

Billionaires: Oligarchy within Democracy?

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Political scientist Jeffrey Winters argues that oligarchy is timeless, but varying in its forms. For him, the political power of billionaires in democracies represents a transformation towards “civil oligarchy”. But his exclusive focus on “wealth defense” may oversimplify and underestimate the real influence of the moneyed few.

Reviewed: Jeffrey A. Winters, *Oligarchy*, Cambridge, Cambridge University Press, 2011, 237 p.

We live in good times for billionaires, the ever-growing *Forbes* list of the world’s richest people seems to indicate. And, if one looks at the tax reforms under Bush in the U.S. or Sarkozy in France, politicians apparently like billionaires. The adventures of Berlusconi in Italy, Bloomberg in New York, Thaksin in Thailand, Piñera in Chile, or, most recently, Ivanishvili in Georgia, suggest that billionaires also like politics. This is disturbing for many of us if it happens in democracies. Why would the masses allow the extremely rich to govern, instead of asking for redistribution?

According to Jeffrey Winters, we should not be surprised by the appearance of oligarchy, not even in democracies, as “concentrated wealth in the hands of individuals empowers them in ways that produce distinct kinds of oligarchic politics that are not captured within a generic pluralist framework” (p. xiii). Despite significant flaws, his *Oligarchy* is an important book, especially because the role of billionaires in politics has not received enough academic attention so far.¹

Of course, various approaches within the sociology of elites could be employed. As Winters rightly remarks, though, ever since Pareto and Michels, most modern elite sociology has embraced a broad understanding of oligarchy in which not just the very wealthy, but also top level bureaucrats, party officials or opinion leaders are part of the ruling minority. The author wants to narrow the concept again, bringing it back to what he sees as its original meaning in the scholarship of Aristotle: a focus on extreme wealth as the key source of the power of the few.

Four faces of oligarchy

The book’s ambition to situate the political power of today’s billionaires within a wider, understanding of oligarchy, both historically and geographically, is laudable. Its

¹ Besides – quite insightful – journalistic bestsellers like David Rothkopf’s *Superclass: How the Rich Ruined our World* (New York: Farrar, Straus and Grioux, 2008), very little comparative research on the ultra-wealthy exists so far.

parsimonious definitions facilitate comparison and reflect the author's materialist ontology: "*Oligarchs* are actors who command and control massive concentrations of material resources that can be deployed to defend or enhance their personal wealth or exclusive social position" (p. 6). "*Oligarchy* refers to the politics of wealth defense by materially endowed actors" (p. 7). Two distinctions allow Winters to refine his analysis: the ultra-rich employ different strategies depending on whether they operate in political systems that are shaped by collective institutions or by more fragmented, personalistic forms of rule, and whether oligarchs can use violence or not (p. 34). This 2x2 matrix yields four ideal types: warring, ruling, sultanistic and civil oligarchies, which are treated in respective chapters.

In warring oligarchies, wealth goes hand in hand with coercive capacities, as warrior-oligarchs use violence to defend their property claims both against the people they rule and competing oligarchs. Winters gives us brief examples of the chiefdoms of the ancient Thy region in Denmark, the pre-colonial Wanka warlords in Peru, the Hawaiian Islands and the ancient Irish Celts (46-50), but these examples all lack a real demonstration of whether and how wealth defense was the preoccupation of warrior-rulers. Wealth and power were clearly intertwined, but the pursuit of material resources *primarily* in order to safeguard one's power and survival would seem to follow a very different logic than a preoccupation with wealth that sees power only as a tool for its defense. Winters is aware of this problem (p. 49ff.), which reoccurs throughout his study, for example when he appraises the rise of Suharto in Indonesia (p. 157ff.) and Lee Kuan Yew in Singapore (p. 257ff.). But he only "solves" it by assuming wealth defense as the main driving force, not by actually proving it. The author goes into more details when he interprets medieval Europe as a patchwork of warring oligarchs, but almost all the historical research he musters predates the more recent deconstruction of "feudalism". It seems as if Winters deliberately chose to rely mainly on historical sociologists like Perry Anderson who share – and hence confirm – his materialist outlook. It would also have been interesting if he would have included studies of more contemporary warlordism (e.g. in Afghanistan, Sierra Leone or Somalia).

In ruling oligarchies, the richest people form institutions of collective rule in order to limit the threat of infighting among oligarchs, and to better defend themselves against external attacks and rebellion from below. To what an extent this involves a monopoly of violence for the collective governing body – or whether individual oligarchs continue to be armed – is decisive according to Winters. His discussion of classical Athens exhibits the same problems as his examples of warring oligarchies: the reader learns about social and material stratification, but how the rich used their influence over the governing institutions to defend their wealth collectively remains unclear. Winters limits his explanation to stating that the wealthiest Athenians "dominate[d] the country's affairs by populating all the top offices of their ruling oligarchy" (p. 83) and that "poorer citizens (...) never used democracy to encroach on the property wealth of the Three Hundred" (p. 87). This is simple inductive reasoning with no real proofs. Several of his observations actually muddle his analysis: many foreigner-*metics* were among the wealthiest residents (p. 78), without being citizens; and the richest citizens were heavily taxed, because it was they who personally had to pay for the armed forces and the frequent military ventures (p. 81, 86). Winters is more convincing (and trivial) when he sees all citizens forming an oligarchy against the majority population of slaves, but a closer look at the varied stages of Athenian politics, e.g. those dominated by the so-called "demagogues" and those by the "tyrants", is lacking.

In contrast, Winters' analytic framework seems to fit quite well the oligarchic politics of ancient Rome, which had a much more unequal distribution of wealth than Athens.² For him, the complex political arrangements of the Roman Republic mainly served to prevent any one oligarch to rule alone (pp. 96-106), while simultaneously allowing all of them to protect their wealth and income derived from a slavery-based landholding economy. The use of coercion in the city of Rome and the control over the armed forces were carefully regulated, and the system broke down when "martial oligarchs" like Julius Caesar "gained personal and private command over large segments of Rome's legions" (p. 107), transforming the Roman Republic into a series of "sultanistic oligarchies".

A specialist of Southeast Asia, Winters is on his home turf when he discusses Indonesia under Suharto and the Philippines under Marcos as sultanistic oligarchies: "(...) a personalistic rulership in which institutions and laws are enfeebled and the leader governs through the use of coercive and material power to control fear and rewards" (p. 136). When politics is highly personalized, understanding the inner workings of the ruling family clan(s) becomes crucial, which often severely limits academic research, as this kind of information is rarely public. Winters presents fascinating insights on Indonesia, gleaned from extensive interviews with members of the country's oligarchy, making this chapter the book's strongest in empirical terms. His analysis takes the countries' colonial legacies and their post-independence integration into the world economy seriously, providing context-rich explanations of how Suharto and Marcos concentrated material resources and political power in their hands. Despite their historical differences – especially with regards to the use of political violence (p. 197ff.) – oligarchic politics in both countries appear to be converging since their dictators' downfall: "Both have achieved democratic transitions with lively freedoms of press, assembly, and participation. Both have [...] electoral systems thoroughly captured by their respective ruling oligarchs" (p. 206).

Distribution of wealth and political regimes

Much of the pleasure of reading *Oligarchy* comes from the fact that one notices a sharp mind at work trying to get a grip on the relationship between money and politics without getting lost in the myriad academic debates that have addressed the issue before him. Even within a strictly materialist framework, however, a more thorough engagement with recent theoretical advances in political economy would have allowed Winters to further refine his analysis considerably.³

The rich literature on the nature of distributional conflicts that lie behind different political regimes, for example, could help with the questions of when and why different types of oligarchies wax and wane – an issue Winters is aware he has not treated theoretically (p. 276). Key insights from this research tradition, some of whose classics like Tocqueville and Barrington Moore the author mentions, while ignoring most of the progress of the last twenty years, relate to different sources of wealth. Thus, Daron Acemoglu and James Robinson argue that mass democracy becomes more likely not just once urbanization and industrialization lead to an empowerment of the masses, but also when it becomes more acceptable to elites whose fortunes shift from immobile resources to more mobile ones, which

² To judge the empirical accuracy of Winters' case studies is beyond this reviewer's capacities, as one would need to be a specialist of various historical epochs in various world regions. Hence, only the analytical coherence of his arguments is being examined.

³ The dispute between elite theorists and pluralists that divided American social science during the 1950/60s and the New Institutional Economics of Douglass North and colleagues, a major contribution during the 1970/80s, are almost the only debates he picks up on (pp. 26-32, 273, 280-284).

are less exposed to the risk of redistribution⁴. This corresponds well with Winters' assertion that electoral democracy and oligarchy often co-exist in the same polity (p. 273).

The analysis of the political consequences of economies built on resource extraction (oil, gas, minerals, timber, etc.) – often discussed as the “resource curse”⁵ – has also become quite sophisticated and could have strengthened Winters' theory. He is aware that certain economic features – e.g. Indonesia's reliance on the extraction of primary resources (p. 142) or Singapore's dependence on international capital inflows (p. 259) – have strong impacts on the oligarchic politics of his case studies. But he does not try to abstract from the cases and draw more general conclusions.

The U.S., an oligarchy?

Winters' most polemical move comes when he introduces the concept of civil oligarchies and, drawing on ideas developed in a previous article⁶, uses the United States (and Singapore) as an example. One sometimes even gets the impression that *Oligarchy* was written with an overarching concern for the rising inequalities in America. Just as Simon Johnson compared the recent financial meltdown in the U.S. to the crony capitalism once “reserved” for developing countries⁷, Winters places the U.S. in line with other oligarchies. In civil oligarchies, “the single most important transformation in the history of oligarchy” (p. 208), a key shift among oligarchs' objectives happens: as the rule of law converts property claims into property rights, enforced by the state, it is now mainly income that needs to be defended against redistributive taxation.

With their money, the ultra-wealthy can buy the services of what Winters calls the “Income Defense Industry” (p. 213ff.) – specialized law firms, accountants, banks and other tax planners that help with “tax minimization”, greatly facilitated by the availability of offshore tax shelters (p. 233ff.). This industry also lobbies for a tax regime that limits oligarchs' exposure to taxation. In addition, the author sees the American oligarchs as a “donor class”, whose campaign contributions can be very influential (p. 249ff.). The key indicator of oligarchs' success is taxation, which Winters examines via poignant case studies and illuminating data from the *Internal Revenue Service*. He shows that official tax rates – on income, especially capital income, but also the inheritance (“estate”) tax – have declined a lot over the past twenty years, indicating oligarchs' lobbying victories. Effective tax rates (the amounts actually paid) have declined even more drastically, especially for the top 400 incomes, revealing the achievements of the income defense industry (p. 244ff.).

Increasing economic and political inequalities, also visible in many other developed nations, are certainly deplorable from the perspectives of democratic theory and various ethical positions. But do they merit labeling a country like the U.S. an oligarchy? From Aristotle to today, we normally use oligarchy as a term that, like democracy or monarchy, describes the main feature of a political system, and not just some aspects of it. For Italy under Silvio Berlusconi (which Winters never mentions), the category “civil oligarchy” would appear quite fitting: he used the resources of his corporate empire to become prime minister,

⁴ Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy*, Cambridge: Cambridge University Press, 2006: p. 287-348

⁵ See Stephen Haber and Victor Menaldo, “Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse”, *American Political Science Review*, 2011, 105/1: pp. 1-26

⁶ Jeffrey A. Winters and Benjamin I. Page, “Oligarchy in the United States?” *Perspectives on Politics*, 2009, 7/4: p. 731-751.

⁷ Simon Johnson, “[The Quiet Coup](#)”, *The Atlantic*, May 2009.

and then he abused his political power to defend and enhance his fortune⁸. For market democracies in which the ultra-wealthy “merely” achieve a lot of control over their effective tax rates, it would seem more appropriate to speak of “oligarchic elements”. This also relates to the reverse question: under Winters’ definitions, when would a political system not be an oligarchy? If its society features no wealth stratification?

Can pluralism check the power of billionaires?

As Winters discusses his various examples of warring, ruling and sultanistic oligarchies, the very rich become the political leaders who actually govern. In his “civil oligarchies”, on the other hand, it does not matter whether billionaires aspire to rule – as long as they get what they want in terms of wealth and income defense. Here, the author incorporates Robert Dahl’s famous “critique of the ruling elite model”: “The actual political effectiveness of a group is a function of its potential for control and its potential for unity⁹”. The only objective that unites the ultra-wealthy, even if they never meet, is wealth defense, Winters contends (pp. 211, 220ff. and 280ff.). On other political issues, different oligarchs are likely to have different preferences; they thus participate in the pluralistic competition over values, which defines democratic politics.

Ironically, this line of reasoning is shared by Jim Bopp, the intellectual architect behind the recent liberation of campaign financing laws in the U.S., who sees more big money in politics as progress towards greater freedom of expression and hence larger voters’ choice¹⁰. Yet the underlying assumption, that members of the billionaire class represent the same diversity of values as the rest of society, is highly questionable. The rival attempts to influence U.S. elections by the Koch brothers (key supporters of the Tea Party movement) and George Soros (progressive) may look like a pluralistic battle of the oligarchs. In Switzerland, Austria and Georgia, though, the current political endeavors of Christoph Blocher, Frank Stronach and Bidzina Ivanishvili operate with no competing billionaires. It is in general rather unlikely that for every billionaire who makes his or her values a political cause, some other billionaire will act as a counterweight. The limited sociological research on “High Net Worth Individuals” that exists shows that their value systems differ from the rest of society.¹¹ As billionaires start to play politics for other purposes than wealth defense, we should therefore expect a more fundamental transformation of electoral democracy. Billionaires gaming the tax system represent a worrisome oligarchic intrusion into democratic politics. If they also use their material resources to control public policy beyond taxation, we may indeed observe a move towards civil oligarchies.

Published in booksandideas.net, 26th October 2012

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⁸ Alexander Stille, *The Sack of Rome: Media + Money + Celebrity = Power = Silvio Berlusconi*. London: Penguin. 2007.

⁹ Robert A. Dahl, “A Critique of the Ruling Elite Model”, *The American Political Science Review*, 1958; 52/2: p. 465

¹⁰ James Bennet “[The New Price of American Politics](#)” *The Atlantic*, October 2012

¹¹ For a recent study in Germany, see Wolfgang Lauterbach, Thomas Druyen and Thomas Grundmann (eds), *Vermögen in Deutschland – Heterogenität und Verantwortung*. Wiesbaden: VS, 2011. For the U.S., see Benjamin I. Page, Larry M. Bartels and Jason Seawright “[Democracy and the Policy Preferences of Wealthy Americans](#)”, paper presented at the Annual Meeting of the American Political Science Association, Seattle, September 2011