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How the Oligarchs Took America

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There is a war underway. I'm not talking about Washington's bloody misadventures in Afghanistan and Iraq, but a war within our own borders. It's a war fought on the airwaves, on television and radio and over the Internet, a war of words and images, of half-truth, innuendo, and raging lies. I'm talking about a political war, pitting liberals against conservatives, Democrats against Republicans. I'm talking about a spending war, fueled by stealthy front groups and deep-pocketed anonymous donors. It's a war that's poised to topple what's left of American democracy.

The right wing won the opening battle. In the 2010 midterm elections, shadowy outside organizations (who didn't have to disclose their donors until well after Election Day, if at all) backing Republican candidates doled out $190 million, outspending their adversaries by a more than two-to-one margin, according to the Center for Responsive Politics. American Action Network, operated by Republican consultant Fred Malek and former Republican Senator Norm Coleman, spent $26 million; the U.S. Chamber of Commerce plunked down $33 million; and Karl Rove's American Crossroads and Crossroads GPS shelled out a combined $38.6 million. Their investments in conservative candidates across the country paid off: the 62 House seats and six Senate seats claimed by Republicans were the most in the postwar era — literally, a historic victory.

Knocked out of their complacency, no longer basking in the glow of Barack Obama's 2008 victory, wealthy Democrats are now plotting their response. Left-wing media mogul David Brock plans to create an outside group dubbed American Bridge in response to Rove's Crossroads outfits that will fight in the trenches of 2012 campaign spending. Many more outfits like Brock's will surely follow, as liberal and centrist Democrats brace for a promised $500 million onslaught by the Chamber of Commerce and others of its ilk.

Even the Obama administration, which shunned outside groups in 2008, has opened the door to a covert spending war. The Democrats will now fight fire with fire. "Is small money better? You bet. But we're in a fucking fight," Democratic strategist and fundraiser Harold Ickes told me recently. "And if you're in a fistfight, then you're in a fistfight, and you use all legal means available."

The endgame here, of course, is non-stop war. No longer will outside groups come and go every two years. Now, such groups will be running attack ads, sending out mailers, and deploying robo-calls year-round in what is going to become a perpetual campaign to sway voters and elect friendly lawmakers. "We're definitely building a foundation," was how American Crossroads president Steven Law put it.

This is what nowadays passes for the heart and soul of American democracy. It used to be that citizens in large numbers, mobilized by labor unions or political parties or a single uniting cause, determined the course of American politics. After World War II, a swelling middle class was the most powerful voting bloc, while, in those same decades, the working and middle classes enjoyed comparatively greater economic prosperity than their wealthy counterparts. Kiss all that goodbye. We're now a country run by rich people.

Not surprisingly, political power has a way of following wealth. What that means is: you can't understand how the rich seized control of American politics, and arguably American society, without understanding how a small group of Americans got so much money in the first place.

That story begins in the late 1970s and continues through the Obama years, a period in which American policy has been so skewed toward the rich that we're now living through the worst period of income inequality in modern history. Consider the statistics: 50 years ago, the wealthiest 1% of Americans accounted for one of every 10 dollars of the nation's income; today, it's nearly one in every four. Between 1979 and 2006, the average post-tax household income (including benefits) of the wealthiest 1% increased by 256%; the poorest households saw an increase of 11%; middle class homes, 21%, much of which was due to the arrival of two-job families.

Tax guru David Cay Johnston recently crunched new Social Security Administration data and discovered an even starker divide. On the one hand, the number of Americans earning a steady income declined by 4.5 million between 2008 and 2009, and the average wage in the U.S. dipped by 1.2%, to $39,055. On the other hand, the average wage among Americans earning more than $50 million per year was $91 million in 2008 and $84 million in 2009.

Harvard University economist Lawrence Katz put the situation Americans now find themselves in this way:

> "Think of the American economy as a large apartment block. A century ago — even 30 years ago — it was the object of envy. But in the last generation its character has changed. The penthouses at the top keep getting larger and larger. The apartments in the middle are feeling more and more squeezed and the basement has flooded. To round it off, the elevator is no longer working. That broken elevator is what gets people down the most."

Let's call those select few in the penthouse the New Oligarchy, an awesomely rich sliver of Americans raking in an outsized share of the nation's wealth. They're oil magnates and media tycoons, corporate executives and hedge-fund traders, philanthropists and entertainers. Depending on where you want to draw the line, they're the top 1%, or the top 0.1%, or even the top 0.01% of the population. And when the Supreme Court handed down its controversial Citizens United decision in January, it broke the floodgates so that a torrent of anonymous donations from this oligarchic class could flood back down from the heights and inundate the political lands below.

"The Thirty-Year War"

How did we get here? How did a middle-class-heavy nation transform itself into an oligarchy? You'll find answers to these questions in Winner-Take-All Politics, a revelatory new book by political scientists Jacob Hacker and Paul Pierson. The authors treat the present figures we have on American wealth and poverty as a crime scene littered with clues and suspects, dead-ends and alibis.

Unlike so many pundits, politicians, and academics, Hacker and Pierson resist blaming the usual suspects: globalization, the rise of an information-based economy, and the demise of manufacturing. The culprit in their crime drama is American politics itself over the last three decades. The clues to understanding the rise of an American oligarchy, they believe, won't be found in New York or New Delhi, but on Capitol Hill, along Pennsylvania Avenue, and around K Street, that haven in a heartless world for Washington's lobbyists.

"Step by step and debate by debate," they write, "America's public officials have rewritten the rules of American politics and the American economy in ways that have benefitted the few at the expense of the many."

Most accounts of American income inequality begin in the 1980s with the reign of President Ronald Reagan, the anti-government icon whose "Reaganomics" are commonly fingered as the catalyst for today's problems. Wrong, say Hacker and Pierson. The origins of oligarchy lay in the late 1970s and in the unlikely figure of Jimmy Carter, a Democratic president presiding over a Congress controlled by Democrats. It was Carter's successes and failures, they argue, that kicked off what economist Paul Krugman has labeled "the Great Divergence."

In 1978, the Carter administration and Congress took a red pen to the tax code, slashing the top rate of the capital gains tax from 48% to 28% — an enormous boon for wealthy Americans. At the same time, the most ambitious effort in decades to reform American labor law in order to make it easer to unionize died in the Senate, despite a 61-vote Democratic supermajority. Likewise, a proposed Office of Consumer Representation, a $15 million advocacy agency that was to work on behalf of average Americans, was defeated by an increasingly powerful business lobby.

Ronald Reagan, you could say, simply took the baton passed to him by Carter. His 1981 Economic Recovery and Tax Act (ERTA) bundled a medley of goodies any oligarch would love, including tax cuts for corporations, ample reductions in the capital gains and estate taxes, and a 10% income tax exclusion for married couples in two-earner families. "ERTA was Ronald Reagan's greatest legislative triumph, a fundamental rewriting of the nation's tax laws in favor of winner-take-all outcomes," Hacker and Pierson conclude.

The groundwork had by then been laid for the rich to pull definitively and staggering ahead of everyone else. The momentum of the tax-cut fervor carried through the presidencies of George H.W. Bush and Bill Clinton, and in 2000 became the campaign trail rallying cry of George W. Bush. It was Bush II, after all, who told a room full of wealthy donors at an $800-a-plate dinner, "Some people call you the elites; I call you my base," and who pledged that his 2001 tax cuts would be a boon for all Americans. They weren't: according to Hacker and Pierson, 51% of their benefits go to the top 1% of earners.

Those cuts will be around a lot longer if the GOP has its way. Take Republican Congressman Dave Camp's word for it. On November 16th, Camp, a Republican from Michigan, said the only acceptable solution when it came to the Bush-era tax cuts was not just upholding them for all earners, rich and poor, but passing more such cuts. Anything in between, any form of compromise, including President Obama's proposal to extend the Bush cuts for the working and middle classes but not the wealthy, was "a terrible idea and a total non-starter."

Why should you care what Dave Camp says? Here's the answer: in January, he's set to inherit the chairman's gavel on the powerful House Ways and Means Committee, the body tasked with writing the nation's tax laws. And though most Americans wouldn't even recognize his name, Camp's message surely left America's wealthy elites breathing a long sigh of relief. You could sum it up like this: *Fear not, wealthy Americans, your money is safe. The policies that made you rich aren't going anywhere.*

Tear Down This Law

Where rewriting the tax code proved too politically difficult, demolishing regulations worked almost as well. This has been especially true in the world of finance. There, a legacy of deregulation transformed banking from a relatively staid industry into a casino culture, ushering in an era of eye-popping profits, lavish bonuses, and the "financialization" of the American economy.

April 6, 1998: it's a useful starting point in the story of financial deregulation. On that day, two well-known Wall Street denizens, Citicorp and Travelers Group, agreed to a historic $140 billion merger. The deal required much lobbying, but eventually the chiefs of these banks won an exemption from the Glass-Steagall Act, the New Deal-era law walling off commercial banks from riskier investment houses. The resulting institution, dubbed Citigroup, would be the largest supermarket bank in history, a marriage of teller windows and trading desks, customer banking and high-stakes investing — all suddenly under one deregulated roof. It would prove an explosive, if not disastrous, mix.

The merger stirred visions of a future in which the U.S. would dominate the planet financially. All that stood in the way was undue regulatory red tape. At least that's the way free marketeers like then-Republican Senator Phil Gramm of Texas saw it. Gramm, who as an aide to presidential candidate John McCain infamously called America a "nation of whiners," was, in fact, the driving force behind two of the most influential pieces of deregulation in recent history.

In 1999, President Clinton signed the Gramm-Leach-Bliley Act, a bevy of deregulatory measures that obliterated Glass-Steagall. In December of the following year, Gramm quietly snuck the 262-page Commodity Futures Modernization Act into a massive $384-billion spending bill. Gramm's bill blocked regulators like the Securities and Exchange Commission (SEC) from cracking down on the shadowy "over-the-counter derivatives" market, home to billions of dollars of opaque financial instruments that would, years later, nearly demolish the American economy.

As presidents, both Bill Clinton and George W. Bush wrapped their arms around financial deregulation. As a result, in a binge of financial gluttony, Wall Street grew fat in ways never previously seen. Between 1929, the year the Great Depression began, and 1988, Wall Street's profits averaged 1.2% of the nation's gross domestic product; in 2005, that figure peaked at 3.3% as industry bonuses soared ever-higher. In 2009, bad times for most Americans, bonuses hit $20 billion. So much wealth in so few hands. Nothing explains the rise of the new American oligarchy more starkly.

Of course, it's not just what politicians did that helped create today's oligarchy, but what they failed to do. A classic example: in the 1990s, the Financial Accounting Standards Board (FASB), a private American accounting regulator, set its sights on a loophole big enough to drive a financial Mack truck through. Until then, stock options included in executives' skyrocketing pay packages — potentially worth tens of millions of dollars when exercised —

were valued at zero when issued. That's right: zero, zilch, nada. When FASB and the SEC tried to close the loophole, however, big business leapt to its defense. An avalanche of money went into the pockets of an army of K Street lobbyists and leviathan business trade associations. In the end, nothing happened. Or rather, everything continued happening. The loophole remained.

Citizen United's Brave New World

Hacker and Pierson ably guide us through 30 years of "winner-take-all" policymaking, politicking, and — from the point of view of the wealthy — judicious inaction. They offer an eye-opening journey across the landscape that helped foster the New Oligarchs, but one crucial vista appeared too late for the authors to include.

No understanding of the rise of our New Oligarchs could be complete without exploring the effects of the Supreme Court's January *Citizens United* decision, which set their power in cement more effectively than any tax cut ever could. Before Citizens United, the rich used their wealth to subtly shape policy, woo politicians, and influence elections. Now, with so much money flowing into their hands and the contribution faucets wide open, they can simply buy American politics so long as the price is right.

There's no mistaking how, in less than a year, *Citizens United* has radically tilted the political playing field. Along with several other major court rulings, it ushered in American Crossroads, American Action Network, and many similar groups that now can reel in unlimited donations with pathetically few requirements to disclose their funders.

What the present Supreme Court, itself the fruit of successive tax-cutting and deregulating administrations, has ensured is this: that in an American "democracy," only the public will remain in the dark. Even for dedicated reporters, tracking down these groups is like chasing shadows: official addresses lead to P.O. boxes; phone calls go unreturned; doors are shut in your face.

The limited glimpse we have of the people bankrolling these shadowy outfits is a who's-who of the New Oligarchy: the billionaire Koch Brothers ($21.5 billion); financier George Soros ($11 billion); hedge-fund CEO Paul Singer (his fund, Elliott Management, is worth $17 billion); investor Harold Simmons (net worth: $4.5 billion); New York venture capitalist Kenneth Langone ($1.1 billion); and real estate tycoon Bob Perry ($600 million).

Then there's the roster of corporations who have used their largesse to influence American politics. Health insurance companies, including UnitedHealth Group and Cigna, gave a whopping $86.2 million to the U.S. Chamber to kill the public option, funneling the money through the industry trade group America's Health Insurance Plans. And corporate titans like Goldman Sachs, Prudential Financial, and Dow Chemical have given millions more to the Chamber to lobby against new financial and chemical regulations.

As a result, the central story of the 2010 midterm elections isn't Republican victory or Democratic defeat or Tea Party anger; it's this blitzkrieg of outside spending, most of which came from right-leaning groups like Rove's American Crossroads and the U.S. Chamber of Commerce. It's a grim illustration of what happens when so much money ends up in the hands of so few. And with campaign finance reforms soundly defeated for years to come, the spending wars will only get worse.

Indeed, pundits predict that spending in the 2012 elections will smash all records. Think of it this way: in 2008, total election spending reached $5.3 billion, while the $1.8 billion spent on the presidential race alone more than doubled 2004's total. How high could we go in 2012? $7 billion? $10 billion? It looks like the sky's the limit.

We don't need to wait for 2012 to arrive, however, to know that the sheer amount of money being pumped into American politics makes a mockery out of our democracy (or what's left of it). Worse yet, few solutions exist to staunch the cash flow: the DISCLOSE Act, intended to counter the effects of Citizens United, twice failed in the Senate this year; and the best option, public financing of elections, can't even get a hearing in Washington.

Until lawmakers cap the amount of money in politics, while forcing donors to reveal their identities and not hide in the shadows, the New Oligarchy will only grow in stature and influence. Left unchecked, this ultimate elite will continue to root out the few members of Congress not beholden to them and their "contributions" (see: Wisconsin's Russ Feingold) and will replace them with lawmakers eager to do their bidding, a Congress full of obedient placeholders ready to give their donors what they want.

Never before has the United States looked so much like a country of the rich, by the rich, and for the rich.

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