AMERICA'S WEALTH GAP

What is to be done about the yawning difference between the super rich and the rest of us?

By Frederick Allen

WILL 2012 GO DOWN IN HISTORY AS THE YEAR MONEY took over politics? Both parties will have spent more than a billion dollars electing the next president. More and more of that money comes from a handful of the wealthiest Americans and the corporations they run. On the Democratic side, Jeffrey Katzenberg of DreamWorks, telecommunications pioneer Irwin Mark Jacobs, and hedge fund manager James Simons have donated millions to re-elect the president, but the amount of money the Democrats have received from deep-pocketed supporters pales in comparison to what Republicans have received. A single billionaire, business magnate Sheldon Adelson, had by August spent more than $41 million and promised to spend up to $100 million defeating President Obama and other Democrats. All told, the top .07 percent of donors give more money than the bottom 86 percent. And it pays off. Candidates spend ever more time courting the super rich and then, once in office, try to keep them happy. This summer, for example, Mitt Romney held two fundraisers at which he raised almost $10 million from the oil and gas industry and then announced that as president he would end more than 100 years of federal restraint of oil and gas drilling on public lands. Things like that happen on both sides. How did we
get into such a situation? What is to be done about it? Is it threatening our democracy? And doesn’t it go against everything the founding fathers stood for?

Those are big questions. The last one is the easiest to answer. Control of government by the richest wouldn’t have bothered the founders at all. It was just what they believed in. John Jay, the first Chief Justice, put it most directly: “The people who own the country ought to govern it.”

Many of the founders, including George Washington and Thomas Jefferson, were themselves among the wealthiest people in the country. They felt their prosperity made them obliged to serve their nation at the highest level. Yes, they declared independence and fought a Revolution to escape the tyranny of English monarchy and might, but they expected to replace aristocracy of birth with aristocracy of accomplishment, rule by elites who had created their wealth and influence, not inherited it. That was why they wrote a Constitution that stated the president was to be elected not by the people but by an elite Electoral College, and the Senate was to be chosen not by the people but by state legislatures. And that was why in most states only men who had money and property were allowed to vote at all.

It didn’t take long for the 99 percent of the day to rebel against that status quo. The notion of true democracy, rule by ordinary people, grew popular in the early 19th century. It was spearheaded by President Andrew Jackson, who hated bankers and banks, especially the national bank that had been founded by Alexander Hamilton. He destroyed the bank, partly to counter the power of the richest Americans. At the same time, a new generation of wealthiest Americans emerged, and they were a breed that had never existed in Europe—industrious, self-made men of humble origins, such as John Jacob Astor, a German immigrant who began working in a menial job for a fur merchant but came to dominate the trade in furs from the West, and Cornelius Vanderbilt, who rose from ferryboat captain to steamboat owner and then railroad baron. In 19th century America, the wealthiest really did have something in common with the common man.

Or at least that was true in the American North. The elite of the South were a breed apart. They grew fantastically rich and powerful from growing rice and cotton with all the hardest labor done by slaves. Seven of the first 12 presidents were from Virginia, the most prosperous part of the South. When the Civil War came, it was a fight not only over slavery but between the power of new Northern industry and urban wealth and the spoils of the Southern slave economy as well.

As extreme as the power of the wealthiest is today, it pales before that of the rich in the pre-Civil War South, for they could own human beings who had no rights whatsoever. Slave owners had such full support of the law that the Constitution originally counted each slave as three-fifths of a man for voting purposes, not so that slaves themselves could vote, but to add to the headcounts on which Congressional districts were based, giving their owners even more political and electoral power than anyone who didn’t keep slaves. Slavery was by far the highest point of the tyranny of the wealthiest in the United States.

But the kind of abuse of power that’s more familiar to us today took off after the Civil War, when four years of bloodshed costing more than a million lives left the South crippled and the North as a new industrial world power. That power corrupted, as it always does. The Gilded Age—which lasted from the end of the Civil War to 1900—was a festival of power grabs among the wealthiest. For instance, to build the Transcontinental Railroad, the owners of the Union Pacific Railroad set up a construction firm called Credit Mobilier to wildly overcharge for the work it did, just so they could bleed their own company and bondholders. Then, to make sure Congress didn’t complain, they gave assorted Congressmen both cash bribes and stock that paid huge dividends. The scam got exposed in 1872. It was estimated to have stolen $42 million in government and bondholder money, and it led to

“We know now that Government by organized money is just as dangerous as Government by organized mob.”

From the Archives
For the full text of these and more stories on the topic, visit saturdayeveningpost.com/wealth-gap.
- “Swollen Fortunes” (David Graham Phillips, December 22, 1906)
- “Message of the President of the United States to Both Houses of Congress” (Andrew Jackson, December 3, 1833)

The disgrace of public figures as high up as the vice president, Schuyler Colfax. By the 1880s the Senate was dominated by millionaires. And by 1892, wealth-fed scandal had become so commonplace that opposition to it gave rise to a new political party, the Populists, whose platform announced, “We meet in the midst of a nation brought to the verge of moral, political, and material ruin. Corruption dominates the ballot-box, the Legislatures, the Congress, and touches even the ermine of the bench. ... The fruits of the toil of millions are boldly stolen to build up colossal fortunes for a few. ... From the same prolific womb of governamental injustice we breed the two great classes—tramps and millionaires.”

When Theodore Roosevelt became president in 1901, he ushered in the Progressive Era, one of two major periods in U.S. history when the political
tide turned strongly away from the wealthiest—the other was during the presidency of his distant cousin Franklin Roosevelt. Roosevelt railed against what he called “malefactors of great wealth” and the “criminal rich,” and he pushed through reforms like strengthened railroad regulations and the creation of the Department of Labor. A decade later, President Woodrow Wilson cemented Roosevelt’s accomplishments by establishing the federal income tax and the direct election of senators.

Though none of that prevented the wild financial bubble fed by coziness between the wealthy and the government in the 1920s. So in the wake of the Great Crash that followed, Franklin Roosevelt took office in 1933 as a rich New Yorker determined to look out for the common man. He wrote to a friend, “The real truth of the matter is, as you and I know, that a financial element in the larger centers has owned the Government since the days of Andrew Jackson.... The country is going through a repetition of Jackson’s fight with the Bank of the United States—only on a far bigger and broader basis.” He raised taxes on the rich and used much of the money that came in to put the unemployed poor back to work. In 1936 he wrote: “We know now that Government by organized money is just as dangerous as Government by organized mob. ... I should like to have it said of my first Administration that in it, the forces of selfishness and lust for power met their match. I should like to have it said of my second Administration that in it these forces met their master.”

If there was ever a period when prosperity and political power seemed truly to be shared by people at every economic level, it was in the years from the end of World War II through the 1960s. With Europe and Russia rebuilding from ruins, the U.S. was the single dominant world power, and it showed in our widespread prosperity. The number of millionaires more than tripled, but unlike in more recent years, everyone else got richer, too. The average family’s real income went up 30 percent between 1960 and 1968; today, the typical male worker makes no more than he did 30 years ago. In 1949, the top 1 percent of Americans controlled 27.1 percent of American wealth. Today their share has risen to 40 percent. We hear these numbers a lot these days, so let’s paint a more vivid picture: The net worth of the six heirs to the Wal-Mart fortune alone is now worth more than the entire net worth of the bottom 30 percent of American society—many of whom have a negative net worth. A chasm in wealth has opened, and so has one in political power.

**The fraction of income that goes to the top 0.1 percent has almost tripled since 1980.**

—Pulitzer Prize-winning economist Joseph Stiglitz

FROM THE ARCHIVES

**Corporate Corruption, 19th Century Style**

President Andrew Jackson harbored a deep-seated distrust of banking and corporate influence. In an excerpt from an address to Congress published in the Post, he shares his suspicion that the Bank of the United States intervened in local and national elections.

**December 3, 1833**—“It was not until late in the month of August that I received from the Government directors an official report establishing beyond question that this great and powerful institution (the Bank of the United States) had been actively engaged in attempting to influence the elections of the public officers by means of its money. ... The question is distinctly presented whether the people of the United States are to govern through representatives chosen by their unbiased suffrages or whether the money and power of a great corporation are to be secretly exerted to influence their judgment and control their decisions.”

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The savings of ordinary Americans was battered by the inflation of the 1970s, but it was in the 1980s that the economic landscape began to change to overwhelmingly favor the very rich. Two big things happened then. The first was the ascendance of supply-side economics, the theory embraced by President Ronald Reagan that the more you cut taxes, the more tax revenue you’ll bring in. The idea was simple: Cutting taxes, especially at the top, would spark such economic growth that people’s incomes would rise even faster than their tax rates would fall. In effect, the wealth of the richest would “trickle down” to the rest of us.

As the Reagan plan went into effect, between 1981 and 1986 the top income tax bracket fell from 70 percent to 28 percent. In a decade, the wealth held by the top 1 percent almost doubled.

The second big change was the financialization of America. By the mid-1990s finance, insurance, and real estate had become a bigger part of the economy than its manufacturing base. The go-go spirit of the time was summed up by Gordon Gekko, the hero of the 1987 movie Wall Street, when he proclaimed that “Greed ... is good. Greed is right. Greed works.”

Between 1977 and 1999, the average after-tax income of the bottom fifth of the population declined from $10,000 to $8,800; that of the next fifth went down from $22,100 to $20,000. For the top fifth, it went up from $74,000 to $102,300, and for the top 1 percent it more than doubled. In 1986, the most money made on Wall Street was $125 million by the head of Lazard Frères (now known as Lazard Ltd). By 1996, it was $800 million by the business magnate George Soros.

Pumping all that cash into politics got a lot easier in the 1990s with the rise of “soft money.” Rich individuals, corporations, and unions began giving virtually unlimited contributions to the two major parties. In 2000, that added up to $450 million. In response, the Bipartisan Campaign Reform Act, passed in 2002, stopped the soft money that went straight to campaigns—but the money just found a new destination, shadowy organizations called 527s and social-welfare groups. Those organizations couldn’t explicitly endorse candidates, but they could do pretty much anything else. They included outfits like Swift Boat Veterans for Truth, which received several multimillion-dollar contributions (continued on page 76)

From the Archives

“Swollen Fortunes” in the Early 20th Century

In an article for the Post, author David Graham Phillips defended President Teddy Roosevelt’s attack on the corrupting power of the super rich. Note the author’s reference to the wealthy “one percent,” a phrase that still resonates a century later.

December 22, 1906—“The American people are singularly free from envy, most generously admiring the prosperity of those who work and deserve. It is not the wealth that flows from work and deserts that disturbs the American people. It is the unearned fortune; it is the stolen fortune; it is the ‘swollen’ fortune. It is the wealth that is being corruptly used both to increase itself and, worse still, to constrict the area of progressive prosperity. To be prosperous by honest, intelligent work, to be able to surround one’s self with comfort, to raise one’s family’s standard of living—that is civilization, is American. And the future of the Republic and of its people depends upon the continuance and the spread of the American ambition to ‘get on.’ But to prosper by fraud and theft, and to use the ill-gotten gains in vain show, and in seducing public officials, and in tempting or compelling one’s fellowsmen to become one’s dependents—that is not civilization, but barbarism.”

The author goes on to analyze what would today be called the “wealth gap” of the early 20th century: “Of the total national wealth more than seven-eighths is owned by less than one percent of the population, leaving but one-eighth of the wealth for the remaining ninety-nine per cent. ... Plutocracy is not an approaching menace, as it was fifteen or twenty years ago; it is an existing condition.”

President Roosevelt on the March 4, 1905, Saturday Evening Post cover.
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from individuals and spent them defeating John Kerry’s 2004 presidential candidacy, and organizations on the other side to which the billionaire George Soros gave $27.5 million the same year.

In 2008 Barack Obama, a longtime proponent of campaign-finance reform, did so well at raising funds that he broke a pledge and renounced public financing, so that there would be no limit on his fundraising. He spent a record $745 million winning the presidency. Then in 2010 came the Supreme Court’s notorious Citizens United v. Federal Election Commission decision. That ruled that there could be no limit on “independent expenditures,” for they amounted to “political speech” protected by the First Amendment. As a result of that, the super PAC was born. The amount of outside money spent on presidential elections went up 164 percent between 2004 and 2008 and another 135 percent by 2012.

That all happened against a backdrop of a Great Recession and a bailout of big banks. It seemed as though the richest were let off easiest—no head of a major bank went to prison after all the wrongdoing that led to the crash—while everyone else paid the bill, rescuing banks with their taxpayer dollars and getting no assistance on their mortgages that Wall Street misdeeds had left underwater. It started to feel as if the whole system was rigged by and for the wealthiest, most powerful Americans. As Warren Buffett, the second richest man in the nation put it, “There’s been anarchy almost has to wonder. It should not make jaws drop that a tax bill cannot emerge from Congress unless big tax cuts are put in place for the wealthy. Given the power of the top 1 percent, this is the way you would expect the system to work.”

What hope is there for the 99 percent to continue to have a serious voice in American politics? In fact, there is plenty of hope. For one thing, the escalating face-off in presidential campaign spending may be leading to an unsustainable high-priced stalemate. In the words of Matt Bai of The New York Times, “it’s not clear that spending an extra $200 million or $500 million will really make all that much of a difference on Election Day. More likely, the two ideological factions are now like rivals of the nuclear age, stockpiling enough bombs to destroy the same cities over and over again, when one would do the job.”

Not only that, but also in the financial arms race, the candidates and parties themselves lose power over their elections because the groups that can spend unlimited amounts aren’t allowed to coordinate with them. As Bai put it, “Candidates and parties who become the vehicles of angry outsiders... don’t really have control of their own campaigns anymore; to a large extent, they are the instruments of volatile forces beyond their own reckoning.”

That kind of anarchy almost has to lead to a backlash, and it certainly doesn’t mean that any one faction is getting a solid, sustainable grasp of the political system. The very closeness of the year’s presidential election is clear proof of that.

As for the control the almighty dollar seems to have taken over Congress, and virtually all of Washington, that too is probably less threatening than it looks. MIT economist Daron Acemoglu wrote the book Why Nations Fail describing how elites have taken over and led to the decline of great powers, but he insists that it can’t happen here because our democratic system simply has too many safeguards against it. “There is an open media,” he says, “not controlled by anybody or by any interest. And though the U.S. public has become somewhat apolitical, we have seen with the Tea Party and Occupy movements that there is a lot of political energy, and it is hard to contain that energy even if people want to suppress it.”

Indeed, Occupy Wall Street and the Tea Party movement—which began as a protest against the bank bailouts—may be our best grounds for optimism. Although almost everybody despises one or the other, they both represent broad grassroots movements that rose to serious prominence as revolts against the power of privileged elites. The two may not be here to stay, but the sheer force of their antagonism toward the elites who feel entitled to reign over everyone else simply because they have the money to do so is not about to go away. It’s the same all-American spirit that drove the original “Tea Partyers” to rise up against their British overlords 239 years ago. If there’s one thing of which we can be certain, it’s that spirit that lies at the heart of America. It is our greatest protection.

Frederick Allen wrote “Fixing Our Healthcare System” for our Sep/Oct issue.