

Is This Time Different? Capture and Anti-Capture of US Politics

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Societies are molded by their institutions that determine both their levels of prosperity and how that prosperity is distributed within society. For most of its history the United States has had economic institutions which have been *inclusive* in the sense that economic opportunities have been open to most, the playing field has been level, and property rights have been secure. The inclusiveness of economic institutions has meant that the United States has been fully able to harness the talent of its citizens who have consequently experienced high rates of social mobility. Take Thomas Edison, the inventor of the phonogram and the light bulb and the founder of General Electric, still one of the world's largest companies. Edison was the last of seven children. His father, Samuel Edison, followed many occupations from splitting shingles for roofs, to tailoring, to keeping a tavern. Thomas had little formal schooling but was home schooled by his mother. He was not an elite or well connected but the economic institutions of the US, like the patent law (he had a world record 1,093 patents issued to him in the US) allowed him to thrive to the benefit of himself and society. Sokoloff and Kahn (1990) showed that innovation, as measured by patenting, in the US in the 19th century was driven by such non-elites.

Obviously economic institutions were not inclusive everywhere in the US. The federal system allowed for institutional divergence within the US and the South had much more *extractive* institutions, with a tilted playing field in favor of elites and weak or absent property rights for many in society. The slave economy in the US South epitomizes the nature of extractive economic institutions. Instead of opening economic institutions to everyone or allowing social mobility, extractive institutions restrict opportunities to a powerful few and block social mobility. The children of slaves were also slaves, slaves could not own property, had no

¹ The concepts and arguments used in this paper borrow heavily from our forthcoming book Acemoglu and Robinson (2012).

opportunity for social mobility or the free choice of occupations or careers and it was even illegal to teach slaves to read and write in most Southern states prior to the Civil War (Margo, 1991).

These extractive elements and similar discrimination and exclusion against women, minorities and indigenous Americans notwithstanding, the US institutions, particularly in the North, Midwest and the West, have been comparatively inclusive over the last 200 years. In the 19th century few countries outside Britain and Western Europe had inclusive institutions; such inclusive institutions were certainly not the norm, and former colonies such as the United States. Where did they come from?

The roots of inclusive economic institutions in the US lie not in the enlightened decisions of elites either in the British colonial office or in Philadelphia in 1787. Rather they stem from a long history of conflict and struggle. Going right back to the founding of the Jamestown colony in 1607 many people wanted to create an elitist oligarchical society to their own benefit. The Virginia Company tried this early on after it realized it could not make money by exploiting indigenous peoples (too thin on the ground) or precious minerals (there were none). So instead it propagated its “Lawes Divine, Morall and Martiall”. These laws included the clauses

“No man or woman shall run away from the colony to the Indians, upon pain of death. Anyone who robs a garden, public or private, or a vineyard, or who steals ears of corn shall be punished with death. No member of the colony will sell or give any commodity of this country to a captain, mariner, master or sailor to transport out of the colony, for his own private uses, upon pain of death.”

Private property was all but abolished and the settlers were forced into barracks and a draconian work regime reminiscent of Stalin’s Gulags. It didn’t work. The settlers ran away to the frontier (hence the first clause above), and they began to organize to demands what they considered to be their rights. This process culminated in the creation of the “headright system” in 1618 giving settlers access to land. All the same, aspiring oligarchs didn’t give up easily. They tried in Maryland, Pennsylvania and the Carolinas to create an oligarchical society. The Fundamental Constitutions of Carolina, like the Charter of Maryland before it, provided a blueprint for an elitist, hierarchical society based on control by a landed elite. The clauses of The Fundamental Constitutions laid out a rigid social structure. At the bottom were the “leet-men”

with clause 23 noting: “All the children of leet-men shall be leet-men, and so to all generations.” Not quite what Ronald Reagan had in mind when he talked in his farewell address about the “shining city on a hill”. Though this system didn’t work out for white settlers in the Carolinas, it did of course work out better with African slaves.

Both the economic and political institutions of the US were forged out of these conflicts between white settlers and chartered companies and eventually the British state. The evolution of political institutions was critical because it was these that determined the nature of the economic institutions. At the same time as the settlers in Jamestown won the headright they also demanded and got self-government in the form of a Legislative Assembly which effectively enfranchised all adult white males. Whether or not economic institutions are inclusive is a collective choice and is determined by the distribution of political power in society and the way that political institutions work. The Virginia Company had been unable to exploit the white settlers because in the New World the de facto distribution of political power was very broad, the creation of the Assembly institutionalized this inclusive distribution of political power. To see how important politics is consider the situation in the slave economy of the US South. Could slavery have persisted as an economic institution if blacks had had effective political rights? Slavery, just like other examples of extractive economic institutions, is supported by extractive political institutions which distribute political power unevenly and enable the political and economic elites to exercise unchecked political control over the rest of society. In the US South, these extractive political institutions stripped all political power from blacks and also from most whites.

The inclusive political and economic institutions which developed in the colonial period continued into the 19th century. Even though the constitution disenfranchised women and blacks, by the 1820s all Northern states had universal white male suffrage and this spread to the South by 1850. Political rights were broadly distributed by world standards and it was this even distribution of political power that forced open economic institutions, breaking down monopolies (for example in banking as Haber, 2010, has shown) and opening up the frontier to allow land to be equally distributed, as demonstrated by García-Jimeno and Robinson (2011) (see Keyssar, 2009, for an overview).

The consequences of these inclusive institutions were that, after it freed itself from colonial rule, the US became one of the most prosperous and technologically dynamic societies

in the world. This prosperity was driven by the Northern and Western states, however. The South, with its extractive slave economy was considerably poorer and less urbanized and innovative than the rest of the country. Not only was the US prosperous it was egalitarian. The distribution of assets, income and opportunity generated by inclusive economic institutions was relatively equal.

The US case in fact illustrates a more general principle. Countries which have created egalitarian, economically dynamic societies have done so because they have forged inclusive political institutions which then led to inclusive economic institutions. This is precisely what happened after the 1688 Glorious Revolution in England and what resulted from the French Revolution in large parts of Western Europe. In contradistinction to this, societies with extractive institutions have remained poor and inegalitarian.

Once created there is a natural tendency for inclusive institutions to persist – a virtuous circle. Unfortunately in the same way that once created extractive institutions generate their own vicious circle. In fact the inclusive nature of political institutions and economic institutions feed on each other. Broadly distributed political power led to inclusive economic institutions which spread opportunities, income and wealth more equitably. This in turn helped sustain the broad distribution of political power as economic resources and power beget political power. Nevertheless, though such positive feedbacks existed in the US, the system faced continual challenges, most obviously from the Southern states. The potential for Southern institutions to undermine the inclusive nature of US institutions was defeated by the Civil War. But the rapid economic success of the second half of the 19th century created fresh challenges. Though inclusive institutions might generate equality and economic progress, some can always benefit by taking institutions in a more extractive direction, by creating barriers to entry, excluding people from profitable economic opportunities so monopoly rents can be made, by undermining the property rights of others to defend and use their assets. For example in the South before the Civil War, the plantation owners benefitted greatly from slavery, even if this was at the cost of the general prosperity of the South. When political power is widely distributed, however, such a change in economic institutions is difficult to achieve, because the potential losers from it can block it. But this happy equilibrium can be disrupted by large enough perturbations.

In the second half of the 19th century some people who would later be known as the “Robber Barons” began to become very wealthy indeed. The era became known as the Gilded

Age. One of the most notorious of these Barons was Cornelius Vanderbilt who famously remarked: “What do I care about the Law? Hain't I got the power?” (quoted in Josephson, 1934, p. 15). Another was John D. Rockefeller, who started the Standard Oil Company in 1870, and quickly eliminating rivals in Cleveland, managed to monopolize the transportation and retailing of oil and oil products over much of the United States. In 1882, Rockefeller created a massive monopoly, in the language of the day a “trust,” of all of the different companies he owned. By 1890 Standard Oil controlled 88 percent of the refined oil flows in the United States, and Rockefeller became possibly the first billionaire in the US. Contemporary cartoons depict Standard Oil as an octopus wrapping itself round not just the oil industry but also Capitol Hill.

The positioning of the tentacles of the octopus is significant. The wealth of the Robber Barons was created by their ability to take advantage of many new economic opportunities that emerged, often generated by new technologies like railroads. But these men also quickly became adept at using this wealth to manipulate the political system to their advantage, a sort of inequality multiplier. Crucially, the Robber Barons captured the Senate, which was indirectly elected by state legislatures. This process was viciously satirized by the journalist David Graham Phillips in a series of articles under the rubric of the “Treason of the Senate” in the *Cosmopolitan* magazine starting in March 1906 (collected in Phillips, 1953). Phillips went state by state showing how the Robber Barons had captured the Senate. First was New York Senator Chauncey Depew long a lawyer for the Vanderbilt family and their chief lobbyist in Albany for which he was eventually rewarded with a seat in the Senate. Phillips noted how he “got for the Vanderbilts, with ever increasing facility and ever decreasing public clamor, free franchises large and small, large free grants of land, immensely valuable shore rights and rights to land under water, authorizations of more consolidations and of more issues of watered stock, exemptions from taxation, etc. etc, etc., Also he was always on hand to cover the operations of the bribe-brigade with speeches full of catching sophistries against any and all legislation seeking to lessen the oppressive burdens imposed by the Vanderbilts upon the people.” Phillips then moved to Rhode Island where the chief villain was Nelson Aldrich, none other than Rockefeller’s son in law. Here he described not just how Aldrich played the same role for Rockefeller as Depew did for Vanderbilt, but also how the political institutions allowed this to happen, how “The apportionment of legislators is such that one-eleventh of the population ... elect a majority of the legislature – which means they elect the two United States senators .. The Aldrich machine

controls the legislature, the election boards, the courts – the entire machinery of the “republican form of government””.

The Gilded Age was a period of rapid economic growth and large increases in economic inequality which then fed into the political system severely narrowing the distribution of political power. The increasingly extractive nature of political institutions allowed the Robber Barons to create vast monopolies, bar the entry of others, indeed threaten the economic institutions which had made the US so prosperous.

The picture for the United States looked gloomy. But the comparatively inclusive US institutions of the late 19th and early 20th century turned out to be surprisingly resilient and equal to the challenge that the Robber Barons and their political allies mounted. The Gilded Age created a backlash in society in the form of the Populist and then subsequently the Progressive movements. The Populist movement emerged out of a long-running agrarian crisis, which afflicted the Midwest from the late 1860s onward (Sanders, 1999). A series of organizations, most famously the National Grange of the Order of Patrons of Husbandry, known as the Grangers, formed and started to contest state elections with reformist platforms. By 1892 these rural interests had formed a coalition with organized labor and created the People’s Party in 1892. At the founding of the party in Omaha, Nebraska they adopted the Omaha Platform the preamble of which noted

“The fruits of the toil of millions are boldly stolen to build up colossal fortunes for a few and the possessors of those, in turn, despise the republic and endanger liberty. From the same prolific womb of governmental injustice we breed the two great classes—tramps and millionaires.”

The platform demanded specific policy changes, such as the introduction of an income tax, which until then had been deemed unconstitutional in the US. They also demanded a series of reforms in political institutions intended to undermine the aim of the political parties to “secure corruption funds from the millionaires.” These included direct elections for senators, the introductions of ballot initiatives and referenda which they thought would improve democratic accountability. The party got 8.5 percent of the popular vote in the 1892 presidential election. In the next two elections, the Populists fell in behind the two unsuccessful Democratic campaigns by William Jennings Bryan, who made many of their issues his own.

These political movements slowly began to have an impact on political attitudes and then on legislation, particularly concerning the role of the state in the regulation of monopoly. The induced the creation of the Interstate Commerce Act of 1887, which created the Interstate Commerce Commission and initiated the development of the federal regulation of industry and the Sherman Antitrust Act of 1890

Though the Populists seriously declined after throwing their weight behind the Democrats, their reform agenda was taken up by the Progressives, a heterogeneous reform movement which was more urban and intellectual based. The Progressive movement initially gelled around the figure of Teddy Roosevelt who became president in 1901. Prior to his rise to national office, Roosevelt had been an uncompromising governor of New York and had worked hard to eliminate political corruption and “machine politics.” Roosevelt proposed that Congress establish a federal agency with power to investigate the affairs of the great corporations and that, if necessary, a constitutional amendment could be used to create such an agency. By 1902, Roosevelt had used the Sherman Act to break up the Northern Securities Company, affecting the interests of J. P. Morgan, and subsequent suits had been brought against Du Pont, the American Tobacco Company, and the Standard Oil Company. Roosevelt strengthened the Interstate Commerce Act with the Hepburn Act of 1906, which increased the powers of the Interstate Commerce Commission, particularly allowing it to inspect the financial accounts of railways and extending its authority into new spheres. Roosevelt’s successor, William Taft, prosecuted trusts even more assiduously, the high point of this being the breakup of the Standard Oil Company in 1910. Taft also promoted other important reforms, such as the introduction of a federal income tax, which came with the ratification of the Sixteenth Amendment in 1913.

The grassroots opposition which had started with the farmers, spread to organized labor and more middle class urban groups was greatly aided by the media, investigative journalists such as Phillips known as “muckrackers” who exposed publicized the abuses of the Robber Barons. The most famous example being Ira Tarbell’s 1904 book *History of the Standard Oil Company*.

An important impetus was given to the mainstream political parties by the threat of inducing the creation of an effective third party. Disillusioned with his successor Taft’s policies which he considered too conservative and squeezed out of the Republican candidacy by Taft’s control over the party organization, Roosevelt launched the Progressive Party to contest the

presidency in 1912. The first page of the platform of the party noted that the “first task of the statesmanship of the day” was to “destroy this invisible Government, to dissolve the unholy alliance between corrupt business and corrupt politics” and committed the party to introduce direct elections for senators, and to promote initiatives, referenda and recall elections at the state level. It committed the party to introduce a progressive income tax and inheritance tax.

These reforms to preserve the inclusive nature of US political and economic institutions were effective in two ways. First they helped guarantee that the rapid economic growth that the US had experienced in the second half of the 19th Century would be sustained. Second they succeeded in reversing the massive increase in inequality and the concentration of wealth which had built up in the previous half century.

More than a century after the Gilded Age, a new era of great opportunities, this time underpinned by advances in information and communication technology and globalization, has again coincided with a huge increase in economic inequality in the United States. Part of this inequality is a byproduct of the structural transformation of our economy. For example, the technological developments that have swept the US labor market can account for why the demand for workers with high school degree or less has plummeted. However, they cannot plausibly account for why the top 1% of Americans captured almost 25% of national income in 2007, up from 9% in 1974. For the 0.1% this has gone from 3% to 12% (Piketty and Saez, 2003).

This rapidly increasing inequality is similar to that which emerged in the Gilded Age in the sense that it went along with not only economic growth but also an increasing capture of the political system by the wealthy (Bartels, 2010, Hacker and Pierson, 2010). The capture of the political system is underpinned by the increase in economic inequality as well as several other factors creating a platform for the wealthy to monopolize politics to a recently unprecedented extent. These include the reaction of conservative and business groups to the “Great Society” programs of the 1960s and early 1970s and the increased taxes that paid for them; the reaction of certain conservative segments of the US population to the civil rights movement; and the decline of organized labor as an economic and more important political force. These shifts were coupled with technological changes, particularly rise of television as the main medium via which people get their political information, which made money much more powerful as a tool for determining the outcome of elections. The marginal impact of money has been increased by the fact that perhaps as many as a quarter of US voters, mostly fundamentalist Christians, cast their ballots

mainly on the basis of normative issues. The co-optation of such voters by the Republican Party has given it greater freedom to propose economic policies favored by its other constituents, most notably the wealthy. The Democrats, often dragging their feet, have typically followed the money, if not in their rhetoric, in actuality in their policies on many important issues such as redistribution and regulation. The result of this cocktail of changes, greater inequality, greater power for the wealthy at unchanged levels of inequality, and greater political utility of the thing the wealthy had most of – money – created a new form of inequality multiplier. As inequality increased the rich were able to push government regulation and policy in their favor, thus creating even more inequality. Just as in the Gilded Age, this trend threatens the inclusive nature of US economic institutions.

The economic and political dynamics of the last 30 years are now beginning to create another backlash from outside the traditional political parties in the form of the Occupy Wall Street, OWS, movement. They style themselves as the 99%, those excluded from the 1% of the population who have snapped up the economic gains the US economy has generated in the last 30 years. They are protesting about rising inequality, falling social mobility, the decline in the social safety net and the capture of politics by the wealthy, the financial industry and the large corporations. As they put it on their web page they are “fighting back against the corrosive power of major banks and multinational corporations over the democratic process.”

The interests underpinning this group are different from those of the Populists and Progressives and so are their political strategies. For example, Progressives did not react to the control of the Senate by occupying the front lawn of “The Breakers”, Vanderbilt’s plush mansion in Newport, Rhode Island. But they did found organizations which they could themselves control democratically just as OWS is trying to do through its general assemblies, a form of participatory democracy. However, it is not surprising that the specific tactics of OWS differ from those of the Populists and Progressives. If one looks at the evolution of social protests over the past few centuries there is continual change as social movements must alter their strategies in response to changes in the structure of the economy and society, in technology, and in the nature of political institutions. An obvious reason for the form that OWS protests have taken is the successful model of revolt in Egypt, and it remains to be seen whether this is a viable model for a political movement in the midst of an electoral democracy dominated by two parties. The technology of the media and protests is also radically different. The spread of newspapers and literacy allowed

modern mass protests to emerge in the 18th century and we have seen the positive role that newspapers and independent muckrakers played in pushing forward the Progressive agenda. Today the emergence of the internet with Twitter and other social media is similarly important in facilitating the emergence of protest and shaping the form it takes.

Nevertheless, their aim is the same, to roll back the increasing threats to the inclusive nature of economic institutions in the United States. To do this they recognize, as the Populists and Progressives did, that political institutions must be changed to remove the control of the wealthy over the agendas and policies of the main political parties.

Will they succeed in their aims? Or will it be different this time with the capture of US politics now having become more ingrained and more systematic? Of course it is far too early to know the answer to this but the experience of the Populists and Progressives are interesting not just because they were complaining about the same things as OWS, but also because they were successful. Even if the tactics of and the interests behind OWS are different, lessons can be learned about what might make OWS likely to succeed. First, even if the Populists and Progressives mobilized outside of the traditional political parties, their agendas had an enduring impact on political and economic institutions in the US because they were able to force the traditional political parties to take up many of their reforms. Though they did this partially through threatening the entry of an effective third party, this is probably not a necessary condition for such influence. Ultimately OWS will have to build bridges to sympathetic politicians in the mainstream political parties, many of whom are no doubt already discontented at the power of money over politics in the US. From this perspective the statement on the OWS webpage that “we don't need politicians to build a better society” is probably short sighted.

Second, Populists and Progressives were successful because they formed a broad coalition. The Populist Party brought organized labor together with farmers and the Progressives added many middle class groups and intellectuals and were even more successful. OWS is similarly trying to reach out to organized labor to environmentalists and extend into university campuses. It is not the exact details of the coalition that are important but the breadth.

Thirdly, the role of the media will be critical in determining the success of the movement. Though we saw the positive role of muckrakers, there is no necessity that the media will play a reformist role in society. For example, DellaVigna and Kaplan (2007) identified a “Fox news effect” whereby the spread of the conservative Fox news channel has a significant positive

impact on the vote share of Republican candidates. Moreover, as we discussed above, one hypothesis about why US politics has been increasingly captured by money is precisely the increased importance of television since the 1970s as a source of political information. It is not just the existence of media that matters but who owns it and what it is trying to achieve. In the light of this the use of the internet, owned by nobody, is probably critical.

Finally, the lesson from the Populists and the Progressives is that to succeed OWS must come up with a list of specific institutional and policy changes that will help to counterbalance the trends they have set themselves against. These will not be the same as those proposed 100 years ago but they will be important for focus and for institutionalizing their successes. A cautionary tale here comes from the French student protests and occupations of May 1968 (Tarrow, 1993). These were initially incredibly successful in putting politicians on the defensive in their demands for educational and social change. But the French students did not come up with specific proposals about how, for example, the educational system should change. The government responded first with large wage increases for trade unions to try to isolate the students and then with a proposed *loi d'orientation*. The students were effective on the streets, but once the lawmaking got under way they were squeezed between interest groups, party politics and as Sidney Tarrow (1993) pointed out, with their influence waning they ended up with an emasculated reform which was very far from what they could have achieved if they had been more focused on the specifics and how to build a political coalition with insiders to get them. Such policies and reforms should focus on the really first-order issues, particularly how to reform the US political system by making it less likely that the wealthy and other special interests can cement their capture of politics --- and try it again anew if this time the backlash turns out to be sufficient to stem the flow. This concern again echoes the Progressives. In the Progressive party platform of 1912 a section titled "Corrupt Practices" stated that "We pledge our party to legislation that will compel strict limitation on all campaign contributions and expenditures, and detailed publicity of both before as well as after primaries and elections."

There is still room for being optimistic that this time it will not be different and that the anti-capture forces will be up to the challenge ahead of them. But this optimism depends fundamentally on the willingness of many citizens not to be complacent and to risk life and livelihood to defend inclusive institutions. It is this that makes the OWS movement, despite its many flaws, a hopeful sign of the resilience of our institutions.

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