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# Ideology, Politics and the Concentration of Capital

John E. Roemer\*

*Yale University*

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## Abstract

The concentration of wealth in the United States has reached its highest level ever, equal to what it was on the eve of World War I. The wealthy maintain their wealth - sheltering it from confiscation via taxation - mainly through ideological means. Influencing politics directly through campaign financing and lobbying are important, but probably less important than the creation of pro-capitalist ideology among voters, which occurs through myriad means. The polarization in the US Congress has followed closely, over the past 200 years, the polarization of wealth. As the top 1% become ever wealthier, they expend more resources attempting to prevent Congress from confiscating their wealth, which probably explains the ever-rightward movement of the US Republican Party.

Keywords: Income distribution, politics, capital

## 1 Introduction

According to the evidence presented by Saez and Zucman (2014), the wealth shares of families in the United States has dramatically changed over the period 1978-2013. For example, the wealth share of the top 0.01%, which was 2.2%

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\*E-mail: john.roemer@yale.edu,

in 1978, reached to 11% in 2013. The share of top 10% was 67% in 1978 and 77% in 2013. As of the top 1%, the figures are 23% in 1978 and 42% in 2013.

In 2013, there were 160.7 million families in the US; the top 0.01% comprises 16,070 families. On average, these super-wealthy families are 1100 times as wealthy as the average family. In 1978, the average family in the top 0.01% was 'only' 220 times as wealthy as the average family. In 2012, the average family wealth of the bottom 90% of the wealth distribution was \$80,000 (2012 dollars); the average family wealth of the top 1% was \$14,000,000. It follows that average family wealth in the US in 2012 was \$212,000. Average household income was about \$51,000, so the capital/income ratio in the US, a concept popularized by Piketty (2014), was approximately 4.1.

The average savings rate of the top 1% is currently about 40%. The average savings rate of the bottom 90% became negative in 1997, and has only recently risen to about zero, as a consequence of deleveraging following the financial crisis. This savings-rate differential accounts for the massive differences in income from capital of the bottom 90% and the top 1% over this period, and hence of the divergence of their wealth positions.

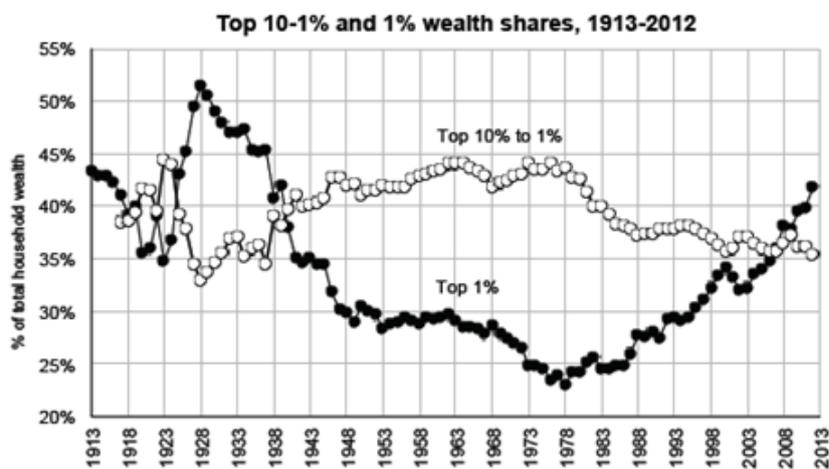


Figure 1: Wealth shares, US, top centile, and 90-99% cohort (Source: Saez and Zucman (2014))

The figure (1) from Saez and Zucman (2014), shows the history of wealth concentration in the century beginning in 1913 in the US, for two groups, the top 1% and the 90-99% cohort. Note that the share of the latter cohort has been roughly constant over the century, while the share of the top 1% has been volatile. Indeed, the Great Depression and the two world wars destroyed, to a large extent, the wealth of the top 1%, which has only recently recuperated to its pre-world-war-one share. The 90-99% cohort, the upper middle class, who comprise managerial and well-paid white collar workers, were not so severely hit by either the depression or the world wars: while unemployment increased massively in the 1930s, members of this cohort remained, in the main, employed.

Figure (2) presents a measure of congressional polarization during the twentieth century.



Figure 2: Party polarization in the US House (solid line) and Senate (dashed line) in the period 1880-2005. (McCarty, Poole, and Rosenthal (2007))

The similarity of the dynamics of top 1%'s wealth share and the degree of party polarization is remarkable. My conjecture is that the former causes the latter. As the wealth of the very top of the distribution increases, these families devote increasingly large amounts of wealth to activities whose purpose is to protect their wealth from confiscation, principally through taxation. Thus, marginal income tax rates at the top of the income distribution have fallen

dramatically in the United States since the 1960s. (In 1964, the top marginal rate was 77%; today, it is 39.6%.) One consequence of these efforts to protect wealth is the support, by the very wealthy, of very conservative politicians, leading to political polarization. The polarization of wealth is reflected in polarization in the legislature.

## 2 Ideology and Distribution of Income

The expenditures of the very wealthy incurred to protect their wealth from confiscation through taxation are only partially explained by their contributions to political campaigns and lobbying. Of far more importance, I believe, is the formation of a public ideology that supports the accumulation of private wealth, and therefore, of very high incomes at the top of the income distribution. Building this ideology in the United States has involved two strategies: first, arguing that high incomes and wealth accumulation for and by the few are the engine of economic growth, and hence the increased welfare of the many, and second, arguing that, in any case, collection of wealth through taxation and its control by the state would be disastrous because of state incompetence. It is now common for conservative American economists to argue that the marginal productivity of government expenditures is *zero*.

Indeed, as the data become more available, which show that almost all the growth of incomes in the past quarter century has gone to those in the top 1% of the income distribution, the 'trickle-down' argument becomes very difficult to maintain. (In the period 1986-2012, the average annual growth rate of wealth of the bottom 90% was 0.1%, while the average annual growth rate of wealth of the top 1% was 3.9%. These numbers imply that over the 26 year period, the real wealth of the bottom 90% increased 2.6%, while the real wealth of the top 1% increased 170%!) Thus, it has become increasingly important to strengthen the argument of state incompetence, and indeed we observe that this has occurred over time.

In other words, to protect wealth, it is probably at least as important to win over the minds of voters as to place the right politicians in office with electoral manipulation through campaign financing. The expenditures on political campaigns and lobbying by the very wealthy only affect the political mechanism at the point most proximate to legislation. Just as it is of key importance to educate a child very early, it is critical to influence the political process at its beginning, at the locus of the formation of voter preferences.

How is this ideological work carried out? I believe largely through the media, education, and the occasional charismatic political figure. The most

important charismatic politician of the last generation was Ronald Reagan, who constantly and effectively argued for the laissez-faire capitalist economic mechanism, and also for the incompetence of the state as an economic player. Even though reactionary politicians today, like Congressman Paul Ryan and Senator Ted Cruz, advocate positions that are far to the right of what will be implemented through legislation, their political status endows their views with significant respectability; the very presentation of Ryan's proposed federal budget, which would cut back massively federal expenditures benefiting the poor and middle classes, and reduce taxes on the wealthy, pushes the median ideological view to the right. The clearest example of the role of media is the emergence of News Corporation, owner of Fox News, as the second-largest media group in the world in 2011. Fox News is the most popular television news program in the United States, and its political posture is far to the right. Media advertising has, as well, a conservative effect on voters, as ads often picture the 'typical family' as one of the upper-middle class, surrounded by their consumer goods. This false picture of reality surely induces the view that, first, Americans are much better off than most of them actually are, and second, that material wealth is accessible to all in the land of opportunity. The role of education in transmitting values to youth is complex: the key point here is that the views of teachers are critical, and these evolve in the context of the media, politics, and their own education and experience.

One institution that is of significant importance in political influence, the media, and education is the right-wing think tank. These research institutes, of which there are a sizable number, do 'research' to support the view that laissez-faire capitalism is an optimal system and that the state is inefficient, which they propagate to politicians and the media<sup>1</sup>. The first such think tanks were created in the 1930s, but they proliferated in the 1970s.

It must be noted, however, that it does not always require money to create pro-capitalist ideology. As Karl Marx wrote, every economic and political system creates a superstructure, a set of laws and an ideology that support the economic structure. The mechanisms through which this occurs are various. I have here been discussing the deliberate creation of ideology by the wealthy, but there is as well an autonomous, perhaps evolutionary process, whereby ideas that are in synch with the logic of the economic mechanism proliferate, and ideas that are inimical to it are frustrated, and can only survive with nurturing and conscious sustenance from those who would benefit from them. There is

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<sup>1</sup>Some of the most prominent conservative think tanks are the Heritage Foundation, Cato Institute, American Enterprise Institute, Ashbrook Center, Competitive Enterprise Institute, Hoover Institution, and the Manhattan Institute.

doubtless a process of cognitive dissonance that is important on the individual level: it is easier to believe ideas that imply one should go along with things as they are, than ideas that push one to fight the status quo. Thus, the struggle to control the concentration of wealth and power not only must confront the deliberate strategies that the very wealthy design, but also must counteract the natural evolution of ideas that favor the dominant form of property relations.

Nevertheless, the natural evolution of a superstructure supporting the extreme concentration of wealth, and the use of the two strategies of the wealthy (propaganda and political finance) turn out to be insufficient for the task at hand, and they are bolstered by a third strategy in the United States, the exploitation and fomenting of racism in the polity. Since the 1960s, the Republican Party has exploited a ‘southern strategy’ to maintain its vote share. We do not much distort reality if we view US politics in this period as focusing on two issues, taxation and race. The tax issue involves, principally, the level of taxation and government financed services, and the race issue involves integration, voting rights, educational spending on compensatory education, prison and police policies, and immigration. The salience of the ‘race issue’ for voters has made it possible for the Republican Party to maintain an approximately 50% vote share in national presidential elections, while simultaneously advocating tax policies that are in the economic interest of only the very top of the income and wealth distribution. In a word, many white voters in the US vote Republican not because of the party’s economic policies, but despite these, because they loathe the anti-racist policies that have become associated with the Democratic Party since the Civil Rights Movement. This is most dramatically seen in southern states like Alabama (Obama’s 2012 white vote share: 15%) and Mississippi (10%). In the 2012 election, over 70% of each minority group (black, Asian, Hispanic) voted for Obama.

Thus, not only does conservative ideology maintain that extreme wealth accumulation raises all boats, and that, in any case, confiscation of wealth through taxation would be useless because of the incompetence of the state, but also the economic/tax issue is *bundled* with the race issue, to accrue votes from a sizable racist section of the polity in the country.<sup>2</sup>

Consider the Tea Party phenomenon. Most of the very wealthy do not support the crazy policies of the Tea Party, policies that are too extreme. Nev-

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<sup>2</sup>Lee and Roemer (2006) constructed a political model of party competition over this two-dimensional policy space, and argued that the equilibrium tax rate would be on the order of ten percentage points higher, were the US polity not infected with racism. About half of this number was due to the ‘anti-solidarity’ effect, that many white voters do not want to support transfers to the poor, whom they think are primarily black, and half is due to the ‘policy bundle’ effect, that racist policies in the election are bundled with low-tax policies.

ertheless, it is valuable to have a segment of the Republican Party advocate these views, as it helps polarize congressional politics, and prevent the passage of legislation which, although more moderate, would decrease the rate of accumulation of wealth at the top of the distribution. I conjecture that the Tea Party began as a racist, grass-roots movement, but it has been sustained by the financing from the very wealthy. Had the Tea Party emerged fifty years ago, it would have rapidly withered away, due to lack of financing. The very wealthy find the Tea Party useful as part of a divide-and-conquer strategy.

### 3 Conclusion

Mao Zedong wrote that power comes out of the barrel of a gun. This was probably the right aphorism in pre-revolutionary China. Today, in the United States, police power and the prisons are used to control the poorest and most volatile part of the population. But it is not correct to say that power comes primarily from guns: it is exercised through wealth that is in part used to preserve itself through ideological means. Bending the perceptions and ideas of the polity so as to permit the accumulation of a vast concentration of wealth is a more subtle undertaking than controlling a population through martial law, but it is probably a more efficient strategy. In any case, political democracy is a deeply held ideological view in the advanced capitalist countries, and protection of wealth through dictatorship and guns would encounter huge resistance. (The trajectory of authoritarian control in China will be extremely interesting to watch, as China becomes a richer and more educated country.)

Even the Occupy movement, miniscule in terms of numbers, had a perceptible effect on public consciousness of inequality and the extremes of wealth concentration. This suggests that if a social movement attacking the concentration of wealth reaches a certain critical mass, it will grow rapidly, and potentially will have significant political consequences. If this occurs, it will be a new historical phenomenon. As Piketty (2014) century was due to the three conflagrations mentioned earlier, not to a mass social movement. Must we await another conflagration in this century, or can we organize instead?

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