

# AMERICAN ARISTOCRACY

Nicholas D. Kristof & Sheryl WuDunn

Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed.

—President Dwight D. Eisenhower

America's proudest boast throughout history has been that we have no class system, and that opportunity is available to all. Yet a starting point in an exploration of our nation must be to acknowledge that today we do have a class hierarchy ... This twenty-first-century version of feudalism rests not only on money but also on access to education and the ability to pass down inherited benefits and values to one's children. Children from the richest 1 percent of households are seventy-seven times more likely to attend an Ivy League college than children from the bottom 20 percent.

The writer Matthew Stewart noted that in the old aristocracies, the rich were better nourished and thus were physically distinct from the malnourished, stunted masses; in nineteenth-century England, upper-class sixteen-year-olds were eight inches taller than boys of the lower classes. These days, the physical difference isn't height but obesity, diabetes, heart disease, kidney disease, liver disease—all at least twice as common among low-income Americans as among wealthy ones.

In the feudal era, the lords lived in the manor house as the peasants worked the fields. There's an echo of that when the CEO of an agribusiness firm has a private jet at his disposal, while ordinary workers toiling on the assembly line wear adult diapers because they are not given adequate bathroom breaks, as was reportedly the case at poultry processing plants in the United States.

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In 2019, the hedge fund manager Ken Griffin purchased the most expensive home ever sold in the United States, a 24,000-square-foot penthouse on Central Park South in Manhattan, for \$238 million—but because of a tax break for owners of condos in prime locations, he will pay property taxes as if it were worth only \$9.4 million. In Florida, a developer is completing a home that is modeled on the palace of Versailles and has eleven kitchens, five swimming pools and a garage for thirty cars. These are monuments to today's inequality just as the original Versailles was such a symbol of the ancien régime. As in historic feudalism, the paramount need is not just for redistribution of income within an unfair system, but for a restructuring of the rules to create a more just society and greater opportunity for those below.

More than a century ago, Theodore Roosevelt described a similar crisis: “Exactly as the special interests of cotton and slavery threatened our political integrity before the Civil War, so now the great special business interests too often control and corrupt the men and methods of government for their own profit. ... The absence of effective State, and, especially, national, restraint upon unfair money-getting has tended to create a small class of enormously wealthy and economically powerful men, whose chief object is to hold and increase their power. The prime need is to change the conditions which enable these men to accumulate power.”

Education is supposed to be “the great equalizer of the conditions of men,” as Horace Mann put it. The two of us were beneficiaries of an education system that became more meritocratic in the 1960s. But then our generation created a new elite caste preserved in part by large parental investments in kids.

Today's youths get into Ivy colleges because of their perfect SAT scores, but they attain those scores because their parents have been reading to them since infancy, sending them to "enrichment" programs since they were toddlers and spending thousands of dollars on SAT preparation. Ivy Coach, a company based in New York City, charges \$1.5 million for a five-year package: counseling to get a child into the right boarding school, then get top SATs, and finally acceptance into a top college—and it seems to work. There's not much room for scrappy, bright kids whose parents don't have a book in the house and are indifferent to schooling. College entrance may be based on metrics that seem meritocratic, like board scores and grades, but consider that 77 percent of kids in the top quartile of incomes graduate from college, compared to 9 percent of kids in the bottom quartile. This matters hugely for life outcomes and social mobility: a college degree on average is worth an additional \$800,000 in lifetime earnings. Because Canada does not have such large educational disparities, low-income Canadian children are about twice as likely as their American counterparts to vault to higher incomes. As *The Chronicle of Higher Education* noted, America's education system is now "an inequality machine."

In most of the world, the public school system allocates more resources to disadvantaged kids than to rich ones. In the United States, we rely on local property taxes to fund public schools, so rich suburbs enjoy first-rate public schools that are a pipeline to the best universities, and underprivileged children suffer in third-rate schools with, often, the worst teachers. More than sixty-five years after *Brown v. Board of Education*, the disparities in public education between white kids and black and brown kids remain enormous, and this is a civil rights issue for this century. Since 1988, American schools have gone backward and become increasingly segregated by race.

Today 15 percent of black students attend “apartheid schools,” in which at most 1 percent of the student body is white, and they graduate at lower rates than in integrated schools. Black students are on average two grade levels behind white students, and kids in poor districts are four grade levels behind those in rich districts. “Quietly and subtly, the opponents of integration have won,” writes Rucker C. Johnson in his book *Children of the Dream*, about school integration.

We came to a historic fork in the road in 1973, when this school funding system came within one vote of being overturned in a 1973 Supreme Court decision, *San Antonio Independent School District v. Rodriguez*; if it had been found unconstitutional, American education would look more like European and Canadian systems and we would be a more egalitarian country. The court based its decision in part on the idea that poor schools wouldn’t necessarily have worse outcomes, but mounting evidence shows that that is as wrong as “separate but equal” was in 1896.

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California's best public elementary schools are in Palo Alto, accessible to anyone who can buy a house in a district where the median home price exceeds \$3 million. Next door in East Palo Alto, which is disproportionately poor and minority, children attend inferior schools that lead to an inferior future. In New York State, Governor Andrew Cuomo told us, per-pupil spending at public schools ranges from \$11,000 to \$33,000, with affluent suburban kids getting the higher sums. "We have to close that disparity," he told us, but he acknowledged that it's a third rail of politics to touch the issue. Liberal hypocrisy is at work here as well. Affluent liberals haven't agitated to address school funding inequity because their children benefit by attending elite, well-funded schools.

Some elements of America's modern feudalism are so embedded that we don't notice them. Dentists are paid substantially more in America than in Canada or Europe, and Americans often can't afford to care for their teeth, partly because the dental lobby has worked ferociously to block dental therapists (found in fifty other countries) from providing cheap and simple services, even in rural areas where there are few dentists.

Americans flying in coach class subsidize the tycoon flying in a private jet, because air traffic control is financed by commercial tickets. Tax depreciation rules subsidize the purchase of private planes. Everybody knows about the cost of food stamps for the poor, but few people are aware that the median taxpayer is also subsidizing the corporate executives whose elegant French dinner is tax deductible.

The public frets about cheating with food stamps (the fraud rate is about 1.5 percent) yet doesn't understand that zillionaires hide assets abroad and thereby deprive the Treasury of some \$36 billion a year in taxes—enough to pay for high-quality pre-K and day care for all. Joseph Stiglitz, the Nobel Prize-winning economist, has said that "we confused the hard work of wealth creation with wealth-grabbing."

While the new aristocracy is opening up to women in some areas, in others, such as finance, it remains a white, male bastion. Only 2 percent of partners in venture capital firms are women, and—probably not a complete coincidence—about 2 percent of venture capital is directed to companies founded by women. Only one-fifth of 1 percent of American venture capital goes to companies founded by African-American women. Facebook, Google and Amazon soared partly because they were built by hard-driving, brilliant visionaries, and partly because those visionaries were white men who had access to capital.

The old feudal aristocracy kept its wealth through a combination of rules and norms, and so does today's new aristocracy. There are the subsidies to the wealthy, like the carried interest tax loophole or the mortgage subsidy for yachts. By some calculations, corporate subsidies, credits and loopholes are 50 percent higher than entitlements to the poor (not including Medicare and Medicaid). Some of the other subsidies are outlandish: put a few goats on your golf course and you can classify it as farmland, as President Trump did, and save large sums in taxes.

The tax code has come to serve the interests of the wealthy in myriad other ways. According to documents obtained by *The New York Times*, Jared Kushner appears to have paid zero federal income tax, year after year, even as his net worth quintupled to more than \$300 million. In 2015, he had an income of \$1.7 million. It's all quite legal, because lobbyists won loopholes for real estate tycoons. The custodians in the buildings don't have artful options like these to avoid paying taxes. Similarly, Amazon paid zero federal income tax in 2018 despite profits of \$11.2 billion; indeed, it managed to get a \$129 million "rebate" from taxes it didn't pay. That's an effective tax rate of negative 1 percent.

Something is wrong with America's tax structure when the working poor pay taxes so the federal government can make a payment to an e-commerce giant owned by the world's richest man.

Then there are the incentives for economic development awarded by states and local areas, often never made public. Oregon awarded Nike \$2 billion for five hundred jobs, or \$4 million per job. Meanwhile, Louisiana paid \$15 million for each of fifteen jobs with Valero Energy. In 2013, Washington State granted Boeing subsidies worth \$8.7 billion over sixteen years, the largest subsidy in history for a company. By late April 2016, Boeing had laid off 5,600 workers.

Americans pay about \$30 more per month for smartphone service than Europeans do, for the same-quality service. Researchers believe that's because European regulators pursue antitrust policy more aggressively, while for a generation, American antitrust regulators have been asleep at the wheel. "The United States invented antitrust and for decades has been the pioneer in its enforcement," Luigi Zingales, a finance professor at the University of Chicago, noted. "Not anymore."

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The wealthy have also fought to underfund and defang the Internal Revenue Service, so it doesn't have the resources to audit or fight dubious deductions. Only about 6 percent of tax returns of those with income of more than \$1 million are audited, along with 0.7 percent of business tax returns. Meanwhile, there is one group that the IRS scrutinizes rigorously: the working poor with incomes below \$20,000 a year who receive the Earned Income Tax Credit. More than one-third of all tax audits are focused on that group struggling to make ends meet, even as the agency cuts back on audits of the wealthy—while the top 5 percent of taxpayers account for more than half of all underreported income. Overall, criminal prosecutions of tax cheats are now exceedingly rare, just one for every 385,000 households. Every dollar invested in the IRS for audits brings in \$200 in new revenue—which is precisely why so many wealthy people want to starve it, while pretending that this is a populist move.

Criminal justice is a prime example of a two-tier system. Pass a bad check, and you may end up with a felony conviction, serve time in prison and lose your kids. But commit a white-collar crime like tax evasion or fraud, and in most cases crime will pay. Even if you are actually prosecuted and convicted, you're very unlikely to end up behind bars. For example, Joel Sanders, the former chief financial officer of the law firm Dewey & LeBoeuf, was convicted in 2017 of felonies for engaging in fraud while at the law firm, which collapsed. In a very unusual arrangement, Sanders was given no jail time, only a \$1 million fine to pay over three years. Sanders found a new \$375,000-a-year job as chief operating officer at a different firm and continued to hold on to a Long Island home, a top-floor oceanfront condominium in Miami and about \$1 million in liquid assets, according to the Manhattan District Attorney's Office. He also leased two luxury vehicles, an Audi and a Mercedes-Benz, but in 2018 his attorney asked that the fine be canceled because paying it "would impose an undue hardship" on Sanders and his family.

As Heather Heyer, the young woman killed by a white supremacist in Charlottesville, Virginia, in 2017, observed in her last Facebook post: “If you’re not outraged, you’re not paying attention.”

When we traveled to modern feudalist countries, like Pakistan, we were discomfited by the gaps between the high life inside the barbed-wire compounds and the struggle for survival in slums outside. It seemed ridiculous for tycoons to ride around in Mercedes-Benzes over deeply rutted roads. Yet that’s the direction we’re moving toward, with public goods like parks and libraries squeezed of resources. As a result, wealthy Americans have developed their own workarounds.

Public schools may deteriorate, but the aristocracy dispatches its children to private schools. If public security deteriorates, live in a guarded, gated compound or rely on a private bodyguard. If the public swimming pool becomes too crowded or limits its hours, build a pool in the backyard or get a weekend house. When airports become zoos, fly private. When the power grid becomes unreliable, buy a backup generator. When the subway is plagued by delays, rely on Uber.

Philip Alston, the United Nations special rapporteur on extreme poverty and human rights, has toured some of the world’s poorest and most wretched countries to call attention to global poverty. But he also investigated the United States and wrote wonderingly and scathingly about American acceptance of poverty and inequality. “The United States already leads the developed world in income and wealth inequality, and it is now moving full steam ahead to make itself even more unequal,” he declared. In particular, he called on the United States to, as he put it, “decriminalize being poor.”

It’s worth quoting at length from his report:

*Punishing and imprisoning the poor is the distinctively American response to poverty in the twenty-first century. Workers who cannot pay their debts, those who cannot afford private probation services, minorities targeted for traffic infractions, the homeless, the mentally ill, fathers who cannot pay child support and many others are all locked up. Mass incarceration is used to make social problems temporarily invisible and to create the mirage of something having been done.*

*It is difficult to imagine a more self-defeating strategy. Federal, state, county and city governments incur vast costs in running jails and prisons. Sometimes these costs are “recovered” from the prisoners, thus fuelling the latter’s cycle of poverty and desperation. The criminal records attached to the poor through imprisonment make it even harder for them to find jobs, housing, stability and self-sufficiency. Families are destroyed, children are left parentless and the burden on governments mounts. ... In the United States, it is poverty that needs to be arrested, not the poor simply for being poor.*

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The United States has been much more hostile to private labor unions than other countries have been, with fewer than 7 percent of private-sector workers now in a union—one reason almost half of American jobs pay less than \$15 an hour. Consider this sentiment: “Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration.” Was that said by Karl Marx, Eugene Debs, Bernie Sanders or another socialist? Actually, it was said by Abraham Lincoln, in his first State of the Union address. Yet in recent decades, the political system has become more pro-business and suspicious of labor. “This country is the cesspool of labor relations,” AFL-CIO president Richard Trumka told us. “It’s much better in Europe.” He argues that union membership brings a 30 percent wage premium for white men, and a somewhat greater gain for women and people of color.

Union featherbedding was real, but it has been replaced by corporate featherbedding with substantial interference in free markets. Noncompete agreements, which prevent an employee from getting a job at a competing company (even low-level jobs at fast-food outlets), constrain some 18 percent of American workers, or 30 million people, and have become a way for large corporations to intimidate employees, limit their mobility and keep labor costs down. Overall, economists have estimated that up to one-third of the increase in earnings inequality is a result of the weakening of unions.

In Denmark, partly because of strong unions, workers at McDonald’s earn \$20 an hour, have paid maternity and paternity leave, overtime, work schedules four weeks in advance, pension plans and five weeks of paid vacation each year. (Note also that while taxes are high, the average Dane works one-fifth fewer hours in a year than the average American.)

We once asked Alan Krueger, the late Princeton University economist who was previously chairman of the White House Council of Economic Advisers, about our perception that the American economy increasingly is structured unfairly to benefit corporations and hurt ordinary citizens. We thought he might push back, but he agreed completely. “The economy is rigged,” he said.

That in turn reflects a political dimension that exacerbates the inequity: the Citizens United ruling by the Supreme Court and related cases in effect legalize graft by ruling that corporations and other players can spend “independent” money on campaigns without any limit. This legalized graft is accentuated by the revolving doors among industry, Congress and the federal bureaucracy. Of the senior congressional staff who worked on the 2010 Dodd-Frank law overseeing the financial industry, 40 percent have moved on to work on behalf of the finance companies that they purported to regulate. “The American people think this system is completely rigged,” Fred Wertheimer, a longtime expert on government ethics, told us. “And they’re correct.”

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One might think that economic inequality leads to self-correction in democracies, as the public becomes alarmed or outraged by income gaps and institutes taxes or other policies to take from the rich or give to the poor. But this doesn't happen often. Researchers have found that instead, in countries around the world, the accumulation of wealth also often leads to accumulation of political power that is then harnessed to multiply that wealth. Indeed, that's what we're seeing in America. Our political system responds to large donors, so politicians create benefits for the rich, who then reward the politicians who created them. **How different is this from the symbiosis in the Middle Ages between a king and the nobility, elevating aristocrats who repressed the peasantry at the same time that they hailed their own magnanimity and rolled their eyes at the peasants' morals?** 📖

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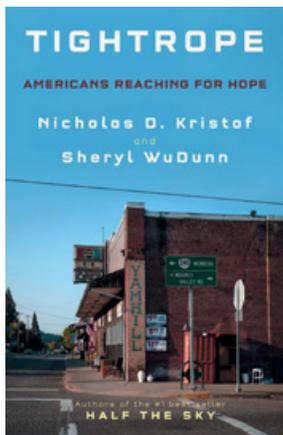
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