The Wealth-Power Connection

Arthur MacEwan

October 2012

This paper was presented as part of
a September 2011 Festschrift Conference in
honor of Thomas Weisskopf.
PREFACE

This working paper is one of a collection of papers, most of which were prepared for and presented at a festschrift conference to honor the life’s work of Professor Thomas Weisskopf of the University of Michigan, Ann Arbor. The conference took place on September 30 - October 1, 2011 at the Political Economy Research Institute, University of Massachusetts, Amherst. The full collection of papers will be published by Elgar Edward Publishing in February 2013 as a festschrift volume titled, Capitalism on Trial: Explorations in the Tradition of Thomas E. Weisskopf. The volume’s editors are Jeannette Wicks-Lim and Robert Pollin of PERI.

Since the early 1970s, Tom Weisskopf has been challenging the foundations of mainstream economics and, still more fundamentally, the nature and logic of capitalism. That is, Weisskopf began putting capitalism on trial over 40 years ago. He rapidly established himself as a major contributor within the newly emerging field of radical economics and has remained a giant in the field ever since. The hallmarks of his work are his powerful commitments to both egalitarianism as a moral imperative and rigorous research standards as a means.

We chose the themes and contributors for this working paper series, and the upcoming festschrift, to reflect the main areas of work on which Tom Weisskopf has focused, with the aim of extending research in these areas in productive new directions. The series is divided into eight sections, including closing reflections by our honoree himself, Professor Weisskopf. Each section except for the last includes comments by discussants as well as the papers themselves.

The eight sections are as follows:

1. Reflections on Thomas Weisskopf’s Contributions to Political Economy
2. Issues in Developing Economies
3. Power Dynamics in Capitalism
4. Trends in U.S. Labor Markets
5. Discrimination and the Role of Affirmative Action Policies
6. Macroeconomic Issues in the United States
7. Applications of Marxist Economic Theory
8. Reflections by Thomas Weisskopf

This working paper is 1 of 3 included in Section 3.

-Jeannette Wicks-Lim and Robert Pollin
The Wealth-Power Connection

Arthur MacEwan

In their introduction to Chapter 6 of the second edition of The Capitalist System: A Radical Analysis of American Society, Tom Weisskopf and his co-editors, Richard Edwards and Michael Reich, addressed a question that arises over and over again for those of us who are radical critics of U.S. society: “how [has it been] possible for capitalists, who constitute an insignificant minority of the voting public, to get the state to act on their behalf?” It is a question that needs to be, and is, addressed over and over again, and I will do so one more time in this essay.

My answer to the question does not differ in any fundamental way from what Edwards, Reich and Weisskopf wrote 33 years ago. They identified three mechanisms by which the wealthy exercise power. Although these three mechanisms can be described and defined separately, they are interdependent and mutually supportive—three legs of a stool, if you will pardon the trite metaphor:

- The most mundane and obvious of these mechanisms is the direct role of money in political affairs. It is not only that money tends to win elections, but also that money effectively buys access and influence.
- The most interesting and complex mechanism by which wealth and power are connected is the creation and propagation of ideology. Even an “insignificant minority” can rule if it can get the majority to accept the idea that its interests are the same as those of that minority.
- But the most fundamental basis of the wealth-power connection is the functional role of capital. Our society relies primarily on the decisions of private investors, capitalists and especially very wealthy capitalists, to generate economic growth and jobs—or at least people believe this to be the case. It is, then, a small step to the conclusion that we must do what is good for capital, for the wealthy, in order to attain economic well-being.

As I said, these points, the bones of an analysis, were set out by Edwards, Reich and Weisskopf in 1978, and others have made them in various ways before and since. My purpose here is simply to put some more meat on those bones, some meat that comes from experience of the last several years. For, certainly, insofar as the basic argument regarding economic, political, and social dominance of the wealthy is correct, it has become more correct as economic inequality has increased so dramatically and the wealthy have become much wealthier in both absolute and relative terms.

I need to make two caveats before proceeding with my story. First, the reader may notice that I have not listed overt violent repression as one of the mechanisms by which the wealthy rule. One reason I have omitted violent repression is that it is the state, not the wealthy, that usually conducts violent repression. We might see the state as doing this on behalf of the wealthy, but that simply pushes us back to the three mechanisms by which the wealthy get the state to act in certain ways. Another reason I have omitted a discussion of overt violent repression is that, though it has certainly been important at various times, it is not central in the day-
to-day exercise of power by the wealthy. Indeed, it is one of the marvels of our formally democratic system that the wealthy are able to work their will with relatively little (by historical and international comparative standards) violence within the country. (The use of violence abroad on behalf of the U.S. wealthy is so widespread as to seem ubiquitous, but what goes on abroad lies outside of the problem I am addressing here.)

The second caveat, which I hope would be obvious, is that in arguing that the power of the wealthy is highly disproportionate to their numbers, I do not want to suggest that this power is absolute. If I thought it was absolute, I would not bother to write this paper. Nonetheless, I think it is important to understand the existence of this power and to recognize how it operates in order to establish a more democratic society and secure a more stable operation of our economic lives. Furthermore, not all wealthy people have the same interests, and many business groups have particular interests that are in conflict with one another. However, on broad general issues, such as taxation and regulation, there is a wide commonality among the wealthy and among businesses. It is on these broad issues that they can, and by and large do, act in concert.

**MONEY IN POLITICS**

One way power is exercised – and the way the wealthy have a distinct advantage – is widely recognized. It is the direct use of money to pay for lobbying and to provide donations to political officials. While lobbying is nothing new, there has been a substantial growth of lobbying expenditures in the last decade. Between 2000 and 2010, lobbying expenditures (in current dollars) grew from $1.56 billion to $3.51 billion (a 125% increase, while consumer prices rose by only 27%). The leading business sectors have been finance, insurance and real estate (the so-called FIRE sector) and healthcare (including pharmaceuticals, as well as hospitals and various other healthcare firms). Each of these two sectors spent $4.6 billion on lobbying in the 1998 to 2010 period. In 2010 health care firms spent $522 million on lobbying and used 3,220 lobbyists, while the FIRE sector spent $475 million and used 2,565 lobbyists.4

Although labor unions are often lumped together with business as spending large amounts of money for political influence, unions’ lobbying expenditures are dwarfed by business spending. Over the entire 1998 to 2010 period, unions spent a total of $467 million on lobbying, and in 2010 their lobbying expenditures were $47 million—that is, about one-tenth of what was being spent by firms in either the FIRE or healthcare sector. As further contrast to the role of unions, in 2010 the U.S. Chamber of Commerce spent $132 million on lobbying, almost three times as much as all of organized labor.

The impact of lobbying rests in part simply on the pressure that lobbyists apply by their regular contacts with legislators, regulators, and other policy officials. Perhaps more important, they are able to supply information, analyses and arguments to the officials who make and implement policy. Legislators often rely on lobbyists to write legislation, accepting that the lobbyists are highly knowledgeable about the issues of the industry they represent and ignoring the obvious fact that they are there to obtain legislation that is favorable to their employers’ interests. Indeed, the effectiveness of business lobbyists is tied closely to and rationalized by an ideology that asserts a congruence between the interests of business and the general interest.

Behind the lobbyists are both contributions to political campaigns and the “revolving door,” whereby politicians, top aides to politicians, regulators, and other policy makers move from their positions in government to often high-paying positions with private firms—and also the other way, from private firms to government
positions. Regarding contributions, the Center for Responsive Politics has compiled a list of 159 individuals who “contributed at least $50,000 to federal candidates and parties during one or more election cycle [since 1989]” and identifies the organization with which each was affiliated when making the contribution. Few of the names on the list are well known, but their organizations are a familiar roster of large firms. Among the 159 individuals are 17 affiliated with Goldman Sachs and an equal number affiliated with Time Warner. Ten on the list are connected to Comcast and 10 to Microsoft. Examples of other firms on the list include Wal-Mart, Citigroup, Walt Disney, General Electric, the now-defunct Enron Corporation, and several large financial firms.

Contributions also come directly from corporations and other organizations. Among the top 50 donors in the 2007-2008 period are AT&T, the National Association of Realtors, Pacific Gas & Electric, Goldman Sachs, Citigroup, and JPMorgan Chase. However, this list is where organized labor comes into prominence, with the National Education Association at the top of the list, and a dozen labor unions in the top 50. Still, though unions are not without clout in the use of money to influence political outcomes, their overall role does not match up with that of the corporate sector. (The list also includes several organizations of Native Americans, political party organizations, and professional associations.) In early 2010, in the Citizens United case, the U.S. Supreme Court struck down limits on corporations’ political spending. This will surely have a major impact, leading to great increases of the figures cited here.

With the “revolving door,” the corporate sector has unchallenged dominance. In recent years, two well-known figures stand out as prime examples of this revolving door and, thus, of the pay-off that comes to politicians (and other policy officials) who are friendly to business. One is Phil Gramm, a Republican U.S. Senator from Texas from 1985 to 2002 (and a congressman from 1975 through 1985). Gramm was a leader in the effort to deregulate the financial industry and upon departing from the Senate became a Vice Chairman of UBS America, the large Swiss-based financial firm. Another is Tom Daschle, a Democratic Senator from South Dakota from 1987 to 2004, and Minority Leader (and briefly Majority Leader) of the Senate from 1995 to 2004. Leaving the Senate, Daschle became a consultant to InterMedia Advisors, a private equity firm, and chairman of its executive advisory board; he then took up a highly paid position with a Washington lobbying firm.

The Gramm-Daschle combination illustrates the fact that both major parties are involved in the revolving door and, more generally, in the direct use of money to influence politics. Many firms contributing to political campaigns give to both parties. While the Republicans are often viewed as the party more friendly to business, many large firms lean toward the Democrats. For example, the contributions associated with Goldman Sachs, the firm that had such a prominent role in dealings that precipitated the financial crisis of 2007-2008, have gone largely to the Democrats.

The revolving door, however, does not only operate at the high levels with such public figures as Gramm and Daschle. Consider the following from The New York Times of August 1, 2011:

A senior lawyer for the Securities and Exchange Commission [S.E.C.] recently took center stage in a major case involving a controversial mortgage security sold by Goldman Sachs.

There was just one slight twist in the legal proceedings. The S.E.C. lawyer was not the prosecutor taking the deposition. He was the witness.
This summer, Adam Glass — who joined the agency two years ago and is now co-chief counsel in charge of helping write the rules for the complex financial instruments known as derivatives — testified in a deposition about Goldman’s Abacus, a mortgage investment that the government argues was designed to fail.

It turns out that Mr. Glass has a unique perspective on Wall Street exotica. Before working on the financial crisis cleanup, he helped create the opaque securities that contributed to the mess.10

A complementary example is provided by the man who changed his name. According to an August 2011 Think Progress report circulated on line by Truthout, a former Goldman Sachs vice-president, Peter Simonyi, changed his name to Peter Haller and has become a staff member of the House Oversight Committee chaired by Representative Darrell Issa. Issa has become a principal opponent of extending the regulation of derivatives, and Haller appears to be the committee’s point person in this effort. According to the Think Progress report, “In a few short years, Haller went from being in charge of dealing with regulators for Goldman Sachs to working for Congress in a position where he made official demands from regulators overseeing his old firm.”11

While not high-profile operators like Gramm and Daschle, people like Glass and Simonyi/Haller can play significant roles. The writing of the “rules for the complex financial instruments known as derivatives” is one of the important features of the 2010 Dodd-Frank bill, which was supposed to establish regulations on the financial industry that would at least reduce the likelihood of a repeat of the economic collapse that became apparent in 2007 and 2008. The impact of Dodd-Frank, and thus the effectiveness of the new regulations that it would establish, depends to a large extent on how those regulations are written. One of the act’s basic problems, which underscores the importance of how the writing of the rules is done—and who does it—is that, according to one analysis, Dodd-Frank would require 67 new studies and at least 243 new rule-makings.12 (As more than one person has quipped, perhaps the bill should have been entitled the “The Full-Employment for Lawyers Act of 2010.”)

While the revolving door process has far-reaching implications for the way policies, and ideology, are shaped, these examples demonstrate that the process also has quite direct and immediate policy implications as well.

SHAPING IDEOLOGY

Money in politics is, as I have noted, only the most obvious part of the story of how the wealthy exercise power. The control of wealth is also of considerable importance in influencing how people think—that is, in shaping ideology, the framework that affects how people interpret particular situations and make decisions. One example of a place where the process is both important and readily apparent is in school reform. School reform has been and continues to be greatly influenced by philanthropic foundations, established (and generally controlled) by very wealthy individuals. Not only does this role directly demonstrate the power of the wealthy in affecting an important social structure (the schools), but in addition the particular direction in which these foundations have pushed reform carries with it a strong ideological message.
While major foundations have long been involved in efforts to influence the direction of school reform (the Rockefeller, Ford, Annenberg, and Carnegie foundations, in particular), a number of relatively new foundations have come to play large roles in recent years; examples include the Gates, Walton, and Broad foundations. These foundations have pushed a variety of changes in the schools, some of which have received support from a broad political spectrum of school activists; a prime example is the Gates Foundation’s effort to promote smaller schools. However, many actions of these new foundations have shared the common theme of advocating reform that is outside the traditional public school system—especially emphasizing charter schools and sometimes school voucher programs—and that builds on the idea that teachers’ unions and excessive constraints of public “bureaucracy” are the Problem. It is an approach that moves towards privatizing the educational system, and often incorporates for-profit companies as the operators of schools. The ideology that both informs this approach to school reform and is generated by this approach is one that sees The Market, unfettered by social controls, as the solution to society’s problems. (Some older foundations have also pushed in this direction—e.g., Scaife, Olin, and Bradley.)¹³

The effort to undercut the role of teachers’ unions is a significant part of the effort to run schools through market relations. According to a May 2011 New York Times report:¹⁴

A handful of outspoken teachers helped persuade [Indiana] lawmakers this spring to eliminate seniority-based layoff policies. They testified before the legislature, wrote briefing papers and published an op-ed article in The Indianapolis Star.

They described themselves simply as local teachers who favored school reform — one sympathetic state representative, Mary Ann Sullivan, said, “They seemed like genuine, real people versus the teachers’ union lobbyists.” They were, but they were also recruits in a national organization, Teach Plus, financed significantly by the Bill and Melinda Gates Foundation.

…[The Foundation’s] new strategy [calls for] overhauling the nation’s education policies. To that end, the foundation is financing educators to pose alternatives to union orthodoxies on issues like the seniority system and the use of student test scores to evaluate teachers.

In some cases, Mr. Gates is creating entirely new advocacy groups. The foundation is also paying Harvard-trained data specialists to work inside school districts, not only to crunch numbers but also to change practices. It is bankrolling many of the Washington analysts who interpret education issues for journalists and giving grants to some media organizations.

The Times story provides a good illustration of the role of the wealthy, the very wealthy, in efforts to shape school policies and demonstrates the ideology that guides those efforts. It also brings out the lack of transparency in those efforts, and notes: “Few policy makers, reporters or members of the public who encounter advocates like Teach Plus or pundits [advocating Gates supported policies]... realize they are underwritten by the foundation.”¹⁵

One of the most publicized efforts by wealthy individuals and foundations to shape ideas about school reform is the documentary film (or what some have called the pseudo-documentary film), “Waiting for Superman.” Financed through Participant Media by, among others, the Gates and Broad Foundations, the film juxtaposes the failures of public schools with a highly idealized and misleading picture of charter schools. For example, while the film provides accolades for the KIPP system of charter schools for sending a high propor-
tion of its graduates on to college, it ignores the fact that the KIPP system has an unusually high rate of attrition—i.e., the students who are unlikely to go on to college are elided from the KIPP schools before graduation. The film also ignores research showing that on average charter schools perform no better than public schools. Yet with wide support of various foundations, “Waiting for Superman” has been presented in much of the media as an accurate picture of the debate over charter schools, and the film effectively promotes the move towards privatization of the schools.

The approach to school reforms generally pursued by wealthy foundations and sometimes more directly by wealthy individuals posits a one-way causation from the problems of the schools to the problems of society. It largely ignores the impact of our society’s great economic inequalities on what happens in the schools. A prime example is provided by the support of Wall Street billionaires for the much-heralded Harlem Children’s Zone (HCZ). The HCZ is an integrated set of institutions—charter schools, pre-schools, parenting workshops, family health care programs—for low-income families in Harlem. This holistic set of services, run by a non-profit organization and provided without charge, is designed to break what many view as an intergenerational cycle of poverty. The HCZ has been touted by President Obama and many other politicians as a model of how to deal with poverty and the poor education of low-income children. One need not question the intentions of the program’s wealthy supporters to recognize, first, that they apparently ignore their own role in generating the economic problems that contribute to the plight of so many of Harlem’s children. Second, good or bad, these efforts of wealthy financiers in Harlem are a prime illustration of the way they can exercise power in shaping both social institutions and influencing the way people think about social reform. That is, instead of focusing on the way the organization of the economy generates poverty, the HCZ approach views poverty as the result of the characteristics of the poor themselves—their lack of good education, health, and proper parenting skills.

Another example of wealthy individuals affecting school reform—operating directly, through foundations, or through some other forum—is provided by the role of the Commercial Club of Chicago in shaping changes in that city. The Club, “an organization of the city’s top corporate, financial and political elites,” promoted a plan that, in its first phase, would close 60 of Chicago’s existing schools, replacing them with 100 new schools, “two thirds of which will be charter or contract schools run by private organizations and staffed by teachers and school employees who will not be [union] members. The schools also will not have Local School Councils…elected school governance bodies composed primarily of parents and community members…[that] have power over a school’s discretionary budget, approve the School Improvement Plan, and hire the principal.”

The point here is not that the support of wealthy individuals, corporations, and foundations for school reform always leads in the wrong direction—though that is often the case. Instead, as these examples illustrate, the wealthy are able to use their position effectively to influence social policy and spread an ideology that supports their interests. (Also, when the wealthy endow foundations or donate directly to school reform programs, their tax-deductible contributions mean that for every $10 they give, the government loses about $4 in taxes. The wealthy are, in effect, giving away the public’s money without public control.)

In spreading an ideology that supports the interests of the wealthy, the school reform oriented foundations have a strong partner in the mass media. Indeed, the mass media are prime generators of that ideology. Of course we have a free press in the United States, in the sense that there are very few legal limits on people
disseminating information and propagating their ideas. So how is it that the media in general and the press in particular are dominated by the interests of the wealthy?

The answer to this question was implicitly supplied in 2002 by the then President and CEO of The New York Times Co., Russ Lewis. Lewis was addressing the failure of the press to fully examine the implosion of the Enron Corporation and other “corporate disasters” and also the reason why the press focused so much more attention on government misbehavior than on corporate misdeeds. Lewis wrote:

> Historically, the press's ability to act as a check on the actions of government has been helped by the fact that the two institutions are constitutionally separated, organizationally and financially. The press does not depend on government officials either for its standing or its resources.

> But it has a much more intricate relationship with big business. Today's news media are themselves frequently a part of large, often global corporations dependent on advertising revenue that, increasingly, comes from other large corporations. As public companies themselves, the news media are under the same kind of pressure to create "shareholder value," by reducing costs and increasing earnings, as are other public companies. And they face numerous potential conflicts of interest as they grow larger and more diversified.

> The First Amendment makes it difficult for government to impede or financially threaten the work of the press. But no such constitutional provision applies to the intersection of the press and big business.

> It is both impractical and unrealistic to expect news media companies, including newspaper firms, to retreat from their positions as increasingly large, diversified business enterprises. To do so would not only undermine their financial strength; it would also deprive them and their staffs of the resources needed to perform their increasingly difficult and demanding roles.21

Lewis’s statement is useful, first, because it makes clear that press corporations—and the same is true of other media corporations—are themselves large corporations and are enmeshed with, and to a large extent dependent on, other large corporations. The owners of the press are, correspondingly, among the very wealthy. It is, then, hardly a great leap to assert that the press (and the media generally) are dominated by the interests of the wealthy.

The Lewis statement also underscores an aspect of the ideology that is so important to corporate interests—namely the idea that government is corrupt and inefficient while private firms are efficient and the high incomes obtained by their executives and owners are in some sense deserved. The press, as Lewis points out, focuses on the problems of government, while tending to ignore the scandals in the operations of large corporations. (The fact that events of recent years have created at least a partial shift, with the press giving more attention to the outrages committed by large firms that led us into the current economic crisis, is a hallmark of the way a crisis can, at least temporarily, change many well-established practices.)

There is of course the principle espoused by most news organizations that the editorial page is separated from the news pages, and the latter is based on professional (not ideological) judgments of highly qualified journal-
ists. Without impugning the integrity of journalists, it is not difficult to understand how over time, regardless of formal separation of editorial and news pages, the interests and ideology of owners have great impact on the outlook and decisions of those preparers of the news pages. The choices of topics on which to focus and the implicit slant of reporting will tend to conform to—or at least not sharply challenge—the interests of the owners on fundamental issues. The process is more a matter of self censorship than of any overt censorship, as journalists generally internalize the ideology that they disseminate.22

THE FOUNDATION: THE FUNCTION OF OWNERS AND EXECUTIVES

Ultimately, however, the power of the wealthy is not based simply on the direct role of money in political affairs and on the shaping of ideology—though both are surely important. The foundation of business power lies in the function of owners and executives of businesses—that is, in our society’s reliance on their private decisions to determine investments and employment. Political authorities at all levels believe that if they are unfriendly to business interests, they will run the risk of slowing business activity, reducing employment, and thus alienating voters. When firms ask for (or demand) tax incentives, looser regulations, or some other favors that will increase their profits, they argue that increased profits will generate more investment and more jobs—and that a failure to grant their requests will do the opposite. Similarly, tax breaks for the wealthy are supported with the argument that putting more income in their hands will lead to more investment and more jobs. To a large extent, money in politics and ideology have their impact in buttressing this argument, this fundamental role of business and the wealthy.

This argument—the claim that policy makers must do what businesses and the wealthy want in order to maintain a high level of economic activity—has an element of truth. If it is not sufficiently profitable for firms to make investments and employ more people, the economy will falter and hardship will be widespread—and the political authorities may well join the growing ranks of the unemployed. This element of truth gives a great deal of power to the wealthy. It has allowed them to propagate the idea of “trickle down economics,” the theory that if benefits are provided to those on top, everyone else, including those on the bottom, will share in the gains. (Although the term “trickle down economics” is the usual one, I favor the term I picked up from the late John Kenneth Galbraith, “horse and sparrow economics.” If you feed the horses well, some will pass through for the sparrows to peck at.) But “an element of truth” is by no means the whole truth, and “sufficiently profitable” is certainly a vague term.

Experience of recent years demonstrates the way in which claims regarding the functional role of business and the wealthy are extended far beyond reality; those claims, then, are driven by ideology and the role of money in politics. The claims for the salutary impact of tax cuts and the detrimental impact of tax increases lack empirical foundation. Perhaps the most obvious, though crude, refutation of the claim is a contrast between the experience of the 1990s and 2000s:

- In 1993, following the recession at the beginning of the decade, Clinton and the Democrats in Congress increased taxes (slightly), mainly on the high income groups. Republicans screamed that this action would stifle economic growth. The remaining seven years of the Clinton administration saw the economy grow at the respectable rate of 4% per year.
After the 2001 recession, the Bush tax cuts, focused on the same high income groups, were enacted. Then, between 2001 and 2007, the economy expanded at only 2.7% per year, the slowest post-recession recovery on record. (It is worth noting that the title of the Bush tax cuts bill was “The Economic Growth and Tax Reconciliation Act of 2001.”) So the general experience of the last two decades is hardly a brief for the positive impact of tax cuts on economic growth. (In spite of this experience, the Republicans continue to pledge “no new taxes,” and justify their position by the claim that tax increases—even the removal of so-called tax loop holes—would put a damper on incentives for business to invest and more generally on business confidence. The experience or relatively rapid economic growth during the post-World War II era, which began with a very large government debt—as a result of wartime deficits—and continued with high tax rates, is of course lost to Republicans as ancient history. Democrats hardly pay more attention to this experience.)

There is more finely focused evidence that lowering taxes on capital gains and dividends does not have much, if any, positive impact on economic growth. For example, in a 2005 “Tax Facts” piece from the Tax Policy Center, Troy Kravitz and Leonard Burman summarize the evidence with the comment that “Capital gains [tax] rates display no contemporaneous correlation with real GDP growth during the last 50 years.” A useful review of various studies of the Bush tax cuts prepared by Aviva Aron-Dine at the Center for Budget and Policy Priorities reaches a similar conclusion: “The argument that the capital gains and dividend tax cuts have ‘paid for themselves’ or raised revenue hinges on the claim that these tax cuts had large positive effects on the economy and/or have significantly increased revenues as a share of GDP. As discussed above, the best evidence does not support these contentions and in fact indicates that they are not correct.”

Those who support the reduction of taxes on the wealthy, taxes on capital gains taxes and dividends, do tout studies that tend to support their position. And there is no denying the fact that people’s behavior is affected by tax policy, including the investment behavior of those with high levels of income. Yet the existing evidence does not support the argument that tax adjustments of relevant magnitude on capital gains and dividends are major factors affecting the course of the economy.

In any case, tax policy is but one example of the way the functional role of business and the wealthy is used as the basis for economic policy. As the current economic crisis unfolded in 2008, the “systemic” role of the financial sector was trotted out as the justification for bailouts—of individual firms and of the entire banking industry. For example, the Chairman of the Federal Reserve, Ben Bernanke, justified to Congress the Fed’s first major direct intervention in the banking crisis—the managing of the shut-down of Bear Stearns and the saving of its creditors—by arguing that had Bear Stearns been allowed to simply fail, the result could have been “a chaotic unwinding” of investment throughout the economy. He added: “The adverse effects would not have been confined to the financial system but would have been felt broadly in the real economy through its effects on asset values and credit availability.”

Later, explaining to Congress the Bear Stearns action, other particular interventions (e.g., AIG), and the general bailout of the financial sector under the Troubled Assets Relief Program (TARP), Bernanke stated:
Section 13(3) of the Federal Reserve Act authorizes the Federal Reserve Board to make secured loans to individuals, partnerships, or corporations in “unusual and exigent circumstances” and when the borrower is “unable to secure adequate credit accommodations from other banking institutions.” This authority, added to the Federal Reserve Act in 1932, was intended to give the Federal Reserve the flexibility to respond to emergency conditions. Prior to 2008, credit had not been extended under this authority since the 1930s. However, responding to the extraordinarily stressed conditions in financial markets, the Board has used this authority on a number of occasions over the past year.28

The situation that demanded action, in Bernanke’s view, was the trouble faced by the very large financial firms. “Emergency conditions” existed because these firms were “too big to fail” in the sense that their failure would have spread the damage far and wide, both directly because of their extensive links to other financial and non-financial firms and indirectly because of the severe undermining of confidence that would have followed. Like it or not, Bernanke was arguing that the viability of the entire economy was dependent on government action to secure the position of the financial firms, their executives, and their (wealthy) owners.

The important aspect of these bailouts is that in fact they were based on a reasonable (though perhaps not correct) reading of the implications of allowing major banks to fail. It is highly likely that had there been no government intervention, the results for the U.S. and world economies would have been catastrophic. The functional role of the banks was a reality. However, while it was necessary to maintain a viable financial system in order to secure economic stability, this does not mean that it was necessary to bail out the bankers along with the banks. At the time, even Alan Greenspan and some other conservatives, to say nothing of various liberal and progressive voices, suggested that short-term nationalization of the failing banks could be a reasonable alternative. Bank nationalizations could have kept the financial industry functioning, but the bank executives and the shareholders would have lost their incomes and investments—which is what is supposed to happen when firms fail. The government could then have provided capital to the banks, held them until they recovered, and then sold them back to private investors.29 Yet when the functional role of the banks was combined with an ideology that gives credit to the wealthy, all backed by the direct exercise of their influence (derived from their wealth) in Washington, nationalization was never on the table.

The icing on the cake illustrating the functional role of the wealthy—of the banking sector, in particular—came in the years following the full emergence of the financial and economic crisis. In this aftermath, it has been widely commented upon that there have been virtually no prosecutions for the criminal activity that appears to have been so widespread among financial actors. There are of course various reasons for the lack of prosecutions, including the fact that with lax laws and regulations many nefarious financial acts were not in fact criminal. Yet, the most interesting justification for largely leaving the bankers alone appeared in a July 2011 New York Times article.30 The article reports that the Justice Department was following a policy of “deferred prosecutions.” The department’s guidelines for deferred prosecutions leave

…open a possibility other than guilty or not guilty, giving leniency often if companies investigated and reported their own wrongdoing. In return, the government could enter into agreements to delay or cancel the prosecution if the companies promised to change their behavior...
Defending the department’s approach, Alisa Finelli, a spokeswoman, said deferred prosecution agreements require that corporations pay penalties and restitution, correct criminal conduct and “achieve these results without causing the loss of jobs, the loss of pensions and other significant negative consequences to innocent parties who played no role in the criminal conduct, were unaware of it or were unable to prevent it.”

By this rationale, one can imagine that virtually any crime by a top corporate executive, given her or his functional role, could be ignored by the Justice Department.

Clearly substantial taxes on the wealthy and substantial regulation of business are possible without stifling business activity. During periods of successful economic growth—for example, during the post-World War II years—tax rates on business and on the wealthy have been much higher than now and regulations have been much more extensive. Also, in earlier periods of financial shenanigans—the Savings and Loan debacle of the 1980s, for example—prosecutions have been quite extensive without stifling economic activity. The direct influence of money on politics and policy, the impact of ideology, and the functional role of business and the wealthy are by no means new. As noted, Edwards, Reich, and Weisskopf delineated these points 33 years ago, and, indeed, they have been important throughout economic history. Yet it appears that these wealth-power connections have become increasingly powerful in recent years.

Even within the confines of U.S. capitalism, policies that are of immediate benefit to business and the wealthy are often not good for society. In particular, it has become widely recognized that what is good for business—for the financial firms in particular—has not been good for the rest of us, not good at all. The past several decades well demonstrate the ineffectiveness of “horse and sparrow economics.” Cutting taxes for the rich and adoption of policies favoring business did not lead to rapid economic growth and provided little if any economic gains for most people. The bailout of the banks did not solve our current economic problems, and there is no reason to believe that the Justice Department’s failure to prosecute criminal action in the financial sector will yield much for “innocent parties.” Current experience, the economic crisis that emerged in 2007 and 2008, best demonstrates the fallacy of the claim that giving business and the wealthy what they want is good for all of us.

1 Paper prepared for “Capitalism on Trial: A Conference in Honor of Thomas E. Weisskopf,” Amherst, Massachusetts, September 30 and October 1, 2011. The author is Professor Emeritus of Economics and Senior Fellow in the Center for Social Policy, University of Massachusetts Boston. An earlier version of this essay appears as Appendix A of Arthur MacEwan and John A. Miller, Economic Collapse, Economic Decline: Getting to the Roots of the Crisis (M. E. Sharpe, Armonk, NY), 2011.


4 All of these figures are in current dollars. These data and data noted below on lobbying and political contributions are from the “Open Secrets” website of the Center for Responsive Politics, www.opensecrets.org. In 2009, the year that the new health care legislation was being considered, the health care firms spent somewhat more than in 2010 and used more lobbyists—$552 million of spending and 3,501 lobbyists. Figures are presented for the 1998 to 2010 period—rather than, for example, for the last decade—because that is the way they are provided on the “Open Secrets” web site.
5 The list is available on the “Open Secrets” website at www.opensecrets.org/orgs/indivs.php.

6 Again, the data are from the Center for Responsive Politics at www.opensecrets.org/orgs/list_stfed.php?order=A.

7 People who make large campaign donations expect many things in return for their money. For example: Responding to the “Occupy Wall Street” demonstrations in October 2011, one “long time money manager,” defending the financial services industry, told The New York Times, “that he was disappointed that members of Congress from New York, especially Senator Charles E. Schumer and Senator Kirsten Gillibrand, had not come out swinging for an industry that donates heavily to their campaigns. ‘They need to understand who their constituency is,’ he said.” Could we ask for a clearer—or a more crass—statement about the expectations of large campaign donors? See Nelson D. Schwartz and Eric Dash, “In Private, Wall St. Bankers Dismiss Protesters as Unsophisticated,” The New York Times, October 14, 2011.

8 The Gramm and Daschle details are provided at www.opensecrets.org/revolving/index.php, and Daschle’s involvement with InterMedia Advisors has been widely reported – for example, by ABC News at blogs.abcnews.com/politicalpunch/2009/01/bumps-in-the-ro.html.

9 Once more, the “Open Secrets” website: www.opensecrets.org/orgs/summary.php?id=D000000085


11 Lee Fang, “Goldman Sachs VP Changed Name, Now a Top Congressional Staffer,” Think Progress, report August 18, 2011; circulated on-line by Truthout. The report does not explain why Simonyi-Haller changed his name (to his mother’s maiden name), and it may have had nothing to do with the move from Goldman Sachs to the Oversight Committee—though the action did perhaps obscure the revolving door aspect of the move.

12 The analysis is that of the law firm Davis Polk & Wardwell LLP and is available at www.davispolk.com/files/Publication/7084f9fe-6580-413b-b870-b7c025cd2efc/Presentation/PublicationAttachment/1d4495c7-0be0-4e9a-ba77-f786b90464a/070910_Financial_Reform_Summary.pdf


15 The Times piece adds the following interesting bit: “Frederick M. Hess of the American Enterprise Institute…., a frequent blogger on education whose institute received $500,000 from the Gates foundation in 2009 ‘to influence the national education debates,’ acknowledged that he and others sometimes felt constrained. ‘As researchers, we have a reasonable self-preservation instinct,’ he said. ‘There can be an exquisite carefulness about how we’re going to say anything that could reflect badly on a foundation.’” A nice example of the market place of ideas, though this is not the way the term is usually presented!


18 See Paul Tough, Whatever It Takes: Geoffrey Canada’s Quest to Change Harlem and America, (Mariner Books, Houghton Mifflin Harcourt, Boston and New York), 2009. It is worth noting that in October of 2010, The New York Times reported that the HCZ’s

“...charter schools have struggled with the same difficulties faced by other urban schools, even as they outspend them. After a rocky start several years ago typical of many new schools, [the HCZ] schools, featured as unqualified successes in “Waiting for Superman,” the new documentary, again hit choppy waters this summer, when New York State made its exams harder to pass.”

“A drop-off occurred, in spite of private donations that keep class sizes small, allow for an extended school day and an 11-month school year, and offer students incentives for good performance like trips to the Galápagos Islands or Disney World.”
“… the Harlem Children’s Zone, enjoys substantial largess, much of it from Wall Street. While its cradle-to-college approach, which seeks to break the cycle of poverty for all 10,000 children in a 97-block zone of Harlem, may be breathtaking in scope, the jury is still out on its overall impact. And the cost of its charter schools — around $16,000 per student in the classroom each year, as well as thousands of dollars in out-of-class spending — has raised questions about their utility as a nationwide model.”


20 This parenthetic point is made by Richard Rothstein, former education columnist for The New York Times and analyst of the educational system, as quoted by Barbara Miner, “Who’s Behind the Money,” Rethinking Schools, Summer 2005.


22 The brief statement here of this point is usefully elaborated by both McChesney as cited in the previous note and Edward Herman and Noam Chomsky, Manufacturing Consent: The Political Economy of the Mass Media, (Pantheon Books, New York), 1988. There is of course much more to the role of the media in affecting ideology, and the media include much more than the press. McChesney and Herman and Chomsky are good sources for more comprehensive analyses. Also, see the quote from Hess in note 14 above, which describes a phenomenon that applies to journalists as well as to researchers. Also, while the separation of the news page and the editorial page is often espoused, it is also often ignored—as seems, for example, to be generally the case for newspapers in the Murdoch empire.

23 It might be objected that the Bush tax cuts did not become effective until 2003. However, if the tax cut’s proponents were to be believed, the cuts would have had earlier impacts because of the boost they should have given to business confidence. More important, the post-2003 growth record is still poor. Between 2003 and 2007 real GDP expanded at an annual rate of 2.8%; see “Economic Report of the President 2011,” Table B-2, http://www.gpoaccess.gov/eop/download.html. In the six year periods after the starts of previous post-World War II expansions, the average GDP growth rate was 4.3%. See Aviva Aron-Dine, “The Effects of the Capital Gains and Dividend Tax Cuts on the Economy and Revenues: Four Years Later, A Look at the Evidence,” Center on Budget and Policy Priorities, Revised July 12, 2007, http://www.cbpp.org/files/7-10-07tax.pdf.


25 See Aviva Aron-Dine, as cited in note 22 above.

26 Many of these issues were examined by Joel Slemrod, a leading expert on tax issues, in a 2003 interview in Challenge magazine. Slemrod summed up the interview with the statement that “there is no evidence that links aggregate economic performance to capital gains tax rates.” See, “The Truth about Taxes and Economic Growth: Interview with Joel Slemrod,” Challenge, vol. 46, no. 1, January/February 2003, pp. 5–14, http://www.challengemagazine.com/Challenge%20interview%20pdfs/Slemrod.pdf.


