



STACKED DECK

**How the Dominance of Politics by the Affluent & Business
Undermines Economic Mobility in America**

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About Dēmos

Dēmos is a public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy.

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INTRODUCTION

If there is one idea that nearly all Americans can agree on, it is that everyone should have a chance to improve themselves and do better in life. At the same time, Americans strongly believe in political equality—the view that civic life should be a level playing field and everyone should have a voice in the decisions that affect their lives.

Yet today, there is wide recognition that America is not living up to either of these cornerstone ideals. A host of indicators show that the middle class is struggling—and worse, shrinking—and that upward mobility is elusive for many Americans.¹ Meanwhile, evidence abounds that the U.S. political system is increasingly dominated by wealthy interests, and strong majorities of the public believe—rightly—that the deck is stacked against ordinary voters.²

What is less understood, though, is the interplay between these two problems—the way that a tilting of political life toward business and the wealthy has served to undermine economic mobility. As private interests have come to wield more influence over public policy, with ever larger sums of money shaping elections and the policymaking process, our political system has become less responsive to those looking for a fair shot to improve their lives and move upward. Recent developments have aggravated this long emerging trend. In particular, the *Citizens United* ruling and the rise

of Super PACs have expanded the ability of wealthy individuals and corporations to shape election outcomes and set the policy agenda in Washington and state capitals across the country.

These inequities in political power would still be unfair, but might not matter as much, if the interests of the affluent and corporations were closely aligned with those of the general public. But this is often not the case. Wealthy interests are keenly focused on concerns not shared by the rest of the American public, like keeping taxes low on capital gains, and often oppose policies that would foster upward mobility among low-income citizens, such as raising the minimum wage. Even when the wealthy do share the public's strong enthusiasm for policies that help Americans get ahead, such as spending on higher education, they often prioritize tax cuts or deficit reduction in ways that squeeze the resources available for these very policies.

“Wealthy interests are keenly focused on concerns not shared by the rest of the American public.”

This paper offers an overview of the interplay between declining upward mobility and growing political inequality, which we show is a self-reinforcing phenomenon. It reports on a growing body of new research on this nexus and offers a set of policy recommendations to reduce both political and economic inequality.

WEALTH & INFLUENCE

Concentrated wealth has long posed significant dangers to America's egalitarian ideals. This challenge animated progressive reformers over a century ago and, since the 1980s, has been a growing topic of discussion amid rising economic inequality. Yet now, thanks to scholarly research conducted over the past decade, along with analysis of recent trends and events, we can achieve a deeper understanding of exactly how today's growing chasm of income and wealth translates into diminished opportunities for Americans lower down the economic ladder.³

Below we discuss seven disturbing facts about the nexus between wealth and influence in America today:

- The affluent have different priorities
- The affluent don't prioritize policies for upward mobility
- The priorities of lower income Americans are often ignored or blocked
- The affluent participate more in politics and civic life
- The affluent have more influence over policy outcomes
- The affluent have more ways to shape politics
- Political and economic inequality are mutually reinforcing

THE AFFLUENT HAVE DIFFERENT PRIORITIES

Substantial research now documents the different ways in which the wealthy and the general public view policy issues. Significant differences between the two groups exist in such areas as tax and budget issues, trade and globalization, regulation of business, labor, the social safety net, and the overall role of government.

A recent survey funded by the Russell Sage Foundation found that the policy preferences of the wealthy (average income over \$1 million annually) vary widely from those of the general public.⁴ As Table 1 shows below, this survey found that the general public is more open than the wealthy to a variety of policies designed to reduce inequality and strengthen economic opportunity, including: raising the minimum wage, increasing the Earned Income Tax Credit, providing generous unemployment benefits, and directly creating jobs. For example, only 40 percent of the wealthy think the minimum wage should be high enough to prevent full-time workers from being in poverty while 78 percent of the general public holds this view. Affluent voters are also less supportive of labor unions and less likely to support laws that make it easier for workers to join unions—even as research shows that unions are crucial to enabling people to work their way into the middle class.⁵

Additionally, an earlier study by the Center for American Progress (CAP) found that 73 percent of low-income Americans (those making under \$20,000) believed that the gap between rich and poor should be reduced, even if it means higher taxes for the wealthy, compared to 54 percent of Americans making over \$100,000.⁶ Likewise, 84 percent of low-income Americans believed that the federal government should guarantee affordable health coverage for every American, compared to 59 percent of affluent respondents who held this view. The CAP survey also found that just 36 percent of respondents making over \$100,000 agreed that “labor unions play a positive role in our economy”—compared to 55 percent of those making under \$20,000.

A notable area where the affluent have different priorities is deficit reduction, which wealthier Americans tend to see as more important than other economic priorities, such as job creation. Polls over the past

two years have repeatedly found that while many Americans are worried about deficits and the national debt, addressing unemployment and improving the economy has consistently been a bigger priority for the public. For example, a June 2010 NBC News/Wall Street Journal Poll found that 33 percent of Americans named job creation and economic growth as their top priority; 15 percent named “deficit and government spending.” Most polls throughout 2011 and 2012 found that the public remained focused on jobs and the economy over the deficit by two-

TABLE 1: JOBS & INCOME POLICY PREFERENCES OF AFFLUENT VS. GENERAL PUBLIC

Policy	% Wealthy in Favor	% General Public in Favor
Government must see that no one is without food, clothing or shelter	43%	68%
Minimum wage high enough so that no family with a full-time worker falls below official poverty line	40%	78%
The government should provide a decent standard of living for the unemployed	23%	50%
The government in Washington ought to see to it that everyone who wants to work can find a job	19%	68%
The Earned Income Tax Credit (EITC) should be increased rather than decreased or kept the same	13%	49%
The federal government should provide jobs for everyone able and willing to work who cannot find a job in private employment	8%	53%

SOURCE: Benjamin I. Page, Larry M. Bartels, and Jason Seawright, “*Democracy and the Policy Preferences of Wealthy Americans*,” *Perspectives on Politics* [italicized] 11:1, pp. 51-73.

to-one margins or more.⁷ Exit polling on Election Day found that 59 percent of voters rated the economy as the most important issue facing the country, compared to 15 percent who named the deficit.⁸

Yet if jobs and economic growth has clearly been the top priority of most Americans, this does not appear to be the case for affluent Americans. For example, a September 2012 survey by the *Economist* magazine found that respondents making over \$100,000 annually were twice as likely to name the budget deficit as the most important issue in deciding how they would vote than middle or lower income respondents.⁹ The 2011 Russell Sage Foundation study also explored how the wealthy respondents ranked different policies in terms of priority. The survey found that 87 percent of affluent households believed budget deficits were a “very important” problem, the highest percentage of all listed perceived problems. The authors of the study comment further:

One third (32%) of all the open-ended responses mentioned budget deficits or excessive government spending, far more than mentioned any other issue. At various points in our interviews, respondents spontaneously commented on “government over-spending.” Unmistakably, deficits are a major concern for most of our respondents. Nearly as many of our respondents (84% and 79%, respectively) called unemployment and education “very important” problems. However, each of these problems was mentioned as the most important by only 11%, making them a distant second to budget deficits among the concerns of wealthy Americans.

One reason that the affluent may be less concerned about job creation than deficit reduction is that they have generally been less affected by high unemployment rates and the economic downturn. Unemployment rates vary greatly based on educational attainment, which also corresponds to affluence. The unemployment rate for those with less than a high school diploma was 12 percent in January 2013.¹⁰ The

unemployment rate in January 2013 for those with a bachelor's degree or higher, however, is 3.7 percent—a rate which is considered virtually full employment by most economists. More generally, upper income Americans were less negatively affected by the Great Recession and have recovered more quickly.

“Yet if jobs and economic growth has clearly been the top priority of most Americans, this does not appear to be the case for affluent Americans.”

In addition to these factors, the affluent are significantly less inclined than other groups of Americans to support an active role for government in addressing mass unemployment. As the authors of the 2011 survey of wealthy Americans report:

Most striking, given the high importance that the wealthy attribute to the problem of unemployment, is their overwhelming rejection of federal government action to help with jobs. Only 19%* of the wealthy say that the government in Washington ought to “see to it” that everyone who wants to work can find a job [presumably a private job]; 81% oppose this. A bare 8% say the federal government should provide jobs [presumably public jobs] for everyone able and willing to work who cannot find a job in private employment. Fully 91% disagree.

* *Democracy and the Policy Preferences of Wealthy Americans* at: <http://faculty.wcas.northwestern.edu/~jnd260/cab/CAB2012%20-%20Page1.pdf>

THE AFFLUENT DON'T PRIORITIZE POLICIES FOR UPWARD MOBILITY

Even when the affluent do support policies for upward mobility, they often do not prioritize these policies over other goals, such as lower taxes. A case in point is higher education. While affluent Americans and business leaders broadly support access to higher education, along with the general public,¹¹ spending in this area has been cut in some states where governors have prioritized cutting taxes—with strong support from wealthy voters and corporate interests.

In Florida, for example, Governor Rick Scott—who secured office with a majority of the affluent vote in 2010—has continually chosen to prioritize tax cuts for corporations over investing in higher education.¹² In order to fill a \$2 billion budget deficit in 2011, the state chose to cut \$300 million from higher education and slashed \$350 million from the Bright Futures scholarship program, which provides higher education financial assistance to students planning to attend Florida institutions.¹³ Florida's steep higher education funding cuts are a relatively recent phenomenon. Previous to FY 2007, the state's support for higher education rose steadily for 15 years.¹⁴ Between FY 2007 and FY 2012, however, higher education funding was cut 22 percent and FY 2013 saw a further \$20 million reduction in funding. The education budget cuts are coming at a time when Florida's young adult population is considerably expanding and a larger share of students are seeking to pursue higher education at the state's public colleges and universities.¹⁵

At the same time he spearheaded steep cuts to education, Governor Scott pushed substantial tax cuts for corporations. In FY 2013, the state cut corporate taxes by \$750 million and will continue to cut taxes every year for three years, totaling a \$2.5 billion tax cut.¹⁶ AT&T and Verizon were particularly successful, as the state cut their taxes anywhere from \$35 million to \$300 million per year. AT&T spent \$1.68 million on lobbying the state legislature and deployed 74 Florida lobbyists, more than any other company in 2012. Given their potential tax savings, the lobbying expenditures were a smart investment for AT&T.

In addition to winning the affluent vote when he ran for office, Rick Scott is himself independently wealthy, having made his money from running several hospitals through his company, Columbia Healthcare Corp, which eventually became Columbia/HCA Healthcare Corp.¹⁷ He spent \$73 million of his own money for his gubernatorial campaign and claimed that made him independent of special interests.¹⁸ In total, Scott's campaign spent \$78 million, compared to just \$10.5 million spent by his opponent.¹⁹ Though Scott largely financed his election, his \$3 million inauguration, thrown during the depths of the Great Recession, was paid for entirely by corporate contributions. Companies with a stake in the Medicaid debate contributed a total of \$800,000 and real estate developers and investors contributed more than \$250,000.²⁰

While Scott financed a large portion of his last campaign, his allies formed a Super PAC, Let's Get to Work, for his re-election, which allows him to circumvent the state's limit of \$500 for individual contributions.²¹ Let's Get to Work has already raised millions of dollars, much of which comes from large donations from corporate interests, particularly health care, insurance, and agribusiness, and much comes from a small number of very wealthy individuals, including a \$250,000 contribution from Sheldon Adelson.²²

In other states, governors elected with strong support from affluent voters and business groups have prioritized tax cuts over funding for primary and secondary public education—despite the fact that the wealthy and corporate executives ostensibly support such education spending. In New Jersey, for example, Governor Chris Christie—whom affluent voters supported by a 21-point margin when he won election in 2009²³—spearheaded cuts to public education while simultaneously rolling back a surtax on the state's wealthiest households. While Christie ran under the public financing program, he still raised \$6 million, nearly half of which came from donations of \$3,400, the state's contribution limit.²⁴ In 2011, the governor and New Jersey legislature

locked in new tax cuts for businesses that cost \$184 million in FY 2012, \$374 million in FY 2013 and will total \$2.35 billion over five years. On top of this, the state passed an additional \$882 million in breaks for specific corporations.²⁵ Since taking office, Christie has doled out over \$1.57 billion in tax breaks.²⁶

Meanwhile, in 2010, Christie cut aid to school districts by \$475 million and cut education aid by another \$820 million in 2011.²⁷ Christie cut New Jersey's public school districts funding so deeply that education advocates successfully sued the state for failing to meet minimum education standards.²⁸ A judge ruled that the state's funding formula underfunded schools by \$1.6 billion over two years (nearly the same amount Christie has given away in corporate tax breaks) and that the burden of the cuts fell disproportionately on poorer districts. Polling among registered voters in the state showed that 59 percent opposed the steep education cuts.²⁹

A similar story emerges from Pennsylvania, where Governor Tom Corbett and his allies in the state legislature cut roughly \$860 million from education funding in 2011–2012.³⁰ Pennsylvania continued to enact tax cuts for businesses and as a result, the state will lose \$2.4 billion in revenue in 2013 from business tax cuts, three times as much as 10 years ago.³¹ The FY 2013 budget continued this trend by slashing \$345 million in financial assistance for college students and cutting over \$1.1 billion from higher education funding, yet still including \$300 million in business tax cuts.³²

Corbett won office in 2010 with a 22 percent margin of support among the state's most affluent voters.³³ Corbett raised \$4 million more than his opponent (\$58.4 million vs. \$54.4 million).³⁴ Nearly \$7 million came from just 92 donations and over \$8 million came from only three industries.

THE PRIORITIES OF LOWER INCOME AMERICANS ARE OFTEN IGNORED OR BLOCKED

While low-income Americans are voting at the highest rates since the mid-1960s, they are still underrepresented in civic life and struggle to be heard in the political process. Low-income voters participated at far lower levels than affluent voters—as much as 30 percentage points less—in the 2008 and 2010 elections. While households earning less than \$15,000 made up 13 percent of all households in 2009, these voters made up just 6 percent of the electorate in the 2008 election.³⁵ According to the Census, more than 11 million Americans from households making under \$30,000 reported not voting in the 2008 election and an even greater number, 15 million, didn't vote in 2010—a year where numerous federal and state representatives won office explicitly vowing to reduce spending on policies that benefit lower income Americans.³⁶ Low-income Americans are even less likely to contribute to political campaigns or engage in a range of other political activities, as detailed further in the following section.

Depressed rates of political participation, and the huge role of money in politics, carry major downsides for lower-income populations and is of economic consequence given how many low-income Americans and nonvoters depend on government assistance and, more importantly, favor policies to strengthen the social safety net or create new pathways to the middle class. For example, the 2008 American National Election Study found that 17 percent of people who were politically inactive received means-tested government benefits, compared to just 2 percent of campaign contributors. Among those inactives, 59 percent favored universal health care and 27 percent lacked health insurance. In contrast, just 44 percent of campaign contributors favored universal healthcare and 7 percent had no health insurance.³⁷

The passage of the Affordable Care Act in 2010 is evidence that the U.S. political system does not always ignore the interests of low-income Americans, and there are other examples of elected leaders being responsive to the needs of this group, such as expansion of the Earned Income Tax Credit. More commonly, though, as documented by the

research of the political scientists Martin Gilens and Larry Bartels, the priorities of low-income Americans tend to be ignored by elected leaders—even when those priorities enjoy strong public backing.

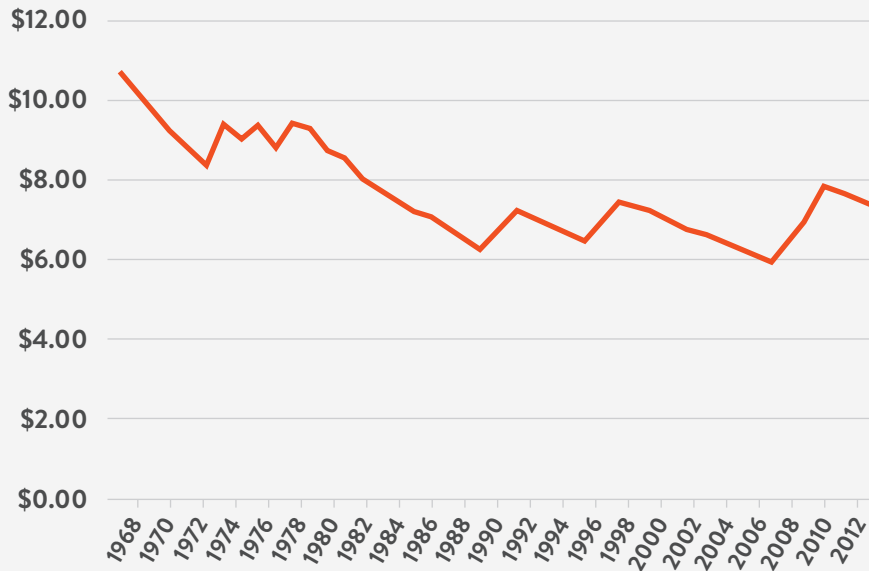
The minimum wage is a case in point. Despite the important role the minimum wage plays in economic mobility, Congress has allowed the wage to decline steadily in real terms over the past four decades.

In 2011, 1.7 million workers received the minimum wage and roughly 2.2 million received below minimum wage.³⁸ The federal minimum wage was increased to \$5.15 per hour in 1997 and stayed at that rate for 10 years before Congress finally enacted a plan in 2007 to gradually step up the wage by about 70 cents a year until it reached \$7.25 per hour in 2009.³⁹ Even with the increase, receiving the minimum wage and working 40 hours a week for 52 weeks equals gross annual wages of only \$15,080, which is below the poverty line for a 2-person household.⁴⁰ For tipped workers, the minimum wage is even lower. Workers that regularly receive just \$30 per month in tips can be paid a direct wage of \$2.13 per hour.⁴¹ The minimum wage for tipped workers has not increased since 1991.⁴²

“...the priorities of low income Americans tend to be ignored by elected leaders—even when those priorities enjoy strong public backing.”

Even with the series of minimum wage increases, adjusting for inflation shows that the real value of the federal minimum wage fell roughly 30 percent since 1968, as shown below in Figure 1.⁴³ If minimum wage increased at the same rate as inflation, it would be equal to \$10.55 per hour, far above the current \$7.25. If the minimum wage increased even just at the rate that average wages have increased, it would be \$8.40 per hour.⁴⁴

FIGURE 1: REAL VALUE OF THE FEDERAL MINIMUM WAGE,
1968–2012 (IN 2012 DOLLARS)



SOURCE: U.S. Department of Labor- Wage and Hour Division, Adjusted for inflation with the Consumer Price Index

Public support for raising the minimum wage is striking. A recent poll found that nearly three-quarters of likely voters (73 percent) support not just increasing the minimum wage to \$10 in 2014 but also indexing it to inflation, which would result in automatic increases even absent congressional action.⁴⁵ Another poll found seventy percent of likely voters supported raising the minimum wage to \$10.38.⁴⁶ In fact, a large majority of the general public (78 percent) believes that the minimum wage should be high enough so that no family with a full-time worker falls below the official poverty line.⁴⁷ In contrast, only 40 percent of the wealthy support a minimum wage that keeps a family above the poverty line.

While raising the minimum wage is very popular with the public and would confer major benefits on low-income households, it would impose costs on business owners and corporations—groups that are far better represented in the political process. These businesses, or individuals associated with them, spend significant amounts of money on elections, whereas minimum wage households rarely make political contributions and certainly do not make large ones.

For example, the U.S. Chamber of Commerce, which strongly opposes raising the minimum wage, spent at least \$36.1 million directly on election activities in the 2012 cycle⁴⁸—a fraction of the money spent by the corporations associated with the Chamber and individuals who work for them. Candidates, who understand that fundraising is essential to a successful campaign, have a significant incentive to oppose raising the minimum wage and little or no financial incentive to support it. This example shows how our current campaign finance system allows the donor class to set the agenda, or, in this case, keep items off the agenda.

Organizations that oppose raising the minimum wage also spent significantly more money lobbying Congress than did those in support. For example, the Chamber spent more than \$53 million on lobbying in 2007,⁴⁹ when the minimum wage was last debated in Congress, and \$66 million in 2011.⁵⁰ A number of other business associations – such as the Business Roundtable and the National Federation of Independent Businesses—also spend significant sums, as do individual corporations that are strongly affected by the minimum wage law. CVS, a major employer of low-wage workers with over 7,000 stores nationwide, spent nearly \$10 million on lobbying in 2011. Wal-Mart spent \$7.8 million.⁵¹ All told, “miscellaneous business”—a category that includes business associations, retailers, and manufacturers, but not healthcare, construction, and other sectors—spent nearly a half billion dollars on lobbying in 2011. That is roughly ten times what all labor unions spent on lobbying that same year.⁵²

A close look at the data on lobbying expenditures suggests that low-wage workers, who constitute as much as a fifth of the U.S. labor force, have very few paid advocates in the corridors of Washington. Labor unions often speak up for these Americans, but otherwise, lobbying by groups that explicitly advocate for low-wage workers or non-elderly low-income people is so small that it doesn't even merit its own category in records compiled by the Center for Responsive Politics.

Data presented in *Unheavenly Chorus*, a major 2012 study of political inequality by a team of political scientists—Kay Schlozman, Sidney Verba, and Henry E. Brady⁵³—suggests there is significant organized interest activity in Washington on the part of the poor and historically marginalized groups. But that activity is negligible in relative terms. Indeed, after analyzing a massive volume of organized activity—including \$3 billion in spending on lobbying and 12,000 congressional testimonies—the authors find that “social welfare” and labor organization accounted for just 2 percent of all activity aimed at influencing policymaking. Corporations, along with trade associations and business groups, accounted for 48 percent.⁵⁴

This lobbying imbalance exacerbates the problem of elected officials being accountable to wealthy campaign contributors by ensuring that once in office, these officials are exposed to a constant flow of information supporting the donor class' views and positions.

THE AFFLUENT PARTICIPATE MORE IN POLITICS AND CIVIC LIFE

It has long been established that affluent Americans participate more in civic life than other groups. While this gap has narrowed in some areas—most notably voting, with more low-income citizens participating—it has grown in important ways thanks to changes in campaign finance law that have enabled the affluent to contribute more money to sway elections.

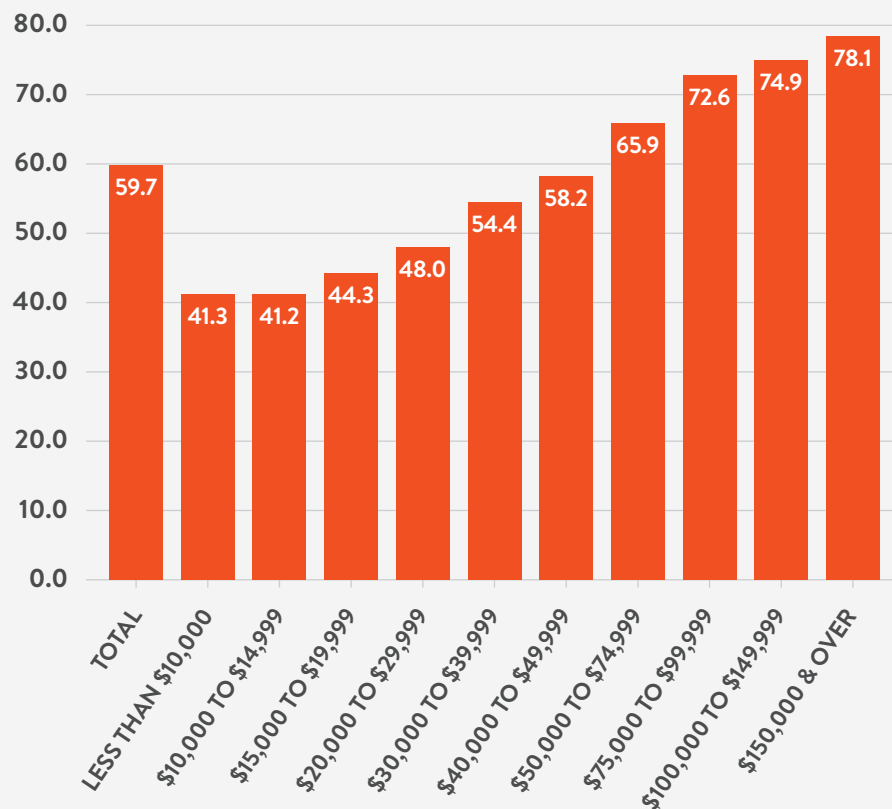
In terms of participation, surveys show that affluent Americans are more likely to engage in nearly every kind of political activity: they vote at higher rates, contribute more to campaigns, are more likely to contact an elected representative, join an organized interest group, work for a political candidate, discuss politics with friends, and so on.⁵⁵ These gaps are documented in *The Unheavenly Chorus*, which updates similar findings in a landmark 1995 study, noting that “unequal political voice is a persistent feature of American politics.”⁵⁶

The scholars explain major differences in civic participation by socioeconomic status by pointing to the greater resources that affluent Americans bring to this sphere, including: knowledge and skills of how politics works; money to contribute to campaigns and location in social networks that can facilitate participation. The affluent also have a greater sense of efficacy and are more likely to believe that their voices will be heard in civic life.

All forms of political participation matter, but voting is among the most concrete ways that citizens influence public policy—and the wealthier are far more likely to vote. According to the Census Bureau, 81.6 percent of Americans making over \$150,000 reported that they voted in the 2008 presidential election.⁵⁷ In contrast, roughly half of citizens making under \$30,000 reported voting. The gap in voter turnout in 2010 was slightly larger, with affluent citizens voting at rates as high as 35 percentage points more than low-income citizens.⁵⁸ (The gap between affluent voters and those making under \$50,000 was also significant—roughly 16 percentage points in the 2008 election.)

Turnout rates among low-income Americans have increased in recent years, with these citizens voting at higher levels in recent elections than at any since the mid-1960s, as shown in Figure 2.⁵⁹ As a result, the ratio of affluent voters to low-income voters—has narrowed. The ratio for other forums of political activity has also narrowed in recent years. Still, political participation rates by low-income Americans are alarmingly low, and our antiquated voting system contributes to this problem. The system is overly bureaucratic with unnecessarily restrictive

FIGURE 2: VOTER TURNOUT BY INCOME, 2008 US PRESIDENTIAL ELECTION.



SOURCE: US Census Bureau

registration procedures, which work to dissuade people from voting.⁶⁰ Something as simple and common as moving within the same state jeopardizes voter eligibility due to registration requirements. Studies show that people of color, young people, and lower-income people move more often, leaving them more vulnerable to not being properly registered to vote.⁶¹

The imbalance in campaign contributions is even more skewed. Just 0.07 percent of the U.S. population made campaign donations of \$2,500 or more in 2012 (as of December 1), yet this group had contributed a total of \$1.4 billion to both presidential candidates.⁶² In contrast, the total haul from a much larger pool of donors contributing between \$200-\$2,500 was just \$485.7 million.⁶³ And, contributions from at least 3.7 million small donors who gave less than \$200 to President Obama and Mitt Romney added up to just \$313 million.⁶⁴ Most donations also come from majority white, wealthy neighborhoods. Over 90 percent of donations come from majority white neighborhoods while only four, three and less than one percent came from Latino, African American and Asian neighborhoods respectively.⁶⁵

“The Adelsons gave more to shape the 2012 federal elections than all the combined contributions from residents in 12 states...”

The imbalance is even more pronounced when accounting for contributions to Super PACs.⁶⁶ During the 2012 election cycle, Sheldon and Miriam Adelson gave a combined \$91.8 million to Super PACs. It would take more than 322,000 average American families donating an equivalent share of their wealth to match the Adelsons’ giving. The Adelsons gave more to shape the 2012 federal elections than all the combined contributions from residents in 12 states: Alaska, Delaware,

Idaho, Maine, Mississippi, Montana, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont, and West Virginia.⁶⁷ Although Super PACs funded by conservatives were widely seen as having limited impact in 2012, many of these same donors did have a major impact in the 2010 election, just two years earlier, which helped secure GOP control of the House of Representatives, as well as state-level victories that enabled Republicans to engage in extensive gerrymandering after the 2010 Census.

THE AFFLUENT HAVE MORE INFLUENCE OVER POLICY OUTCOMES

The affluent don't just participate more in civic life; they also have greater influence over public policy. While that fact has long seemed obvious to many Americans, and is indicated in the examples discussed in this paper, it is only recently that political scientists have empirically documented the extent to which the affluent have more say over policy outcomes.

The most important study in this area is by the political scientist Martin Gilens, *Affluence and Influence: Economic Inequality and Political Power in America*. Gilens looked at public opinion on numerous proposed policies over the past few decades including economic, social, and foreign policy issues. By comparing the policy preferences of different income groups with actual policy outcomes, he was able to determine how much influence different groups have had over policy. Gilens writes of his findings: "The American government does respond to the public's preferences, but that responsiveness is strongly tilted toward the most affluent citizens. Indeed, under most circumstances, 'the preferences of the vast majority of Americans appear to have essentially no impact on which policies the government does or doesn't adopt.'" ⁶⁸ Gilens shows that, in many cases, public policy outcomes would have been quite different if Congress and the president had been equally responsive to all income groups.

The affluent don't diverge from ordinary Americans on all issues. But notably, Gilens found that "the starkest difference in responsiveness to the affluent and the middle class occurs on economic policy, a consequence of high-income Americans' stronger opposition to taxes and corporate regulation. . ." ⁶⁹ In other words, on core issues of how the economy works and how fair it is, the affluent wield the greatest influence. Research by the political scientist Larry Bartels finds that, in contrast to the affluent, low-income Americans have little or any influence over policy outcomes. As he writes in his 2008 study *Unequal Democracy* "the preferences of people in the bottom third of the income distribution have no apparent impact on the behavior of their elected officials." ⁷⁰

The tilted scales of influence are especially significant given the impact of economic policy in the lives of different income groups and people of color. As the graph below shows, the majority of African Americans and nearly half of Latino Americans earn too little to impact their elected representatives.

FIGURE 3: SHARE OF U.S. HOUSEHOLDS IN THE LOWEST THIRD OF INCOME DISTRIBUTION

53% of African Americans



45% of Latino Americans



32% of White Americans



30% of Asian Americans



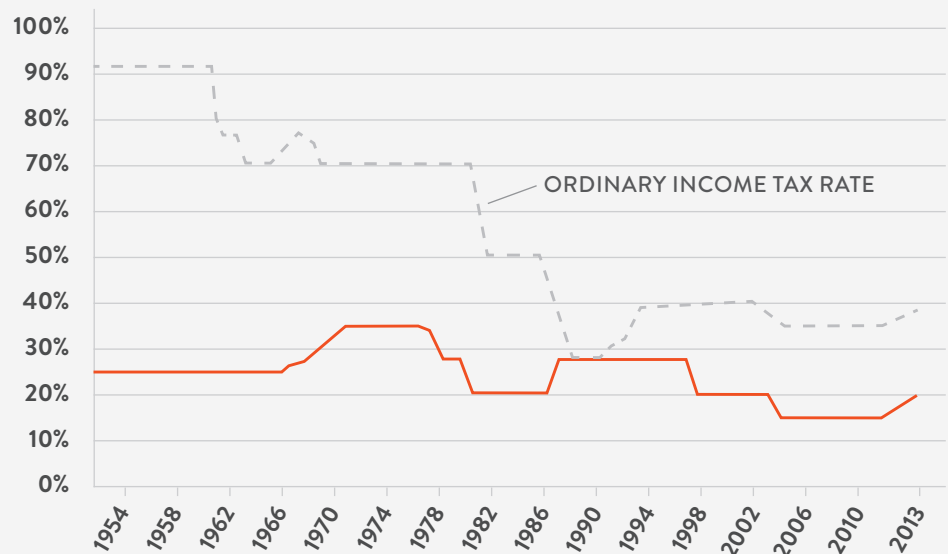
SOURCE: Dēmos calculations of Current Population Survey

Poorer Americans have the least influence over elected officials even though their basic financial security and opportunities for advancement are highly contingent on government policies, such as the quality of public education and availability of college grants, rules on collective bargaining, minimum wage and overtime, options for public transportation and affordable housing, not to mention healthcare, tax credits to supplement low-wage work, and more. Affluent Americans' economic success is also contingent on government policies in ways that are less visible but can powerfully reinforce advantage, especially through tax expenditures, bankruptcy laws, trade regimes, monetary policy and financial regulation.

Thanks to their outsized clout, affluent Americans have often secured preferential public policy changes that are not popular with the general public. A prime example is the successful campaign over the past two decades to lower taxes on capital gains and dividends, and keep the rates low. Income from capital gains and dividends are highly concentrated among the affluent. The Center on Budget and Policy Priorities has estimated that in 2012, the top 1 percent of households received 71 percent of all capital gains.⁷¹

Polls have long shown that a majority of Americans think that capital gains should be taxed at the same rate as income.⁷² More broadly, most people think the rich should generally pay more in taxes.⁷³ The Buffett Rule, President Obama's proposal to raise taxes on wealthy individuals who receive much of their income from investments, is strongly supported by the public.⁷⁴

FIGURE 4: MAXIMUM TAX RATES ON CAPITAL GAINS & ORDINARY INCOME, 1954–2013



SOURCE: Department of the Treasury and Joint Committee on Taxation

Yet, despite broad citizen opposition to the idea of lowering taxes on the wealthy, Congress has taken repeated action to lower the capital gains tax rate. It lowered taxes on capital gains in 1997, again in 2001, and once more in 2003. (Congress also sharply cut the top rate on dividend income in 2003.) As a result of these changes, the tax rate on capital gains reached a near-record low during the late 1990s up through 2012. The top tax rate for capital gains was increased at the end of 2012 to 20 percent, as part of the “fiscal cliff” deal.⁷⁵ Figure 4 plots the increases and decreases in the capital gains tax rate, concluding with the current rate of 20 percent.

The small percentage of households that benefit from a low capital gains tax rate happens to overlap almost perfectly with the “donor class,” the wealthy individuals who comprise a tiny percentage of the public and yet account for the majority of campaign donations.⁷⁶ Of those who contribute more than \$200 to a campaign, 85 percent have annual household incomes of \$100,000 or more. An annual income of \$100,000 puts a household in the top 20 percent of income earners—the same class

“The small percentage of households that benefit from a low capital gains tax rate happens to overlap almost perfectly with the ‘donor class’...”

that receives 94 percent of capital gains.⁷⁷ Keeping the capital gains rate low is also the top tax priority for the U.S. Chamber of Commerce and other business groups.⁷⁸ In 2011 and 2012, in addition to the Chamber, over 80 interests lobbied on the House bill to make the preferential capital gains tax rate permanent.⁷⁹

Affluent Americans with taxable capital gains are not just better represented by lobbyists in Washington; they also are disproportionately represented in today’s electorate because they vote at much higher rates, as we discuss above. In 2009, households making over \$100,000 constituted 20 percent of all households in the U.S.—yet voters from such households made up 26 percent of the electorate in 2008.⁸⁰

THE WEALTHY HAVE MORE WAYS TO SHAPE POLITICS

The affluent have always participated more politically and corporations have always sought to shape public policy, but one difference today is that wealthy interests have more ways to amplify their voices in civic life. In particular, the breakdown of the U.S. campaign finance system, especially since the *Citizens United* ruling, has allowed these interests not just to contribute greater sums of money to sway elections, but also to do so anonymously—which is appealing to many corporate donors. Even before *Citizens United* and the rise of Super PACs, money was finding new ways into the electoral process thanks to creatively structured 527 and 501(c)4 groups.

“Corporations and business groups spend vastly more on lobbying than organizations that represent large constituencies of ordinary Americans.”

One of the most successful and adaptive of such groups in recent times is the Club for Growth, which has sought to move the Republican Party rightward on economic and fiscal policy with funding from wealthy individuals and businesses. The Club has operated through several different legal structures since its founding in 1999, including a 501(c)4, a regular Political Action Committee, a 527, and most recently as a Super PAC. In 2012, the Club spent \$20.3 million influencing electoral races.⁸¹

In addition, the wealthy and business interests exercise outsized influence over policy making through lobbying. Corporations and business groups spend vastly more on lobbying than organizations that represent large constituencies of ordinary Americans. For example, the U.S. Chamber of Commerce has spent \$886 million on lobbying the federal government between 1998 and 2012—compared to \$518 million by

all labor unions. The top three healthcare industry groups in Washington—representing doctors, hospitals, and drugmakers—spent three times as much on lobbying during this period as AARP.⁸²

The lobbying of elected officials and policymakers, while hardly new to Washington, is now bankrolled at a much higher level and lobbyists have become more sophisticated at pulling different levers of power to influence policy outcomes. For example, to block full implementation of the Dodd-Frank law reforming Wall Street, the financial industry has increasingly turned to the courts to challenge the cost-benefit analyses of proposed rules.⁸³ A well-financed and novel legal challenge was also mounted against the Affordable Care Act, and even though the Supreme Court upheld the law, industry groups have continued to bankroll efforts to block implementation of the law at the state level.⁸⁴

In addition, wealthy interests have become more adept at influencing elections and the policy process through spending on legal groups, think tanks, and “Astroturf” advocacy organizations—an investment they have made for decades, far before progressive interests began to do so.⁸⁵ Seemingly neutral public policy organizations, such as the Competitive Enterprise Institute and the Employment Policies Institute, provide wealthy individuals and corporations with a vehicle for producing scholarship and publications that bolsters their viewpoints. Many of these same interests also fund organizations like FreedomWorks and the Consumer Rights League that work to create grassroots support for policy change—or, in some cases, the illusion of such support. A single public relations firm led by Rick Berman has created numerous Astroturf groups and initiatives recent years on behalf of wealthy interests.⁸⁶

Finally, wealthy interests have mastered new strategies for influencing public policy at the state level. These include introducing and financing ballot initiatives, pumping unprecedented sums of money into judicial elections, financing state think tanks and Astroturf groups, and choreographing legislative victories through the American Legislative Exchange Council (ALEC). State-based efforts to shape the make-up of the voting electorate, by financing voter suppression groups like True the Vote, can influence outcomes at the national, state, and local level. Such efforts have become more widespread and sophisticated in recent years, with funding from various wealthy interests. In North Carolina, the conservative multimillionaire Art Pope has employed a variety of different funding strategies to become one of the influential individuals in that state.⁸⁷

POLITICAL AND ECONOMIC INEQUALITY ARE MUTUALLY REINFORCING

Growing economic inequality is typically blamed on structural changes in the economy, such as globalization. But it is becoming ever clearer that the tilted playing field of U.S. politics, with affluent voices speaking most loudly, is itself a driver of inequality. Most notably, successful lobbying efforts by wealthy interests to lower taxes on capital gains and dividends since the mid-1990s—and then keep them low—has exacerbated income inequality. Indeed, as a study by the Congressional Research Service found, looking at the period between 1996 and 2006, “Changes in capital gains and dividends were the largest contributor to the increase in the overall income inequality” between 1996 and 2006.⁸⁸

Likewise, a rolling back of regulations in ways favored by influential business interests has stripped away key protections for the middle class and made it harder for lower income groups to get ahead—with an explosion of usurious or predatory lending as a prime example. And the deeply negative effects of globalization on non-college workers, so often seen as an inevitable tectonic shift, has been greatly exacerbated by the preferences of an affluent elite which has promoted and benefitted from trade arrangements—even as other groups of Americans have suffered economic harm. In their book *Winner-Take-All Politics*, the political scientists Jacob Hacker and Paul Pierson broadly argue that inequality is largely the result of public policy decisions that reflect undue influence by the wealthy over the U.S. political system.

“Over recent decades, the wealthy have translated their wealth into political clout and used that clout to increase their wealth.”

Economic and political inequality work to reinforce each other. Over recent decades, the wealthy have translated their wealth into political clout, and used that clout to increase their wealth—which in turn has further increased their ability to secure yet more special treatment

through public policy. Among other things, rising economic inequality has both expanded the assets in the hands of the wealthy and increased the overall number of wealthy people in the U.S. who have the capacity to sway politics at either the national, state, or local level—financing candidates, ballot initiatives, or their own political careers. In 1982, the first Forbes 400 list of the 400 richest Americans included just 13 billionaires and individuals with less than \$100 million made the list. In 2012, that list was exclusively made up of billionaires. The combined net worth of the Forbes 400 in 2012 was equal to 11 percent of GDP, up from 2.8 percent in 1982.⁸⁹

At the same time, the upward shift in income has led to a huge expansion of those Americans earning above \$200,000. This mass affluence at the top of the income ladder, even as the middle class has hollowed out and poverty has risen, has also—in conjunction with higher turnout voter rates among the affluent—created a much larger block of campaign donors and well-to-do voters. In the 1992 election, for example, 6,341 Americans contributed over \$10,000 to political candidates and parties according to the Center for Responsive Politics. In 2008, there were 36,299 people who could afford to, and did, give at that same level.⁹⁰

Perhaps most troubling is the way that wealthy interests have used their resources to block reforms aimed at reducing political inequality—or bankrolled efforts to suppress voting by low-income Americans. For example, the U.S. Chamber of Commerce has repeatedly deployed its lobbying muscle to oppose campaign finance reform measures. Most recently, the Chamber helped defeat legislation that would require independent groups engaged in political activity to reveal their donors.⁹¹ The American Legislative Exchange Council, largely funded by business, played a significant role in helping pass voter ID laws in numerous states in 2011—laws that undermine participation by low-income citizens without photo ID.⁹²

CONCLUSION

There are three obvious remedies to political inequality: One, reduce the economic inequality that fuels such a large concentration of civic power in the hands of the wealthy; two, reduce the influence of big money in politics; and three draw more ordinary people into civic life as a counterbalance to concentrated wealth.

The first remedy is largely contingent on the other two, and vice versa. It is hard for the political system to reduce inequality as long as that system is dominated by wealthy interests. Yet reducing political inequality is difficult—particularly, getting money out of politics—when those who benefit from inequality have the clout to block such reforms and those on the losing end feel hopeless or are preoccupied with trying to get by.

Moreover, some recent trends have made the situation worse. Economic inequality rose in the aftermath of the financial crisis as the wealthy benefitted from a resurgent stock market and record corporate profits even as most Americans experienced declining wealth and stagnant incomes. At the same time, political inequality has been exacerbated by the *Citizens United* ruling that has allowed corporations and wealthy individuals to pump even larger sums of money into elections. While many restrictive voter ID laws and other vote suppression efforts were blocked by the courts or the Department of Justice in 2012⁹³, existing and future efforts at voter suppression pose obstacles to expanding participation by low-income citizens.

Any comprehensive effort to create a more balanced society, one where the deck isn't stacked in favor of the wealthy, must achieve progress in four main areas: restricting the influence of money in politics; increasing civic participation; making corporations accountable to a broader array of stakeholders and promoting a stronger and more diverse middle class.

Limit Money in Politics

One critical way to reduce the disproportionate influence of the wealthy on public policy is to create a system for financing election campaigns that lives up to the idea of one-person, one-vote by leveling the playing field between rich and poor and giving every American a strong voice. Such a system requires several key reforms:

- ***Amend the U.S. Constitution to restore the ability of the people to enact common-sense, content-neutral restrictions on political contributions and spending to promote political equality.*** Congress should propose an amendment or package of amendments to the U.S. Constitution to clarify that the First Amendment was never intended as a tool for use by corporations and the wealthy to dominate the political arena.
- ***Enact strict limits on the amount that wealthy individuals and interests can contribute and spend on U.S. politics.*** Millionaires, billionaires, and large corporations have no inherent right to drown out the voices of the rest of the population. After amending the Constitution or educating the next generation of Justices, Congress and states should sharply limit contributions and spending to level the playing field for all Americans.
- ***Match small contributions with public resources to empower small donors and help grassroots candidates run viable campaigns.*** Low-dollar contributions from constituents should be matched with public funds, and candidates who demonstrate their ability to mobilize support in their districts should receive a public grant to kick-start their campaigns. These measures would amplify the voices of non-wealthy citizens, encourage average Americans to participate in campaigns, change candidate incentives, and enable aspiring public servants without access to big-money networks to run viable campaigns for federal office.
- ***Encourage small political contributions by providing vouchers or tax credits.*** Encouraging millions of average-earning Americans to make small contributions can help counterbalance the influence

of the wealthy few. Several states provide refunds or tax credits for small political contributions, and the federal tax code did the same between 1972 and 1986. Past experience suggests that a well-designed program can motivate more small donors to participate. An ideal program would provide vouchers to citizens up front, eliminating disposable income as a factor in political giving.

- ***Require greater transparency around political spending.*** Congress should close existing loopholes in disclosure laws so that all money spent to influence U.S. elections (above a reasonable threshold) can be traced back to its original source. Allowing citizens to “follow the money” would help voters make informed choices and prevent wealthy interests from sponsoring nasty or misleading ads while insulated from public accountability.
- ***Strengthen rules governing lobbying to reduce the influence of well-heeled special interests.*** Congress should strengthen disclosure around lobbying and implement stronger revolving door limits that prevent former elected officials from approaching former colleagues for several years.

Protect and Expand the Freedom to Vote

A legitimate government “of the people, by the people, and for the people”⁹⁴ must vigorously promote and protect the freedom to vote so that all eligible persons can participate in self-government. But today, too many bureaucratic barriers still block the ability of millions of eligible persons to register and vote, and too many politicians are actively seeking to shrink the electorate with unnecessary and discriminatory restrictions on political participation. Reversing this trend entails:

- ***Remove Barriers to Registration and Voting***
Voter registration is a particularly important target for reform, given that almost one of four eligible Americans was not registered to vote in the period leading up to the 2012 elections. In particular, the following should be adopted:

- *Same-Day Registration:*
Implementing Same Day Voter Registration, which allows eligible individuals to register and vote at the same time, is a proven method to increase participation and turnout among eligible voters.⁹⁵ States with Same Day Registration record consistently higher voter turnout and participation than states without it.⁹⁶
- *Expand Agency Registration and Automate the Registration Process:*
States should modernize the voter registration system to remove administrative burdens and costs by taking the initiative to place eligible voters on the registration rolls rather than leaving the burden on individual citizens to navigate the voter registration process.
- *Making Registration Permanent and Portable:* Almost 36.5 million US residents moved between 2011 and 2012. Low-income individuals are twice as likely to move as those above the poverty line. Voter registration should become portable and permanent for persons who move within a state, by automatic updates to registration records as citizens change their address.
- *Protect Against Intimidation and Wrongful Challenges*
States should put measures in place to protect voters from intimidation tactics, including clear rules and procedures to protect voters from improper removal from voting rolls, intimidating behavior at polls, and deceptive practices that discourage voting.⁹⁷

Make Corporations More Responsive to the Public Interest

Corporations now define their goals very narrowly, with nearly an exclusive focus on the financial returns to shareholders. This focus helps foster greater inequality as corporations ignore the interests of workers in pursuit of maximum profits, and also leads business to exert undue influence within the political system. Several reforms are needed to create a more responsible private sector.

- *Develop a more reasonable approach to corporate personhood.* Corporations need to be understood as creations of public laws, and not as natural entities with uncontested First Amendment rights. Conferring constitutional rights on corporations makes them less accountable to the democracy and their stakeholders. As long as all the rights of the people in corporations are protected, corporations should not be spending their commercial winnings to influence the political process.
- *Corporations should be accountable to a wider array of stakeholders.* Changes in charter laws could require corporations to be accountable to actors other than shareholders. Corporations could be reformed to adopt the model of Benefit Corporations (or B-Corps), for example, which are required by law to benefit both society and shareholders and to consider how their decisions affect their employees, community, and the environment. Alternatively, corporate governance could be changed to require greater input from employees and other affected constituencies. In the more inclusive German system, employees are given seats on corporate boards.
- *Corporations could be defined in a manner that is more compatible with democratic governance.* Nonprofit corporations, in exchange for the benefits they receive from the state, are limited as to the types of political activity they can engage in. Similar standards could apply to business corporations. At the very least, there should be more transparency around corporate political spending and shareholders, along with other stakeholders, should have a greater say in how corporations engage in the political process.

Reduce Economic Inequality

Widely shared prosperity has long been recognized as critical for a strong democracy. When all citizens have a stake in society, they have an incentive to resolve political conflicts through peaceful, democratic means. Conversely, when the middle class erodes and the gulf between

the wealthy and the poor widens, politics become more polarized. Thus while an inclusive economy can be the product of democratic politics, it also helps to reinforce democracy. Building a stronger middle class that fully reflects America's diversity will require policies that:

- *Invest in human capital and education.* Investing in education and human development, ensuring that future generations are well cared for and well educated, and that working people have the time they need to be caregivers to the people they love is a key starting point for moving millions of Americans into the middle class. For example, employees who need flexibility in their work lives to care for a child or other family member often face economic hardship. A system of family leave insurance – like the successful model in California – would help insure that the birth of a child no longer leads to poverty. Investing in affordable, high-quality child care and early education would reduce educational gaps and set the groundwork for success long after school. Finally, the nation's financial aid system should be revamped to ensure that every college-qualified student has access to higher education without taking on ruinous debt.
- *Increase employees' power in the workplace.* Since the 1970s, a growing share of share of national income has gone to corporate profits while the proportion going to labor compensation has decreased. This shift has greatly accelerated in the last decade. To reverse the trend, employees need more power in the workplace. The bottom of the labor market should be bolstered by raising the minimum wage, guaranteeing paid sick days to working people, and ensuring that worker protections are effective and apply to everyone. At the same time, weakened labor laws should be reconstituted so that Americans can exercise their right to organize unions and negotiate for pay and benefits that will allow them to enter the middle class.

Finally, the U.S. should create a short-term public jobs program and long-term public investment plan to promote full employment.

- *Use tax policy to strengthen and expand the middle class.* Too often, the nation's tax policy bolsters the already wealthy rather than supporting Americans trying to work their way into the middle class. A more progressive tax system could increase economic mobility and reduce inequality. The Earned Income Tax Credit and the Child Tax Credit, which benefit low-income workers and their families, should be expanded. To ensure that the home mortgage tax credit helps middle-class families rather than subsidizing the super-wealthy, its value should be capped. Meanwhile taxes on capital gains and dividends – income which disproportionately flows to the wealthiest Americans – should be increased, and corporate tax loopholes should be eliminated. To reduce the transfer of tremendous wealth from one generation to the next, estate taxes should be increased.
- *Enable Americans to build assets.* Owning assets – from a retirement account, to a home, to an emergency savings fund – is crucial to middle-class security. Yet American families have lost trillions of dollars in home equity as a result of the housing crash, and one in three say that if they lost their jobs, they could not make housing payments for more than a month. To help distressed homeowners, a new public agency should be established to acquire and refinance under-water mortgages. To increase retirement security, Social Security should be safeguarded and supplemented with a system of voluntary annuitized pensions that guarantee a minimum rate of return. And to ensure that the predatory lending that drains pocketbooks is halted, federal usury limits should be established for all forms of lending and bankruptcy laws should be rewritten to provide greater relief to student borrowers and homeowners.

NOTES

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- ⁴ Benjamin I. Page, Larry M. Bartels, and Jason Seawright, "Democracy and the Policy Preferences of Wealthy Americans," *Perspectives on Politics* 11:1, pp. 51-73.
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- ⁷ See *Americans Want Next President to Prioritize Jobs, Corruption*, at <http://www.gallup.com/poll/156347/americans-next-president-prioritize-jobs-corruption.aspx>
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- ¹² See *Exit Polls*, at <http://www.cnn.com/ELECTION/2010/results/polls/#val=FLG00p1>
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