

The Return of Oligarchy Elite Power in an Age of Inequality

Stahl, Rune Møller

Document Version
Other version

Publication date:
2016

License
Unspecified

Citation for published version (APA):
Stahl, R. M. (2016). *The Return of Oligarchy: Elite Power in an Age of Inequality*. Paper presented at The Road to Global Inequality, Aarhus, Denmark.

[Link to publication in CBS Research Portal](#)

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy

If you believe that this document breaches copyright please contact us (research.lib@cbs.dk) providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 14. May. 2025



THE RETURN OF OLIGARCHY: ELITE POWER IN AN AGE OF INEQUALITY

Rune Møller Stahl, Department of Political Science, University of Copenhagen rms@ifs.ku.dk

- Very early draft – please don't cite without permission

1: INTRODUCTION

In light of the growing literature on the relentless rise of economic inequality in recent years, (Milanovic, 2012; OECD, 2011; Piketty, 2014; Therborn, 2014) the inability of modern democratic government to counteract these trends seems increasingly blatant. Even areas such as tax evasion, seems impossible to counteract from government despite an obvious public interest in doing so (Zucman, 2015). In this way the interaction between rising inequality and democratic institutions stands as a one of the central challenges of political thinking in the 21st century. The growing gaps between rich and poor and the increasing power of economic actors in the global financial market, undermines the control and authority of the traditional institutions of representative democracy. A recent quantitative study of the US by Gilens and Page (Gilens & Page, 2014) finds that the influence of the preferences of average Americans on the outcomes are much lower than affluent Americans, and that in situations of conflicts between the two groups, congress favours the preferences of the affluent in the large majority of cases. German sociologist Wolfgang Streeck directly speaks of the deep crisis and forthcoming end of democratic capitalism (Streeck, 2014). This paper will address this issue through an engagement with the classical concept of oligarchy, and to what extent it can be relevant for analysing the development of developed democracies. Section 2 will deal with the issue of economic inequality and elite power in the liberal and republican tradition of democratic theory. Based on this section 3 will look at the current literature on oligarchy, and section 4 will try to distinguish oligarchic influence from forms of more indirect economic power. Section 5 will try to analyse the post-war American history of the connection between money and politics through the lens of oligarchy.

2: INEQUALITY AS A POLITICAL PROBLEM

Despite the increasing realisation of inequality as a political as well as economic problem, it seems as though contemporary political theory does not provide us with many tools with which to conceptualise this problem. In the liberal political tradition, threats to democracy have primarily been conceptualised as stemming from the excess of state power – authoritarianism and totalitarianism. The way to secure democracy has therefore been to curtail state power vis-à-vis non-state actors, be they in the market or civil society. The experiences of 20th century political lends a certain credence to these concerns, where time and again authoritarian executives overturned democratic government in coups, revolutions or gradual takeovers. In developed democracies today however, this does not seem to be the primary problem. The main threat to democracy is not the excess state power of the, but rather the inability to control powerful economic actors outside the state. We see increasingly strong constraint on democratic institutions and the ability to influence and regulate economic processes. In this we seem to be experiencing a distinct move in power from institutions of democratic representation to that of unelected economic elites. As argued the liberal democratic tradition leaves us with very few ways of conceptualising threats from democracy, emanating from civil society, and not the state. Economic matters is conceptualised solely as the outcome of the political process, not as relevant for the process itself. As an alternative, the classical republican tradition sees issues of property and inequality as constitutive of the political process. As a consequence this means that such issues belong to the realm of politics proper, as a too skewed division of property and wealth, could undermine and corrupt the body politics (Thompson, 2007). Therefore the threat of oligarchy, and how to curtail elite power, was central for the parts of the republican tradition that prioritised democracy and popular power (McCormick, 2011). The centrality of wealth and class, for the political thinking of antiquity, can be seen in the fact that Aristoteles definition of different regimes, notably democracy and oligarchy, in *Politics* is grounded in the hegemony of different economic classes, rather than specific institutional features: “oligarchy is when men of property have the government in their hands; democracy, the opposite, when the indigent, and not the men of property, are the rulers” (III viii 1279b17–20)¹. Machiavelli also sees the division of the republic into the rich and poor as a problem, and lauds the romans for their institution of the peoples tribunes, as a way of the plebeians to protect themselves from the predations of the patricians, and a as stop for elites to use the laws “not for the common freedom, but for their own power” (Machiavelli, 1996), 50). Contemporary scholars such as McCormick and Green have recently tried to use these reflections to advance a theory of *Machiavellian* or *plebeian* democracy (Green, 2016), where institutions such class specific offices, peoples tribunes and lotteries as ways of constitutional safeguards against elite encroachment of democracy.

This is not meant to make any substantial argument about republican political thinking, only to use it as a conceptual inspiration, for thinking about economic factors as *constitutive factor* in the very core of the political process. By using class and inequality as political concepts, and specifically the concept of oligarchy, we can hopefully overcome the unfruitful division between the political and economic sphere, which has characterised much of social science in much of the 20th century².

¹ He even specifically states that democracy, a concept he personally opposed, was granted in class, rather than numbers. “Wherever men rule by reason of their wealth, whether they be few or many, that is an oligarchy, and where the poor rule, that is a democracy” (III viii 1280a1–3).

² For more on the divisions on contemporary social science see Wallerstein unthinking social science.

3: A MODERN CONCEPT OF OLIGARCHY

Recently a number of American political scientist have raised the question of whether the level of influence of a small, unelected and rich elite, means that the US can be characterised as an oligarchy (Gilens & Page, 2014; Jeffrey A Winters, 2011; Jeffrey A. Winters & Page, 2009).

Most developed here is Jeffrey Winters, who in his 2009 book *Oligarchy* defines oligarchy as a situation where a rich minority not only controls a large part of economic resources, but is also capable of mobilising political resources to defend this wealth. According to Winter's definition Oligarchy is different from other forms of elite rule, in that it is based on a foundation of material resources that is independent of the state. Instead Oligarchs use state institutions for "wealth defence", by peaceful or violent means. According to Winter's US constitutes a civil oligarchy³, which means that A) oligarchs do not rule directly, B) oligarchs are disarmed and 'tamed', meaning that they are governed by a set of formal laws. In this context the wealth defence of oligarchs primarily takes the form of protection against taxation of income and property. The US oligarchy is defined by having sufficient economic resources to employ such means of wealth protection, including the use of tax havens, tax deductible foundations etc. In quantitative terms, this group includes the top 0,1% of the income distribution, with an average income of around 4 million dollars in 2007 prices (Winters 2011, 215). Winters does not see an opposition between oligarchy and democracy. Oligarchs have common interest when it comes to policy areas concerning wealth defence, whereas other policy areas such as cultural or foreign policy, there is no consensus among oligarchs. Here different opinions of oligarchs cancel each other out, and leaves room for other forces to influence policy.

While Winters account of oligarchy provides a good foundation for further studies of oligarchic influence, there seems to be especially two areas that need expansion.

- Democracy and Oligarchy: while elements of democracy and oligarchy can obviously coexist in different institutional setups, the balance between the two elements shaped by different historical and socioeconomic context. Especially important here the balance of social and class forces, and the overall level of economic growth.
 - o In a situation of high economic growth it is relatively easy to combine oligarchic wishes for wealth defence, with popular preferences for economic redistribution and welfare.
- Historicization: Recent empirical scholarship on inequality has cast light on large historical developments in the resources and power of the economic elite. In the periods since 1945 it is possible to identify two, perhaps three, distinct phases in US oligarchy.

4: TYPOLOGY – VARIETIES OF ECONOMIC POWER

Elite encroachment of democracy can take many forms. In order to discuss the issue of potential oligarchic influence it is useful to distinguish between different ways elite influence in democracies can take place. The first distinction is that not all forms of elites power can be considered oligarchic. Oligarchic power resides in the possession of great economic resources based on private property claims independent of the state. State or party elites, who base their power on control over institutions, but not have independent personal property, as such fall outside the definition. Even

³ Winters distinguishes between 4 types of oligarchies based on the nature of rule and the role of oligarchs: Sultanistic, Warring, Ruling and Civic (Winters 2011, 34)

when it comes to such independently rich individuals or groups, there are an range of avenues of potential influence on democratic politics. Therefore we need to distinguish between the structural influence of rich individuals as owners of capital and members of a societal elite, a form influence they possess whether they take any interest in the political system or not, and the direct influence such individuals can control, when they consciously mobilise their resources to gain political traction.

Based on the current literature, I will propose three ideal typical forms under which economic power can translate into political influence under formally democratic regimes: Structural, Social and Political. Structural and social power can here be seen as form of indirect power, while political influence is direct and driven by conscious actors. As such only the last form can be viewed as oligarchic power proper. While the boundaries between such ideal types will of course always be blurry, the categories allow for a distinction between direct political influence wielded by an elite, and structural/social forms of influence that would accrue to actors no matter what actions they undertook.

1- Structural influence – the Kalecki effect

The most pervasive and indirect way the economic power of the wealthy enters politics is through the power over investment. This is the indirect structural influence of business in a capitalist economy –if business invests it creates employment and growth, whereas if they withhold their investment the result will be stagnation. As such any political executive, be it national, regional or transnational, will have an interest in maintaining business “confidence”. This mechanism was first described by Kalecki in his 1943 paper “political aspects of full employment”, where he described the rationale for the business community to oppose state policies of full employment that, while giving a short term boost to business earnings, would infringe on this monopoly over investment in the long run and thus undermine business power (Kalecki, 1943). Political scientist Charles Lindblom describes how this structural power of capital owners constitutes an automatic system of rewards and punishments that heavily constraints politicians in liberal democracies, and that “market systems imprison policy” (Lindblom, 1982) 334)

This effect has heavily increased in the latter years, with financial deregulation, increasing capital mobility and access to cheap labour abroad. Now business can not only threaten to withhold, but also dislocate their investment, thus leading to increased pressure on national governments (Glyn, 2007). A further increase in this area is the increasing debt burdens of many governments, especially after the bank bailouts and aid packages following the 2008 crisis. This has led to a further increase in dependence by many governments on the international financial market, for refinancing sovereign debt. Wolfgang Streeck has described this tendency as by the metaphor that modern parliaments are torn between loyalty to two constituencies - the “*Statsvolk*” of their citizens and the other “*Marktvolk*” of creditors of the international bond markets (Streeck, 2014).

2 – Social influence – The Mills effect

The social or network influence comes from the integration of powerful actors into one coherent elite, that are socially integrated and shares certain worldview, ideas and cultural norms. The most prominent, if controversial statement of this comes from C. Wright Mills 1956 book *The Power elite* (Mills, 1999), in which he stated that the main institutional order of the US of his day, the military, business sector and the government, had merged into a coherent power elite, forming “an intricate set

of overlapping cliques [that] share decisions having at least national consequences". The integration of this elite was formed by social connectedness, educational and employment ties and cultural similarity.

The importance of cultural norms and codes of social distinction in the reproduction of classes and elites, have in recent years perhaps been most forcefully formulated by Bourdieu, who in *The State Nobility*, shows the central role of elite institutions, cultural codes and informal network and family ties, in the formation of the, nominally meritocratic, elites in France, Britain and the US (Bourdieu, 1996). Michael Useem's 1984 book *The Inner circle* (Useem, 1984), showed the deep integration of American business through a network of *interlocking directorates*, where a relatively small group of managers and owners of large corporation were tightly connected. This inner circle was therefore able to mobilise. Scholars have also suggested the formation of a trans-European business elite, tightly connected to the EU system (Van Apeldoorn, 2000). In Denmark (Ellersgaard & Larsen, 2015) have recently used quantitative network analysis to identify a highly coherent power elite in a dataset of the entire economic, organisational and political elite of the country. At the same time increasing interest have been focused on the revolving door between politics, business and lobbying. Here former politicians and administrators are often hired by business or lobbying interest, creating social bonds and networks that criss-cross the divisions between state and markets (Blanes i Vidal, Draca, & Fons-Rosen, 2012). Powerful firms such as Goldman Sachs have also managed to place former employees in a range of powerful positions, such as Mario Draghi in the ECB or Hank Paulson in the US treasury. The yearly summit in Davos, as well as other more secretive gatherings such as The trilateral commission, also serves as venues where leaders of business, politics and media, meet, socialise and informally coordinate ideas and worldviews. (Knudsen, 2013)

3 – Political influence – the Koch Effect

In contrast to the first two forms of elite influence, direct political or oligarchic influence, requires the active and conscious application of economic resources with the goal of influencing policy. This can take the form of investments in think tanks, lobbying operations or direct campaign contributions, as well as the building of political front movements. This can either take place via collective organisations pursuing general class interest or individual persons, firms or foundations, pursuing more idiosyncratic political aims.

Collective organisation such as the American Chamber of commerce or European Roundtable of Industrialist, generally concern themselves with general business interest, such as the lowering of taxes and public spending, keeping wages and unions in checks and lowering the burden of regulation. In their 2010 book *Winner-takes-all Politics* political scientists Hacker and Pierson described how the American business sector, through the 1970s and 1980s launched a successful campaign of political mobilisation, which managed to transform both the republican and democratic party towards a policy stance more favourable to business and the affluent (Hacker & Pierson, 2010). This influence can also take the form of individual firms or persons pursuing their own economic or political interest through the same means. The paradigmatic example of this is the empire build by Charles and David Koch in the US, to spread their political agenda of radical economic libertarianism (Mayer, 2016). While the Koch brothers have augmented their own sizeable political donations by channelling donations of other rich individuals, their empire is nevertheless not bound by any representative structures.

Through their support of the Tea party the Koch brothers have considerable personal influence of the republican party, mainly or primarily through economic power (Skocpol & Williamson, 2012).

Table 1: Types of influence

		Sphere	Mechanisms	Mode	Thinkers
Structural		Economic	Investments, capital flight, tax evasion	Indirect	Piketty, Boyer, Lindblom, Marx, Streeck, Kalecki, Zucman
Social		Economic + non-economic	Revolving door, elite education	Indirect	Mills, Useem, Mizruchi, Bourdieu
Political/Oligarchic	Collective	Economic	Revolving door, political contributions, think tanks,	Direct	Domhoff, Marx, Pierson, Blyth
	Individual	Economic + non-economic	Political contributions, think tanks, philanthropy, foundations	Direct	Mizruchi, Winters,

5: OLIGARCHY IN THE US 1945-2016

Elite influence has been crucial throughout US history and the original formulation of the constitution where large extent shaped the original formulation of the constitution. (Beard, 1913; Thompson, 2007). To track recent development modern developments can be traced to the Post-war settlement, however. Emerging out of the depression and the New Deal, a regime of embedded liberalism emerged (Ruggie, 1982). This involved a compromise between labour and capital, where the survival of private ownership in the economy was combined with a strong widening of welfare services and rising wages. This compromise entailed clear moderation from the side of the American oligarchy, and was motivated by the threat of communism, the strength of organised labour and the ideological weakness of economic liberalism in the aftermath of the depression. This moderation was led by a pragmatic core of the leading capitalist of the time, dominated by scions of large manufacturing corporations such as Ford and General Motors (Mizruchi, 2013).

The post war compromise did not last however. From the 1970s in an atmosphere of crisis and falling growth rates, the country experienced an unprecedented mobilisation of business interests. The aim of this was the restoration of the squeezed profits of corporate America, through a direct involvement in federal and state politics. Hacker and Pierson describe how business leaders, under pressure from both labour and new environmental and consumer movements, undertook a more radical political stance, and active participation in the political process. This strategy quickly delivered political results, with the first successful tax reduction for the rich in the Carter years, and a wave of both tax reforms and economic deregulation to the benefit of corporation and the rich. But there was also stronger structural influence on the political system, where the new flow of money from corporate and private

donors, to political parties and think tanks, meant that politicians from both parties became increasingly dependent on private money (Hacker & Pierson, 2010).

In this successful mobilisation the business sector focused on broad issues, like tax, unionisation, regulation and government spending that brought broad benefits to the capitalist class as a whole. But the successes of the 1980s and 1990s, which meant that the incomes of the top 1% started to climb dramatically, and oppositional movements were weakened, also meant that the outside pressure on corporate America started to wane. In the *fracturing of the Corporate Elite* Mark Mizruchi describes how the relative cohesive elite of the post-war and early neoliberal period, started to fragment by the 1980s. Here a new generation of CEO's focussed on maximising their own and their companies' bottom line, and left the business community as a "collection of large corporations that while increasingly able to realize their firm-specific interests through lobbying, were increasingly less able to provide collective solutions to issues of concern to the business community, and the society, as a whole." (Mizruchi, 2013, 13)⁴. This fracturing of the cohesiveness of the American economic elite in the late 20th century also manifested in the increasing rise of individual oligarchs, spending inherited or corporate fortunes to advance personal political ideas. Spearheaded by figures such as Richard Mellon Scaife and Charles and David Koch, a new generation of rich individuals employed tax-deductible charitable foundation, as channels of political influence, through funding of university chairs, think tank, and citizens groups. While a few of these new oligarchs have liberal views, George Soros prominently them, the majority are on the right, and a sizeable portion are on the extreme right (Mayer 20016). Most notably here the Koch Brothers, whose empire of party finance and foundation have helped drive the Republican Party rightward. This development reached its apex in the period up to the 2010, where the Koch Brothers, through Tea Party movement, were able to use primary challenges and campaign donations, to send the most political extreme

Theda Skocpol describes the development in *The Tea Party and the remaking of Republican conservatism*: "The ideological shift from the 111th to the 112th Congress was extraordinary— indeed, larger than any previous shift from one House to the next, including the change that occurred in 1994, when Republicans displaced Democrats from control of the majority for the first time in decades (...) Why would Republicans today take such an extreme stance—and do so virtually unanimously? The answer lies in the ideological and punitive pressures that come from vigilant wealthy interests in the orbit of the GOP." (Skocpol 2012, 185-87).

Table 2: historical phases of US oligarchy

		Elite cohesion	Elite power	Mode of governing	Dominant political stance
Post-war settlement	1945-73	Strong	Low	Class compromise	Moderate
Neoliberalism	1973-2010	Strong	High	Unified oligarchic power	Conservative
Oligarchic neoliberalism	2010->	weak	high	Fragmented oligarchic power	Ultraconservative/ Fragmented

⁴ This picture of a fragmented business sector is also seen in *The business of America is Lobbying* (Drutman, 2015)

At this point, the fragmentation of the oligarchic influence means that the mainstream of the business community were losing control over the Republican Party, to a new generation of radical libertarian and far right congressmen and their oligarchic backers. In such a situation the transition from collective and organised corporate lobbying to fragmented oligarchic competition meant that mainstream political donors proved increasingly unable to control the Republican Party, the party that since the 1970s had been the main conduit for oligarchic influence.

A development that showed itself even stronger in the presidential primaries. In 2012 the process dragged out for months, as radical fringe candidates were able to find easy oligarchic backing to continue challenges to the mainstream candidate Romney. In the 2016 election Trump stand as an ambiguous figure. On the one hand, he represents the natural continuation of the increasing oligarchic involvement in politics. Where the Koch Brothers were puppet masters of the political theatre, Trump, himself billionaire oligarch, steps directly into the stage. On the other hand Trumps populist political platform, with opposition against free trade and immigration, stand in opposition to most of his political class. As such, he is rather more like the populares of the late Roman Republic – members of the senatorial class that catered to the allegiance of the plebeians for advantage in the political oligarchic competition.

LITERATURE

- Beard, C. A. (1913). *An economic interpretation of the Constitution of the United States*: Transaction Pub.
- Blanes i Vidal, J., Draca, M., & Fons-Rosen, C. (2012). Revolving Door Lobbyists. *The American economic review*, 102(7), 3731-3748.
- Bourdieu, P. (1996). *The state nobility: Elite schools in the field of power*. Cambridge: Polity Press.
- Drutman, L. (2015). *The business of America is lobbying: How corporations became politicized and politics became more corporate*. Oxford: Oxford University Press.
- Ellersgaard, C., & Larsen, A. G. (2015). The Danish elite network. In A. G. Larsen (Ed.), *Elites in Denmark - Identifying the elite*: Department of Sociology, Copenhagen University
- Gilens, M., & Page, B. I. (2014). Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens. *Perspectives on Politics*.
- Glyn, A. (2007). *Capitalism unleashed*: Oxford University Press.
- Green, J. E. (2016). *The Shadow of Unfairness: A Plebeian Theory of Liberal Democracy*. Oxford: Oxford University Press.
- Hacker, J. S., & Pierson, P. (2010). Winner-take-all politics: Public policy, political organization, and the precipitous rise of top incomes in the United States. *Politics & Society*, 38(2), 152-204.
- Kalecki, M. (1943). Political aspects of full employment. *The Political Quarterly*, 14(4), 322-330. doi:10.1111/j.1467-923X.1943.tb01016.x
- Knudsen, D. (2013). *The Trilateral Commission: The Global Dawn of Informal Elite Governance and Diplomacy, 1972-1982: PhD Dissertation*. Copenhagen: Faculty of Humanities, University of Copenhagen.
- Lindblom, C. E. (1982). The Market as Prison. *The Journal of Politics*, 44(2), 324-336.
- Machiavelli, N. (1996). *Discourses on Livy*. Chicago: Chicago University Press.
- Mayer, J. (2016). *Dark money: The hidden history of the billionaires behind the rise of the radical right*. New York: Doubleday.
- McCormick, J. P. (2011). *Machiavellian democracy*. Cambridge: Cambridge University Press.
- Milanovic, B. (2012). Global Income Inequality in Numbers: in History and Now *Policy Research Working Paper* (Vol. 4, pp. 198-208): The World Bank
- Development Research Group.
- Mills, C. W. (1999). *The power elite*: Oxford University Press.
- Mizruchi, M. S. (2013). *The fracturing of the American corporate elite*: Harvard University Press.
- OECD. (2011). *Divided we Stand: Why Inequality Keeps Rising?*
- Piketty, T. (2014). *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press.
- Skocpol, T., & Williamson, V. (2012). *The Tea Party and the remaking of Republican conservatism*. Oxford: Oxford University Press.
- Streeck, W. (2014). *Buying time - the delayed crisis of democratic capitalism*. London: Verso.
- Therborn, G. (2014). *The killing fields of inequality*: John Wiley & Sons.
- Thompson, M. J. (2007). *The Politics of Inequality*. New York: Columbia University Press.
- Useem, M. (1984). *The inner circle: Large corporations and the rise of business political activity in the US and UK*: Oxford University Press.
- Van Apeldoorn, B. (2000). Transnational class agency and European governance: The case of the European Round Table of Industrialists. *New Political Economy*, 5(2), 157-181.
- Winters, J. A. (2011). *Oligarchy*: Cambridge University Press.
- Winters, J. A., & Page, B. I. (2009). Oligarchy in the United States? *Perspectives on Politics*, 7(4), 731-751. doi:10.2307/40407076
- Zucman, G. (2015). *The hidden wealth of nations: The scourge of tax havens*. Chicago University of Chicago Press.