AT THE TIME of his reelection campaign, several conservative billionaires were unhappy with the job performance of President Barack Obama. The economy was not doing well. There was uncertainty in foreign policy. Many of them believed that Obama was a poor leader. Irate about how things were going, they decided to devote several hundred million dollars to defeating the president. Individuals such as Sheldon Adelson, David and Charles Koch, and the late Harold Simmons and a group of wealthy donors assembled by Republican strategist Karl Rove felt that they needed to speak out to ensure that the country had stronger leadership and moved in what they considered a better direction.

But they were not the only super-wealthy people who were politically active. In recent elections, there has been an explosion of activism by the rich. Billionaires such as Michael Bloomberg, George Soros, and Tom Steyer have poured extensive resources into supporting their favored candidates and causes. In addition, wealthy individuals have bankrolled advocacy campaigns at the state level—for example, in support of same-sex marriage and marijuana legalization or in opposition to Obama’s health care reform and higher taxes on the wealthy. Aided by friendly Supreme Court rulings and the rising cost of election campaigns, affluent people
have discovered that they are in a strong position to affect a variety of different issues.

In researching this subject, I discovered that it is not just an American development but something that is happening globally. Billionaires have run for office in Austria, Australia, France, Georgia, India, Italy, Lebanon, the Philippines, Russia, Thailand, Ukraine, and the United Kingdom as well as the United States. Most of them have won. Oligarchs in Russia, so-called “prince-lings” in China, and tycoons in many other countries are becoming politically active and affecting public policy. Their political involvement raises important questions about excessive influence, especially in places where there is weak rule of law, overt corruption, and limited opportunities for social or economic advancement. The activism of the super rich is taking place against a backdrop of poor transparency, weak news coverage, accountability problems, and performance challenges on many different fronts in political systems around the world. With the “wealthification” of politics, those in the upper echelon, who as a group hold policy views that differ significantly from those of the general population, have access to many ways to influence the political process.

Wealth—its uses and its abuses—is a subject that has intrigued me since my youth in the rural Midwest. I was born on a dairy farm and grew up poor. When asked what our house was like when my parents moved to Ohio in 1947, my mother said, “There was no running water in it or hot water of any kind. No bathroom.” Water was carried in from the barn. It was not until 1952, two years before I was born, that the house got cold running water. Indeed, because of the cows, the barn had running water before our house did. To do the laundry, Mom heated water on a gas stove, washed the clothes in a manual washer, ran them through a hand-cranked wringer, and then hung them on a line outside to dry. She didn’t have an automatic dryer until much later in her life. Hot running water and an indoor bathroom were added in 1960, when I was six years old; the bathroom replaced the outhouse that the family had
used before. In 1965, we got a furnace to replace the coal stoves in the kitchen and living room.

The contrast between the poverty of my youth and the privilege of my adulthood makes me very attuned to the role that wealthy people play in the United States and around the world. Not only has it made me curious about the lives of the rich, it has led me to ask questions regarding their political impact. The world’s billionaires have had a major influence on other people. They have created new businesses, launched new products, and altered how people live, work, play, and communicate.

Yet much of the current debate regarding the political role of billionaires suffers from ideological short-sightedness. Progressives fear political activism when it is undertaken by conservative billionaires yet applaud it when liberal billionaires swing into action. Conservatives get worried when left-leaning billionaires dump a lot of money into elections but appreciate the advocacy efforts of their own billionaires and pro-business special interest groups. What each side misses are the challenges raised by billionaire activism for the system as a whole. Billionaires’ extensive resources and advocacy efforts provoke questions about political influence, transparency, and accountability. At a time of high income concentration and dysfunctional political institutions, it is important to understand the impact that the ultra rich have on national life and the need for policies that promote better disclosure, governance, and opportunity.

Here, too, I have a personal perspective. From my perches in both the Ivy League, at Brown University, and the Brookings Institution, I have seen Americans of great wealth do positive things with their money and improve the lives of other people. Most of those that I know personally display admirable traits—vision, innovativeness, and entrepreneurship. Moreover, having received research grants from leading foundations as well as people of great wealth over a number of years, I have benefited professionally from their philanthropy. Some of those discussed in this book are or have been
beneffactors of Brown and others of Brookings, and they are identi-

ied as such. Their careers and practices illustrate different themes
and observations, but what they have in common is a respect for
institutional independence, academic freedom, and public transpar-

ty regarding sources of funding.

It is possible to admire individual billionaires but also fear
their overall influence on elections, governance, and public policy.
According to *Forbes* magazine, there are 1,645 known billionaires
around the world, 492 of whom live in the United States. In this
book, I study their political efforts in the United States and other
countries and describe how they have pioneered more activist forms
of politics and philanthropy. I argue that such activism presents
major challenges in the areas of political influence, accountability,
transparency, and system performance. Countries everywhere need
policies that promote better disclosure and governance and preserve
opportunities for a broader range of people.

**Income Concentration**

The assets of the U.S. super wealthy—as reported on the *Forbes*
list of billionaires—have more than doubled over the past decade.
Ten years ago, these individuals controlled around $1 trillion; now
their wealth has risen to more than $2 trillion.¹ Economists Marco
Cagetti and Mariacristina De Nardi show that 1 percent of Ameri-
cans now own about one-third of the country’s wealth.²

Economists Thomas Piketty and Emmanuel Saez document how
income concentration has risen over the past century. Figure 1-1
charts the share of pre-tax income accounted for by the top 1 per-
cent of earners from 1913 to 2012.³ In 1928, the year before the
Great Depression, that group garnered 21.1 percent of all income in
the United States. Over the next 50 years, that percentage dropped
to a low of 8.3 percent in 1976, then rose to 21.5 percent in 2007.
It dropped to 18.8 percent in 2011 following the Great Recession,
then rose again to 19.6 percent in 2012.⁴ Those figures show that
income concentration today is similar to what it was in the 1920s
and is more than double the degree during the post–World War II period.

More detailed statistics demonstrate that after-tax income stagnated for most workers from 1979 to 2009 but rose dramatically for the top 1 percent. Charting the percent change in real after-tax income for four groups of workers shows that during those 30 years, earnings rose 155 percent for the top 1 percent of earners, 58 percent for the next 19 percent of earners, 45 percent for the middle 60 percent, and 37 percent for the bottom 20 percent. And if a recent book by Thomas Piketty, *Capital in the Twenty-First Century*, is correct, money is likely to become even more concentrated in the future. Drawing on data from several countries over the past 200 years, he argues that the appreciation of capital outpaces that of the economy at large and of wages in particular. That benefits the people who already hold a lot of financial resources and increases the overall concentration of wealth.

Still another way to look at the income gap relies on the Gini coefficient, an economic measure developed in 1912 by the Italian sociologist Corrado Gini that is used to express inequality among
different income levels. It runs from 0 to 1; 0 indicates that everyone has the same income, and 1 indicates that one person has all the income. The Gini coefficient for the United States was around .38 in 1950, dropped to .35 around 1970, and rose to .45 in 2010, demonstrating that financial inequality has increased substantially over the past 60 years.

Alex Cobham and Andy Sumner of the Center for Global Development have proposed a new metric that they call the Palma ratio, after economist Gabriel Palma, who argues that it is important that the “middle 50 percent” remain stable to ensure a society’s social, economic, and political well-being. The Palma ratio compares the share of national income held by the top 10 percent of households with the share held by the bottom 40 percent. The authors find that the United States ranks forty-fourth among 86 countries in terms of inequality, a rank that makes U.S. inequality worse than that of virtually every other developed nation.

As a sign of how profound income divisions have become, increasing inequality has widened the gaps between different social groups. Over the past 25 years, the financial gulf between whites and blacks has nearly tripled. In 1984, the difference in wealth between the races was $85,000; by 2009, it had increased to $236,500. The gaps in homeownership, education level, and financial inheritance are responsible for most of these differences; for example, according to researchers, the “home ownership rate for whites is 28 percent higher than that of blacks.” As Jennifer Hochschild and her collaborators at Harvard University point out, policymakers need to think seriously about the impact of these trends on social cohesion and political representation.

Financial concentration has increased not just in the United States but in many other countries around the globe. Research by Thomas Piketty and Gabriel Zucman finds that wealth has risen much more rapidly than incomes in eight developed nations: the United States, Britain, France, Germany, Italy, Canada, Australia, and Japan. They find that “wealth-to-income ratios in these nations
climbed from a range of 200 to 300 percent in 1970 to a range of 400 to 600 percent in 2010”—a doubling of the wealth concentration over that time period.11

The reality of inequality has generated considerable attention in many countries. In Russia and Eastern Europe, the super wealthy, who profited enormously from the cheap sell-off of state-owned enterprises following the fall of communism, are derided as “oligarchs.” In China, the children of prominent Communist Party leaders, who are able to accumulate extensive wealth by using their family connections, are known as “princelings.” A study undertaken by the China Family Panel Studies program at Peking University that examined 14,960 households in five leading Chinese provinces found that the top 5 percent earned 23 percent of the nation’s total income. In addition, the top 25 percent in those provinces earned 59 percent of total income while the bottom quarter earned only 3.9 percent. That gave those areas a Gini coefficient of .49.12

Despite those numbers, one Chinese billionaire downplays the dangers of income differentials. “We don’t need to solve the problem of the rich-poor gap, we need to solve the problem of common prosperity,” said Zong Qinghou, one of the richest men in China. He has a great fortune, which he earned from companies that sell soft drinks, milk for babies, and children’s clothing. “If we had egalitarianism, we wouldn’t have enough to eat,” he said. In an argument that would resonate with many conservative politicians in the United States, he claimed that the best way to create wealth in China is to lower taxes in order to stimulate financial investment and economic growth.13 However, at least one migrant worker in China did not take kindly to his remarks. Shortly after they were publicized in the media, Zong was attacked by a knife-wielding jobseeker in Hangzhou. Some tendons in one of Zong’s hands were cut, but otherwise the billionaire was not seriously harmed.14

Looking at the world as a whole, the United Nations World Institute for Development Economics Research showed that in 2008, the top 1 percent of earners owned a total of 40.1 percent
of overall global wealth, a share that is larger than the one-third of national wealth owned by the top 1 percent in the United States.\textsuperscript{15} As shown in figure 1-2, the Gini coefficient for global income has increased substantially over the past two centuries. According to World Bank economist Branko Milanovic, inequality rose from .43 in 1820, .53 in 1850, and .56 in 1870 to .61 in 1913, .62 in 1929, .64 in 1960, .66 in 1980, and .71 in 2002.\textsuperscript{16}

**Political Activism of the Wealthy**

The wealthy are much more politically active than the general public. In a “first-ever” public policy survey funded by the Russell Sage Foundation of “economically successful Americans,” political scientists Benjamin Page, Larry Bartels, and Jason Seawright measured the activism and beliefs of the rich. They worked with the Wealthfinder “rank A” list of the top 2 percent of American households based on wealth and supplemented it with an Execu-Reach list of high-level business executives of major companies. In order to reach their intended population, they screened for the top “1% of wealth-holders” and completed interviews with those individuals.\textsuperscript{17} In talking with them, the researchers found that 99
percent of the wealthy said that they voted in presidential elections, almost double the rate of the general public. Most (84 percent) also reported paying close attention to politics. Two-thirds (68 percent) made campaign contributions to politicians; in stark contrast, only 14 percent of the general public does.18

The reason is clear. Wealthy people know that political engagement matters.19 Being involved in politics yields benefits and enables them to express their views and influence results. Unlike the general public, which tends to be cynical about politics, believing that there is no difference between Republicans and Democrats and that politics is not a very good way to produce change, many affluent people seem to believe that politics matters and represents a way to affect national and international affairs. Indeed, a study by political scientist Lee Drutman of the top 1,000 campaign donors from 2012 (those who gave at least $134,000) found that two-thirds favored Republicans and the largest number of them came from the financial sector.20

Given the importance of engagement, it is not surprising that the wealthy report in this survey a large number of “high-level political contacts.” When asked whether they had contacted public officials or their staffs in the last six months, 40 percent indicated that they had contacted a U.S. senator; 37 percent, a U.S. House member; 21 percent, a regulatory official; 14 percent, someone in the executive branch; and 12 percent, a White House official.21 Those rates are much higher than the rates for the general public. A national survey undertaken at the University of Michigan documented that about 20 percent of ordinary people said that they had contacted a member of the U.S. Senate or House in the preceding four years,22 through telephone calls, letters, or visits to legislative offices.

Distinctive Views of the Wealthy

It is important to analyze wealth in democratic systems because the super rich, as a group, hold policy views that are significantly different from those of ordinary citizens. In their survey, Page, Bartels,
and Seawright asked the wealthy about a range of public policy issues. Comparing their opinions with those of the general public, the researchers found that top wealth holders “differ rather sharply from the American public on a number of important policies. For example, there are significant differences on issues such as taxation, economic regulation, and social welfare programs.” Table 1-1 summarizes the gulf in policy preferences between the top 1 percent and the general public. The wealthy are more likely than the general public to favor cuts in Medicare and education (58 percent versus 27 percent for the public), while they are less likely than the public to believe that the government has an essential role in regulating the market (55 percent versus 71 percent, respectively).

### Table 1-1. Views of the Wealthy and the General Public

<table>
<thead>
<tr>
<th>View</th>
<th>The wealthy (top 1 percent)</th>
<th>General public</th>
</tr>
</thead>
<tbody>
<tr>
<td>I favor cuts in Medicare, education, and highways to reduce budget deficits.</td>
<td>58</td>
<td>27</td>
</tr>
<tr>
<td>Government has an essential role in regulating the market.</td>
<td>55</td>
<td>71</td>
</tr>
<tr>
<td>Government should spend what is necessary to ensure that all children have good public schools.</td>
<td>35</td>
<td>87</td>
</tr>
<tr>
<td>I’m willing to pay more in taxes to provide health coverage for all.</td>
<td>41</td>
<td>59</td>
</tr>
<tr>
<td>Government should provide a decent standard of living for the unemployed.</td>
<td>23</td>
<td>50</td>
</tr>
<tr>
<td>Government should provide jobs for everyone willing to work who can’t find a private sector job.</td>
<td>8</td>
<td>53</td>
</tr>
</tbody>
</table>

Most surprising, however, are the differences in views about social opportunities. In the abstract, it might be assumed that there would be little gap in this area. According to the Credit Suisse Global Wealth Databook, two-thirds (69 percent) of wealthy individuals came from humble origins and conceivably could favor a limited government role in the economy but still value equity of opportunity. But that is not what Page, Bartels, and Seawright found in their survey. Their data show that while 87 percent of the general public believed that the government should spend whatever is necessary to ensure that all children have good public schools, only 35 percent of the top 1 percent did. The wealthy also were less likely than the general public to want the government to provide jobs if private sector positions are unavailable, to believe the government should provide a decent standard of living for the unemployed, or to be willing to pay more taxes to support universal health care.

This research indicates that those with great resources are far more conservative than the public on a range of issues related to social opportunity, education, and health care. They do not support a major role for the public sector, even when government actions further economic and social opportunities for the general public. They are much more likely to favor cuts in social benefits and programs that benefit less fortunate members of society. These views of the super rich lead them to favor tax cuts—even though they reduce the financial resources to invest in education and health care—and to place more emphasis on deficit reduction than on “pump-priming” that stimulates economic growth. If politically active rich people favor tax cuts and support austerity measures, as has been the case in recent years, it is difficult to generate political support for programs that help the nation’s low- and middle-income people better themselves.

The “Get a Senator” Strategy

It is no accident that the Page, Bartels, and Seawright survey of the wealthy finds them seeking influence most frequently through
members of the U.S. Senate. Because of Senate rules granting unbridled authority to individual senators to block nominations through secret holds, object to “unanimous consent” motions, and engage in filibusters (that is, block action through unlimited debate), a popular tactic among those with extensive political connections is to develop a close relationship with a senator who sits on a key committee or who can exercise influence in other ways and persuade that person to block undesired nominations or bills.

Holds can be used to stop legislation that a senator doesn’t like. Senator Rand Paul (R-Kentucky), for example, has been unhappy with a proposed treaty that would force Swiss banks to release the names of 22,000 wealthy Americans who have hidden an estimated $10 billion in offshore accounts. Even though the treaty likely would win the approval of the Senate as a whole, for several years he single-handedly has prevented action because he believes that the new rules would permit the invasion of people’s privacy.27

Through what one wealthy individual described to me as the “get a senator” strategy, a person needs to obtain the support of only a single member to prevent the chamber from taking particular action. In a system of fragmented political institutions characterized by decentralized decisionmaking and multiple veto points, having a senator who acts on one’s behalf is an effective way to stymie unwanted government action or delay appointments affecting particular industries. Along with lobbyists representing businesses and other vested interests, those who are rich and connected can stop measures that they deem detrimental to their pocketbooks. For decades, if not centuries, the political ramifications of great wealth have provided cartoonists with inspiration and material, as illustrated by the New Yorker cartoon reprinted below.

Billionaires sometimes enlist senators to write letters to federal regulators asking for investigations of other companies. An example of this came to light in the case of hedge fund manager William Ackman, of Pershing Square Capital Management. For years, the billionaire financier has run a campaign against the nutritional
supplement firm Herbalife, alleging that its sales practices amount to an illegal pyramid scheme. Ackman has invested $1 billion in his belief that the company is overvalued.28 Not content with drawing his own conclusions regarding the business practices of Herbalife, he persuaded Senator Edward Markey (D-Massachusetts) to write letters to the Securities and Exchange Commission and the Federal Trade Commission criticizing the firm and demanding a formal investigation. Ackman personally lobbied Markey’s staff and hired a Markey aide to join his lobbying team. As soon as Markey’s letter was made public, the Herbalife stock price dropped by 14 percent, partly achieving the billionaire's goals.

According to Princeton sociologist Martin Gilens, influence peddling is not rare. His analysis indicates that there is a strong link
between “affluence and influence.” Through a detailed analysis of policymaking, public opinion, and income levels, he demonstrates that “affluent Americans’ preferences exhibit a substantial [positive] relationship with policy outcomes whether their preferences are shared by lower-income groups or not.” He argues that there is “virtually no relationship between policy outcomes and the desires of less advantaged groups” when the preferences of the latter diverge from those of the wealthy. And in a follow-up study with Benjamin Page, Gilens examined the impact of average citizens and economic elites on 1,779 policy issues over the past 30 years and concluded that ordinary people had “little or no independent influence.” The issue of distinctive political influence was brought home to me when I met my first billionaire at Brown University, where I taught political science. A Rhode Island businessman named John Hazen White Sr. had endowed a lecture series, and we invited legendary broadcaster Ted Turner, who had attended the university three decades earlier, to speak. Although he had been kicked out in the 1960s for disciplinary code violations involving alcohol and women, years later Brown had awarded him an honorary degree in recognition of his development of CNN, the first all-news cable network. Pleased with the honor, Turner had funded a faculty position and pledged a multimillion dollar gift to the school (he also has been a Brookings donor). That made him what Brown euphemistically called a “friend” of the university.

Accompanied by his then-wife, Jane Fonda, he came to campus in 1995 to give a lecture about the environment entitled “Our Common Future.” Turner was alternately serious, funny, and outrageous. He explained the importance of the environment to the future of humanity and talked about why he was raising buffalo on his huge Montana ranch. Then, in an unexpected twist, he joked that what he really liked about living in the West was being able to “take a whiz” off his front porch. The Ivy League audience laughed uproariously.

Turning back to his broader message, he related the lessons of his life. His most difficult challenge, he said, had been making the
the controversy over Billionaires 15

first million dollars; after that, everything was easy. Money begets money, he bluntly observed, thereby making it possible to gain even greater wealth through social and political connections. That, of course, is the crux of the controversy about the role of billionaires in society. Wealth in and of itself is not problematic. It is how rich people convert financial might into political power for their own benefit that creates problems.

Transparency Problems

It is perfectly reasonable for rich people to express their views, lobby Congress, and attempt to influence elections as long as others are aware of what they are doing and can organize accordingly. Even if the wealthy have more money than other people, openness helps protect the general population and allows the public to assess the actions of the wealthy. The problem, however, is that many efforts to exercise influence have migrated behind the scenes and often are invisible to the news media or general public. As a result of court rulings that treat “freedom to spend” as equivalent to “freedom of speech,” campaign finance has become much more secretive. Wealthy interests can fund advocacy organizations with no disclosure of their contributions required.

These kinds of judicial decisions bias the political process in favor of the ultra rich. Former GOP presidential candidate Newt Gingrich, whose super PAC received $15 million from billionaire Sheldon Adelson, notes the extraordinary importance of the rich in contemporary elections. “Whether it’s the Koch brothers or Soros on the left or Sheldon, if you’re going to have an election process that radically favors billionaires and is discriminating against the middle class—which we now have—then billionaires are going to get a lot of attention,” he observed.31

Wealthy people across the political spectrum have pioneered new activist models of political involvement that combine electioneering, issue advocacy, and philanthropy. They pursue influence through interlocking networks of foundations, grassroots
organizations, tax-exempt groups, and super PACs (political action committees, independent committees that can raise unlimited amounts of money). Dubbed by reporters as the “Koch model,” after conservative billionaire activists Charles and David Koch, this approach now is being emulated by liberal billionaires Tom Steyer and George Soros (who also have donated to Brookings) as well as by businessman and former New York City mayor Michael Bloomberg, among others. Rich people like this approach because “it’s adaptive, data-driven, and they [the Kochs] are the most propitious capital allocators in political activism.”

The combination of wealth and secrecy, however, is toxic to democratic systems. In the realm of political persuasion, the messenger can count as much as the message. Voters need to know who is behind particular messages so that they can assess the reliability of the information and the quality of the arguments. With lack of transparency, it is difficult for citizens and reporters to evaluate campaign discourse and advocacy efforts.

The Weakness of Countervailing Institutions

Billionaires pose another risk. They typify the combination of social, economic, and political privileges that American sociologist C. Wright Mills famously described in his book *The Power Elite*. According to Wright, the interplay of money and politics enables rich people to use their financial resources to gain special advantages. Columbia University economist Joseph Stiglitz has gone even further, arguing that some of the rich have gotten wealthy by manipulating the system. In his 2012 book, *The Price of Inequality*, Stiglitz claims that certain wealthy interests have used their financial resources to gain undue influence and thereby increase their own power. Political scientists Jacob Hacker and Paul Pierson complain in their book *Winner-Take-All Politics* that the concentration of monetary resources has damaged the political process by giving the wealthy few the power to gain disproportionate benefits.
Others dispute those claims and argue that many factors limit the influence of the wealthy. One is social and political divisions within the upper elite. According to this perspective, the activism of liberal billionaires balances the activism of conservative ones and entrepreneurs in different business sectors don’t always agree with each other; group divisions thus prevent billionaires from coalescing into a single, monolithic class and using their wealth to impose their views on other people.

In addition, a number of countries, such as the United States, have countervailing forces that limit the power of the wealthy. If the rich gain undue advantage, according to traditional theory, politicians can use political parties and media appeals to mobilize the large number of voters whose interests are harmed. Even in the face of great wealth, investigative journalism and party organizations preserve equity in the political system. Reporters keep society informed about possible influence peddling and wrongdoing. If the wealthy deploy their money for selfish ends, the media will write negative stories about them and help other politicians curtail their influence.

In the contemporary period, however, there is considerable doubt about the ability of these forces to limit the power of the rich. On some issues, notably taxes, liberal and conservative billionaires often are united in opposing tax increases, at least for themselves. Regardless of their particular ideology, on certain issues class trumps ideology and there is no pluralistic universe of voices. It leads to what political scientist Larry Bartels calls “unequal democracy.”

The news media have gone through massive changes in operations and business models that have sharply diminished the quality and quantity of their public affairs coverage. For example, according to the Pew Research Center’s “State of the News Media” report, the transition from print to digital publications has disrupted the usual business model of newspapers. The substitution of digital advertising nickels for print ad dollars has seriously weakened corporate revenues and thereby affected the ability of
reporters to cover the news. For every $16 in print ad revenue lost, it is estimated that only $1 in digital ad revenue has been gained.\textsuperscript{37} The loss of advertising dollars has weakened the news media and led to a decline in coverage, a problem that has been especially acute at the state level. \textit{American Journalism Review} surveys of reporters who cover state and local news have found “a staggering loss of reporting firepower in America’s state capitols.” Overall, the number of full-time newspaper reporters covering state government dropped from 513 in 1998, to 468 in 2003, and then to 355 in 2009 (an average of just seven reporters per state). Nearly every state in the country has witnessed additional declines since then in local reporting.\textsuperscript{38} As a result, special interests often are able to work their will in near-secrecy at the state level.

Many political observers worry about the effectiveness of mechanisms for furthering accountability. They claim that both major parties in the United States have been so corrupted by corporate money that ordinary people cannot count on either party to represent the public interest. Both Republican and Democratic candidates are beholden to wealthy donors, and that accentuates the power of the rich over ordinary voters.\textsuperscript{39} In recent years, money has devolved from political parties to super PACs controlled by the wealthy. According to Rob Stein, the founder of Democracy Alliance, “money is leaving the parties and going to independent expenditures groups. These now are fracturing the ‘big tents’ of our old two-party system into independent, narrow and well-funded wings.”\textsuperscript{40}

Globally, billionaires have short-circuited democratic accountability by purchasing major news organizations. In countries such as Australia, the Czech Republic, France, Georgia, Italy, Russia, the United Kingdom, and the United States, the ultra rich own leading newspapers, magazines, television stations, and Internet portals. They use their media control to promote particular messages and thus have weakened countervailing forces within civil society. The result has been what journalist Dean Starkman describes as watchdogs that don’t bark. “One thing that everyone should realize is
that overall, our reporting and fact-gathering infrastructure has been weakened far below acceptable levels, and needs to get stronger,” he observed.\(^41\)

**Income Concentration and Political Polarization**

Discussions about the role of the wealthy often are quite intense. In her book *Plutocrats: The Rise of the New Global Super Rich and the Fall of Everyone Else*, Canadian journalist Chrystia Freeland writes about the ramifications when a small number of people have tremendous financial resources.\(^42\) She says that “plutocrats” deploy their considerable resources to favor policies that benefit themselves and oppose policies that create opportunities for less fortunate people. Because they have so much money, their activities skew policymaking and engender anger among others.

Activists representing poor and middle-class constituencies fear the power of the rich and employ rhetoric attacking the wealthy for having money. That makes the well-to-do feel that advocates are unfairly engaging in class warfare. Arthur Brooks, the president of the American Enterprise Institute, wrote recently about what he called the “politics of envy.” Citing public opinion surveys, he claims that there is “increasing envy” in American politics and that it leads to “destructive social comparison.” He says that people’s fears that “the game looks rigged,” combined with “increasing anxiety about income inequality and rising sympathy for income redistribution,” lead to resentments that are unhealthy for the body politic.\(^43\)

Researchers examining these claims have found a strong connection between income inequality and political polarization. Using data on U.S. House of Representatives roll-call voting and the top 1 percent’s share of income from 1913 to 2008, political scientists Adam Bonica, Nolan McCarthy, Keith Poole, and Howard Rosenthal find that the two indicators rise and fall together.\(^44\) From 1913 to the 1930s, when the top 1 percent earned a large percentage of income, political polarization was high. When their income share dropped between the 1930s and 1970s, polarization dropped. As
the wealthy class’s share of overall income increased over the past few decades, polarization returned to and even exceeded its levels during the early twentieth century.

Part of the polarization in rhetoric and representation is driven not just by self-interested behavior but by the current system of campaign finance. A research study by political scientist Lee Drutman found that wealthy donors push candidates to the extremes, especially on the Republican side. Analyzing the campaign contributions of top donors along with data on the voting records of members of Congress, he argues that “the more Republicans depend on 1% of the 1% donors, the more conservative they tend to be.” His conclusion is that wealthy donors “exert a conservative tug on American politics.”

The Donald Trump Encounter

A chance encounter with one well-known billionaire gave me a firsthand look at the sensitivities of the rich. Donald Trump attracted considerable attention in 2012 when he criticized President Barack Obama for raising taxes on the wealthy and, Trump insisted, for not being born in the United States. Amid all that controversy, there was talk about Trump addressing the Republican National Convention. Asked for a comment on that possibility by the D.C.-based newspaper Politico, I suggested, tongue in cheek, that the GOP should instead send Trump on an all-expenses-paid trip around the world because allowing him to deliver a nationally televised address would bring the party nothing but trouble.

The day my July 2012 quote was published, I received a call from Trump’s assistant asking for my e-mail address. I gave it to her, and she sent me an angry missive from the billionaire himself. He pasted my media quote into his message and wrote in large, black caps: “DARRELL, YOU ARE A ‘FOOL.’ Best Wishes, Donald J. Trump.”

The thin-skinned Trump need not have worried about my comment because there are prominent experts who publish very
favorable arguments in support of the ultra rich. In a paper entitled “Defending the One Percent,” Gregory Mankiw, a Harvard economist (and former economics adviser to President George W. Bush), conceded that monetary income in the very top bracket in the United States has “grown much faster than average” but argued that people should accept inequality because “these high earners have made significant economic contributions.”

According to Mankiw, the rich have gotten wealthy because they are visionary, creative, and innovative. Since most of them are self-made individuals, he said, they are models of effective entrepreneurship who have transformed obsolete or decaying businesses into productive enterprises.

This interpretation is comparable to views expressed by Republican presidential nominee Mitt Romney. In an infamous, secretly videotaped May 17, 2012, campaign speech to a group of wealthy donors, the GOP politician distinguished “makers” from “takers.” Romney said that society was divided between a small group of productive people who build companies and contribute to society and a larger set of unproductive moochers who create nothing and take money through government programs. From his standpoint, income concentration is not a serious problem because those with lots of money work hard, innovate, and do things that better the lives of others. Wealth should not be criticized, but rather appreciated for the good things that it allows billionaires to accomplish. Political leaders should favor policies that promote wealth creation, such as lowering income taxes, cutting the capital gains tax, and eliminating the estate tax. Even if those policies disproportionately benefit the wealthy, they stimulate economic growth and aid other people in the long-run, according to this viewpoint.

Such arguments by Romney and others miss the risks that resource concentration raises for governance and policymaking. There are takers who make and makers who take. People with large financial resources have access to political leaders, giving them more opportunities than others have to make policy pitches. As mentioned earlier, studies suggest that the wealthy often employ direct
channels to express their views at the highest levels of government and succeed in getting benefits for their businesses and themselves.

**Threats to System Performance**

Income differentials pose challenges to the performance of many aspects of political, social, and economic systems. When one small part of society has a disproportionate share of money, is politically active, holds distinctive policy viewpoints, and has numerous ways to make its influence felt, it is difficult for democratically elected officials to address policy problems in an even-handed fashion. Tycoons and their lobbyists are aware of veto points within the electoral, legislative, and regulatory processes and funnel considerable resources into stopping measures that they oppose and advancing ones that they support. When the general public sees these efforts by special interests—which is not always the case, since the most effective lobbying takes place behind closed doors—it feels that it is being ignored and that its interests are not being represented.

For example, the challenges of income inequality and social mobility have been discussed by many observers, but it has been difficult to produce concrete improvements in either area. The politics of so-called income “redistribution” are fraught with controversy, and advocates for programs benefiting the poor have trouble finding the money to advance their causes. Many wealthy people feel that calls for more equality punish success and are patently unfair. Less advantaged individuals complain that excessive compensation of corporate executives, unfair tax policies, and some corporate practices have pushed up the incomes of a small number of people while wages for most others have languished.48

Addressing inequality and addressing economic immobility involve different dynamics. Inequality is rooted in unequal distributions of financial resources; immobility refers to the inability of many workers to move up the income ladder. But the two are related in that lack of money makes it difficult for people to invest in education or training that allows them to advance economically.
As Brookings fellow Richard Reeves notes, “It seems harder to climb a ladder when the rungs are farther apart.”

Research by Jason DeBacker and colleagues finds that the increase in earnings inequality in the United States has developed in part because of changes in technology and required skill levels. On the basis of their analysis of U.S. tax returns for 35,000 households from 1987 to 2009, they argue that some people make more money because they are among the small number of individuals who are highly skilled and much in demand. By contrast, others experience limited wage growth because they are poorly trained and not in demand. This is most apparent in the high-technology area, where some individuals with innovative ideas have gotten rich quickly by launching companies and taking them public a few years later. Those individuals parlayed their vision of new products or new services into popular enterprises and became instant billionaires, in some cases while still in their twenties or thirties. Similar things have happened in the hedge fund and private equity areas, where executives have been lavishly compensated for their investments and gotten incredibly rich through annual compensation packages in the tens or even hundreds of millions of dollars.

Demand for working-class labor, meanwhile, has been depressed by the globalization of the economy. Workers in Toledo, Ohio, now compete with those in Shanghai for wages and jobs, and there has been a “hollowing out” of the workforces in the United States and other countries once described as “industrialized.” With the decline in labor unions and changes in collective bargaining, it is harder for average workers in one place to demand higher salaries for goods that could be made more cheaply elsewhere. That restricts wage growth and makes it difficult for working-class people to improve their economic fortunes.

Public policies play a substantial role in social mobility and wealth creation. Governments have considerable impact on education policy, poverty programs, business operations, and tax rates. Each of these areas affects the opportunities that people have to
get an education, rise out of poverty, launch businesses, and keep what they make. For the past several decades, many countries have reduced income tax rates and tilted a range of public policies to favor the affluent. In the 1980s, President Ronald Reagan cut income taxes and spurred wealth creation. That was followed in the 2000s by generous tax cuts, advocated by President George W. Bush and approved by bipartisan majorities in Congress, that gave the greatest benefits to the wealthy. The top income tax rate was reduced from 39.6 to 35 percent, while the tax on dividends dropped from 39.6 to 15 percent and the capital gains tax went from 21 to 15 percent.52

Education is part of the income story because of the substantial differences among groups linked to educational attainment. There are well-documented differences in income level among high school dropouts, high school graduates, college graduates, and those who have done post-graduate work. According to recent U.S. Bureau of Labor Statistics data, an American high school dropout earns, on average, an annual income of $24,492; a high school graduate earns $33,904; a college graduate earns $55,432; and those with a professional degree, such as doctors and lawyers, earn $90,220.53 Those differences reflect a situation in which individuals trained to compete in the “knowledge economy” do well while others stagnate.

Others point to the “marriage gap” and its impact on earnings. Senior fellow Ron Haskins of the Brookings Institution noted that “between 1970 and 2010, the percentage of 35-year-old women living in married-couple families with children fell from about 78 percent to 50 percent while the percentage of women who were single and living with children more than doubled, from 9 percent to over 20 percent.”54 According to his data, those living in single-parent households are the most likely of all people to be poor. Recent research by Jeremy Greenwood and colleagues also cited marriage as a crucial factor in income inequality due to “assortative mating,” that is, the tendency of well-educated people to marry one another and together earn a lot of money.55
Billionaires don’t directly create problems of inequality or immobility. But it is difficult for those born in disadvantaged situations to move up the economic ladder when incomes are highly skewed and programs intended to advance economic opportunity are under attack. People in the middle or at the bottom of the income spectrum have trouble raising the funds to invest in education and health care. Economist Julia Isaacs found that those who grow up in the bottom quintile of family income have only a 6 percent chance of earning an income in the top quintile while those who start out wealthy have a 39 percent chance.\textsuperscript{56}

**Dangers in the Developing World**

The developing world exhibits greater inequity than developed nations and therefore has more of the political and social problems associated with great wealth. Latin American nations have the highest level of inequality, with a Gini coefficient of .48, followed by Sub-Saharan Africa (.44), Asia (.40), the Middle East and North Africa (.39), Eastern Europe and Central Asia (.35), and high-income countries (.31). Within the developed world, however, there is considerable variation. Countries such as the United States and the United Kingdom are at the high end of inequality (with Gini coefficients of .37 and .34, respectively), while Denmark (.22), Finland (.25), and the Netherlands (.25) are at the low end.\textsuperscript{57}

Many poor nations have weak rule of law. They do not have strong electoral or governance systems that can help balance the political demands of those with great wealth and the interests of the general public. For example, the Electoral Integrity Project at the University of Sydney, Australia, reports that the “lack of a level playing field in political finance and campaign media was seen by experts as the most serious risk to integrity worldwide.”\textsuperscript{58} In some cases, typically authoritarian regimes and military dictatorships, there is a nearly perfect union between economic resources and political power. The “strong man” and his relatives amass tremendous fortunes while the people languish in extreme poverty. This
arrangement is most evident in African nations, along with some in the Middle East, Asia, and Latin America. The dramatic contrast between rich and poor in those countries destroys opportunity, makes citizens cynical about their government, and inhibits overall economic and political development.

These problems are aggravated when a country’s legal system makes it easy to transfer wealth across generational lines, whether through customary practices in which money stays within the family or public policies on taxes and estates that facilitate large wealth transfers. Such situations raise tremendous risks in terms of inequality, poor governance, and limited opportunities for mobility. The riskiest situation arises when possession of great economic and political resources combines with easy transfer of wealth across generations. That combination creates a regime in which social mobility is stifled and hereditary forces dictate the distribution of wealth. In the worst cases, family lineage becomes far more important than talent, creativity, and ability to innovate. That is the case in many parts of the Middle East and in nations ruled by autocrats. The least risky case exists in nations such as Scandinavia and some others in Europe, where political power and economic resources are more separate and it is hard to transfer financial resources across generations. In such situations, it is difficult for any single group to dominate consistently over time, and that promotes the type of healthy societal competition that rewards merit and excellence.

Allowing oligarchs, tycoons, magnates, or princelings to dominate a society by means of their own wealth or hereditary transfer of privilege—as in too many places in Africa, the Middle East, Latin America, and Asia—frays a country’s social, economic, and political fabric. When I visited Bahrain several years ago, for example, local residents told me that they needed the emir’s official approval to buy personal property; it was not possible for private individuals there to buy or sell homes and businesses independently. Bahrain represents an extreme example of a modern-day feudal system that is a perfect environment for corruption and insider dealing. But
even in less extreme cases, common in the developing world, formal and informal restraints on economic mobility engender public cynicism and destroy hopes for future advancement. People feel that even if they have good ideas, there is little chance that they will be able to pursue their vision or have a decent shot at developing their own business.

One already sees worrisome signs of cynicism and despair in developed nations such as the United States. A 2013 survey of the American public found that 70 percent believed that “the income gap between the rich and poor has gotten larger during the past 10 years.”59 Even more troubling, many believe that the “American Dream” is fading. Fifty-two percent of respondents thought that their generation is better off financially than their children’s generation will be, and only 18 percent anticipated that their children will have the same level of prosperity that they have. It is hard to imagine that those who live in some parts of the developing world feel much better about opportunities within their societies.

Plan of the Book

The plan of the book is as follows. In chapter 2, I discuss how billionaires influence candidate elections. They do this either indirectly through campaign finance or directly by running for office themselves. I present an analysis of the 2012 presidential election and the fundraising role that billionaires played and case studies of the electoral campaigns of two billionaires who sought elective office: Michael Bloomberg’s New York City mayoral campaigns and Meg Whitman’s gubernatorial run in California. I argue that billionaires can’t easily buy office when there is extensive media coverage, robust party organizations, and opportunities for opposing forces to organize voters. But money is influential in how campaigns unfold and in what kind of policy arguments get made. In addition, there were idiosyncratic conditions that allowed Barack Obama to triumph over Mitt Romney, and there are no guarantees that conservative billionaires who backed the GOP nominee will lose the next
time around. If they find a better candidate, adjust their advertising appeals, and build a stronger field operation, they will be in a stronger position to win, even if Democrats rail against them.

In chapter 3, I look at a series of advocacy campaigns at the state and local level bankrolled by wealthy individuals. They include campaigns against gun violence, health care reform, climate change legislation, and higher taxes on the wealthy and campaigns in favor of marijuana legalization, pension reform, same-sex marriage, and stadium renovations. At a time of declining press coverage of state government, much spending has been done below the radar of the electorate and has impacted several policy debates. Referendums and policy campaigns have become a major target for a number of billionaires, and they have been successful in influencing the debate over marijuana legalization, same-sex marriage, public pension reform, and taxes. In campaigns in which they have been influential, there generally has been one-sided electoral discourse and limited media coverage.

Chapter 4 examines the new activism in philanthropy. Many observers rightfully point out that people benefit from the giving of others. By funding charitable foundations and supporting particular causes, rich people make generous contributions to society as a whole. Yet researchers need to examine new models of gift giving. Increasingly, certain activist billionaires are combining philanthropy with electioneering and policy advocacy. Because of these new forms of philanthropy, the country needs to think about better disclosure and transparency regulations, particularly in regard to tax-exempt organizations that participate in election campaigns.

Chapter 5 looks at politics and elections abroad. Billionaires such as Silvio Berlusconi in Italy, Bidzina Ivanishvili in Georgia, Serge Dassault in France, Zac Goldsmith in the United Kingdom, Frank Stronach in Austria, Clive Palmer in Australia, Petro Poroshenko in Ukraine, Thaksin Shinawatra in Thailand, Vijay Mallya and Nandan Nilekani in India, Najib Mikati and the late Rafiq Hariri of Lebanon, Manuel Villar of the Philippines, and Mikhail
Prokhorov, Andrei Guriev, and Sergei Pugachyou in Russia have run for office, and most have won. Many of them have been accused of buying votes, influence peddling, and overt corruption. The manner in which they have used their abundant financial resources raises serious questions about the ties between money and politics.

The background and manner in which billionaires make money are relevant in policy and political debates concerning the super rich. It matters for public policy whether the wealthy earn their fortunes through their own innovations or become affluent at least in part through public investment and tax policies. In looking at wealth formation, I argue that in many cases it takes a village to make a fortune. The role of societal forces in wealth creation suggests that billionaires have responsibilities to the country as a whole and should help promote opportunities for other people.

Chapter 6 presents a demographic, geographic, and industry profile of global billionaires. Using data from the 1,645 people on the Forbes billionaires list, I show that they are overwhelmingly white, male, and older and that many benefited from public investments and decisions that aided their sector. Chapter 7 analyzes how several prominent billionaires earned their fortunes. Many of them, dissatisfied with the status quo, displayed considerable skill in developing new products, services, or market niches that were not well-served by existing firms. While such vision is important, chapter 8 demonstrates how wealth creation also is facilitated by infrastructure investment, public investment in research and education, favorable tax policies, and social networking.

In chapters 9 and 10, I summarize the arguments about “wealthification” and call for policies that help others move ahead. It is crucial to adopt policies that promote transparency, accountability, governance, and opportunity; accordingly, I outline a number of policy actions that can improve the democratic process and extend social well-being to a broader range of people.