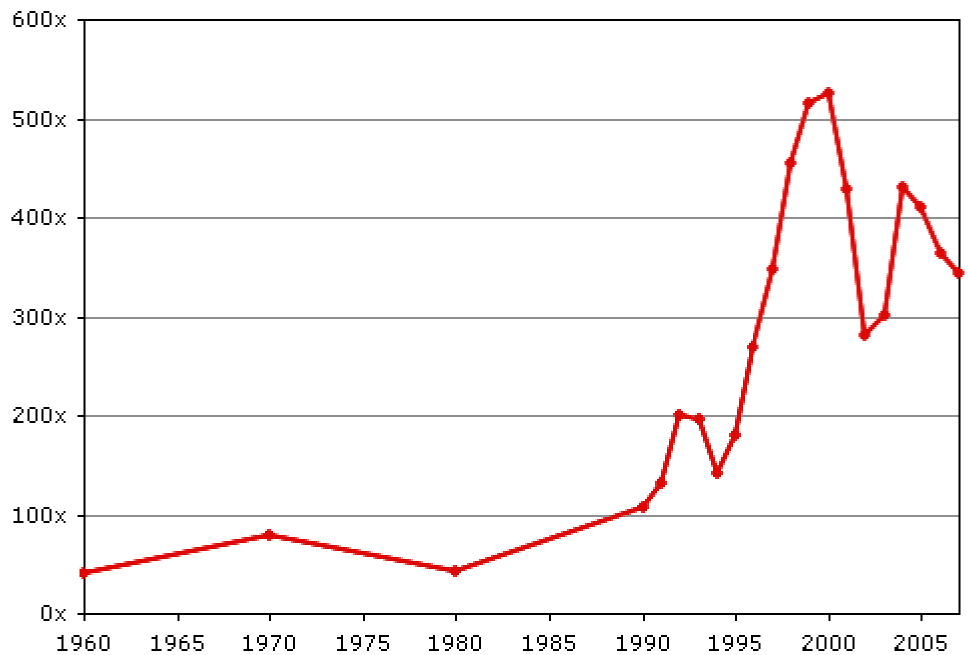
As can be seen, Hungerford's findings first support what we had learned earlier from the Citizens for Tax Justice study: taxes don't do much to reduce inequality. They secondly reveal that transfer payments have a slightly larger impact on inequality than taxes, but not much. Third, his findings tell us that taxes and transfer payments together reduce the inequality index from .52 to .43, which is very close to the CIA's estimate of .45 for 2008.

In short, for those who ask if progressive taxes and transfer payments even things out to a significant degree, the answer is that while they have some effect, they don't do nearly as much as in Canada, major European countries, or Japan.

Income Ratios and Power: Executives vs. Average Workers

Another way that income can be used as a power indicator is by comparing average CEO annual pay to average factory worker pay, something that has been done for many years by Business Week and, later, the Associated Press. The ratio of CEO pay to factory worker pay rose from 42:1 in 1960 to as high as 531:1 in 2000, at the height of the stock market bubble, when CEOs were cashing in big stock options. It was at 411:1 in 2005 and 344:1 in 2007, according to research by United for a Fair Economy. By way of comparison, the same ratio is about 25:1 in Europe. The changes in the American ratio from 1960 to 2007 are displayed in Figure 9, which is based on data from several hundred of the largest corporations.

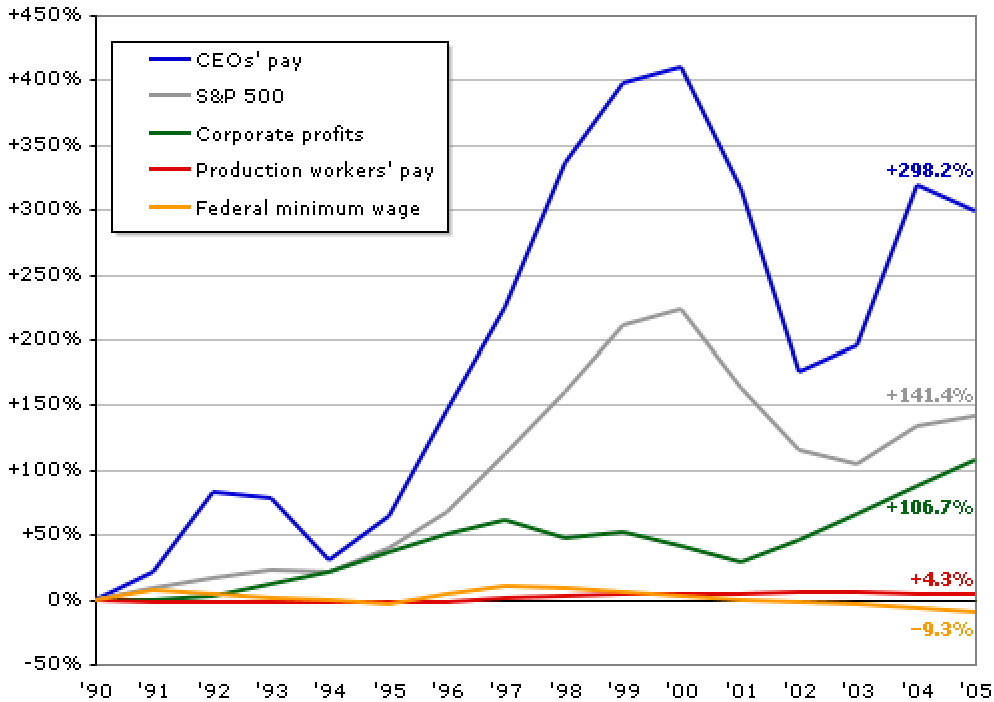
Figure 9: CEOs' pay as a multiple of the average worker's pay, 1960-2007



Source: *Executive Excess 2008*, the 15th Annual CEO Compensation Survey from the Institute for Policy Studies and United for a Fair Economy.

It's even more revealing to compare the actual rates of increase of the salaries of CEOs and ordinary workers; from 1990 to 2005, CEOs' pay increased almost 300% (adjusted for inflation), while production workers gained a scant 4.3%. The purchasing power of the federal minimum wage actually declined by 9.3%, when inflation is taken into account. These startling results are illustrated in Figure 10.

Figure 10: CEOs' average pay, production workers' average pay, the S&P 500 Index, corporate profits, and the federal minimum wage, 1990-2005 (all figures adjusted for inflation)



Source: *Executive Excess 2006*, the 13th Annual CEO Compensation Survey from the Institute for Policy Studies and United for a Fair Economy.

Although some of the information I've relied upon to create this section on executives' vs. workers' pay is a few years old now, the AFL/CIO provides up-to-date information on CEO salaries at their Web site. There, you can learn that the median compensation for CEO's in *all* industries as of early 2010 is $3.9 million; it's $10.6 million for the companies listed in Standard and Poor's 500, and $19.8 million for the companies listed in the Dow-Jones Industrial Average. Since the median worker's pay is about $36,000, then you can quickly calculate that CEOs in general make 100 times as much as the workers, that CEO's of S&P 500 firms make almost 300 times as much, and that CEOs at the Dow-Jones companies make 550 times as much. (For a more recent update on CEOs' pay, see "The Drought Is Over (At Least for CEOs)" at NYTimes.com; the article reports that the median compensation for CEOs at 200 major companies was $9.6 million in 2010 -- up by about 12% over 2009 and generally equal to or surpassing pre-recession levels. For specific information about some of the top CEOs, see http://projects.nytimes.com/executive_compensation.

If you wonder how such a large gap could develop, the proximate, or most immediate, factor involves the way in which CEOs now are able to rig things so that the board of directors, which they help select -- and which includes some fellow CEOs on whose boards they sit -- gives them the pay they want. The trick is in hiring outside experts, called "compensation consultants," who give the process a thin veneer of economic respectability.

The process has been explained in detail by a retired CEO of DuPont, Edgar S. Woolard, Jr., who is now chair of the New York Stock Exchange's executive compensation committee. His experience suggests that he knows whereof he speaks, and he speaks because he's concerned that corporate leaders are losing respect in the public mind. He says that the business page chatter about CEO salaries being set by the competition for their services in the executive labor market is "bull." As to the claim that CEOs deserve ever higher salaries because they "create wealth," he describes that rationale as a "joke," says the New York Times (Morgenson, 2005).

Here's how it works, according to Woolard:

The compensation committee [of the board of directors] talks to an outside consultant who has surveys you could drive a truck through and pay anything you want to pay, to be perfectly honest. The outside consultant talks to the human resources vice president, who talks to the CEO. The CEO says what he'd like to receive. It gets to the human resources person who tells the outside consultant. And it pretty well works out that the CEO gets what he's implied he thinks he deserves, so he will be respected by his peers. (Morgenson, 2005.)

The board of directors buys into what the CEO asks for because the outside consultant is an "expert" on such matters. Furthermore, handing out only modest salary increases might give the wrong impression about how highly the board values the CEO. And if someone on the board should object, there are the three or four CEOs from other companies who will make sure it happens. It is a process with a built-in escalator.

As for why the consultants go along with this scam, they know which side their bread is buttered on. They realize the CEO has a big say-so on whether or not they are hired again. So they suggest a package of salaries, stock options and other goodies that they think will please the CEO, and they, too, get rich in the process. And certainly the top executives just below the CEO don't mind hearing about the boss's raise. They know it will mean pay increases for them, too. (For an excellent detailed article on the main consulting firm that helps CEOs and other corporate executives raise their pay, check out the New York Times article entitled "America's Corporate Pay Pal", which supports everything Woolard of DuPont claims and adds new information.)

If hiring a consulting firm doesn't do the trick as far as raising CEO pay, then it may be possible for the CEO to have the board change the way in which the success of the company is determined. For example, Walmart Stores, Inc. used to link the CEO's salary to sales figures at established stores. But when declining sales no longer led to big pay raises, the board simply changed the magic formula to use total companywide sales instead. By that measure, the CEO could still receive a pay hike (Morgenson, 2011).

There's a much deeper power story that underlies the self-dealing and mutual back-scratching by CEOs now carried out through interlocking directorates and seemingly independent outside consultants. It probably involves several factors. At the least, on the workers' side, it reflects their loss of power following the all-out attack on unions in the 1960s and 1970s, which is explained in detail in an excellent book by James Gross (1995), a labor and industrial relations professor at Cornell. That decline in union power made possible and was increased by both outsourcing at home and the movement of production to developing countries, which were facilitated by the break-up of the New Deal coalition and the rise of the New Right (Domhoff, 1990, Chapter 10). It signals the shift of the United States from a high-wage to a low-wage economy, with professionals protected by the fact that foreign-trained doctors and lawyers aren't allowed to compete with their American counterparts in the direct way that low-wage foreign-born workers are.

(You also can read a quick version of my explanation for the "right turn" that led to changes in the wealth and income distributions in an article on this site, where it is presented in the context of criticizing the explanations put forward by other theorists.)

On the other side of the class divide, the rise in CEO pay may reflect the increasing power of chief executives as compared to major owners and stockholders in general, not just their increasing power over workers. CEOs may now be the center of gravity in the corporate community and the power elite, displacing the leaders in wealthy owning families (e.g., the second and third generations of the Walton family, the owners of Wal-Mart). True enough, the CEOs are sometimes ousted by their generally go-along boards of directors, but they are able to make hay and throw their weight around during the time they are king of the mountain.

The claims made in the previous paragraph need much further investigation. But they demonstrate the ideas and research directions that are suggested by looking at the wealth and income distributions as indicators of power.

Further Information

- The 2010 Wolff paper is on-line at http://www.levyinstitute.org/publications/?docid=1235; Edward Wolff's home page at New York University is at http://www.econ.nyu.edu/user/wolffe/.
- The Census Bureau report is on line at http://www.census.gov/hhes/www/wealth/wealth.html
- The World Institute for Development Economics Research (UNU-WIDER) report on household wealth throughout the world is available at http://tinyurl.com/wdhw08; see the WIDER site for more about their research.
- For good summaries of other information on wealth and income, and for information on the estate tax, see the United For A Fair Economy site at http://www.faireconomy.org/. Their research on CEO pay can be found here: http://www.faireconomy.org/issues/ceo_pay
- For some recent data on taxes from a variety of angles -- presented in a number of colorful charts and graphs -- the Center on Budget and Policy Priorities created a page entitled "Top Ten Tax Charts" in April 2011.
- The *New York Times* ran an excellent series of articles on executive compensation in the fall of 2006 entitled "Gilded Paychecks." Look for it by searching the archives on NYTimes.com.
- For a brief 2010 account by tax expert David Cay Johnston on how the owners of oil pipelines have avoided taxes for the past 25 years simply by converting from the corporate form of ownership to partnerships, check out his brief video on YouTube. For the full details, see his column on tax.com.
- To see a video of Ed Woolard giving his full speech about executive compensation, go to http://www.compensationstandards.com/nonmember/EdWoolard_video.asp (WMV file, may not be viewable on all platforms/browsers)
- The Shapiro & Friedman paper on capital income, along with many other reports on the federal budget and its consequences, are available at the Center on Budget and Policy Priorities site: http://www.cbpp.org/pubs/recent.html
- The AFL-CIO maintains a site called "Executive Paywatch," which summarizes information about the salary disparity between executives and other workers: http://www.aflcio.org/corporatewatch/paywatch/.
- Emmanuel Saez, Professor of Economics at UC Berkeley, has written or co-authored a number of papers on income inequality and related topics: http://elsa.berkeley.edu/~saez/
- An update on the lack of wage growth in the 2007-2010 recession ("Recession hits workers' paychecks") can be found at the Web site of the Economic Policy Institute.

References

AFL-CIO (2010). *Executive PayWatch: CEO Pay Database: Compensation by Industry.* Retrieved February 8, 2010 from http://www.aflcio.org/corporatewatch/paywatch/ceou/industry.cfm.

Alvaredo, F., Atkinson, T., Piketty, T., & Saez, E. (2012). *World Top Incomes Database.* Retrieved March 14, 2012 from http://g-mond.parisschoolofeconomics.eu/topincomes/.

Anderson, S., Cavanagh, J., Collins, C., Lapham, M., & Pizzigati, S. (2008). *Executive Excess 2008: How Average Taxpayers Subsidize Runaway Pay.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Anderson, S., Cavanagh, J., Collins, C., Lapham, M., & Pizzigati, S. (2007). *Executive Excess 2007: The Staggering Social Cost of U.S. Business Leadership.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Anderson, S., Benjamin, E., Cavanagh, J., & Collins, C. (2006). *Executive Excess 2006: Defense and Oil Executives Cash in on Conflict.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Anderson, S., Cavanagh, J., Klinger, S., & Stanton, L. (2005). *Executive Excess 2005: Defense Contractors Get More Bucks for the Bang.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Center for Economic and Policy Research (2011). *New Census Numbers Make it Official: 2000-2010 Was a Lost Economic Decade.* Retrieved October 25, 2011 from http://www.cepr.net/data-bytes/poverty-bytes/new-census-numbers-make-it-official-2000-2010-was-lost-economic-decade.

Central Intelligence Agency (2010). *World Factbook: Country Comparison: Distribution of family income - Gini index*. Retrieved October 26, 2010 from https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html.

Citizens for Tax Justice (2010b). *State-by-State Estate Tax Figures: Number of Deaths Resulting in Estate Tax Liability Continues to Drop.* Retrieved December 13, 2010 from http://www.ctj.org/pdf/estatetax2010.pdf.

Citizens for Tax Justice (2010a). *All Americans Pay Taxes.* Retrieved April 15, 2010 from http://www.ctj.org/pdf/taxday2010.pdf.

Dahl, R. A. (1957). The concept of power. *Behavioral Science*, *2*, 202-210.

Dahl, R. A. (1958). A critique of the ruling elite model. *American Political Science Review, 52*, 463-469.

Davies, J. B., Sandstrom, S., Shorrocks, A., & Wolff, E. N. (2006). *The World Distribution of Household Wealth.* Helsinki: World Institute for Development Economics Research.

Domhoff, G. W. (1990). *The Power Elite and the State: How Policy Is Made in America.* Hawthorne, NY: Aldine de Gruyter.

Gross, J. A. (1995). *Broken Promise: The Subversion of U.S. Labor Relations Policy.* Philadelphia: Temple University Press.

Hungerford, T. (2009). *Redistribution effects of federal taxes and selected tax provisions.* Washington: Congressional Research Service.

Johnston, D. C. (2011). *Beyond the 1 percent.* Retrieved November 7, 2011 from http://blogs.reuters.com/david-cay-johnston/2011/10/25/beyond-the-1-percent/.

Johnston, D. C. (2010b). *United in Our Delusion.* Retrieved October 12, 2010 from http://www.tax.com/taxcom/taxblog.nsf/Permalink/UBEN-8A6TUW?OpenDocument.

Johnston, D. C. (2010a). *Tax Rates for Top 400 Earners Fall as Income Soars, IRS Data.* Retrieved February 23, 2010 from http://www.tax.com/taxcom/features.nsf/Articles/0DEC0EAA7E4D7A2B852576CD00714692?OpenDocument.

Johnston, D. C. (2009, December 21). Is Our Tax System Helping Us Create Wealth? *Tax Notes*, pp. 1375-1377.

Johnston, D. C. (2006, November 28). '04 Income in U.S. Was Below 2000 Level. *New York Times*, p. C-1.

Keister, L. (2005). *Getting Rich: A Study of Wealth Mobility in America.* New York: Cambridge University Press.

Kenny, C., Lincoln, T., Collins, C., & Farris, L. (2006). *Spending Millions to Save Billions: The Campaign of the Super Wealthy to Kill the Estate Tax*. Washington, DC: Public Citizen / United for a Fair Economy.

Kotlikoff, L., & Gokhale, J. (2000). *The Baby Boomers' Mega-Inheritance: Myth or Reality?* Cleveland: Federal Reserve Bank of Cleveland.

Lukes, S. (2005). *Power: A Radical View* (Second ed.). New York: Palgrave.

Madoff, R. D. (2010, July 12). America Builds an Aristocracy. *New York Times*, p. A-19.

Morgenson, G. (2011, May 8). Moving the goal posts on pay. *New York Times*, Section BU, p. 1.

Morgenson, G. (2005, October 23). How to slow runaway executive pay. *New York Times*, Section 3, p. 1.

Norris, F. (2010, July 24). Off the Charts: In '08 Downturn, Some Managed to Eke Out Millions. *New York Times*, p. B-3.

Norton, M. I., & Ariely, D. (2010, forthcoming). Building a better America - one wealth quintile at a time. *Perspectives on Psychological Science.*

Polsby, N. (1980). *Community Power and Political Theory* (Second ed.). New Haven, CT: Yale University Press.

Russell, B. (1938). *Power: A New Social Analysis.* London: Allen and Unwin.

Saez, E. (2009). *Striking It Richer: The Evolution of Top Incomes in the United States (Update with 2007 Estimates).* Retrieved August 28, 2009 from http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf.

Saez, E., & Piketty, T. (2003). Income Inequality in the United States, 1913-1998. *Quarterly Journal of Economics*, *118*, 1-39.

Shapiro, I., & Friedman, J. (2006). *New, Unnoticed CBO Data Show Capital Income Has Become Much More Concentrated at the Top.* Washington, DC: Center on Budget and Policy Priorities.

Stephens, J. (1979). *The Transition from Capitalism to Socialism.* London: Macmillan.

Wolff, E. N. (1996). *Top Heavy.* New York: The New Press.

Wolff, E. N. (2004). Changes in household wealth in the 1980s and 1990s in the U.S. *Working Paper No. 407.* Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

Wolff, E. N. (2007). Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze. *Working Paper No. 502.* Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

Wolff, E. N. (2010). Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze - an update to 2007. *Working Paper No. 589.* Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

Wolff, E. N. (2012). *The Asset Price Meltdown and the Wealth of the Middle Class.* New York: New York University.

Wrong, D. (1995). *Power: Its Forms, Bases, and Uses* (Second ed.). New Brunswick: Transaction Publishers.

First posted September 2005; most recently updated October 2012

Part Three: Section II

The Class-Domination Theory of Power

by G. William Domhoff
April 2005

SOURCE: http://www2.ucsc.edu/whorulesamerica/power/class_domination.html

NOTE: WhoRulesAmerica.net is largely based on my book, Who Rules America?*, first published in 1967 and now in its 6th edition. This on-line document is presented as a summary of some of the main ideas in that book.*

Who has predominant power in the United States? The short answer, from 1776 to the present, is: Those who have the money -- or more specifically, who own income-producing land and businesses -- have the power. George Washington was one of the biggest landowners of his day; presidents in the late 19th century were close to the railroad interests; for the Bush family, it was oil and other natural resources, agribusiness, and finance. In this day and age, this means that banks, corporations, agribusinesses, and big real estate developers, working separately on most policy issues, but in combination on important general issues -- such as taxes, opposition to labor unions, and trade agreements with other countries -- set the rules within which policy battles are waged.

While this conclusion may at first seem too simple or direct, leaving little room for elected officials or voters, the reasons behind it are complex. They involve an understanding of social classes, the role of experts, the two-party system, and the history of the country, especially Southern slavery. In terms of the big world-historical picture, and the Four Networks theory of power advocated on this site, large economic interests rule in America because there are no rival networks that grew up over a long and complex history:

- There is no one big church, as in many countries in Europe
- No big government, as it took to survive as a nation-state in Europe
- No big military until after 1940 (which is not very long ago) to threaten to take over the government

So, the only power network of any consequence in the history of the United States has been the economic one, which under capitalism generates a business-owning class and a working class, along with small businesses and skilled craft workers who are self-employed, and a relatively small number of highly trained professionals such as architects, lawyers, physicians, and scientists. In this context, the key reason why money can rule -- i.e., why the business owners who hire workers can rule -- is that the people who work in the factories and fields were divided from the outset into free and slave, white and black, and later into numerous immigrant ethnic groups as well, making it difficult for workers as a whole to unite politically to battle for higher wages and better social benefits. This important point is elaborated on toward the end of this document in a section entitled "The Weaknesses of the Working Class."

Moreover, the simple answer that money rules has to be qualified somewhat. Domination by the few does not mean complete control, but rather the ability to set the terms under which other groups and classes must operate. Highly trained professionals with an interest in environmental and consumer issues have been able to couple their technical information and their understanding of the legislative process with timely publicity to win governmental restrictions on some corporate practices. Wage and salary workers, when they are organized or disruptive, sometimes have been able to gain concessions on wages, hours, and working conditions.

Most of all, there is free speech and the right to vote. While voting does not necessarily make government responsive to the will of the majority, under certain circumstances the electorate has been able to place restraints on the actions of the wealthy elites, or to decide which elites will have the greatest influence on policy. This is especially a possibility when there are disagreements within the higher circles of wealth and influence.
Still, the idea that a relatively fixed group of privileged people dominate the economy and government goes against the American grain and the founding principles of the country. "Class" and "power" are terms that make Americans a little uneasy, and concepts such as "upper class" and "power elite" immediately put people on guard. Americans may differ in their social and income levels, and some may have more influence than others, but it is felt that there can be no fixed power group when power is constitutionally lodged in all the people, when there is democratic participation through elections and lobbying, and when the evidence of social mobility is everywhere apparent. So, it is usually concluded by most power analysts that elected officials, along with "interest groups" like "organized labor" and "consumers," have enough "countervailing" power to say that there is a more open, "pluralistic" distribution of power rather than one with rich people and corporations at the top.

Contrary to this pluralistic view, I will try to demonstrate how rule by the wealthy few is possible despite free speech, regular elections, and organized opposition:

- "The rich" coalesce into a social upper class that has developed institutions by which the children of its members are socialized into an upper-class worldview, and newly wealthy people are assimilated.
- Members of this upper class control corporations, which have been the primary mechanisms for generating and holding wealth in the United States for upwards of 150 years now.
- There exists a network of nonprofit organizations through which members of the upper class and hired corporate leaders not yet in the upper class shape policy debates in the United States.
- Members of the upper class, with the help of their high-level employees in profit and nonprofit institutions, are able to dominate the federal government in Washington.
- The rich, and corporate leaders, nonetheless claim to be relatively powerless.
- Working people have less power than in many other democratic countries.
-

Before running through this list, it is first necessary to define the term "power" and to explain the "indicators" of power that are used to determine who has it. Later other concepts will be introduced as they are needed. They include "social class," "upper class," "corporate community," "interlocking directorates," the "policy-planning network," the "power elite," the "special-interest process," the "candidate-selection process," and a few others. All of these concepts are necessary in order to understand the nature and operation of the "power structure" in the United States.

Power and Power Indicators

Power is one of those words that is easy to understand but hard to define in a precise manner. We know it means "clout" or "juice" or "muscle" or "the ability to make things happen." We know it comes from words implying the ability to act in a strong, compelling, and direct way, but we also know that power can be projected in a very quiet and indirect manner.

By "power" I mean "the capacity of some persons to produce intended and foreseen effects on others" (Wrong, 1995). This is a very general definition that allows for the many forms of power that can be changed from one to another, such as economic power, political power, military power, ideological power, and intellectual power (i.e., knowledge, expertise). It leaves open the question of whether "force" or "coercion" is always lurking somewhere in the background in the exercise of power, as many definitions imply. However, to say that power is the ability to produce intended and foreseen effects on others does not mean it is a simple matter to study the power of a group or social class. A formal definition does not explain how a concept is to be measured. In the case of power, it is seldom possible to observe interactions that reveal its operation even in a small group, let alone to see one "social class" producing "effects" on another. It is therefore necessary to develop what are called "indicators" of power.

For research purposes, power can be thought of as an underlying "trait" or "property" of a social group or social class. It is measured by a series of signs, or indicators, that bear a probabilistic relationship to it. This means that all the indicators do not necessarily appear each and every time power is manifesting itself. Research proceeds through a series of "if-then" statements: "if" a group or class is powerful, "then" it should be expected that certain indicators of this power will be present. It is especially important to have more than one indicator. Ideally, the indicators will be of very different types so that any irrelevant components in them will cancel each other out. In the best of all possible worlds, these multiple indicators will point to the same group or class, increasing the likelihood that the underlying concept has been measured correctly.

There are three primary indicators of power, which can be summarized as (1) who benefits? (2) who governs? and (3) who wins? In every society there are experiences and material objects that are highly valued. If it is assumed that everyone in the society would like to have as great a share as possible of these experiences and objects, then the distribution of values in that society can be utilized as a power indicator. Those who benefit the most, by inference, are powerful. In American society, wealth and well-being are highly valued. People seek to own property, earn high incomes, to have interesting and safe jobs, and to live long and healthy lives. All of these "values" are unequally distributed, and all may be utilized as power indicators.

Power also can be inferred from studies of who occupies important institutional positions and takes part in important decision-making groups. If a group or class is highly over-represented in relation to its proportion of the population, it can be inferred that the group is powerful. If, for example, a group makes up 10% of the population but has 50% of the seats in the main governing institutions, then it has five times more people in governing positions than would be expected by chance, and there is thus reason to believe that the group is a powerful one.

There are many policy issues over which groups or classes disagree. In the United States different policies are suggested by opposing groups in such "issue-areas" as foreign policy, taxation, welfare, and the environment. Power can be inferred from these issue conflicts by determining who successfully initiates, modifies, or vetoes policy alternatives. This indicator, by focusing on actions within the decision-making process, comes closest to approximating the process of power that is contained in the formal definition, but it must be stressed that it is no less an inference to say that who wins on issues is an indicator of "power" than with the other two types of empirical observations -- value distributions and positional over-representation -- that are used as power indicators.

The decisional (who wins) indicator is also the most difficult to use in an accurate way. First, it is often difficult to gain access to decision-makers to interview them, much less observe them in action. Second, aspects of a decision process may remain hidden. Third, some informants may exaggerate or play down their roles. Fourth, and not least, people's memories about who did what often become cloudy shortly after the event. Those are some of the reasons why social scientists often end up relying on written records about key decisions, but they often are not available until years later. So we end up historians as well as social scientists, or depending on historians for much basic information.

In summary, all three of the power indicators have strengths and weaknesses. However, these weaknesses present no serious problem. This is because each of these indicators involves different kinds of information drawn from very different kinds of studies. The case for the power of a group or class should only be considered a convincing one if all three types of indicators "triangulate" on one particular group or social class.

The Social Upper Class

One good starting point for the study of power in the United States, and the one I have preferred as a sociologist (especially in the 1960s and 1970s, when there was far less readily available information than there is now) is a careful consideration of the small social upper class at the top of the wealth, income, and status ladders. This is because the social upper class is the most visible and accessible aspect of the power equation. It is not necessarily the heart of the matter, but it is nonetheless the best place to get a handle on the overall power structure.

By a "social class" I mean a set of intermarrying and interacting families who see each other as equals, share a common style of life, and have a common viewpoint on the world. This general definition is accepted by most social scientists whatever their views on the distribution of power. By the "social upper class," hereafter to be called simply "the upper class," I mean that social class that is commonly agreed by most members of the society to be the "top" or "elite" or "exclusive" class. In various times and places Americans have called such people the "high hats," the "country club set," the "snobs," and the "rich." In turn, members of this class recognize themselves as distinctive. They call themselves such names as the "old families," the "established families," and the "community leaders."

The upper class probably makes up only a few tenths of one percent of the population. For research purposes, I use the conservative estimate that it includes 0.5% to 1% of the population for determining the over-representation of its members in corporations, nonprofit organizations, and the government. Members of the upper class live in exclusive suburban neighborhoods, expensive downtown co-ops, and large country estates. They often have far-away summer and winter homes as well. They attend a system of private schools that extends from pre-school to the university level; the best known of these schools are the "day" and "boarding" prep schools that take the place of public high schools in the education of most upper-class teenagers. Adult members of the upper class socialize in expensive country clubs, downtown luncheon clubs, hunting clubs, and garden clubs. Young women of the upper class are "introduced" to high society each year through an elaborate series of debutante teas, parties, and balls. Women of the upper class gain experience as "volunteers" through a nationwide organization known as the Junior League, and then go on to serve as directors of cultural organizations, family service associations, and hospitals (see Kendall, 2002, for a good account of women of the upper class by a sociologist who was also a participant in upper-class organizations).

These various social institutions are important in creating "social cohesion" and a sense of in-group "we-ness." This sense of cohesion is heightened by the fact that people can be excluded from these organizations. Through these institutions young members of the upper class and those who are new to wealth develop shared understandings of how to be wealthy. Because these social settings are expensive and exclusive, members of the upper class usually come to think of themselves as "special" or "superior." They think they are better than other people, and certainly better able to lead and govern. Their self-confidence and social polish are useful in dealing with people from other social classes, who often admire them and defer to their judgments.

For research purposes, the important thing about these social institutions is that they provide us with a starting point for systematic studies of power. For example, these class "indicators" allow us to determine which economic and political leaders are and are not members of the upper class. Put another way, class indicators allow us to trace members of the upper class into the economic, political, and ideological power systems of the society.

Starting with these class indicators, we can show that the upper class is nationwide in its scope. This is because there is "overlapping" membership among the many social clubs around the country. A person from Chicago, for example, might belong to clubs in New York, Boston, and San Francisco, implying that he or she interacts with upper-class counterparts in those cities. By comparing dozens of club membership lists, we have been able to establish the "density" of this club network. (See the pages on the Bohemian Grove for findings on social cohesion and a photo essay; and for a wonderfully detailed and colorful portrait of what one of these clubs is like, see this memoir of going to the Links Club in New York City, which is one of the most central clubs in the social club/corporate executive network.)

Similarly, the alumni lists of exclusive private schools reveal that their students come from all parts of the country. The summer addresses of those members of the upper class who are listed in in-group telephone books called *blue books* and *social registers* show that people from all parts of the country mingle together at secluded summer resorts that have been upper-class watering holes for many generations.
But here we must enter our first caution. The class indicators are not perfect. Some members of the upper class do not join clubs, or list in a social register, or reveal their school affiliations in such sources as *Who's Who in America* that we have to rely on for much our information. We cannot trace such people through the power system. They are counted as not being upper class when they really are. On the other hand, there are local, or scholarship children (often people of color) at some prep schools who are not members of the upper class, and some honorary members of social clubs are not upper class. They are counted as upper class when they really are not. In large-scale studies, these two kinds of mistakes tend to cancel each other out, so in general we obtain an accurate picture. But it is true that the class indicators could be wrong on specific individuals. They are useful for group studies, not for identifying individuals.

Cautions aside, there is no doubt that there is a nationwide upper class in the United States with its own distinctive social institutions, lifestyle, and outlook. There is also no doubt that most of these people are active in business or the professions, and that all of them are very wealthy. Their great wealth is obvious, of course, from the large sums that it takes to maintain their homes and their style of life, but systematic studies also show that the wealthiest families are part of the social institutions of the upper class. Combining our studies with findings by economists on the wealth and income distributions, it is possible to say that the upper class, comprising 0.5% to 1% of the population, owns 35-40% of all privately held wealth in the United States and receives 12-15% of total yearly income. In short, the upper class scores very high on the "who benefits" power indicator.

The wealth and income of members of the upper class certainly imply that the upper class is powerful, but they do not demonstrate how power operates. It is therefore necessary to turn to studies of the economy to gain further understanding of the American power structure.

The Corporate Community

Major economic power in the United States is concentrated in an organizational and legal form known as the corporation, and has been since the last several decades of the 19th century. No one doubts that individual corporations have great power in the society at large. For example, they can hire and fire workers, decide where to invest their resources, and use their income in a variety of tax-deductible ways to influence schools, charities, and governments. The argument begins over whether the large corporations are united enough to exert a common social power, and then moves to the question of whether they are still controlled by members of the upper class.
The unity of the corporations can be demonstrated in a number of ways. They share a common interest in making profits. They are often owned by the same families or financial institutions. Their executives have very similar educational and work experiences. It is also important for their sense of unity that corporate leaders see themselves as sharing common opponents in organized labor, environmentalists, consumer advocates, and government officials. A sense of togetherness is created as well by their use of the same few legal, accounting, and consulting firms.

However, the best way to demonstrate the unity among corporations is through the study of what are called "interlocking directors," meaning those individuals who sit on two or more of the boards of directors that are in charge of the overall direction of the corporation. Boards of directors usually include major owners, top executives from similar corporations or corporations located in the same area, financial and legal advisors, and the three or four officers who run the corporation on a daily basis. Several studies show that those 15-20% of corporate directors who sit on two or more boards, who are called the "inner circle" of the corporate directorate, unite 80-90% of the largest corporations in the United States into a well-connected "corporate community."

Most social scientists agree that corporations have a strong basis for cohesion. However, there is disagreement over their relationship to the upper class. Some theorists, the pluralists, say that members of the upper class used to dominate corporations, but not any more due to their increase in size, the need for highly trained and specialized executives, and the decline in family ownership. Thus, there is an upper class of rich families with one set of interests and a group of professional business executives who have their own interests and power base. Members of the upper class have power based on their wealth, and corporate executives have organizational power.

Contrary to this claim of a division between owners and managers, I think there is strong evidence for the idea of great overlap in membership and interest between the upper class and the corporate community. The wealthiest and most cohesive upper-class families often have "family offices" through which they can bring to bear the concentrated power of their collective stock ownership, sometimes placing employees of the office on boards of directors. Then too, members of the upper class often control corporations through financial devices known as "holding companies," which purchase a controlling interest in operating companies. More generally, members of the upper class own roughly half of all corporate stock . Then too, upper-class control of corporations can be seen in its over-representation on boards of directors. Several past studies show that members of the upper class sit on boards far more than would be expected by chance. They are especially likely to be part of the "inner circle" that has two or more directorships. According to the "who governs" power indicator, the upper class still controls the corporate community. Thus, we can conclude that the upper class is rooted in the ownership and control of the corporations that comprise the corporate community. We can say that members of the upper class are for the most part a "corporate rich" who continue to be involved in the business world as investors, venture capitalists, bankers, corporate lawyers, and top executives.

True enough, there are many top corporate executives who did not grow up in the upper class. Most CEO's of major corporations do not come from the upper class. However, they are gradually socialized into the upper class and its values as they move up the corporate ladder; indeed, they are advanced on the basis of their ability to fulfill upper-class goals of corporate expansion and profitability. In return, these rising managers are given the opportunity to buy corporate stock at below-market prices, paid very high salaries, and given other "perks" that make it possible for them to join the upper class economically as well as socially. The end result is a strengthening of the power of the upper class, not a diminution of it.

How Government Policy Is Shaped From Outside Government

The upper class and the closely related corporate community do not stand alone at the top of the power structure. They are supplemented by a wide range of nonprofit organizations that play an important role in framing debates over public policy and in shaping public opinion. These organizations are often called "nonpartisan" or "bipartisan" because they are not identified with politics or with either of the two major political parties. But they are the real "political party" of the upper class in terms of insuring the stability of the society and the compliance of government.

Upper-class and corporate dominance of the major nonprofit organizations can be seen in their founding by wealthy members of the upper class and in their reliance on large corporations for their funding. However, dominance is once again most readily demonstrated through studies of boards of directors, which have ultimate control of the organizations, including the ability to hire and fire top executives. These studies show that (1) members of the upper class are greatly over-represented on the boards of these organizations, and (2) that nonprofit organizations share a large number of directors in common with the corporate community, particularly directors who are part of the "inner circle." In effect, most large nonprofit organizations are part of the corporate community.

All the organizations in the nonprofit sector have a hand in creating the framework of the society in one way or another, and hence in helping to shape the political climate. The cultural and civic organizations set the standard for what is beautiful, important, and "classy." The elite universities play a big part in determining what is important to teach, learn, and research, and they train most of the professionals and experts in the country. However, it is the foundations, think tanks, and policy-discussion organizations that have the most direct and important influences. Their ideas, criticisms, and policy suggestions go out to the general public through a wide array of avenues, including pamphlets, books, local discussion groups, mass media, and not least, the public relations departments of major corporations. Their materials also reach government through a variety of means that will be outlined shortly.

It is worthwhile to look a little more closely at the foundations, think tanks, and policy-discussion organizations to show how they function as a "policy-planning network."

Tax-free foundations receive their money from wealthy families and corporations. Their primary purpose is to provide money for education, research, and policy discussion. They thus have the power to encourage those ideas and researchers they find compatible with their values and goals, and to withhold funds from others. Support by major foundations often has had a significant impact on the direction of research in agriculture, social science, and the health sciences. However, foundations also create policy projects on their own. The Ford Foundation, for example, helped to create a complex network of advocacy groups and funding sources for Community Development Corporations (CDCs) that provide housing and social services in the inner city.

The role of the think tanks is to suggest new policies to deal with the problems facing the economy and government. Using money from wealthy donors, corporations, and foundations, think tanks hire the experts produced by the graduate departments of the elite universities. The ideas and proposals developed by the experts are disseminated through pamphlets, books, articles in major magazines and newspapers, and, most importantly, through the participation of the experts themselves in the various forums provided by the policy-discussion organizations.

The policy-discussion organizations are the hub of the policy-planning network. They bring together wealthy individuals, corporate executives, experts, and government officials for lectures, forums, meetings, and group discussions of issues that range from the local to the international, and from the economic to the political to the cultural. New ideas are tried out in weekly or monthly discussion groups, and differences of opinion are aired and compromised. These structured discussion groups usually begin with a presentation by the invited experts, followed by questions and discussion involving all participants. Such discussion groups may range in size from ten to 50, with the usual group having fifteen to 25 members.

The many discussion groups that take place within the several policy-discussion organizations have several functions that do not readily meet the eye. They are often overlooked by theorists -- pluralists and state-autonomy theorists, primarily -- who do not believe that the upper class and corporate community have the ability to develop overall policy sophistication and thereby be in a position to influence the government.
First, these organizations help to familiarize busy corporate leaders with policy options outside the purview of their day-to-day business concerns. This gives these executives the ability to influence public opinion through the mass media and other outlets, to argue with and influence experts, and to accept appointments for government service. Second, the policy-discussion organizations give members of the upper class and corporate community the opportunity to see which of their colleagues seem to be the best natural leaders through watching them in the give and take of the discussion groups. They can see which of their counterparts understand the issues quickly, offer their own ideas, facilitate discussions, and relate well to experts. The organizations thus serve as sorting and screening mechanisms for the emergence of new leadership for the corporate rich in general.

Third, these organizations legitimate their participants to the media and interested public as knowledgeable leaders who deserve to be tapped for public service because they have used their free time to acquaint themselves with the issues in nonpartisan forums. The organizations thereby help make wealthy individuals and corporate executives into "national leaders" and "statesmen." Finally, these organizations provide a forum wherein members of the upper class and corporate community can come to know policy experts. This gives them a pool of people from which they can draw advisors if they are asked to serve in government. It also gives them a basis for recommending experts to politicians for government service.

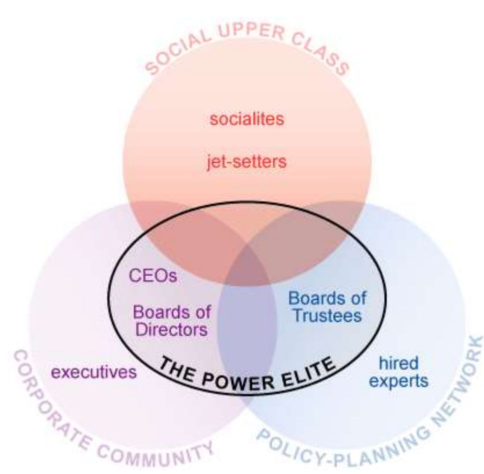
The organizations also serve obvious functions for the experts. First, presenting their ideas and policies to these organizations gives them an opportunity to have influence. Second, it gives them a chance to advance their own careers if they can impress the upper-class and corporate participants.

The policy-planning network is not totally homogeneous. Reflecting differences within the corporate community, there are moderate-conservative and ultra-conservative wings within it. Moderate conservatives favor foreign aid, low tariffs, and increased economic expansion overseas, whereas the ultra-conservatives tend to see foreign aid as a giveaway. Moderate conservatives tend to accept the idea that governmental taxation and spending policies can be used to stimulate and stabilize the economy, but ultra-conservatives insist that taxes should be cut to the very minimum and that government spending is the next thing to evil. Moderate conservatives accept some welfare-state measures, or at least they support such measures in the face of serious social disruption. Ultra-conservatives have consistently opposed any welfare spending, claiming that it destroys moral fiber and saps individual initiative, so they prefer to use arrest and detention when faced with social unrest.

The reasons for these differences are not well understood. There is a tendency for the moderate-conservative organizations to be directed by executives from the very largest and most internationally oriented of corporations, but there are numerous exceptions to that generalization. Moreover, there are corporations that support policy organizations within both camps. However, for all their differences, leaders within the two clusters of policy organizations have a tendency to search for compromise due to their common membership in the upper-class and corporate community. When compromise is not possible, the final resolution of policy conflicts often takes place in legislative struggles in Congress.

The existence of the policy-planning network provides evidence for another form of power possessed by the wealthy few: expertise on social and political issues. It is an important complement to the naked economic power possessed by the corporations.

The Power Elite



Now that the upper class, corporate community, and policy-planning network have been defined and described, it is possible to discuss the leadership group that I call the "power elite." I define the power elite as the leadership group of the upper class. It consists of active-working members of the upper class and high-level employees in profit and nonprofit institutions controlled by members of the upper class through stock ownership, financial support, or involvement on the board of directors. This does not mean that all members of the upper class are involved in governing. Some are only playboys and socialites; their social gatherings may provide a setting where members of the power elite mingle with celebrities, and sometimes they give money to political candidates, but that is about as close as they come to political power.

Conversely, not all those involved in the power elite are members of the upper class. They are sons and daughters of the middle class, and occasionally, the blue-collar working class, who do well at any one of several hundred private and state universities, and then go to grad school, MBA school, or law school at one of a handful of elite universities -- e.g., Harvard, Yale, Princeton, Columbia, MIT, Johns Hopkins, University of Chicago, and Stanford. From there they go to work for a major corporation, law firm, foundation, think tank, or university, and slowly work their way to the top.

The idea of the power elite intertwines class theory and organizational theory, two theories which are often thought of as distinctive or even as rivals. The basis for the intertwining of the two theories is to be found in the role and composition of the boards of directors that govern every large profit and nonprofit organization in the United States. It is on boards of directors that the values and goals of the upper class are integrated with those of the organizational hierarchy. Upper-class directors insure that their interests are infused into the organizations they control, but the day-to-day organizational leaders on the board are able to harmonize class interests with organizational principles.

It is important to stress that I am not saying that all experts are members of the power elite. People have to be high-level employees in institutions controlled by members of the upper class to be considered part of the power elite. Receiving a fellowship from a foundation, spending a year at a think tank, or giving advice to a policy-discussion organization does not make a person a member of the power elite. It also may be useful to note that there are many experts who never go near the policy-planning network. They focus on their teaching and research, or work for groups that oppose the policies of the power elite. In short, experts and advisers are a separate group just below the power elite in the pecking order.

With the composition of the power elite clearly stated, it is now possible to show how it dominates the federal government in the interest of the upper class and corporate community.

The Power Elite and Government

Members of the power elite directly involve themselves in the federal government through three basic processes, each of which has a slightly different role in ensuring "access" to the White House, Congress, and specific agencies, departments, and committees in the executive branch. Although some of the same people are involved in all three processes, most leaders specialize in one or two of the three processes. These three processes are:

1. The special-interest process, through which specific families, corporations, and industrial sectors are able to realize their narrow and short-run interests on taxes, subsidies, and regulation in their dealings with congressional committees, regulatory bodies, and executive departments;
2. The policy-making process, through which the policies developed in the policy-planning network described earlier are brought to the White House and Congress;
3. The candidate selection process, through which members of the power elite influence electoral campaigns by means of campaign donations to political candidates.

Power elite domination of the federal government can be seen most directly in the workings of the corporate lobbyists, backroom super-lawyers, and industry-wide trade associations that represent the interests of specific corporations or business sectors. This special-interest process is based in varying combinations of information, gifts, insider dealing, friendship, and, not least, promises of lucrative private jobs in the future for compliant government officials. This is the aspect of business-government relations described by journalists and social scientists in their case studies. While these studies show that the special interests usually get their way, the conflict that sometimes erupts within this process, occasionally pitting one corporate sector against another, reinforces the image of widely shared and fragmented power in America, including the image of a divided corporate community. Moreover, there are some defeats suffered by the corporate rich in the special-interest process. For example, laws that improved auto safety standards were passed over automobile industry objections in the 1970s, as were standards of water cleanliness opposed by the paper and chemical industries.

Policies of concern to the corporate community as a whole are not the province of the special-interest process. Instead, such policies come from the network of foundations, think tanks, and policy-discussion organizations discussed in an earlier section. The plans developed in the organizations of the policy-planning network reach the federal government in a variety of ways. On the most general level, their reports, news releases, and interviews are read by elected officials and their staffs, either in pamphlet form or in summary articles in the *Washington Post*, *New York Times*, and *Wall Street Journal*. Members of the policy-planning network also testify before congressional committees and subcommittees that are writing legislation or preparing budget proposals. More directly, leaders from these organizations are regular members of the dozens of little-known committees that advise specific departments of the executive branch on general policies, making them in effect unpaid temporary members of the government. They are also very prominent on the extremely important presidential commissions that are appointed to make recommendations on a wide range of issues from foreign policy to highway construction. They also serve on the little-known federal advisory committees that are part of just about every department of the executive branch.

Finally, and crucially, they are appointed to government positions with a frequency far beyond what would be expected by chance. Several different studies show that top cabinet positions in both Republican and Democratic administrations are held by members of the upper class and corporate executives who are leaders in policy-discussion organizations.

The general picture that emerges from the findings on the overrepresentation of members of the power elite in appointed governmental positions is that the highest levels of the executive branch are interlocked constantly with the upper class and corporate community through the movement of executives and lawyers in and out of government. Although the same person is not in governmental and corporate positions at the same time, there is enough continuity for the relationship to be described as one of "revolving interlocks." Corporate leaders resign their numerous directorships in profit and nonprofit organizations to serve in government for two or three years, then return to the corporate community or policy-planning network. This system gives them temporary independence from the narrow concerns of their own organizations and allows them to perform the more general roles they have learned in the policy-discussion groups. They then return to the private sector with useful personal contacts and information.

As important as the special-interest and policy-planning processes are for the power elite, they could not operate successfully if there were not sympathetic, business-oriented elected officials in government. That leads us to the third process through which members of the power elite dominate the federal government, the candidate-selection process. It operates through the two major political parties. For reasons to be discussed in a moment, the two parties have very little role in political education or policy formation; they are reduced to the function of filling offices. That is why the American political system can be characterized as a "candidate-selection process."

The main reason the political system focuses on candidate selection to the relative exclusion of political education and policy formulation is that there can be only two main parties due to the structure of the government and the nature of the electoral rules. The fact that Americans select a president instead of a parliament, and elect legislators from "single-member" geographical areas (states for the Senate, districts for the House) leads to a two-party system because in these "winner-take-all" elections a vote for a third party is a vote for the person's least desired choice. A vote for a very liberal party instead of the Democrats, for example, actually helps the Republicans. Under these rules, the most sensible strategy for both the Democrats and Republicans is to blur their policy differences in order to compete for the voters with middle-of-the-road policy views, or no policy views at all.

Contrary to what many believe, then, American political parties are not very responsive to voter preferences. Their candidates are fairly free to say one thing to get elected and to do another once in office. This contributes to confusion and apathy in the electorate. It leads to campaigns where there are no "issues" except "images" and "personalities" even when polls show that voters are extremely concerned about certain policy issues. You don't raise unnecessary issues during a campaign, one successful presidential candidate once said.

It is precisely because the candidate-selection process is so personalized, and therefore dependent on name recognition, images, and emotional symbolism, that it can be in good part dominated by members of the power elite through the relatively simple and direct means of large campaign contributions. Playing the role of donors and money raisers, the same people who direct corporations and take part in the policy-planning network have a crucial place in the careers of most politicians who advance beyond the local level or state legislatures in states with large populations. Their support is especially important in party primaries, where money is an even larger factor than in general elections.

The two-party system therefore results in elected officials who are relatively issueless and willing to go along with the policies advocated by those members of the power elite who work in the special-interest and policy-planning processes. They are motivated by personal ambition far more than they are by political conviction. Still, there are some extremely conservative elected Republicans who often oppose power elite proposals, claiming that such policies are the work of secret communists or pointy-headed intellectuals out to wreck the "free enterprise" system. There also are many Democrats from blue-collar and university districts who consistently oppose power elite policies as members of the liberal-labor coalition. However, both the ultra-conservatives and the liberals are outnumbered by the "moderates" of both parties, especially in key leadership positions in Congress. After many years in Congress the elected liberals decide to "go along to get along." "This place has a way of grinding you down," explained one liberal Congressman of the early 1970s in a classic summary of what happens.

Although members of the power elite are far and away the most important financial backers for both parties, this does not mean that there are no differences between the two parties. The leadership levels have intra-class differences, and the supporters tend to have inter-class differences. The Republican Party is controlled by the wealthiest families of the upper class and corporate community, who are largely Protestant in background. The Democratic Party, on the other hand, is the party of the "fringes" of the upper class and power elite. Although often called "the party of the common person," it was in fact the party of the Southern segment of the upper class until very recently. The power of the Southern Democrats in the party and in Congress was secured in a variety of ways, the most important of which was the seniority system for selecting committee chairs in Congress. (By tradition, the person who has been on the committee longest just about automatically becomes the chair; this avoids conflict among members of the party.) However, the underlying point is that the one-party system in the South and the exclusion of African-Americans from the voting booth until the mid-1960s gave the Southern planters and merchants power at the national level through the Democratic Party out of all proportion to their wealth and numbers. Thus, it is not necessarily the wealthiest people who rule. The nature of the political system also enters into the equation. But the Southern elites are not poor; they are only less rich than many of their Northern counterparts.

The Southerners dominated the Democratic Party in alliance with the "ethnic rich" in the North, meaning wealthy Jews and Catholics who were shunned or mistreated by the rich Protestants. The businesses they owned were often local or smaller than those of the Republican backers, and they usually were excluded from the social institutions of the upper class. These ethnic rich were the primary financial supporters of the infamous "political machines" that dominated Democratic politics in most large northern cities.

The alliance between the Southern segment of the upper class and the Northern ethnic rich usually was able to freeze out the policy initiatives of the party's liberal-labor coalition through its control of congressional committees, although there was a time (1940 to 1975) when labor unions had significant influence on the Democrats. When that alliance broke down on certain issues because the machine Democrats sided with the liberals and labor, then the Southern Democrats joined with Northern Republicans to create the "conservative coalition," AKA "the conservative voting bloc," wherein a majority of Southern Democrats and a majority of Northern Republicans voted together against the Northern Democrats. This conservative coalition most often formed around the issues that reflect class conflict in the legislative arena -- civil rights, union rights, social welfare, and business regulation. Legislation on any of these issues weakens employers in the face of workers and their unions, so it is not surprising that the conservative coalition is based on the shared interests of Northern and Southern employers. This alliance won far more often than it lost in the years between 1937, when it was formed, and the 1990s, when it disappeared for the simple reason that many of the Southerners had become Republicans.

Once the Voting Rights Act of 1965 was in effect, the Democratic Party was slowly changed because African-Americans in the South were able to vote against the worst racists in the party primaries. The gradual industrialization also was causing changes. As a result of these two forces, Southern whites started to move into the Republican Party, which thus became the party of wealthy employers in both the North and South. In that context, the Democratic Party is slowly becoming what many always thought it to be, the party of liberals, minorities, workers, and the poor.

In summary, the special-interest process, policy-planning process, and campaign finance make it possible for the power elite to win far more often than it loses on the policy issues that come before the federal government. The power elite is also greatly over-represented in appointed positions, presidential blue-ribbon commissions, and advisory committees within the government. In terms of both the "who wins" and "who governs" power indicators, the power elite dominates the federal government.

However, this domination does not mean control on each and every issue, or lack of opposition, and it does not rest upon government involvement alone. Involvement in government is only the final and most visible aspect of power elite domination, which has its roots in the class structure, the nature of the economy, and the functioning of the policy-planning network. If government officials did not have to wait on corporate leaders to decide where and when they will invest, and if government officials were not further limited by the acceptance of the current economic arrangements by the large majority of the population, then power elite involvement in elections and government would count for a lot less than it does under present conditions.

Why Business Leaders Feel Powerless

Despite these various kinds of objective evidence that the power elite has great power in relation to the federal government, many corporate leaders feel that they are relatively powerless in the face of government. To hear them tell it, Congress is more responsive to organized labor, environmentalists, and consumers. They also claim to be harassed by willful and arrogant bureaucrats. These negative feelings toward government are not a new development, contrary to those who blame the New Deal and the social programs of the 1960s. A study of businessmen's views in the 19th century found that they believed political leaders to be "stupid" and "empty" people who went into politics only to earn a living, and a study of businessmen's views during what are thought of as their most powerful decade, the 1920s, found the same mistrust of government.

The emotional expressions of business leaders about their lack of power cannot be taken seriously as a power indicator, for that confuses psychological uneasiness with power. Feelings are one thing, the effects of one's actions another. But it is nonetheless interesting to try to understand why businessmen complain about a government they dominate. First, complaining about government is a useful political strategy. It puts government officials on the defensive and forces them to keep proving that they are friendly to business. Second, businessmen complain about government because in fact very few civil servants are part of the upper class and corporate community. The anti-government ideology of the United States tends to restrain members of the upper class from government careers except in the State Department, meaning that the main contacts for members of the power elite within government are at the very top. There is thus uncertainty about how the middle levels will react to new situations, and therefore a feeling that there is a necessity to "ride herd" on or "reign in" the potentially troublesome "bureaucrats."

There also seems to be an ideological level to the business leaders' attitudes toward government. There is a fear of the populist, democratic ideology that underlies American government. Since power is in theory in the hands of all the people, there always is the possibility that someday "the people," in the sense of the majority, will make the government into the reflection of pluralist democracy that it is supposed to be. In a certain very real way, then, the great power of the upper class and corporate community are culturally illegitimate, and the existence of such power is therefore vigorously denied. It is okay to be rich, and even to brag about wealth a little bit, but not to be powerful or, worse, to flaunt that power.

Finally, the expressions of anguish from individual corporate leaders concerning their powerlessness also suggests an explanation in terms of the intersection of social psychology and sociology. It is the upper class and corporate community that have power, not individuals apart from their institutional context. As individuals, they are not always listened to, and they have to convince their peers of the reasonableness of their arguments before anything happens. Moreover, any policy that is adopted is a group decision, and it is sometimes hard for people to identify with group actions to the point where they feel personally powerful. It is therefore not surprising that specific individuals might feel powerless.

The Weaknesses of the Working Class

There are many democratic countries where the working class -- defined as all those white-collar and blue-collar workers who earn a salary or a wage -- has more power than it does in the United States. This power is achieved primarily through labor unions and political parties. It is reflected in more egalitarian wealth and income distributions, a more equitable tax structure, better public health services, subsidized housing, and higher old-age and unemployment benefits.

How is it possible that the American working class could be relatively powerless in a country that prides itself on its long-standing history of pluralism and elections? There are several interacting historical factors. First, the "primary producers" in the United States, those who work with their hands in factories and fields, were more seriously divided among themselves until the 1930s than in most other countries. The deepest and most important of these divisions was between whites and African-Americans. In the beginning, of course, the African-Americans had no social power because of their enslavement, which meant that there was no way to organize workers in the South. But even after African-Americans gained their freedom, prejudices in the white working class kept the two groups apart.

This black/white split in the working class was reinforced by later conflicts between craft workers -- also called "skilled" workers -- and industrial workers -- also called mass-production or "unskilled" workers. Craft workers usually tried to keep their wages high by excluding industrial workers. Their sense of superiority as skilled workers was reinforced by the fact that they were of Northern European, Protestant origins and the industrial workers tended to be Catholics and Jews from Eastern and Southern Europe. Some African-Americans were also found in the ranks of the industrial workers, along with other racial minorities.

It would have been difficult enough to overcome these divisions even if workers had been able to develop their own political party, but they were unable to develop such a party because the electoral system greatly disadvantages third parties. Workers were stuck. They had no place to go but the Republicans or Democrats. In the late 19th and early 20th centuries the craft workers often supported the Democrats, while the recent immigrant industrial workers tended to support the Republicans. Even when craft and industrial workers moved into the Democratic Party en masse in the 1930s, they couldn't control the party because of the power of the wealthy Southern planters and merchants.

Nor did the workers have much luck organizing themselves through unions. The employers were able to call upon the government to crush organizing drives and strikes through both court injunctions and police arrests. This was not only because employers had great influence with politicians then, just as they do now, but because the American tradition of law, based in laissez faire (free market) liberalism, was so fiercely opposed to any "restraint of trade" or "interference" with private property. It was not until the 1930s that the liberal-labor coalition was able to pass legislation guaranteeing workers the right to join unions and engage in collective bargaining. Even this advance was only possible by excluding the Southern workforce -- i.e., agricultural and seasonal labor -- from the purview of the legislation. Further, the passage of the legislation had only limited impact because the industrial unions were defeated almost completely in the South and Southwest. Unions thrived in a few major industries in the North in the years after World War II, but then their power was eroded beginning in the 1970s as the big corporations moved their factories to other countries or lost market share to European and Japanese companies.

Given this history of internal division, political frustration, and union defeat, it is not surprising the American workers continue to accept the highly individualistic ideology that has characterized the United States since its founding. This acceptance in turn makes it even more difficult to organize workers around "bread-and-butter" issues. They often vote instead on the basis of social issues or religious convictions, with those who are deeply religious, opposed to affirmative action, or opposed to gun control voting for the avowedly anti-union Republican Party.

Thus, it is important not to confuse freedom with social power. Between 1962 and the 1990s there was a great expansion in individual rights due to the civil rights, feminist, and lesbian-gay movements, but during that time the ratio of a top business executive's pay to a factory worker's pay increased from 41 to 1 to about 300 to 1. American workers can say what they want and do what they want within very broad limits, and their children can study hard in school so they can go to graduate school and join the well-off professional class as doctors, lawyers, architects, or engineers, but when it comes to social power most Americans have very little of it if they are not a part of the power elite.

Community Power

Not all power is wielded at the national level. For more on local power, click here.

Conclusion

The argument over the structure and distribution of power in the United States has been going on within academia since the 1950s. It has generated a large number of empirical studies, many of which have been drawn upon here. In the final analysis, however, scholars' conclusions about the American power structure depend upon their beliefs concerning power indicators, which are a product of their "philosophy of science." That sounds strange, I realize, but if "who benefits?" and "who sits?" are seen as valid power indicators, on the assumption that "power" is an underlying social trait that can be indexed by a variety of imperfect indicators, then the kind of evidence briefly outlined here will be seen as a very strong case for the dominant role of the power elite in the federal government.

If "who wins?" on a wide range of government decisions is seen as the only valid indicator of power, and if it is expected that the power elite must win every time, which is the stance adopted by pluralist theorists on the basis of a "strict positivist" view of how power must be measured, then the argument presented here, based on a "soft positivism," will be seen as less impressive. That's because those relatively few of us who disagree with the pluralists have not yet had the time and the resources to do enough case studies within the framework of the special-interest and policy-planning processes to show the full range of power elite dominance on policy issues. A good start has been made in this direction, but it will take more to convince the skeptics.

References

Kendall, D. (2002). *The power of good deeds: Privileged women and the social reproduction of class.* Lanham, MD: Rowman and Littlefield.

Wrong, D. (1995). *Power: Its Forms, Bases, and Uses* (2nd ed.). New Brunswick: Transaction Publishers.

AFL-CIO (2010). *Executive PayWatch: CEO Pay Database: Compensation by Industry.* Retrieved February 8, 2010 from http://www.aflcio.org/corporatewatch/paywatch/ceou/industry.cfm.

Anderson, S., Cavanagh, J., Collins, C., Lapham, M., & Pizzigati, S. (2008). *Executive Excess 2008: How Average Taxpayers Subsidize Runaway Pay.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Anderson, S., Cavanagh, J., Collins, C., Lapham, M., & Pizzigati, S. (2007). *Executive Excess 2007: The Staggering Social Cost of U.S. Business Leadership.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Anderson, S., Benjamin, E., Cavanagh, J., & Collins, C. (2006). *Executive Excess 2006: Defense and Oil Executives Cash in on Conflict.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Anderson, S., Cavanagh, J., Klinger, S., & Stanton, L. (2005). *Executive Excess 2005: Defense Contractors Get More Bucks for the Bang.* Washington, DC: Institute for Policy Studies / United for a Fair Economy.

Central Intelligence Agency (2010). *World Factbook: Country Comparison: Distribution of family income - Gini index.* Retrieved October 26, 2010 from https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html.

Citizens for Tax Justice (2010b). *State-by-State Estate Tax Figures: Number of Deaths Resulting in Estate Tax Liability Continues to Drop.* Retrieved December 13, 2010 from http://www.ctj.org/pdf/estatetax2010.pdf.

Citizens for Tax Justice (2010a). *All Americans Pay Taxes.* Retrieved April 15, 2010 from http://www.ctj.org/pdf/taxday2010.pdf.

Dahl, R. A. (1957). The concept of power. *Behavioral Science*, *2*, 202-210.

Dahl, R. A. (1958). A critique of the ruling elite model. *American Political Science Review, 52*, 463-469.

Davies, J. B., Sandstrom, S., Shorrocks, A., & Wolff, E. N. (2006). *The World Distribution of Household Wealth.* Helsinki: World Institute for Development Economics Research.

Domhoff, G. W. (1990). *The Power Elite and the State: How Policy Is Made in America.* Hawthorne, NY: Aldine de Gruyter.

Gross, J. A. (1995). *Broken Promise: The Subversion of U.S. Labor Relations Policy.* Philadelphia: Temple University Press.

Hungerford, T. (2009). *Redistribution effects of federal taxes and selected tax provisions.* Washington: Congressional Research Service.

Johnston, D. C. (2010b). *United in Our Delusion.* Retrieved October 12, 2010 from http://www.tax.com/taxcom/taxblog.nsf/Permalink/UBEN-8A6TUW?OpenDocument.

Johnston, D. C. (2010a). *Tax Rates for Top 400 Earners Fall as Income Soars, IRS Data.* Retrieved February 23, 2010 from http://www.tax.com/taxcom/features.nsf/Articles/0DEC0EAA7E4D7A2B852576CD00714692?OpenDocument.

Johnston, D. C. (2009, December 21). Is Our Tax System Helping Us Create Wealth? *Tax Notes*, pp. 1375-1377.

Johnston, D. C. (2006, November 28). '04 Income in U.S. Was Below 2000 Level. *New York Times*, p. C-1.

Keister, L. (2005). *Getting Rich: A Study of Wealth Mobility in America.* New York: Cambridge University Press.

Kenny, C., Lincoln, T., Collins, C., & Farris, L. (2006). *Spending Millions to Save Billions: The Campaign of the Super Wealthy to Kill the Estate Tax*. Washington, DC: Public Citizen / United for a Fair Economy.
Kotlikoff, L., & Gokhale, J. (2000). *The Baby Boomers' Mega-Inheritance: Myth or Reality?* Cleveland: Federal Reserve Bank of Cleveland.
Lukes, S. (2005). *Power: A Radical View* (Second ed.). New York: Palgrave.
Madoff, R. D. (2010, July 12). America Builds an Aristocracy. *New York Times*, p. A-19.
Morgenson, G. (2011, May 8). Moving the goal posts on pay. *New York Times*, Section BU, p. 1.
Morgenson, G. (2005, October 23). How to slow runaway executive pay. *New York Times*, Section 3, p. 1.
Norris, F. (2010, July 24). Off the Charts: In '08 Downturn, Some Managed to Eke Out Millions. *New York Times*, p. B-3.
Norton, M. I., & Ariely, D. (2010, forthcoming). Building a better America - one wealth quintile at a time. *Perspectives on Psychological Science.*
Polsby, N. (1980). *Community Power and Political Theory* (Second ed.). New Haven, CT: Yale University Press.
Russell, B. (1938). *Power: A New Social Analysis*. London: Allen and Unwin.
Saez, E. (2009). *Striking It Richer: The Evolution of Top Incomes in the United States (Update with 2007 Estimates)*. Retrieved August 28, 2009 from http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf.
Saez, E., & Piketty, T. (2003). Income Inequality in the United States, 1913-1998. *Quarterly Journal of Economics*, *118*, 1-39.
Shapiro, I., & Friedman, J. (2006). *New, Unnoticed CBO Data Show Capital Income Has Become Much More Concentrated at the Top*. Washington, DC: Center on Budget and Policy Priorities.
Stephens, J. (1979). *The Transition from Capitalism to Socialism*. London: Macmillan.
Wolff, E. N. (1996). *Top Heavy*. New York: The New Press.
Wolff, E. N. (2004). Changes in household wealth in the 1980s and 1990s in the U.S. *Working Paper No. 407*. Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.
Wolff, E. N. (2007). Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze. *Working Paper No. 502*. Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.
Wolff, E. N. (2010). Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze - an update to 2007. *Working Paper No. 589*. Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.
Wrong, D. (1995). *Power: Its Forms, Bases, and Uses* (Second ed.). New Brunswick: Transaction Publishers.

More books & articles

• Insider's Perspective: An Investment Manager's View on the Top 1% (updated 1/26/12)

• *Class and Power in the New Deal* (2011): How corporate leaders shaped key aspects of FDR's New Deal.

• *The New CEOs* (2011): Looks at the few corporate chief executives of the past 15-20 years who are not white males.

• The Class-Domination Theory of Power: An explanation of why the wealth and income distributions are so unequal in the U.S., and how the political system works.

• The Left and the Right in Thinking, Personality, and Politics: An exploration of the personality differences and psychology behind the liberal/conservative divide.

• Social Science & Social Change: Applying lessons from social science to egalitarian/progressive activism.
