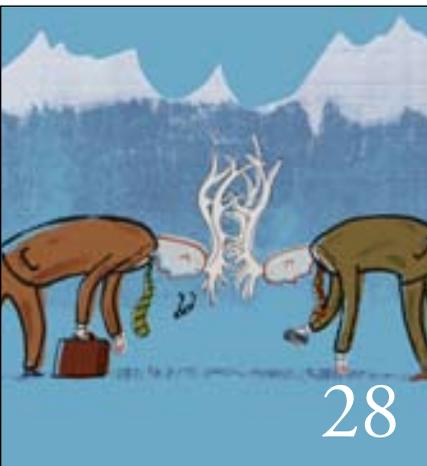


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DEMOCRACY AND OLIGARCHY

Jeffrey A. Winters

It is a confounding moment in American political history. On the one hand, evidence of democratic possibilities is undeniable. In 2008, millions of Americans helped catapult a man of half-African descent into the White House long before observers thought the nation was “ready.” Democratic movements have won major victories in recent decades, spreading civil rights, improving the status of women and ending unpopular wars. This is the continuation of a trend with deep roots in American history, reaching back at least to the Jacksonian era, of extending the equality principle into American culture at large.

Jeffrey A. Winters is professor of political science at Northwestern University and author of *Oligarchy*, published by Cambridge University Press in 2011.

On the other hand, democracy appears chronically dysfunctional when it comes to policies that impinge on the rich. Despite polls consistently showing that large majorities favor increasing taxes on the wealthiest Americans, policy has been moving for decades in the opposite direction. Reduced taxes on the ultra-rich and the corporations and banks they dominate have shifted fiscal burdens downward even as they have strained the government’s capacity to maintain infrastructure, provide relief to children and the poor, and assist the elderly.

Everyone is by now aware of the staggering shift in fortunes upward favoring the wealthy. Less well understood is that this rising inequality is not the result of something economically rational, such as a surge in productivity or value-added contributions from financiers and hedge-fund CEOs, but is



rather a direct reflection of redistributive policies that have helped the richest get richer.

Such outcomes are inexplicable on standard, commonly understood democratic grounds. The tiny proportion of wealthy actors among eligible voters cannot account for the immense political firepower needed to keep winning these policy victories. While motivated and mobilized minorities—those organized over issues like gay marriage, for example—can sometimes win legislative victories despite broad opposition from the electorate, America's ultra-rich all together could barely fill a large sports stadium. They never assemble for rallies or marches, sign petitions, or mount Facebook or Twitter campaigns. So how do they so consistently get their way?

One increasingly popular answer is that America is an oligarchy rather than a democracy.¹ The complex truth, however, is that the American political economy is both an oligarchy *and* a democracy; the challenge is to understand how these two political forms can coexist in a single system. Sorting out this duality begins with a recognition of the different kinds of power involved in each realm. Oligarchy rests on the concentration of material power, democracy on the dispersion of non-material power. The American system, like many others, pits a few with money power against the many with participation power. The chronic problem is not just that electoral democracy provides few constraints on the power of oligarchs in general, but that American democracy is by design particularly responsive to the power of money (a point Adam Garfinkle makes clear in his introduction to *The American Interest's* January/February 2011 issue on Plutocracy and Democracy).²

Oligarchy within Democracy

When democracy combines with oligarchy, the result is a distinctive fusion of equality and inequality. This is what sets the current debate about oligarchs and the power of the rich apart from the debate that erupted in the 1950s over “power elites.” The claim then was that the United States was dominated by a tiny segment of the population that commanded major institutions across society and shared privileges of status, education, access and com-

fortable living standards. Elite theorists like C. Wright Mills devoted great energy to mapping how the power elite were densely networked, and thus politically suspect.

Pluralists led by Robert Dahl at Yale responded by granting that American democracy had plenty of inequality built into it. Some actors and institutions were unusually powerful, but always in ways that were competitive and crosscutting. Pluralists argued that the linkages mapped by elite theorists did not amount to cohesion. Although various strands of elites constituted influential minorities, no pernicious or consensual political thread could be shown to run through them. There were powerful Republicans with the expected *laissez faire* proclivities, but there were also influential Democrats who paid homage to or were even evangelizers for the latter-day social gospel agenda. The conclusion was that American democracy had elites, but no coherent elite agenda.

The current focus on oligarchs is different. Unlike elites, who are empowered in diverse ways and are oriented toward diverse ends, oligarchs are defined more uniformly by the power of money. Concentrated wealth serves as both the source of oligarchic power and the motivation to exercise it. Unlike any other power resource, wealth unites oligarchs politically around a core set of shared interests because, throughout human civilization, great riches have always attracted threats. Whatever their

¹Simon Johnson, former chief economist of the International Monetary Fund, wrote of the “the reemergence of an American financial oligarchy” in “The Quiet Coup”, *The Atlantic* (May 2009); Columbia University historian Simon Schama, in *Scribble, Scribble, Scribble: Writing on Politics, Ice Cream, Churchill, and My Mother* (Ecco, 2011), suggests that “the United States Inc. is currently being run by an oligarchy, conducting its affairs with a plutocratic effrontery which in comparison makes the age of the robber barons . . . seem a model of capitalist rectitude.”

²In the same issue, Francis Fukuyama suggests that the pathology of a democracy can be measured by elites' success in using their power to shift the burdens of public expenditure onto the rest of society.

political disagreements, oligarchs in America, as elsewhere, are motivated and connected by the desire to deflect threats to their fortunes. Being networked certainly augments the influence of oligarchs, but coordination is not the primary source of their political power.

Oligarchy should be understood as the politics of wealth defense, which has evolved in important ways throughout human civilization. For most of history, this has meant oligarchs were focused on defending their claims to property. They did so by arming themselves or by ruling directly and jointly over armed forces they assembled and funded. Every great increase in wealth required oligarchs to spend additional resources on armaments, castles, militias and other means of defense. The greatest transformation in the politics of wealth defense and thus of oligarchy came with the rise of the modern state. Through its impersonal system of laws, the armed modern state converted individual oligarchic property claims into secure societal property rights. In exchange, oligarchs disarmed and submitted to the same protective legal infrastructure that applied to all citizens (in theory if not always in practice). Property rights offered reliable safeguards not only against potential antagonists without property, but also, no less important, against other oligarchs and the armed state itself that administered the entire arrangement.

This new formula for political economy had several major consequences. One was that it created the mistaken impression that there were no longer any oligarchs, only wealthy people with no shared political motivation; yet this illusion is proved false every time states in the modern era fail to protect property and wealthy people re-arm or hire private militias once again to do the oligarchic job themselves. Another consequence is that the transformation shifted rather than fully solved the broader problem of wealth defense for contemporary oligarchs. The legal state made property inviolable, but in many cases it also aggressively targeted income and, occasionally, wealth via taxation. This was “taking” of a different kind.

Indeed, progressive taxation is the unique challenge to oligarchs in democratic states.

Heavier tax burdens on those most able to pay can theoretically retard the pace at which the rich enlarge their estates, and in extreme cases could even redistribute wealth downward. The story of oligarchy in America has unfolded as a titanic battle over wealth defense as oligarchs have sought to deflect tax burdens onto others in society. With tens of billions of dollars at stake annually, the struggle is politically charged for a small number of ultra-wealthy Americans. While its intensity has ebbed and flowed throughout American history, it is a battle oligarchs have been winning handily for the past several decades. Again, the question is why.

Money and Power

There tends to be considerable ideological tension in the United States when the discussion turns to money and power. The “class anonymous” packaging of liberal democracy has been so prevalent that many Americans balk at the mention of oligarchy and the anti-democratic power wielded exclusively by the ultra-rich.³ The regrettable detour into power-elite theory only muddled the debate further. Yet the basic understanding that concentrated wealth confers concentrated power, whether in dictatorships or democracies, has a pedigree stretching back at least to ancient Greece. James Harrington observed in the 1650s that “where there is inequality of estates, there must be inequality of power.” Much influenced by Harrington, John Adams wrote in 1776 that “the balance of power in a society, accompanies the balance of property in land.”

Riches have always been a source of power, and nothing about modern societies or institutions fundamentally changes that reality.

³This term is from John P. McCormick’s book *Machiavellian Democracy* (Cambridge University Press, 2011). “Class anonymous” democracy ignores the highly distorting power of the ultra-wealthy. He argues that electoral democracy alone cannot safeguard the economic interests of the many against America’s oligarchs. In reaching this conclusion he echoes, of all people, William Graham Sumner (on this see Garfinkle’s discussion in *The American Interest*, January/February 2011).

Neither the shift in wealth away from landed estates nor the achievement of universal suffrage has disrupted the fundamental nexus between money and power. The essence of oligarchy within democracy rests on the near-veto power oligarchs retain on threats to concentrated wealth. On all other issues, oligarchs' views and positions are as disunited and democratically contested as those held by everyone else across the society. Thus, there is no oligarchic stance on abortion, immigration or the rights of women.

A full appreciation of oligarchy in America must begin with an estimate of how much material power is concentrated in the hands of a

tiny minority. I call this a Material Power Index (MPI), which can be approximated using both income and wealth data. The MPI assigns a base value of one to the average material power position of Americans across the bottom 90 percent of the population. The MPI of the richest strata in society are a multiple of this base value. The accompanying tables provide a snapshot of MPIs for the United States based on recent income and wealth data.

Measured by income, oligarchs at the very top of American society have an MPI just over 10,000, which happens to approximate the MPI of Roman senators relative to their society of slaves and farmers. When measured by wealth,

Material Power in America (based on 2007 incomes)

Threshold of Taxpayers	Number of Taxpayers	Average Income	Material Power Index
Top 400	400	\$344,800,000	10,327
Top 0.01%	14,588	\$26,548,000	819
Top 0.1%	134,888	\$4,024,583	124
Top 0.5%	599,500	\$1,021,643	32
Top 1%	749,375	\$486,395	15
Top 5%	5,995,000	\$220,105	7
Top 10%	7,493,750	\$128,560	4
Bottom 90%	134,887,500	\$32,421	1

Source: Winters, *Oligarchy* (Cambridge University Press, 2011), Table 5.1, p. 215. Each income level is exclusive of the category above it.

Material Power in America (based on 2004 wealth)

	<u>Including Home Equity</u>		<u>Excluding Home Equity</u>	
	Net Worth (million)	Material Power Index	Net Worth (million)	Material Power Index
Top 100	\$8,110	59,197	\$7,396	108,765
Top 400	\$2,970	21,679	\$2,709	39,838
Top 1%	\$14.8	108	\$13.5	199
Top 10%	\$3.1	23	\$2.2	32
Bottom 90%	\$0.14	1	\$0.07	1

Source: Winters, *Oligarchy* (Cambridge University Press, 2011), Table 5.2, p. 217.

the MPI for the richest Americans is 30,000 (it jumps to 50,000 if home equity is excluded). The weakest American oligarchs have between 125 and 200 times the material power of an average citizen.

Beyond a certain level, the political meaning of these concentrations of material power becomes too enormous to fathom, for there is no precise algorithm for translating financial power into political power. An oligarch with \$1 million to deploy politically for wealth and income defense is dramatically more powerful than someone who has only \$100. But an oligarch with a spare \$1 billion to deploy may not be a thousand times more powerful than one with \$1 million. He may be more or less powerful depending on a host of other contextual factors. It is clear, however, that oligarchs in America, who constitute only a fraction of 1 percent of the population, have at their disposal material “voting” power that is hundreds, and in some cases tens of thousands, of times that of the average citizen. Such inequalities of power do not comport with garden-variety notions of pluralism and democratic representation.

One might counter that despite these yawning asymmetries at the individual level, average citizens with a modest MPI of one can still muster the overwhelming power of their numbers in a democracy if they band together and pool their material resources, say, to vote for candidates favoring large social welfare programs. But poverty by itself neither motivates nor provides a core set of common interests for the poor the way wealth does for the rich. The presence of wealth focuses the political attention of the rich on wealth defense; its absence has no parallel effect on the poor or those of middling or lower than middling income. Wealth is inherently empowering and motivating; poverty is neither.

Thus, for the many to exercise their collective material power in a manner oligarchs can while operating solo, they must first be actively networked and coordinated and then remain in this state of mobilization over extended periods. This inverts the common argument that oligarchs are only potent politically if they form associations or conspire. In fact, the reverse is true. The vast majority of citizens exert very little concerted material power in politics. But

a small number of individuals each have at their disposal the resources it would take tens of thousands of their fellow Americans acting in sustained coordination to match.

A final and daunting aspect of wealth’s power is that it buys armies of skilled professionals, not least lawyers and accountants, to pursue the core political and social interests of the rich. These intermediaries render the political engagement of oligarchs more indirect, obscure their power from view, and shield them from scrutiny and accountability. In democracies no less than in dictatorships, oligarchs experience virtually no disruption of their daily lives as they employ and deploy the best wealth defense money can buy. The duration and intensity of this oligarchic power is limited mainly by the scale of resources the richest Americans have at their disposal.

The Great American Inversion

How has this power been expressed in the United States over the past century? The best window on oligarchy in America is the battle over taxes, which for oligarchs means the politics of income defense. Not surprisingly, this battle has also affected American income inequality writ large.

Over the course of the 20th century, two wrenching things happened within American democracy and oligarchy that together constitute the Great American Inversion. First, early in the century, steep new income taxes were imposed exclusively on the rich. By the end of the century, these same tax burdens had been shifted from the richest Americans to the various strata below them.

Second and related, there was a sharp reversal of economic momentum for average Americans and the rich. The average income of working-class Americans around 1920 doubled in real terms by 1955 and tripled by 1970. A growing American middle class was taking an ever-larger share of an expanding economic pie. Although the chasm separating the rich from the rest remained huge, ordinary citizens were closing the gap at a remarkable pace. But then this process stopped. In the four decades since 1970, there has been almost no improvement on average for the lower 90 percent of American households.

Although the U.S. economy continued to grow, income stopped growing for average citizens. Adjusted for inflation, average household incomes in 2010 were almost exactly what they had been forty years earlier. They peaked and stopped in 1970 at “triple 1920.” Growth America became stagnation America.

The story was much different for America’s oligarchs. At first their wealth shot up significantly during the 1920s. They were also busy in that decade trying to roll back or deflect the new taxes aimed at them. But then the Crash of 1929 hit them in the solar plexus. It is not that oligarchs went to the poorhouse like almost everyone else. The rich still enjoyed very luxurious lives, but their real gains across the next several decades were very modest. One instructive thing about this period of history is that oligarchic influence was weaker during deep political-economic crises and wars than it was during the “politics of the ordinary” between crises. It took decades after 1945 to reverse the relative leveling effects of the Crash, the New Deal and the embryonic welfare state of the Great Society.

During the long arc from 1920 to 1970, the top 1 percent of American families moved up at barely half the pace of the average household. The very richest families (the top 0.1 percent and 0.01 percent) were having a hard time grabbing a larger share of the growing income pie for themselves. By 1955, the real incomes of these two top strata were actually 20 percent *lower* than their 1915–20 level. It was not until 1970 that the ultra-rich were earning roughly the same real incomes they had enjoyed half a century earlier.

And then, as suddenly as the improvements had come for mainstream society, the new bonanza for the ultra-rich commenced. The decade from 1970–80 was the turning point in the Great American Inversion. This is when the boom for the average household turned to bust and the rich soared after decades of treading water. It is as if a big pause button had been hit in 1970 for the bottom 90 percent at the same moment the fast-forward button clicked on for oligarchs. The cumulative effect was breathtaking. By 1990, real incomes for the top 1 percent exceeded the 1920 level three-fold and continued to rise thereafter, while those of the majority did not budge. Reversing

the pattern of previous decades, the richer you were, the faster gains accrued. It did not matter if Democrats or Republicans were in charge of the White House or Congress. By 2007, the top 1 percent of households had almost five times the real income they had in 1920; the top 0.1 percent had around six times, and the top 0.01 percent were awash in nearly ten times the real income they had enjoyed nine decades earlier. The tables had turned.

Many analysts have pointed out the role of globalization, higher international capital mobility and the related decline of unions in causing this reversal of fortunes. What has gone largely unnoticed is the compounding effect on these trends due to the increasingly aggressive strategies of wealth defense on the part of oligarchs. As the United States was becoming a tiger economy exclusively for the rich, tax burdens on American oligarchs grew lighter by the decade. Meanwhile, tax burdens on the strata below grew more regressive as average Americans went from seeing rapid gains to being mired in economic molasses and rising debt.

Before the Inversion

It is impossible to make sense of these transformations without understanding how oligarchic power operates within American democracy. A crucial part of the inversion story starts at the end of the 19th century. In an unprecedented blow to an emerging stratum of American industrial oligarchs, Congress passed a new Federal income tax law in 1894 aimed narrowly at the richest fraction of taxpayers. All but 0.1 percent of citizens earning below a threshold of \$100,000 in today’s dollars were exempt. Alarmed oligarchs quickly hired teams of lawyers, who took the law to the Supreme Court, which struck it down in a 5-4 decision that referred to the tax as a “communistic threat.” Although oligarchs won this round, the law confirmed their fears about extending democratic voting rights to those too far down the national wealth pyramid.

The high court protected oligarchs for the next 18 years until the Sixteenth Amendment was passed in 1913, after which a Federal income tax was again imposed exclusively on the

top 1 percent of earners. Oligarchs immediately began to explore new modes of income defense, particularly after World War I, which caused the highest rate to leap from 7 percent in 1915 to 77 percent in 1918 (the number of brackets went from seven to 56 over the same period). They fought on two fronts.

First, oligarchs pressured legislators to meet the Federal government's demand for revenue by reducing the number of brackets, lowering the rate of the highest bracket and shifting the entire structure downward to capture more revenue from the merely well-off and less from the ultra-rich. Although the "mass affluent" had much larger numbers (which ought to count for something in a democracy), individually they lacked the financial firepower oligarchs possessed to influence policy outcomes. Unable to band together, the mass affluent saw their tax burdens rise in tandem with tax relief for the very richest Americans.

The second front was a bold tax strike on the part of oligarchs through tax avoidance and outright evasion. Although there were not that many oligarchs for tax collectors to pursue, they each had formidable resources to hire lawyers and other professionals to mount a vigorous defense. If the government wanted their money, they were going to make it costly and politically risky to get it. Between 1916 and 1925, tax filings by the rich dropped by an average of 50 percent. In the worst year, 1921, tax filings plunged to an average of 19 percent of their 1916 level. The richer the oligarch, the lower the compliance rate. Americans making more than \$1 million per year in 1921 filed at just 10 percent of the rate they did in 1916. This resistance by the ultra-rich was so pervasive that it prompted Congressman Ogden Mills (R-NY) to complain, "We collected as much at [a tax rate on the rich of] 10 percent in 1916 as we did at 65 percent in 1921." By contrast, taxpayers in the "mass affluent" category lacked the resources and nerve to defy the Federal government. Cowed into paying, their filing rate actually increased by 32 percent between 1916 and 1925.

The government faced a difficult choice. Basically, it could either beef up law enforcement against oligarchs and design better systems to track and tax their incomes to force them into

compliance, or abandon the effort and instead squeeze the same resources from citizens with far less material clout to fight back. Despite the daunting complexities of taxing wider swaths of the population (and the risks of doing so at election time), the government capitulated to the wealthy few. Beginning with deep tax cuts on oligarchs enacted in 1921, 1924 and 1926, the single most progressive economic policy ever enacted in U.S. history—an income tax exclusively on the rich—was slowly inverted into a mass tax that burdens oligarchs at the same effective rate as their office staff and landscapers.

Pleased with how well their exercise of power had worked, oligarchs rewarded the Federal government for the tax cuts by once again agreeing to file tax returns. One analysis of the period notes that the effect of lower taxes on the willingness of the rich to file returns was "more dramatic the higher the net-income tax class."⁴

It is noteworthy that from 1913 until 1939 the battle over this new income tax unfolded exclusively among the different components of the rich. It was a narrowly oligarchic tax only during the first four years. On average, across these decades the tax fell on just 10 percent of income earners. In no year before 1940 did it ever involve more than 17.3 percent.

This point matters in debates about who gets what in democracy, and whether there are significant forms of power affecting outcomes that have little to do with democratic equality, representation and voting. One key argument about why the bottom strata of American society, despite their large numbers, fare so badly in economic policy struggles is that the poor lack resources, education and political skills. This reasoning, however, collapses when applied to the pitched battle over who would shoulder the Federal income tax burdens between the two world wars. A tiny number of powerful oligarchs succeeded in convincing legislators to shift tax burdens to the affluent strata immediately below them, a group a hundred times as numerous and hardly lacking in education and political skills. Democratic participation theory cannot explain oligarchic success in this case.

⁴Gene Smiley and Richard H. Keehn, "Federal Personal Income Tax Policy in the 1920s", *Journal of Economic History* (June 1995).

A far better explanation lies in the realm of material power. It is the difference in their MPIs that allows a small number of oligarchs to defeat a much larger number of citizens below them. As we've seen, Americans just above the 90th income percentile have MPIs ranging from four to seven. Oligarchs in the top 0.1 percent have MPIs starting at 125 and going as high as 10,300. The intensity of this material power amplified oligarchs' complaints, made them more intimidating politically, and enabled their tax defiance in 1921. Oligarchs succeeded in getting their taxes reduced from the 70 percent range to just 25 percent. The top bracket held at this level until 1931, when a series of crises weakened oligarchs and increased the government's need for resources. The 1929 Crash, the Great Depression and World War II combined to increase the top bracket to 63 percent in 1932, 81 percent in 1941 and a peak of 94 percent in 1944. Income taxes on the richest Americans remained above 90 percent until 1964—and that includes the two terms of the Republican Eisenhower Administration—and above 70 percent thereafter until 1981.

Although the Depression (thanks to the advent of Social Security and the new infrastructure for collecting payroll taxes) and especially World War II caused Federal income taxes to be imposed at the mass level for the first time, the rising tax rates on oligarchs and the strength of unions combined to help double and then triple average real incomes for the bottom 90 percent of the population, while the richest saw no gains at all. High taxes on what today are often self-interestedly called the “job creators” did not prevent jobs from being created. But they did retard the rate at which the richest could get even richer.

The Income Defense Industry

This account of the first half of the 20th century prompts an important question: If oligarchic power works especially well behind the scenes during the “politics of the ordinary”, while crises like war and financial collapses tend to undercut this power, why have oligarchs been able to maintain the Bush tax cuts (which reduced the top rate to 35 percent) and win other battles despite the devastating economic crisis of recent years?

The answer lies in a major innovation in how oligarchs flexed their wealth muscle starting in the 1960s and 1970s. This was when the income defense industry arose in America to fight against taxes and other policies that restrained the ability of oligarchs to increase their share of national income and wealth. This industry is similar to the legal apparatus oligarchs deployed in 1895 to reverse the income tax, and the tax evasion methods employed to get the 1920s tax cuts, but it is now greatly amplified.

The income defense industry is comprised of lawyers, accountants, wealth management consultants, revolving-door lobbyists, think-tank debate framers and even key segments of the insurance industry whose sole purpose is income defense for America's oligarchs. The industry is wholly funded by oligarchs, and it would simply not exist if oligarchs did not have massive fortunes to defend. There is no parallel (much less countervailing) industry serving the material interests of the mass affluent, the middle class or the poor. The activities of the income defense industry extend far beyond mere “interest group” lobbying over policies. Its salaried specialists assist oligarchs in exerting a form of power that is unique to the ultra-rich: the defensive redeployment of their money and income across a global geography of jurisdictions, banks and offshore havens through the use of tailor-made tax instruments, evasive trusts and shell corporations.

The industry operates almost exclusively by referral and serves only high net-worth individuals who have at least \$2 million in investable financial assets, and especially ultra high net-worth individuals with holdings of \$30 million or more. The industry is global in its spread and integration. Top-tier players like Withers, Clifford Chance, Linklaters, White & Case, Milbank Tweed Hadley and McCloy, Weil Gotshal and Manges, and Freeman Freeman and Smiley are known in the trade as “magic circle” firms. They help coordinate relationships with accounting firms and other weapons in the wealth defense arsenal.

The most strategic theater is taxes, with combat conducted on two fronts. The first is the effort to lower the published top tax rate as much as possible and also to set the income threshold

for the top bracket low enough that large numbers of relatively modest income earners feel the oligarchs' pain. The second front is making the spread between the published tax rate and actual (or "effective") taxes paid as wide as possible. This is one of the most important and costly fights the income defense industry wages on behalf of its oligarchic patrons. In the 1970s, oligarchs paid an average effective tax rate of about 55 percent, which was almost 80 percent of the top published rate. By 2007, the top 400 income earners in America paid an effective tax rate of 16.5 percent, which was barely 50 percent of the top published rate. Thus, the industry delivered lower tax rates on which oligarchs paid a lower proportion. The richer the client, the wider the income defense spread achieved.⁵

The income defense industry's capacities improved throughout the 1970s and 1980s. As it grew stronger, the results the industry achieved for the ultra-rich were spectacular. Navigating through the almost 72,000 incomprehensible pages of tax code they had helped draft, industry specialists today structure complex partnerships and tax shelters that few IRS auditors can disentangle, or in some cases even fully understand. The richest Americans pay fees ranging from \$300,000 to \$3 million for lawyers to sort through the tax code and produce "tax opinion" letters (an instrument only those who can afford to buy them have ever heard of). Their purpose is to justify enormous non-payments of taxes that straddle the murky (and therefore costly to enforce) line between tax avoidance and tax evasion. These letters are among the most important weapons for pushing down the effective tax rate and increasing the income defense spread.

The U.S. Senate estimates that the income defense industry helps America's oligarchs avoid paying about \$70 billion in taxes a year through what the IRS calls "abusive offshore tax avoidance schemes" alone.⁶ This is a sum equal to the boon the Bush tax cuts give to the entire top 2 percent of income earners (a group twenty times as numerous as America's oligarchs), and it does not include losses from similar schemes employed by corporations.

The income defense industry, attached symbiotically to the nation's richest citizens, has fortified the material power and influence of oligarchs. It has enabled them to fight much more tenaciously

even in the face of deep crises that, in earlier decades, delivered serious setbacks to their broader wealth defense agenda. Although oligarchs still operate mostly atomistically, their common deployment of a highly networked and organized industry lends their actions an unprecedented degree of unity. Combined with weakened unions and considerably less political unity among average citizens, America's oligarchs are arguably more powerful today than during the robber baron era at the turn of the 19th century.

“America does not have oligarchs, it has rich people”, declared one of my seminar students at Northwestern University. This could only be true if wealth were somehow stripped of its inherent political potency. Whatever else American democracy has achieved, it has not managed this. Rather, oligarchy and democracy operate within a single system, and American politics is a daily display of their interplay. Indeed, it is a misreading of oligarchic theory dating back to Aristotle to view oligarchy and democracy as mutually exclusive, or to suggest that democracy is a sham if oligarchs exist and exercise their power routinely and effectively. Aristotle called for an ideal political system, the polity, that combines oligarchy and democracy so deftly that “there should appear to be both elements and yet neither.”

Universal suffrage and liberal freedoms empower all citizens in a radically equal manner. But the one-person/one-vote principle does little to prevent oligarchs from exercising the power of money in a manner that is profoundly unequal. Formal juridical equality is essential to human freedom. But full political equality, even in the most liberal democracy, is impossible as long as concentrated wealth places grossly unequal political influence in the hands of a few citizens. Democracy fused with oligarchy is certainly better than no democracy at all. But there should be no illusions that it is anything other than a partial step toward full political equality and representation. 🌐

⁵See Winters, *Oligarchy*, figure 5.5, p. 246.

⁶“Tax Haven Banks and U.S. Tax Compliance”, Staff Report, Permanent Subcommittee on Investigations, United States Senate, July 17, 2008. Also see “Closing Tax Loopholes”, levin.senate.gov (2010).