Wealth and Power: The Bias of the System

LEARNING OBJECTIVES

2.1 Explain the mechanisms that promote monopolistic capitalism and the consequences of each on a capitalist society.

2.2 Describe how the U.S. government is biased in favor of the wealthy.

2.3 Explain the links between wealth, power, and the U.S. political system.

2.4 Demonstrate how corporations benefit from government actions.
The thesis of this book is that many of the problems of U.S. society result from the maldistribution of wealth and power. In essence, the state is not a neutral agent of the people but is biased in favor of those with wealth—the upper social classes and the largest corporations. The analysis shows that, contrary to popular belief, the U.S. system does not produce a society that is democratic, just, and equal in opportunity. Rather, we find that the United States is an upside-down society, with the few benefiting at the expense of the many. Finally, we see how our society itself is the source of social problems.

The study of social problems requires the critical examination of the structure of society. Some readers will find this approach uncomfortable, even unpatriotic. In this regard, introducing his critical analysis of the United States, political scientist Michael Parenti has said, and we agree,

If the picture that emerges in the pages ahead is not pretty, this should not be taken as an attack on the United States, for this country and the American people are greater than the abuses perpetrated upon them by those who live for power and profit. To expose these abuses is not to denigrate the nation that is a victim of them. The greatness of a country is to be measured by something more than its rulers, its military budget, its instruments of dominance and destruction, and its profiteering giant corporations. A nation's greatness can be measured by its ability to create a society free of poverty, racism, sexism, imperialism, and social and environmental devastation, and by the democratic nature of its institutions. Albert Camus once said, "I would like to love my country and justice too." In fact, there is no better way to love one's country, no better way to strive for the fulfillment of its greatness, than to entertain critical ideas and engage in the pursuit of social justice at home and abroad. (1995:6)

This chapter is divided into three sections. The first describes the U.S. economy, with its concentration of corporate and private wealth. The second examines the political system and its links to the economic elites. The final section shows how the politicoeconomic system is biased in favor of those who are already advantaged.

U.S. ECONOMY: CONCENTRATION OF CORPORATE WEALTH

The U.S. economy has always been based on the principles of capitalism; however, the present economy is far removed from a free enterprise system. The major discrepancy between the ideal system and the real one is that the U.S. economy is no longer based on competition among more-or-less equal private capitalists. It is now dominated by huge corporations that, contrary to classical economic theory, control demand rather than respond to the demands of the market. However well the economic system might once have worked, the increasing size and power of corporations disrupt it. This development calls into question what the appropriate economic form is for a post-industrial society.

Monopolistic Capitalism

Karl Marx, more than 130 years ago, when bigness was the exception, predicted that capitalism was doomed by several inherent contradictions that would produce a class of people bent on destroying it (see the insert on Karl Marx and "self-destruct" capitalism). The most significant of these contradictions for our purposes is the inevitability of monopolies. Marx hypothesized that free enterprise would result in some firms becoming bigger and bigger as they eliminate their opposition or absorb smaller competing firms. The ultimate result of this process is the existence of a monopoly in each
Karl Marx and Self-Destruct Capitalism

Karl Marx (1818–1883) was one of history's greatest social theorists. His ideas have fueled revolutionaries and revolutions. His writings have had an enormous impact on each of the social sciences. His intellectual contributions to sociology include (1) elaboration of the conflict model of society, (2) the theory of social change based on antagonisms between the social classes, (3) the insight that power originates primarily in economic production, and (4) concern with the social origins of alienation.

Marx believed that the basis of social order in every society is the production of economic goods. What is produced, how it is produced, and how it is exchanged determine the differences in people's wealth, power, and social status. Marx argued that because human beings must organize their activities to clothe, feed, and house themselves, every society is built on an economic base. The exact form this organization takes varies among societies and across time. The form that people chose to solve their basic economic problems would, according to Marx, eventually determine virtually everything in the social structure, including polity, family structure, education, and religion. In Marx's view, all these social institutions depend on the basic economy, and an analysis of society will always reveal its underlying economic arrangements.

Because it owns the means of production, the social class in power uses the noneconomic institutions to uphold its position. Thus, Marx believed that religion, the government, and the educational system are used by the powerful to maintain the status quo.

Marx argued that every economic system except socialism produces forces that eventually lead to a new economic form. In the feudal system, for example, the market and factory emerged but were incompatible with the feudal way of life. The market created a professional merchant class, and the factory created a proletariat. Thus, new inventions create a tension with the old institutions, and new social classes threaten to displace old ones. Conflict results, and society is rearranged with a new class structure and an alteration in the division of wealth and power based on a new economic form. Feudalism was replaced by capitalism; land ownership was replaced by factories and the ownership of capital.

Capitalism, Marx maintained, also carries the seeds of its own destruction. Capitalism will produce a class of oppressed people (the proletariat) bent on destroying it. The contradictions inherent in capitalism are (1) the inevitability of monopolies, which eliminate competition and gouge consumers and workers; (2) the lack of centralized planning, which results in overproduction of some goods and underproduction of others, encouraging economic crises such as inflation, slumps, and depressions; (3) demands for labor-saving machinery, which force unemployment and a more hostile proletariat; (4) that employers will tend to maximize profits by reducing labor expenses, thus creating a situation where workers will not have enough income to buy products, thus the contradiction of causing profits to fall; and (5) control of the state by the wealthy, the effect of which is passage of laws favoring themselves and thereby incurring more wrath from the proletariat. All these factors increase the probability that the proletariat will build class consciousness, which is the condition necessary to class conflict and the ushering in of a new economic system.

of the various sectors of the economy. Monopolies, of course, are antithetical to the free enterprise system because they, not supply and demand, determine the price and the quality of the product.

For the most part, the evidence in U.S. society upholds Marx’s prediction. Less than 1 percent of all corporations produce over 80 percent of the private-sector output. Most sectors of the U.S. economy are dominated by a few corporations. Instead of one corporation controlling an industry, the typical situation is domination by a small number of large firms. When four or fewer firms supply 50 percent or more of a particular market, a shared monopoly results, which performs much as a monopoly or cartel would. Most economists agree that above this level of concentration—a four-firm ratio of 50 percent—the economic costs of shared monopoly are most manifest. Government data show that a number of industries are highly concentrated (e.g., each of the following industries has four or fewer firms controlling at least 60 percent: light bulbs, breakfast cereals, milk supply, turbines/generators, aluminum, cigarettes, beer, chocolate/cocoa, photography equipment, trucks, cosmetics, film distribution, soft drinks, snack foods, guided missiles, and roasted coffee [Mokhiber 2010]).

This trend toward ever-greater concentration among the largest U.S. business concerns has accelerated because of two activities—mergers and interlocking directorates.

- **Megamergers.** There are thousands of mergers each year as giant corporations become even larger. Some of the largest mergers in U.S. history have occurred in recent years (for example, Time, Inc., and AOL joining with Warner Communications; Disney merging with Capital Cities/ABC; NBC merging with Comcast; United Airlines taking over Continental Airlines; the merger of Wells Fargo and First Interstate Banks; the merger of NationsBank and BankAmerica; Philip Morris taking over Miller Brewing; the AT&T buyout of Tele-Communications, Inc.; Citicorp merging with Travelers Group; Texaco buying out Getty Oil; Exxon merging with Mobil Oil; Exxon Mobil merging with XTO, and MCI WorldCom’s acquisition of Sprint). There have also been megamergers combining U.S. and foreign firms (for example, Daimler and Chrysler, British Petroleum and Amoco, and Deutsche Bank and Bankers Trust). The federal government encouraged these mergers by relaxing antitrust law enforcement on the grounds that efficient firms should not be hobbled.

This trend toward megamergers has at least five negative consequences: (1) It increases the centralization of capital, which reduces competition and raises prices for consumers; (2) it increases the power of huge corporations over workers, unions, politicians, and governments; (3) it reduces the number of jobs (for example, when Citicorp and Travelers combined to make Citigroup, 10,400 jobs were eliminated); (4) it increases corporate debt; and (5) it is nonproductive. Elaborating on this last point, mergers and takeovers do not create new plants, products, or jobs. Rather, they create profits for chief executive officers, lawyers, accountants, brokers, bankers, and big investors.

- **Interlocking Directorates.** Another mechanism for the ever-greater concentration of the size and power of the largest corporations is interlocking directorates, the linkage between corporations that results when an individual serves on the board of directors of two companies (a direct interlock) or when two companies each have a director on the board of a third company (an indirect interlock). These arrangements have great potential to benefit the interlocked companies by reducing competition through the sharing of information and the coordination of policies.
In 1914, the Clayton Act made it illegal for a person to serve simultaneously on corporate boards of two companies that were in direct competition with each other. Financial institutions and indirect interlocks, however, were exempt. Moreover, the government has had difficulty determining what constitutes “direct competition.” The result is that, despite the prohibition, over 90 percent of large U.S. corporations have some directors interlocked with other corporations. When directors are linked directly or indirectly, the potential exists for cohesiveness, common action, and unified power. Clearly, the principles of capitalism are compromised when this phenomenon occurs.

Despite the relative noncompetitiveness among the large corporations, many of them devote considerable efforts to convincing the public that the U.S. economy is competitive. Many advertisements depict the economy as an Adam Smith-style free market with competition among innumerable small competitors. This, however, is a myth. Competition does exist among the mom-and-pop stores, but they control only a minute portion of the nation’s assets. The largest assets are located among the very large corporations, and competition there is minimal.

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**CASE STUDY  Media Monopolies**

The media, through movies, television, radio, books, magazines, newspapers, and advertising, are major players in the creation of the culture, shaping what we think and do. The media play an influential role in a democracy because a democracy hinges on whether there is an informed electorate. The people need unbiased information and the push-and-pull of public debate if they are to be truly informed. These conditions become problematic, however, when the sources of information are increasingly concentrated in a few huge conglomerates guided only by commercial and bottom-line values. In 1983, fifty corporations controlled media in the United States. Now there are six—News Corporation, General Electric, Disney, Time Warner, CBS, and Viacom. Consider the range and scope of their media holdings:

- **Viacom** owns UPN, Paramount Pictures, DreamWorks, MTV, Nickelodeon, Nick at Nite, The Daily Show with Jon Stewart, TV Land, CMT, VH1, Movie Channel, Sundance Channel, Flick, Black Entertainment, and Comedy Central, to name a few of their holdings.
- **Some of Time Warner's holdings include Time, People, Sports Illustrated, Fortune, Entertainment Weekly, Popular Science, AOL, CompuServe, CNN, Cinemax, NASCAR.com, Warner Brothers Pictures, Warner Brothers Cable, TBS, TNT, Cartoon Network, HBO, The Movie Channel, and Court TV.**
- **Disney’s media affiliates are ABC, ESPN, The Disney Channel, E! Entertainment, The History Channel, Disney Publishing, Hyperion Books, ABC Radio (seventy-three stations), Walt Disney Pictures, Miramax Films, Buena Vista Productions, and Pixar.**
- **Some of General Electric’s media holdings are NBC, fourteen television stations in major markets, Telemundo, Universal Pictures, Universal Studios, CNBC, MSNBC, Bravo, USA Network, and A & E. In 2011 Comcast merged with NBC Universal, “marrying” the largest cable company and the biggest residential Internet service provider. The resulting merger owned fifty-two cable channels including the Golf channel, PBS Kids, E!, and the NBC network, plus twenty-seven local TV stations.**
In addition to amusement parks, Disney has media holdings including ABC, ESPN, The Disney Channel, Hyperion Books, ABC radio, Walt Disney Pictures, Miramax Films, Buena Vista Productions, and Pixar.

In addition to these media giants, ten companies broadcast to two-thirds of the nation’s radio audience. One of these, Clear Channel Communications, owns more than 850 radio stations, reaching 238 million listeners each month (Clear Channel 2012) (before the Telecommunications Act of 1996, which lifted ownership limits for radio stations, one company could not own more than forty stations nationwide). Clear Channel also owns forty-two television stations and a substantial number of billboards and other outdoor advertising.

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In 1965, there were 860 owners of daily newspapers. Today there are fewer than 300. Many cities now have only one major newspaper. The most important newspapers are (1) the New York Times, which also owns the Boston Globe and fifteen other daily newspapers, as well as television and radio stations; (2) the Washington Post is also owner of Kaplan (one of the world’s largest providers of educational services), TV stations in Detroit, Houston, Miami, Orlando, San Antonio, and Jacksonville, Slate, and Cable One; (3) News Corp (see above), the owner of the Wall Street Journal; and (4) Gannett, the owner of USA Today, major newspapers in Phoenix, Indianapolis, Cincinnati, Nashville, Louisville, Des Moines, and Detroit, plus twenty-three television stations.

These examples show the extent to which a few major corporations control what we see, hear, and read. What does it mean when the information and entertainment we receive are increasingly under monopolized control? First, the media help to define reality by determining what is important and, conversely, what is not. This shapes our understanding of what is a social problem. For instance, the evening news focuses much more on street crime, using a disproportionate number of images of people of color as perpetrators, than it does on white-collar and corporate crime.

Second, diverse opinions are rarely heard. Because a few media giants control the content and distribution of programming, smaller companies with distinctive viewpoints are increasingly rare. The content of talk radio, for example, leans heavily to the political right, as evidenced by the views of Rush Limbaugh, Glenn Beck, G. Gordon Liddy, Oliver North, Sean Hannity, Armstrong Williams, Michael Savage, Bob Grant, and Laura Ingraham. In a nation that is divided more or less equally politically, there are relatively few progressive voices on the radio. Conservatives, on the other hand, charge that the print media are biased toward the liberal position on political issues.
Third, reporting is sometimes compromised by conflict of interest. For example, did NBC, when it was owned by General Electric, report extensively on the long-term contamination of the Hudson River by a GE plant? Similarly, media corporations might shy away from news that is too critical of the government because of the corporation’s political leanings, they do not want to offend customers, or they depend on government subsidies and favorable legislation.

Fourth, a media giant may, through its subsidiaries, push a political stance. For example, Clear Channel Communications, with 850 radio stations, used its considerable market power to drum up support for the war in Iraq. Following the 9/11 terrorist attacks, songs such as Cat Stevens’s “Peace Train” and John Lennon’s “Imagine” were blacklisted in the corporation’s stations. The network sponsored pro-war rallies and a continuous barrage of uncritical comment (Marshall 2003). When one of the Dixie Chicks said that she was ashamed that President Bush came from Texas, Clear Channel Communications banned the Dixie Chicks’ music from its country music stations (as did Cumulus Media).

Fifth, big stories (war, corruption, the economy, legislation) are often pushed aside in favor of “hot” stories, such as kidnappings and murders, and salacious stories about celebrities.

Finally, the messages we hear and see tend to focus on problem individuals rather than on problems with structural origins. Thus, the media pull us away from sociological interpretations—with critical consequences for social policy as we will see throughout this book.

Transnational Corporations

The thesis of the previous section is that there is a trend for corporations to increase in size, resulting eventually in huge enterprises that join with other large companies to form effective monopolies. This process of economic concentration provides the largest companies with enormous economic and political power. If, for example, we compare government budgets with gross corporate revenues, in 2009, the sales of Walmart, Royal Dutch Shell, and ExxonMobil each exceeded the gross domestic product of Indonesia (the fourth most populous country in the world). Combining these three transnational corporations, their sales revenues were more than the combined economies of the world’s poorest 118 countries with a total population of more than 800 million.

Another trend—the globalization of the largest U.S. corporations—makes their power all the greater. This fact of international economic life has very important implications for social problems, both at home and abroad.

A number of U.S. corporations have substantial assets overseas, with the trend to increase these investments rapidly. In 2009, six of the top fifteen multinationals in sales were U.S.-based corporations (Forbes 2010). U.S. corporations are shifting more and more of their total assets outside the United States to increase profits. Resources necessary for manufacture and production tend to be cheaper in many other nations. Most significant, U.S. corporations increase their profits by moving their production facilities from high-wage situations to low-wage nonunion countries. Moreover, foreign production costs are lower because labor safety laws and environmental protection laws are much more lax than in the United States.

The consequences of this shift in production from the United States to other countries are significant. Most important is the reduction or even drying up of many semiskilled and unskilled jobs in the United States, increased welfare costs and increased discontent among people in the working class. (This problem of domestic job losses through overseas capital investments is discussed in detail in Chapter 14, where globalization, deindustrialization, capital flight, and outsourcing are considered.)
Another result of the twin processes of concentration and internationalization of corporations is the enormous power wielded by gigantic transnational corporations. In essence, the largest corporations control the world economy. Their decisions to build or not to build, to relocate a plant, or to start a new product or scrap an old one have tremendous impacts on the lives of ordinary citizens in the countries they operate from and invest in and on their disinvestment in U.S.-based operations.

Finally, transnational corporations tend to meddle in the internal affairs of other nations to protect their investments and maximize profits. These activities include attempts to overthrow governments considered unfriendly to corporate interests and payment of millions of dollars in bribes and political contributions to reactionary governments and conservative leaders in various countries.

Concentration of Wealth

The other discrepancy between free enterprise in its real and ideal states is the undue concentration of wealth among a few individuals and corporations. This imbalance makes a mockery of claims that capitalism rewards the efforts of all enterprising individuals.

- **Concentration of Corporate Wealth.** Wealth in the business community is centralized in a relatively few major corporations, and this concentration is increasing. In 2009, for example, the U.S. corporation with the most assets ($2.22 trillion) was Bank of America; the top corporation in sales—Walmart—had $408.2 billion in revenues; and the greatest producer of profits was Exxon-Mobil at $19.28 billion (Forbes 2010). The following examples show just how concentrated wealth is among the major U.S. corporations:
  
  - Less than 1 percent of all corporations account for over 80 percent of the total output of the private sector.
  - Of the 15,000 commercial U.S. banks, the largest fifty hold more than one-third of all assets.
  - One percent of all food corporations control 80 percent of all the industry’s assets and about 90 percent of the profits.
  - Six transnational corporations ship 90 percent of the grain in the world market.

- **Concentration of Private Wealth and Income.** Capitalism generates inequality. Wealth is concentrated not only in the largest corporations but also among individuals and families. For example, in 2010, the two wealthiest were Bill Gates, head of software giant Microsoft, with an estimated fortune of $54 billion, and Warren Buffett of Berkshire Hathaway, with $45 billion.

  A few families are fabulously wealthy. The six heirs to the Walmart fortune, for example, were worth a combined $107 billion in mid-2012. Dividends from their Walmart stock add a cumulative total of $1 billion annually.

  The concentration of wealth is greatly skewed. Consider the following facts:

  - The combined net worth of the 400 richest Americans in 2011 was more than the total wealth of the bottom 185 million Americans.
  - In 2009 the richest 5 percent of U.S. households owned 63.5 percent of the nation’s private wealth, the bottom 80 percent, collectively, held just 12.8 percent (Herbert
There were 5.134 million millionaire households (excluding housing values), making the United States the nation with the most millionaires, followed by Japan (1.6 million), and China (1.4 million) (Becerra et al. 2012).

- The United States also had the largest number of ultra high net worth households (2,928), worth $100 million or more, and 363 billionaire households (Becerra et al. 2012).

The data on wealth always show more concentration than do income statistics, but the convergence of money among the few is still very dramatic when considering income. The share of the national income of the richest 20 percent of households was 50.2 percent, while the bottom 20 percent received only 3.3 percent of the nation’s income in 2010. The data in Table 2.1 show that income inequality is increasing in U.S. society. Especially noteworthy is the sharp gain in the Gini index, which measures the magnitude of income concentration from 1970 to 2010. (See Table 2.1.) Comparing the U.S. Gini index with that of the developed countries in the OECD (Organization for Economic Cooperation and Development), the United States is by far the most unequal (Babones 2012). Examined another way, the Central Intelligence Agency ranked 140 nations on income inequality and found that the United States was ranked as 42nd most equal among the wealthy democracies with whom Americans compare themselves (Meyer 2012).

Another measure of this increasing gap is the difference in earnings between the heads of corporations and the workers in those corporations. In 1960, the average chief executive officer (CEO) of a Fortune 500 corporation was paid forty times more than the average worker. By 2011, it had risen dramatically to 380 times more (Pizzigati 2012). Put another way, over the past thirty years, CEO salaries have increased 127 times faster than worker salaries (Figueroa 2012). In 2011 the median salary of CEOs was $9.587 million. The typical American worker making the national average salary would have to work 233 years to equal that amount, and a minimum wage worker working full time would match the CEOs’ salary in 636 years (Condon and Rexrode 2012). From another angle, assuming that typical CEO works a sixty-hour week, the pay would be $3,072.84 per hour, or $51.21 per minute. A minimum wage worker would have to work more than ten weeks to make what the median CEO earns in an

**TABLE 2.1**


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<th>Year</th>
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*The income inequality of a population group is commonly measured using the Gini index. The Gini index ranges from 0, indicating perfect equality (i.e., all persons having equal shares of the aggregate income), to 1, indicating perfect inequality (i.e., where all of the income is received by only one recipient or one group of recipients and the rest have none). The increase in the Gini index for household income between 1970 and 2009 indicates a significant increase in income inequality.

hour. The average U.S. worker would have work nearly a month to make the CEOs’ hourly salary (Borenstein 2012).

The inequality gap has risen dramatically for a number of reasons. The gain at the top reflects the increased tax benefits received by the affluent from changing tax laws. Another factor explaining this inequality gap is the changing job structure as the economy shifts from manufacturing to service and as U.S. jobs are exported (see Chapter 14). At the upper end, corporate executives added handsomely to their incomes while downsizing their domestic workforces. Congress has increased this upper-class feast by reducing taxes on capital gains (taxes on the profits from the sale of property) and by allowing the affluent to place as much of their income as they wish in special tax-deferred pay plans not available to the less well-to-do. Most significant were the tax cuts in 2001 and 2003. Since 2001, these cuts have resulted in over half a trillion dollars going to the richest 1 percent. To illustrate, in the 2008 tax year, households in the bottom 20 percent received $26 from these tax cuts while households in the top 1 percent received $26,495, and households in the top 0.1 percent received $266,151 in tax savings. See the “Social Policy” panel for more government policies that increase the inequality gap.

Social Policy

**GOVERNMENT POLICIES EXACERBATE WEALTH INEQUALITY**

Government policies have the power to expand or reduce the gap between the haves and the have-nots. Consider what we could do to lift up the underserved:

We could truly address the disgraceful truth that in this rich nation one in six children is raised in poverty and deprived of the healthy, fair start vital to equal opportunity. Now we have the resources to rebuild an aging and overburdened infrastructure—witnessed daily in power blackouts, collapsing sewers and aged water systems, overburdened airports, deferred toxic waste cleanups. Now we can redress the growing shortage of affordable housing and insure that every American has access to healthcare. (Borosage 2001:5)

All these actions are within our reach, but the decision makers have ruled them out, making the reduction of taxes paramount, which increases the inequality gap, already the most unequal by far among the industrialized nations. Here are some examples of how government policies enhance the advantages of the haves:

- Getting rid of the estate tax so that large fortunes can be passed on to the next generation.
- Reducing tax rates both on corporate profits and on unearned income such as dividends and capital gains so that the wealthy can more easily accumulate even more.
- Reducing tax rates on people with high incomes, shifting the burden to the payroll tax and other revenue sources that bear most heavily on people with lower incomes.
- On the spending side, cutting back on healthcare for the poor, on the quality of public education, and on state aid for higher education. This makes it more difficult for people with low incomes to achieve upward mobility.

The affluent, by paying less in taxes, will, in effect, withdraw their support from programs that help those who are poor, those who do not have health insurance, and those who cannot afford decent housing. Former secretary of labor Robert Reich argues that what is really at issue here is the sorting of America, where our society is becoming more rigidly stratified. Reich says,

> There's only one way to reverse the sorting mechanism. . . . We have to rededicate ourselves to strong public institutions that are indubitably public because they work well for everyone. Of course this means more money and higher performance standards. But it also requires a renewed public spiritedness—a we’re-all-in-this-together patriotism that says it’s good for Americans to transcend class, race, education, health, and fortune, and to participate together. (2000:64)
The recent tax policies have four major consequences. First, they exacerbate the unequal distribution of wealth in the United States, which is already the most unequal in the Western world. Second, the huge tax cuts occurred at the very time that the United States was conducting two costly wars in Iraq and Afghanistan and spending huge amounts to get the country out of the greatest economic disaster since the Great Depression. The result is a dramatic increase in the national debt. This leads to the third consequence: The ever-increasing debt is used to justify reductions in government spending for programs that help the less fortunate, and it weakens public institutions that benefit society. As the late political observer Molly Ivins has put it,

*Ivins points to the fourth negative consequence of the widening gap between the haves and the have-nots—the increasing political influence of the wealthy, which is the topic of the next section.*

**POLITICAL SYSTEM: LINKS BETWEEN WEALTH AND POWER**

In many ways, the U.S. government represents the privileged few rather than the majority. Although the government appears democratic, with elections, political parties, and the right to dissent, the influence of wealth prevails. This influence is seen in the disproportionate rewards the few receive from the politicoeconomic system and in government decisions that consistently benefit them. Senator Bernie Sanders argues that the United States is, increasingly, an oligarchy. An *oligarchy* is a government ruled by the few. In
Sanders’s words, “Oligarchy refers ... to the fact that the decisions that shape our con­sciousness and affect our lives are made by a very small and powerful group of people” (Sanders 1994:B1). Other critics have taken this a step further, suggesting that the United States is a plutocracy (a government by or in the interest of the rich; e.g., Parenti 2008:27–39).

Government by Interest Groups

Democracy may be defined as a political system that is of, by, and for the people. It is a system under which the will of the majority prevails, there is equality before the law, and decisions are made to maximize the common good. The principles that define a democracy are violated by the rules of the Senate (see “A Closer Look: The Structure

A Closer Look

The structure of the Senate as a barrier to democracy

The U.S. Senate is designed to thwart popular will in at least two ways: the filibuster and the disproportionate power of small states.

The filibuster is a self-imposed rule of the Senate not found in the Constitution. It is the practice of holding the Senate floor to prevent a vote on a bill. In 1917 the Senate adopted a rule that allowed the Senate to end a debate with a two-thirds majority vote for "cloture." For the next fifty years, the Senate tried to invoke cloture but usually failed to gain the necessary two-thirds votes. Filibusters were used primarily by segregationists seeking to derail civil rights legislation. South Carolina's Strom Thurmond, for example, filibustered for 24 hours and 18 minutes (the all-time record) against the Civil Rights Act of 1957. The southern senators tried to stymie antilynching legislation. In 1975, the Senate reduced the number of votes required for cloture from two-thirds (67) to three-fifths (60). That is the rule now in place.

The political composition of the Senate in 2013 was 53 Democrats, 2 Independents who caucus with the Democrats, and 45 Republicans. Despite the public's election of a Democratic president in 2012 and adding enough Democrats to have a relatively large majority in the Senate, the Democrats have not been able to get legislation passed for two reasons: The Republicans often vote as a bloc to block the agenda of the Democrats and the difficulty in garnering 60 votes to defeat a filibuster. The use of the filibuster or the threat of a filibuster, once a relatively rare parliamentary move, has become commonplace. Since 2006, when Republicans became a minority in the Senate, there were almost 400 filibusters through the end of 2012.

The popular will is also thwarted in the Senate by the extraordinary power of small states (the following is from MacGillis 2009). For example, climate change legislation faces tough odds in the Senate because the states dominated by agriculture, coal, and oil, which are typically underpopulated states, are opposed. The coal state of Wyoming has a single vote in the House, compared to New York's 29 and California's 53. In the Senate, however, each state has two, making Wyoming's senators equal in numerical weight to California's senators. North and South Dakota with a combined population of 1.4 million have twice as many senators as Florida (18.3 million), Texas (24.3 million), or Illinois (12.9 million). A few additional inequities with each state having two senators, regardless of population size:

- California is seventy times as large as the smallest state, Wyoming.
- The ten largest states have more than half the people in the United States, yet have only a fifth of the votes in the Senate.
- The twenty-one smallest states combined have fewer people than California, yet they have forty-two senators, while California has only two.

Although three small states (Vermont, Delaware, and Rhode Island) favor the Democrats, most of the states with small populations and large land areas are staunchly Republican. Thus, the Senate structure is not only unequal, it has a built-in bias. Is this what the founders of the United States had in mind when they wrote the Constitution?
of the Senate as a Barrier to Democracy”), and by special-interest groups, which by
deals, propaganda, and the financial support of political candidates attempt to deflect
the political process for their own benefit. Individuals, families, corporations, unions,
professional associations, and various other organizations use a variety of means to
obtain tax breaks, favors, subsidies, favorable rulings, and the like from Congress and
its committees, regulatory agencies, and executive bureaucracies.

Special interests (e.g., National Rifle Association [NRA], the pharmaceutical indus-
try, labor unions, dairy farmers) hire lobbyists to persuade legislators to vote for
favorable legislation. At the national level, lobbying in 2011 was a $3.32 billion busi-
ness and there were 12,655 registered lobbyists (which translated into twenty-three
lobbyists for each member of Congress in 2011 (OpenSecrets.org 2012).

Interested parties lobby because there can be a significant payoff. In 2003 and
2004, for instance, 840 U.S. corporations lobbied Congress to change the tax laws
enabling transnational companies to bring home their overseas earnings at a tax
rate of 5.25 percent instead of 35 percent (the following is from Belsie 2009). They
succeeded, accruing benefits through the new law—the American Jobs Creation
Act of 2004. These benefits were stunning. For every dollar spent on lobbying for
the tax break, corporations reaped a $220 benefit on their U.S. taxes—a 22,000
percent return on their investment. Those corporations spending more than $1
million on tax lobbying did even better—a 24,300 percent return. For example,
Eli Lilly & Co. spent $8.52 million lobbying for this bill. It reaped more than $2
billion in return.

The argument supporting lobbying is that on various issues, there are lobbyists
on both sides. Thus, it is argued, there is a balance of viewpoints that legislators weigh
in their decision making. The evidence, however, does not support such a cheerful
view. Of the top twenty organizations in spending to influence legislation, there is
only one quasi-liberal group, the AARP. All of the rest speak for the top 1 percent
of the income distribution (Kuttner 2012). The existence of lobbyists does not ensure
that the national interest will be served, only that the interests of the powerful typi-
cally get their way. Who, for example, speaks for the interests of minority groups,
the poor, the mentally challenged, children, renters, migrant workers—in short, who
speaks for the relatively powerless? And if there is a voice for these people, does it
match the clout of lobbyists backed by immense financial resources?

Financing of Political Campaigns

Perhaps one of the most undemocratic features (at least in its consequences) of the
U.S. political system is how political campaigns are financed. (See the “A Closer Look”
panel for the other undemocratic features.) Campaigns are becoming increasingly
expensive, with money needed to pay for staff, direct-mail operations, phone banks,
computers, consultants, and media advertising. The cost of the presidential and con-
gressional election in 2008 was $5.3 billion (up from $2.2 billion in 1996), including
monies from the federal government, individuals, political parties, and organizations
outside political parties. The 2012 election campaign cost more than $6 billion.

The cost of winning a seat in Congress is enormous. In 2010, the average win-
ing House race cost $1.4 million, and the average winning Senate race cost almost
$10 million. Computed another way, assuming a 40-hour work week, House members
must raise, on average $367 an hour every week during their two-year term; Senators
must come up with $815 an hour (Gilson 2012). Obviously, candidates must either be
wealthy or accept money from various sources to finance their expensive campaigns.
These costly campaigns favor incumbents, who have an easier time raising money than their opponents. The most favored recipients of political money are the chairs of powerful congressional committees.

Congress has attempted to curb the role of money in elections, but with little success. Donors and their lawyers have always found ways around the spending limit (Economist 2012). In 2002, it passed the Bipartisan Campaign Reform Act (also known as the McCain-Feingold law). This law limited the use of "soft money" in federal elections. Before this act was passed, individuals, corporations, unions, and other organizations were allowed to give unlimited amounts of money to political parties at the national, state, and local levels or to other private organizations that are technically independent of the candidates. Because this tactic was not covered by the election laws, the amounts raised were unlimited. This loophole was used by wealthy persons to contribute to the Republican and Democratic national parties (and indirectly to the presidential candidates).

McCain-Feingold did eliminate soft money in federal elections (buttressed by a favorable Supreme Court decision in 2003), but it did not limit the giving of large sums to affect election outcomes. A number of ways were employed to navigate the system and give large donations to build support among Democrat or Republican voters. The loophole used is called 527s, which are advocacy groups, tax exempt under Section 527 of the Internal Revenue Code, that finance political advertisements while not directly calling for the election or defeat of specific candidates (Dwyer 2004). Democrats, for example, created such organizations as the Media Fund and America Coming Together. Working through these organizations, billionaires George Soros and Peter Lewis pledged a total of $15 million, creating among other strategies the liberal Internet organization MoveOn.org. Republicans have set up comparable groups, such as the Leadership Forum, a fund-raising group headed by Washington lobbyists.

McCain-Feingold also limited maximum contributions to $2,300 per election cycle. While technically adhering to this limitation, corporate executives, lobbyists, and other insiders could maximize their political influence by a sophisticated system
A democracy is a political system that is of, by, and for the people. Democratic principles include (1) fair and open elections, (2) access by the people to accurate information, (3) accountability of the governors to the governed, (4) political equality among all citizens, and (5) due process of law. The United States claims to be a democracy. Is it?

The short answer is that the United States is a democracy in theory but not always in practice. We focus here on elections. Indian novelist Arundhati Roy has said this about elections: “I think it is dangerous to confuse the idea of democracy with elections. Just because you have elections doesn’t mean you’re a democratic country” (cited in Mickey Z 2006:7). Consider the following undemocratic practices in U.S. elections.

First, the writers of the Constitution framed what they considered a democracy, but they allowed voting only for White male property owners, which, of course, excluded women, Native Americans, Blacks, and renters. Senators were not popularly elected. Clearly, most of the governed had no power. The framers also set up the Electoral College, a device that gave the ultimate power of electing the president to the elite in each state and gave extraordinary power to the least populous states. Now most of these undemocratic principles have been overturned by amendments to the Constitution. But the Electoral College remains, allowing for a president to be elected with fewer votes than his or her opponent (e.g., George W. Bush was elected president in 2000 with 539,893 fewer votes than Al Gore). The Electoral College gives all electoral votes from a state to the winner in that state (e.g., in 2000 with nearly 3 million votes cast in Florida, George W. Bush won by a disputed margin of 537 votes and received all of Florida’s 25 electoral votes, giving Bush a majority in the Electoral College). And, to top it all, an electoral vote in Wyoming (in 2004) corresponded to 167,081 persons, while an electoral vote in California represented 645,172 persons (because the number of electors is determined by the number of senators and representatives in that state, giving states with small populations disproportionate votes). In short, the Electoral College may or may not reflect the popular will. The winner-take-all system means that minorities may not be represented. Assume that a state has five districts, each electing a representative to the House of Representatives. If this state is predominantly Republican, it could have all five Republican representatives even though 40 percent (in this hypothetical case) are Democrats. Also, what if 30 percent of the state’s citizens are Latino? It is possible that their voice will not be heard in Washington. Similarly, a city may have a seven-member city council elected at large by majority vote. The usual result is that not of bundling—the pooling of a large number of contributions. This tactic is used by both political parties.

Another method to raise money is through contributions to a “foundation” or to a favorite charity. Through this loophole, donors could give unlimited contributions to a candidate. For example, during the 2008 campaign, four major defense contractors—Northrop Grumman, General Dynamics, Boeing, and Lockheed Martin—donated hundreds of thousands of dollars to the symphony orchestra in Johnstown, Pennsylvania. Why? Well, the orchestra is a favorite charity of Representative John Murtha, the chairman of the congressional committee that gives out lucrative defense contracts (Hernandez and Chen 2008). Similarly lobbyists can donate to favorite causes of the legislator, such as $336,224 that Representative James Clyburn received for his James E. Clyburn Research and Scholarship Foundation (Schouten and Overberg 2009). A fourth way to funnel special interest money legally is to honor members of Congress. In 2008 special interests donated
one council member represents a poor section of the city.

Disenfranchisement also occurs when state legislatures under par­tisan control deliberately shape congressional districts (called gerrymandering) to increase their advantage. By moving the district boundaries (made all the easier these days with computers), the party in power can take an area that is overwhelmingly composed of their party members and move some of them to a neighboring area that is more evenly split. In this way, they can make both districts their districts. Thus, the system is rigged to help the party in power remain in power (Wang 2013). When a party wins an election, as the Republicans did in 2010, there is a probability that they will make changes in the election laws to benefit them. In anticipation of the 2012 election, Republican-dominated legislatures in thirty-eight states have pushed for measures to keep racial/ethnic minorities, the young, and the poor from voting. Similar to the use of literary tests and poll taxes in the segregated South after the Civil War, these legislatures are erecting barriers to the fundamental right to vote (Jackson 2011). The targeted groups tend to vote for Democratic candidates. To stifle college students from voting, for example, states may not allow them to register if they have an out-of-state driver’s license or they may schedule a primary vote during Spring Break. Under the guise of protecting from voter fraud (a very minor problem, at best), states may require a government-issued ID (driver’s license or passport) in order to register. There are 21 million-people in the U.S. without government IDs, typically the poor.

The two-party system that has emerged in the United States (political parties are not mentioned in the Constitution) is a major impediment to democracy. Corporations, special interests, and wealthy individuals sponsor both parties. The federal government subsidizes the two major parties, which keeps the strong parties strong and the weak parties weak. Third-party candidates are often excluded from political debates because, it is argued, they have no chance of winning, a self-fulfilling prophecy. The election laws also make it difficult for third parties to get on the ballot. “How can U.S. elections be deemed truly democratic when only ‘major’ candidates are allowed to participate in televised debates and only those accepting inordinate amounts of cash from wealthy/corporate donors are considered ‘major’ candidates?” (Mickey Z 2006:7).

Finally, as shown in this chapter, money makes the difference in politics. The people get to vote between candidates selected by the wealthy (corporations, interest groups, or individuals), which means that voting does not always express the public will. As Mark Green says: “Because average voters pull levers but big donors pull strings, often public sentiment wants one thing while political elites deliver something else” (Green 2006:6). Thus, when public sentiment is at odds with the moneyed interests, the public often loses.

$35.8 million to honor legislators. A fifth source of money is the contributions to underwrite the expenses of political conventions. Although technically not a political contribution, the parties and candidates are beholden to the contributing corporations.

- The Supreme Court Decision (Citizens United v. Federal Election Commission) in 2010. As noted, while McCain-Feingold attempted to control spending, it was not always successful because of various ways to evade the law. With a Supreme Court decision in 2010, however, these efforts to get around McCain-Feingold were no longer necessary. By a landmark 5-4 decision the Supreme Court struck down the laws of twenty-two states and the federal government. It invalidated part of the McCain-Feingold campaign finance reform law that sought to limit corporate influence by ruling that the constitutional guarantee of free speech means that corporations, labor unions, and
other organizations can spend unlimited sums to help elect or defeat political candidates. These organizations are still barred from making direct contributions to politicians, but they can now legally give unlimited amounts for ads to sway voters, as long as the ads are produced independently and not coordinated with a candidate’s campaign. In effect, Exxon can spend millions to defeat an environmentalist candidate or Goldman Sachs could fund the entire cost of every congressional campaign in the United States (Alter 2010). As the *New York Times* editorialized: “The court’s conservative majority has paved the way for corporations to use their vast treasuries to overwhelm elections and intimidate elected officials into doing their bidding” (*New York Times* 2010: para 1).

After the Supreme Court decision, individuals and groups were still limited to contributing $2,500 in the primary and another $2,500 in the general election directly to a candidate. But now individuals and groups could give unlimited amounts to an outside group (super PAC [political action committee]), if it is independent of a candidate. This “independence” has become a charade, however, since the super PACs are typically run by close political associates of the candidate. It is clear that

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*It is important to point out that although labor unions have the same right as corporations to spend freely in elections, they are no match for the corporations. The Center for Responsive Politics provides the data from the 2007–2008 election cycle: (1) Corporations gave $1.964 billion in federal campaign contributions, compared to labor, which spent $74.8 million—a 15–1 disadvantage for labor (cited in Bybee 2010); and (2) business and corporate interests accounted for 70.8 percent of the total political contributions, while only 2.7 percent came from labor (cited in Chapin 2010).*
In 2008, PhRMA, the pharmaceutical industry trade group, spent $200,000 on federal elections. After the Citizens United decision, it spent $9.5 million.

the contributions to a super PAC benefit the candidate just as if they were given directly to the candidate (Wertheimer 2012b). As evidence, the super PACs launch media blitz after media blitz in line with the political position of a candidate or attacking those of the candidate's opponent. The sources of these political donations can be kept secret.

This ruling has changed the political landscape. Small donors, who played a major role in the 2008 presidential election, have become irrelevant, being unable to match the treasuries of special interests and wealthy individuals. Super donors played a major role in the 2012 Republican presidential primaries, as two-thirds of the money for the candidates' super PACs came from mega-donors who contributed at least $500,000 (Schouten, Schnaars, and Korte 2012).

Money has been interpreted by a majority of the Supreme Court as a form of speech, and big money trumps small money. So the “speech” of the well-heeled is more important than the “speech” of ordinary citizens. For example, 196 donors provided about 80 percent of the money raised by super PACs in 2011. Commentator Ari Berman says the 2012 election was not defined by the 1 percent, but actually the superrich—the.0000063 percent (Berman 2012). Casino magnate Sheldon Adelson and his wife, for example, donated $52.2 million to groups favoring Republican candidates.

In sum, the super PACs corrupt democracy in two ways (Wertheimer 2012a). First, they allow a relatively few super-rich individuals and interest groups to have undue influence over the results of elections. For example, in the unsuccessful 2012 attempt to recall Republican Governor Scott Walker in Wisconsin, Walker won as his supporters outspent their opponents by 7.5 to 1. Ninety percent of that money came from out-of-state billionaires, business groups, and the National Rifle Association (Dreier 2012). Second, super PACs allow the ultra rich and wealthy interests to buy influence over government policy.

Future elections will likely be inundated by a flood of corporate spending. What will be the effects of this newly unleashed torrent of attack advertisements? Will the United States be a functioning democracy with this triumph of money equating with political power?
Candidate Selection Process

Closely related to the financing of campaigns is the process by which political candidates are nominated. Being wealthy or having access to wealth is essential for victory because of the enormous cost of the race. A few wealthy individuals can fund their own candidacy. For example, in 2010 Meg Whitman spent $138 million of her own money to run for governor of California. Typically, though, a serious candidate for high office must raise a considerable amount and most of this will represent a limited constituency—wealthy individuals and special interest groups.

Affluent individuals and the largest corporations influence candidate selection by giving financial aid to those candidates sympathetic with their views and withholding support from those whose views differ. The parties, then, are constrained to choose candidates with views congruent with the monied interests.

BIAS OF THE POLITICAL SYSTEM

Most people think of the machinery of government as a beneficial force promoting the common good, and it often is. But although the government can be organized for the benefit of the majority, it is not always neutral (Parenti 1978). The state regulates; it stifles opposition; it makes and enforces the law; it funnels information; it makes war on enemies (foreign and domestic); and its policies determine how resources are apportioned. In all these areas, the government is generally biased toward policies that benefit the business community. In short, power in the United States is concentrated in a power elite, and this elite uses its power for its own advantage.

Power in the United States is concentrated among people who control the government and the largest corporations. This assertion is based on the assumption that power is not an attribute of individuals but rather of social organizations. The elite in U.S. society are those people who occupy the power roles in society. The great political decisions are made by the president, the president’s advisers, Cabinet members, members of regulatory agencies, the Federal Reserve Board, key members of Congress, and the Supreme Court. Individuals in these government command posts have the authority to make war, raise or lower interest rates, levy taxes, dam rivers, and institute or withhold national health insurance.

Formerly, economic activity was the result of many decisions made by individual entrepreneurs and the heads of small businesses. Now, a handful of companies have virtual control over the marketplace. Decisions made by the boards of directors and the managers of these huge corporations determine employment and production, consumption patterns, wages and prices, the extent of foreign trade, the rate at which natural resources are depleted, and the like.

The few thousand people who form this power elite tend to come from backgrounds of privilege and wealth. Although the very wealthy have a disproportionate impact on public policy, it would be a mistake, however, to equate personal wealth with power. Great power is manifested only through decision making in the very large corporations or in government. We have seen that this elite exercises great power. Decisions are made by the powerful, and these decisions tend to benefit the wealthy disproportionately. But the power elite is not formally organized; there is no conspiracy per se.

The interests of the powerful (and the wealthy) are served, nevertheless, through the way in which society is structured. This bias occurs in three ways: by the elite’s influence over elected and appointed government officials at all levels, by the structure of the system, and by ideological control of the masses.
As noted earlier, the wealthy receive favorable treatment either by actually occupying positions of power or by exerting direct influence over those who do. Laws, court decisions, and administrative decisions tend to give them the advantage over middle-income earners and the poor.

More subtly, the power elite can get its way without actually being mobilized at all. The choices of decision makers are often limited by what are called systemic imperatives; that is, the institutions of society are patterned to produce prearranged results, regardless of the personalities of the decision makers. In other words, a bias pressures the government to do certain things and not to do other things. Inevitably, this bias favors the status quo, allowing people with power to continue to exercise it. No change is easier than change. The current political and economic systems have worked and generally are not subject to questions, let alone change. In this way, the laws, customs, and institutions of society resist change. Thus, the propertied and the wealthy benefit, while the propertyless and the poor remain disadvantaged. As Parenti has argued,

*The law does not exist as an abstraction. It gathers shape and substance from a context of power, within a real-life social structure. Like other institutions, the legal system is class-bound. The question is not whether the law should or should not be neutral, for as a product of its society, it cannot be neutral in purpose or effect* (1978:188)

In addition to the inertia of institutions, other systemic imperatives benefit the power elite and the wealthy. One such imperative is for the government to strive to provide an adequate defense against our enemies, which stifles any external threat to the status quo. Thus, Congress, the president, and the general public tend to support large appropriations for defense and homeland security, which in turn provide extraordinary profit to many corporations. In addition, the government protects U.S. transnational companies in their overseas operations so that they enjoy a healthy and profitable business climate. Domestic government policy also is shaped by the systemic imperative for stability. The government promotes domestic tranquility by squelching dissidents.

Power is the ability to get what one wants from someone else, by force, authority, manipulation, or persuasion. In Parenti’s words, “The ability to control the definition of interests is the ability to define the agenda of issues, a capacity tantamount to winning battles without having to fight them” (Parenti 1978:41). U.S. schools, churches, and families possess this power. The schools, for instance, consciously teach youth that capitalism is the only correct economic system. This indoctrination to conservative values achieves a consensus among the citizenry concerning the status quo. Each of us comes to accept the present arrangements in society because they seem to be the only options that make sense. Thus, there is general agreement on what is right and wrong. In sum, the dominance of the wealthy is legitimized. Parenti observes, “The interests of an economically dominant class never stand naked. They are enshrouded in the flag, fortified by the law, protected by the police, nurtured by the media, taught by the schools, and blessed by the church” (Parenti 1978:84).

Finally, popular belief in democracy works to the advantage of the power elite, as Parenti has noted:

*As now constituted, elections serve as a great asset in consolidating the existing social order by propagating the appearances of popular rule. History demonstrates that the people might be moved to overthrow a tyrant who shows himself provocatively indifferent to their woes, but they are far less inclined to make war upon a state, even one dominated by the property class, if it preserves what Madison called “the spirit and form of popular government.”*
Elections legitimate the rule of the propertied class by investing it with the moral author-
ity of popular consent. By the magic of the ballot, class dominance becomes "democratic"
governance. (1978:201)

CONSEQUENCES OF CONCENTRATED POWER

Who benefits from how power is concentrated in U.S. society? At times, almost every-
one does; but often the decisions made tend to benefit the wealthy. Whenever the inter-
est of the wealthy clash with those of other groups or even of the public at large, the interests of the former are served. Consider how the president and Con-
gress deal with the problems of energy shortages, a huge national debt, inflation, or deflation. Who is asked to make the sacrifices? Where is the budget cut—are mili-
itary expenditures reduced or are funds for food stamps slashed? When Congress con-
siders tax reform, after the clouds of rhetoric recede, which groups benefit from the
new legislation or from the laws that are left unchanged? When the economy was on the verge of collapse in 2008, who was bailed out by the government—the
unemployed? The newly bankrupt? Those who lost their homes through foreclosure? No, the government spent many hundreds of billions of dollars to lift up the banks
and insurance companies (some of which were perpetrators of the Great Recession).
When a corporation is found guilty of fraud, violation of antitrust laws, or bribery,
what are the penalties? How do they compare with the penalties for crimes com-
mitted by poor individuals? When there is an oil spill or other ecological disaster
caused by a huge enterprise, what are the penalties? Who pays for the cleanup and
the restoration of the environment? The answers to these questions are obvious:
The wealthy benefit at the expense of the less well-to-do. In short, the gover-
ment is an institution run by people—the rich and powerful or their agents—who seek to
maintain their advantageous positions in society.

Two journalists, Donald Bartlett and James Steele, argue that there are two ways
to get favorable treatment by Congress and the White House: Contribute generously
to the right people and spend lavishly on lobbying (Bartlett and Steele 2000:40–42).
If you do, you will get, for example, favorable tax rates, immunity from certain laws,
government subsidies, and even a government bailout if needed. If you do not make
generous political contributions and have lobbyists to make your case, then you will,
according to Bartlett and Steele, pay a disproportionate share of taxes, pay higher
prices for a range of products, be compelled to pay all of your debts, and you will see
legislation for the social good weakened or killed. In essence, we have a political sys-
tem where spending money for political purposes makes a huge difference, dividing
Americans into the fortunate few and second-class citizens.

The bias of the system today is nothing new. Since the nation’s founding, the
government’s policy has primarily favored the needs of the corporate system. The
founding fathers were upper-class holders of wealth. The Constitution they wrote
gave the power to people like themselves—White male property owners.

This bias continued throughout the nineteenth century as bankers, railroad
entrepreneurs, and manufacturers joined the landed gentry as the power elite.
The shift from local business to large-scale manufacturing during the last half of
the nineteenth century saw a concomitant increase in governmental activity in the
economy. Business was protected from competition by tariffs, public subsidies, price
regulation, patents, and trademarks. When there was unrest by troubled miners,
farmers, and laborers, the government invariably sided with the strong against the
weak. Militia and federal troops were used to crush railroad strikes. Antitrust laws,
although not used to stop the monopolistic practices of business, were invoked against labor unions.

During this time, approximately one billion acres of land in the public domain (almost half the present size of the United States) were given to private individuals and corporations. The railroads in particular were given huge tracts of land as a subsidy. These lands were and continue to be very rich in timber and natural resources. This active intervention by the government in the nation’s economy during the nineteenth century was almost solely on the behalf of business.

The early twentieth century was a time of great government activity in the economy, which gave the appearance of restraining big business. However, the actual result of federal regulation of business was to increase the power of the largest corporations. The Interstate Commerce Commission, for instance, helped the railroads by establishing common rates instead of ruinous competition. Federal regulations in meat packing, drug manufacturing, banking, and mining weeded out the weaker cost-cutting competitors, leaving a few to control the markets at higher prices and higher profits. Even the actions of that great trustbuster, Teddy Roosevelt, were largely ceremonial. His major legislative proposals reflected the desires of corporation interests. Like other presidents before and since, he enjoyed close relations with big businessmen and invited them into his administration (Parenti 2008:57).

World War I intensified the government bias on behalf of business. Industry was converted to war production. Corporate interests became more actively involved in the councils of government. Government actions clearly favored business in labor disputes. The police and military were used against rebellious workers; strikes were treated as efforts to weaken the war effort and therefore as treasonous.

The New Deal is typically assumed to be a time when the needs of people impoverished by the Great Depression were paramount in government policies. But as Parenti has argued, the Franklin Roosevelt administration was more dedicated to business recovery rather than to social reform (Parenti 1980:74). Business was subsidized by credits, price supports, bank guarantees, stimulation of the housing industry, and the like. Welfare programs were instituted to aid people in dire circumstances, but even these humanitarian programs also worked to the benefit of the big business community. These programs were actually promoted by the business community because they reduced the threat of social unrest.

Two social scientists, Frances Fox Piven and Richard A. Cloward, in a historical assessment of government welfare programs, determined that the government institutes massive aid to the poor only when the poor constitute a threat (Piven and Cloward 1971). When large numbers of people are suddenly barred from their traditional occupations, they may begin to question the legitimacy of the system itself. Crime, riots, looting, and social movements aimed at changing existing social, political, and economic arrangements become more widespread. Under this threat, the government initiates or expands relief programs to defuse the social unrest. During the Great Depression, Piven and Cloward contend, the government remained aloof from the needs of the unemployed until there was a surge of political disorder. Added proof for Piven and Cloward’s thesis is the contraction or even abolition of public assistance programs when stability is restored.

The historical trend for government to favor business over less powerful interests continues in current public policy. This bias is perhaps best seen in the aphorism enunciated by President Calvin Coolidge and repeated by subsequent presidents: “The business of America is business.”
Subsidies to Big Business

A general principle applies to the government’s relationship to big business: Business can conduct its affairs either undisturbed by or encouraged by government, whichever is of greater benefit to the business community. The government benefits the business community with hundreds of billions in subsidies annually. Corporations receive a wide range of favors, tax breaks, direct government subsidies to pay for advertising, research and training costs, and incentives to pursue overseas production and sales. The following are examples of governmental decisions that were beneficial to business.

- State and local governments woo corporations with various subsidies, including tax breaks, low-interest loans, infrastructure improvements, and relatively cheap land. In 2006, for example, Mississippi offered Kia, the Korean automaker, $1 billion in incentives to build a plant (Georgia offered Kia $400 million). Similarly, to keep the New York Stock Exchange in New York City, the city and state of New York offered an incentive package worth more than $1 billion. Citizens for Tax Justice argued that when these subsidies occur, corporations manage to shield as much as two-thirds of their profits from state corporate income taxes. "The result: Money that could be spent on real economic development opportunities flows instead into the pockets of executives and the bill gets passed along to small taxpayers—local businesses and workers" (Singer 2006:6).

- Eleven days after the terrorist attacks of September 2001, Congress rushed through a $15 billion bailout of the airlines. Congress, however, did not provide any relief to the 140,000 fired airline workers or to the 2 million people employed by the hotel industry whose jobs were imperiled (Hightower 2002a).

- In 1996, instead of auctioning off the rights, Congress gave broadcasters spectrum rights to broadcast one channel of superhigh-resolution digital programs or several channels that could be used for digital interactive services or TV programs of high, but not superhigh, resolution, thus depriving the government of tens of billions of dollars (New York Times 2000:1).

- The government often funds research and develops new technologies (for example, the Internet) at public expense and turns them over to private corporations for their profit. This transfer occurs routinely with nuclear energy, synthetics, space communications, and pharmaceuticals.

- Transnational corporations are permitted to set up tax havens overseas to make various intracompany transactions from a unit in one foreign country to another, thus legally sheltering them from U.S. taxes.

- In 2003 Congress passed the Medicare Prescription Bill. The pharmaceutical industry, using 675 lobbyists from 138 firms, nearly seven lobbyists for each senator, was successful in achieving favorable treatment in the legislation, including (1) a prohibition on the Medicare program from using its bargaining clout to directly negotiate deep drug-price discounts (one estimate is that prohibition will increase profits by $139 billion over eight years) and (2) a ban on the reimportation of prescription drugs from Canada, which cost about 50 percent less than in the United States (Public Citizen 2003).

- The more than $700 billion in government bailouts to the banks and financial firms in 2008 actually rewarded them for their reckless behaviors that led to the Great Recession (see Chapter 14).

- The government installs price supports on certain commodities, increasing the profits of those engaged in those industries and simultaneously costing consumers. For example, subsidies in agriculture were $15.4 billion in 2010. Farmers also received $5.7 billion in subsidies for ethanol, the fuel made from corn.
• The federal government directly subsidizes the shipping industry, railroads, airlines, and exporters of iron, steel, textiles, paper, and other products. Perhaps the best illustration of how business benefits from government policies are the benefits provided by the tax code. To illustrate: General Electric reported profits of $14.2 billion in 2010, $5.1 billion of which came from its U.S. operations. Although the top corporate tax rate is 35 percent, GE paid no U.S. taxes, actually receiving a refund of $3.2 billion.

**Trickle-Down Solutions**

Periodically, the government is faced with finding a way to stimulate the economy during an economic downturn. One solution is to spend federal monies through unemployment insurance, government jobs, infrastructure projects, and housing subsidies. In this way, the funds go directly to the people most hurt by shortages, unemployment, inadequate housing, and the like. Opponents of such plans contend that the subsidies should go directly to the wealthy in the form of tax reductions. Proponents of tax cuts argue that this will help the economy by encouraging companies to hire more workers, add to their inventories, and build new plants. Subsidizing the business class in this way, the advocates argue, benefits everyone. To provide subsidies to businesses rather than directly to needy individuals is based on the assumption that private profit maximizes the public good. In effect, proponents argue, because the government provides direct benefits to businesses and investors, the economic benefits indirectly trickle down to all.

Trickle-down solutions hurt the disadvantaged in at least two ways. First, reducing taxes on the wealthy increases the inequality gap between the “haves” and the “have-nots.” In effect, the already fortunate become more fortunate, while the less fortunate trail ever further behind them. Moreover, reduced tax rates mean less revenue for the government. The result is a greater national debt, which then is used to justify cutting welfare programs. But, proponents of tax cuts believe that economic growth and revenues will result from them. The evidence, however, does not support this claim. Consider what has happened since the 2001 Bush tax cuts, the largest in U.S. history. The nonpartisan Congressional Research Service concluded in 2010 that the economy performed better in the time before the Bush tax cuts than after the tax cuts were enacted. Furthermore, the period from 2000 to 2007 was characterized by the weakest job growth since the Great Depression (Zakaria 2012; see also Bernstein 2012). The decade following the Bush tax cuts also saw a rapid rise in the federal debt.

There are at least two reasons government officials tend to opt for these trickle-down solutions. First, because government officials tend to come from the business class, they accept the conservative ideology, which says that what is good for business is good for the United States. The second reason for the pro-business choice is that government officials are more likely to hear arguments and receive contributions from the powerful. Because the weak, by definition, are not organized and they offer relatively little financially to political campaigns their voice is not heard or, if heard, not taken seriously in decision-making circles.

Although the government most often opts for trickle-down solutions, such plans are not very effective in fulfilling the promise that benefits will trickle down to the poor. The higher corporate profits generated by tax credits and other tax incentives do not necessarily mean that companies will increase wages or hire more workers. What is more likely is that corporations will increase dividends to the stockholders, which further increases the inequality gap. Job creation is also not guaranteed because companies may use their newly acquired wealth to purchase labor-saving devices. If
so, then the government programs will actually have widened the gulf between the haves and the have-nots.

**The Powerless Bear the Burden**

Robert Hutchins, in his critique of U.S. governmental policy, characterized the basic principle guiding internal affairs as follows: "Domestic policy is conducted according to one infallible rule: The costs and burdens of whatever is done must be borne by those least able to bear them" (Hutchins 1976:4). The facts appear to justify this claim by Hutchins.

After the Great Recession hit in late 2007, federal and state governments had to reduce or eliminate programs. Where were the cuts made? Typically, social programs for the disadvantaged were targeted, not subsidies for businesses or tax breaks for homeowners. In the 2008–2009 school year, twenty-four states reduced their funding for early childhood education (mostly needed by children from low-income families). Low-income children's access to healthcare has also declined because of state budget cuts. So, too, were programs providing low-income families with temporary cash-assistance support, and childcare subsidies been reduced (Austin 2010). Public school education took the biggest hit with thirty-four states reducing school budgets in 2010 and twenty-one more seeking spending cuts in 2011–2012. The result is the laying off of large numbers of teachers; increasing class sizes; cutting electives such as music, art, and sports; eliminating summer school programs; and shortening the academic year.

When threatened by war, the government sometimes institutes a military draft. A careful analysis of the draft reveals that it is really a tax on the poor. During the height of the Vietnam War, for instance, only 10 percent of college men were drafted, although 40 percent of draft-age men were in college. Even for those educated young men who ended up in the armed services, there was a greater likelihood of their serving in noncombat jobs than for the non-college-educated. Thus, the chances of getting killed while in the service were about three times greater for the less educated than for the college educated (Zeitlin, Lutterman, and Russell 1977). Even more blatant was the practice that occurred legally during the Civil War. The law at that time allowed the affluent who were drafted to hire someone to take their place in the service.

In the Afghanistan and Iraq wars, the government decided not to have a draft but rely instead on volunteers. While patriotism was undoubtedly a factor in the decision of the volunteers to enlist, economic incentives (for example, enlistment bonus) to those from disadvantaged backgrounds was also a powerful motive. In effect, the battles were fought overwhelmingly by young men and women from the working and lower classes.

The poor, being powerless, can be made to absorb the costs of societal changes. In the nineteenth century, the poor did the backbreaking work that built the railroads and the cities. Today, they are the ones pushed out of their homes by urban renewal and the building of expressways, parks, and stadiums.

Following the devastation from Hurricane Katrina in Louisiana and Mississippi in 2005, priorities were set by decision makers as to where rebuilding should be initiated and where it should be delayed or ignored. In New Orleans, the bulk of the money spent first went to the business community and for repairing the Superdome (home field for the New Orleans Saints). Left behind were low-income families. Although Congress required that half of federal grant money help low-income people, some 90 percent of $1.7 billion in federal money spent in Mississippi went to repair condominiums for the affluent, rebuild casinos and hotels, and expand the Port of Gulfport (Eaton 2007).
Foreign Policy for Corporate Benefit

The operant principle here is that "foreign policy seems to be carried on in the light of the needs of the munitions makers, the Pentagon, the CIA, and the multinational corporations" (Hutchins 1976:4). For example, military goods are sold overseas for the profit of the arms merchants. Sometimes, arms are sold to both sides in a potential conflict, the argument being that if we did not sell them the arms, then someone else would, so we might as well make the profits.

The government has supported foreign governments that are supportive of U.S. multinational companies, regardless of how tyrannical these governments might be. The U.S. government has directly intervened in the domestic affairs of foreign governments to protect U.S. corporate interests and to prevent the rise of any government based on an alternative to the capitalist model (Parenti 2008:85). In Latin America, for example, since 1950 the United States has intervened militarily in Guatemala, the Dominican Republic, Chile, Uruguay, Nicaragua, Grenada, and Panama. As political scientist Michael Parenti characterizes it:

> Sometimes the sword has rushed in to protect the dollar, and sometimes the dollar has rushed in to enjoy the advantages won by the sword. To make the world safe for capitalism, the United States government has embarked on a global counter-revolutionary strategy, suppressing insurgent peasant and worker movements throughout Asia, Africa, and Latin America. But the interests of the corporate elites never stand naked; rather they are wrapped in the flag and coated with patriotic appearances. (1988:94)

Reprise: The Best Democracy Money Can Buy

Billions are spent on each federal election campaign. The consequence of this flood of money in elections is that it sabotages democracy in several ways. First, it makes it harder for government to solve social problems.

> How can we produce smart defense, environmental, and health policies if arms contractors, oil firms, and HMOs have a hammerlock over the committees charged with considering reforms? How can we adequately fund education and child care if special interests win special tax breaks that deplete public resources? (Green 2002:4)

Second, and related to the first, the have-nots of society are not represented among the decision makers. Moreover, because successful candidates must either be wealthy or be beholden to the wealthy, they are a different class of people from a different social world than most Americans.

> Since cash is the currency of elections, candidates troll for money where it is concentrated: in largely white, wealthy neighborhoods. . . . When a small, wealthy group in effect decides which candidates will have enough money to run a viable campaign, it is no great surprise that the agenda of policymakers is skewed toward its interests and not those of people of color and other underserved communities. (Gonzalez and Moore 2003:23A)

Third, the money chase creates part-time elected officials and full-time fundraisers. Not only is their time disproportionately spent in raising money, but their positions on policies become more and more in line with the politics of those who shower them with money.

> Fourth, money diminishes the gap between the two major political parties because the candidates and parties seek and receive funds from the same corporate sources and wealthy individuals. Democrats in need of funds, even though they are more inclined than Republicans to support social programs and raising taxes, must temper
these tendencies or lose their monetary support from wealthy interests. As Robert Reich has observed, “It is difficult to represent the little fellow when the big fellow pays the tab” (Reich 1989:A29).

Fifth, the money chase in politics discourages voting and civic participation (of the twenty-four Western democracies, the United States ranks twenty-third in voting turnout). In the 2000 presidential election, 49 percent of those who could have voted did not vote. This meant in effect that George W. Bush was elected by 24 percent of the electorate.

Sixth, big money in politics means that special interests get special access to the decision makers and receive special treatment from them.

In sum, the current politicoeconomic system is biased. It works for the benefit of the few at the expense of the many. Because the distribution of power and the organization of the economy give shape and impetus to the persistent social problems of U.S. society, the analysis of these problems requires a politicoeconomic approach.

CHAPTER REVIEW

1. Although government sometimes works for the benefit of all, the state is not a neutral agent of the people but is biased in favor of the upper social classes and the largest corporations.

2. Marx’s prediction that capitalism will result in an economy dominated by monopolies has been fulfilled in the United States. But rather than a single corporation dominating a sector of the economy, the United States has shared monopolies, whereby four or fewer corporations supply 50 percent or more of a particular market.

3. Economic power is concentrated in a few major corporations and banks. This concentration has been accomplished through mergers and interlocking directorates.

4. The inequality gap in the United States is the widest of all the industrialized nations. The gap continues to grow especially because of tax benefits for the affluent.

5. These tax policies, in addition to increasing the unequal distribution of wealth, increase the national debt, reduce government spending for programs to help the less fortunate, and weaken public institutions that benefit society. The widening gap increases the political influence of the wealthy.

6. The government tends to serve the interests of the wealthy because of the influence of interest groups and how political campaigns are financed.

7. Democracy is a political system that is of, by, and for the people. Democracy is undermined by special interests, which use money to deflect the political process for their own benefit.

8. The power elite in society (those who control the government and the largest corporations) tend to come from backgrounds of privilege and wealth. Their decisions tend to benefit the wealthy disproportionately. The power elite is not organized and conspiratorial, but the interests of the wealthy are served, nevertheless, by the way in which society is organized. This bias occurs through influence over elected and appointed officials, systemic imperatives, and ideological control of the masses.

9. Congress occasionally attempts to reduce the power of money over politics, but wealthy individuals, corporations, and interest groups find legal ways to avoid these constraints. In 2010 the Supreme Court ruled that individuals and organizations can give unlimited amounts to super PACs because money, in the Court’s view, was a form of speech that is protected by the Constitution. This ruling has significant consequences for a democracy.

10. The government supports the bias of the system through its strategies to solve economic problems. The typical two-pronged approach is, on the one hand, to use trickle-down solutions, which give the business community and the wealthy
extraordinary advantages; and, on the other hand, to make the powerless bear the burden for solving social problems such as recessions and the growing national debt.

11. Business benefits from governmental actions through foreign policy decisions, which typically are used to protect and promote U.S. economic interests abroad.

12. The flood of money to support political parties and candidates sabotages democracy in several ways: (a) It makes it more difficult to solve social problems; (b) the interests of the have-nots are not served; (c) the money chase creates part-time legislators and full-time fundraisers; (d) money diminishes the gap between the two major parties because both seek and receive funds from the same corporate and individual sources; (e) it discourages voting and civic participation; and (f) big money in politics leads to a bias in the laws passed and the subsidies provided.

**KEY TERMS**

*Shared monopoly.* When four or fewer companies control 50 percent or more of an industry.

*Interlocking directorate.* The linkage between corporations that results when an individual serves on the board of directors of two companies *(a direct interlock)* or when two companies each have a director on the board of a third company *(an indirect interlock).*

*Oligarchy.* A political system that is ruled by a few.

*Plutocracy.* A government by or in the interest of the rich.

*Democracy.* A political system that is of, by, and for the people.

*Filibuster.* The Senate rule that allows a senator to hold the floor for an unlimited time as a strategy to prevent a vote.

*Cloture.* The vote needed to end a filibuster (currently 60 votes).

*Gerrymander.* The party in power shapes voting districts as a means to keep itself in power.

*Power elite.* People who occupy the power roles in society. They either are wealthy or represent the wealthy.

*Systemic imperatives.* The economic and social constraints on political decision makers that promote the status quo.

*Power.* The ability to get what one wants from someone else.