Feudal America

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Feudal elements tend to emerge when the state is unable or unwilling to maintain order in society. This inability may stem from a lack of resources or from problems associated with corruption. One such tendency occurs when social actors, from individuals to large organizations, use their private resources to extract privileges from the state in a way that is incompatible with the public goals advanced by the central administration or electorate. More generally, a monopoly on any scarce resource—a typical feudal phenomenon—generates corruption and creates a basis for collecting extra “rent” through modes of behavior that violate hierarchical, democratic, and market principles. Essentially, each piece of private property and each public office is a monopoly, even if only a temporary one, for those who control it.

As Coase and Williamson suggested, monopolies can be found in all spheres of social life (Williamson 1996, 288). Churches, for instance, have a monopoly on religious rituals. A church can use various forms of religious approval or disapproval to influence its members. The Catholic Church still uses the fear of excommunication to temper any challenge to the pope’s monopoly on truth and the various rules of the Church. The power basis of many theological regimes in history resided in their monopolies on the right to approve or disapprove behavior. This instrument was often more effective than physical coercion.

The employees of large firms are well aware of the monopoly on decision making held by top executives or CEOs. Even the secretaries and close advisers of executives enjoy a sort of monopoly on access to the leader. Such power can be exchanged for a variety of rents, from simple acts of kindness to valuable gifts and lucrative jobs. The boards of directors of large organizations
also hold a monopolistic position, given their control over rewards and decision making, and the difficulties of challenging their official verdicts.

As a matter of fact, all privileges, by definition, have an exclusive and monopolistic character, which implies an unequal distribution of some good or opportunity. The privileges that some actors receive can range from the perks of nepotism and the use of offices as sources of additional income, to tax concessions and export licenses.

These relations challenge the principles of both the authoritarian and liberal models. The authoritarian model supposes that each member of society is rewarded only for contributing to the might of the state or to the power of its leaders. The liberal model supposes that the well-being of each individual depends on the success of perfect economic and political competition. No one is entitled to privileges stemming from the abuse of property or positions in bureaucracy. Economic inequality encourages feudal tendencies, a point that was noted by the advocates of Jeffersonian democracy who suggested that democracy is threatened by large concentrations of wealth. Robert Dahl, in *On Political Equality*, wrote that in countries such as the United States and Britain, the importance of “minority money” in political life makes the idea of fair democratic competition nonsense, because elected politicians answer more to big money donors than to voters (Dahl 2006; Ringen 2006).

Of course, people with few resources have less access to privileges than those individuals who control major assets—such as political or religious power, money, and prestige—which can be used to extract benefits in interpersonal relations. Most people with limited incomes have no chance of receiving significant privileges in economic or political life, whereas those with deep financial resources, property, or high positions in government function both as givers and receivers of privileges that contradict the official structure, whether authoritarian or liberal.

**Corruption as the Basis for Feudal Tendencies**

Corruption in contemporary society is a “normal” channel that makes the exchange of political privileges for money possible. According to Treisman (2000, 399), corruption can be defined as “the misuse of a public office for private gain.” The level of corruption explains the extent to which contemporary society overlaps with the feudal model. “Corruption” should be seen as a universal phenomenon that plays an important role in almost all societies.
As mentioned, corruption is rarely treated as a normal part of society in the contemporary literature. As noted by Lambsdorff (2007, 1), the founder of Transparency International, “corruption . . . turns out to be a relatively new challenge for social science.” In an otherwise impressive collection of articles on corruption edited by Glaeser and Goldin, one cannot find an attempt to examine corruption from a general theoretical perspective. In the introduction, the editors emphasize the illegality of corruption, its redistributive character, and the usual list of possible causes of corruption, even where laws adopted under the pressure of ruling elites make corruption look legal in many instances (Glaeser and Goldin 2006). In speaking of “white-collar crimes,” Braithwaite (1985) wrote that almost no one has tried to connect these crimes with a general sociological theory. The same diagnosis can be extended to most studies of corruption.

The feudal model offers a broad theoretical framework, which juxtaposes corruption vis-à-vis the liberal and authoritarian models. Our approach is similar to that of historians and other scholars who study the “market relations” of ancient Rome or the totalitarian elements of Western society. Corruption is a normal element in practically all societies, past and present, from totalitarian societies, where it plays a limited role, to societies with weak states in which corruption is a central form of social interaction and exchange.¹

Henry Chamberlain (1932) wrote that “organized crime is as ancient as civilization.” The same is true about corruption. In a related book by Lee-Chai and Bargh (2001, 57), the authors titled one of their chapters “From Moses to Marcos.” In the 2,500-year-old Indian manuscript Arthashastra, a demand was made of the king to fight corruption (Jain 1998). Corruption was also widespread in ancient Rome (Wallace-Hadrill 1989; Wilson 1989).

In the Middle Ages, corruption became a key part of social relations, even if this term has only recently been applied to this époque (Dean 2001; Waquet 1991). Bribe represented an important part of the income of judges and sheriffs in thirteenth-century England. Janin found that people in Nottingham were forced to pay their judges a hundred shillings to gain immunity from criminal prosecution (Janin 2004).

Surveying various studies on the judicial system in several medieval European countries, Dean suggested that the nobles were rarely punished for their

¹. There are different views on the size of corruption in the Soviet totalitarian society. Some contemporary Russian authors, in order to diminish the responsibility of the current ruling elite for the rampant corruption in post-Soviet society, suggest that corruption was even higher in Soviet times (see Chubais 2002; Gudkov 2000).
criminal deeds (Dean 2001). Gift giving, a clear form of corruption, was another important feudal element. In the kingdom of Charlemagne, for instance, gifts from nobles, which were separate from taxes, were an important source of royal revenue (Rubin 1987; Rutz and Orlove 1989).

**Corruption as a Feudal Aspect of American Society**

Corruption has a long history in American society. As asserted by Henry Adams, corruption posed a serious problem to the country in the second half of the nineteenth century, when even President Grant was suspected of taking bribes. At that time, executives, the judiciary, banks, professionals, and people in general all operated “in one dirty cesspool of vulgar corruption” (Josephson 1962). At the beginning of the twentieth century, corruption was widespread in the major cities. It became a central object of investigations by muckrakers such as Lincoln Steffens (Zinn 2003). Corruption was also widespread during the “roaring Twenties” (Perrett 1985). In the early 2000s, according to Transparency International, corruption was a more serious problem in the United States than in several other countries. In 2007, however, seventeen countries ranked higher than the United States on Transparency’s corruption scale.

Based on an index of public perceptions of corruption, the United States’ ranking of 7.2 was only slightly higher than that of Belgium (7.1), Chile (7.0), and Spain (6.7) (Transparency International 2007). Numerous publications in the last few decades vividly describe corruption at all levels of the federal and local governments (Grossman 2003). Contemporary history describes several major scandals involving corrupt activities, including the savings and loan scandal, the ABSCAM scandal (1978–80) (Grossman 2003), the collapse of Enron, and the Abramoff affairs (Weisman 2006).

2. The case involved several congressmen and U.S. senators. In 1978, FBI agents, posing as representatives of a phony corporation called “Abdul Enterprises,” asked some congressmen and senators to help them purchase casinos in the United States. Seven of them were enmeshed in bribery charges and indicted in 1980. One congressman, Michael Myers, was expelled from the House of Representatives as a result of the scandal.

3. The central figure of this scandal was Kenneth Lay, the CEO and chairman of Enron from 1986 until his resignation in 2002. He was indicted in 2004. Lay was a major financial donor to the election campaign of President George W. Bush and had been named a leading candidate for the secretary of treasury.

4. The case involved Michael Scanlon, a Republican political operative and the spokesman for House majority leader Tom DeLay, who planned with Jack Abramoff to bribe a congressman in order to cheat American Indian tribes. He pled guilty. In fact, several legislators and officials were involved in Abramoff’s schemes.
Among the politicians who were indicted or resigned from their posts due to involvement in corruption, including bribery cases and illegal campaign-financing schemes, were members of Congress, including majority leader Bill Frist, who was labeled as one of the most corrupt politicians in America (he was forced to retire after being fined for improprieties related to the financing of his 2000 election), Jim Traficant (indicted in 2002), Robert Torricelli (indicted in 2002), Randy “Duke” Cunningham (pled guilty in 2006), William Jefferson (indicted in 2006), and Ted Stevens (indicted in 2008).

The list of local politicians indicted for taking bribes after 2000 is quite long. It includes Alaskan legislator Tom Anderson (indicted in 2006), California assembly speaker Fabian Núñez (2007), Connecticut governor John Rowland (resigned in 2004), Louisiana governor Edwin Edwards (convicted in 2000), and New Jersey state senator and former Newark mayor Sharpe James (accused in 2008) (Craven 2008). Some American states, such as Illinois, are known to have particularly serious problems with corruption, in the past and the present. Even before the case of Illinois governor Rod Blagojevich in December 2008, several officials from this state had been linked to corruption. Even considering only cases of the recent past, we can mention Congressman Dan Rostenkowski (April 1996), Governor George Ryan (April 2006), Robert Sorich, the patronage chief for Governor Richard Daley (July 2006), and Antoin Rezko, a fundraiser for Illinois governor Blagojevich and senator Barack Obama (June 2008) (McIntire and Zeleny 2008).

The American public is aware of the high level of corruption. When asked in a 2006 USA Today/Gallup poll, “How important for you will each of these issues be to your vote for Congress this year,” 49 percent of Americans said that “government corruption” is “extremely important.” Only concern about the Iraq War was higher; people were more worried about corruption than about terrorism and the economy (Parker 2006). In another Gallup poll in 2006, 83 percent thought that “corruption in Congress” is a “very serious” or “somewhat serious” problem; 47 percent believed that most members of Congress are corrupt (Gallup).

The high level of corruption in Washington is, according to the views of many observers, one of the main reasons for the extremely low overall approval rating of Congress (21 percent in 2006). It is important to note that the three branches of government have always tried to curb corruption. Congress has attempted to regulate the amount of money that its members can accept. In 2008, the value of gifts received by members of Congress from one person could not exceed $100 per year (Public Citizen 2007). Corporations, as suggested in
The next sections are the leading actors in fostering feudal relations in society. Their access to gigantic amounts of money provides them with a similar level of political power as the medieval manor.

The Landlord and the Corporation

The landlord was a major player in medieval society. Its role matches that of the corporation in a capitalist society. Both tend( ed) to create their own worlds while trying to be as self-sufficient as possible (Vinogradoff 1924). Both possess(ed) tremendous political power, making them partners and, in some cases, opponents of the central administration. Both actors enjoy(ed) a great deal of autonomy, particularly with regard to internal processes and controlling the people within their territories. The interaction between internal and external dimensions and the dynamics of this interaction shaped (or shapes) the function of both the manor and the corporation (Bowman 1996, 127–37). Those who ran feudal estates and those who run corporations determine(d) the level of their personal income, as well as the number and size of their numerous perks.

The main resources of medieval barons were land and the territories they controlled. Their landholdings determined the size of their private armies, the number of knights with heavy arms and horses, and the size of their clientele, or, to use Wickham’s (2005, 192) terminology, their “network of sworn military dependants.” Of course, though important, the size of the estate was not the only factor determining the status of medieval aristocrats. Other factors included their place or position in the hierarchy, kinship with the king, alliances with other feudal barons, and participation in various gatherings, such as tournaments and royal festivities. Conspicuous consumption bloomed in the early Middle Ages and included expensive castles, decorations, fine clothing, jewels, and personal servants (Wickham 2005, 201). The structure and management of the manor was almost as complex as that of a midsized corporation. The division of labor in medieval castles was quite sophisticated; servants performed a variety of very different functions to satisfy the needs of the lord and his retinue.

Church relations and participation in church endeavors (the Crusades, for instance) were important to feudal barons, since the actions of bishops and the pope could enhance or diminish their prestige, as well as legitimize or de-legitimize their property. Each big land property (manor or fiefdom) had its own church. Some landlords founded and patronized their own monasteries,
in the same way as the head of a corporation might patronize universities or other groups. In some ways, the media plays a similar role for corporations as the Church did for landlords. The attitudes of journalists toward corporate America are as important to today’s firms as the attitudes of bishops were toward local barons.

The military performance of barons in wars and tournaments greatly affected their prestige. The number of people who lived in the territory of their fiefs—including peasants of various types, vassals, and villagers—was also an important determinant of a landlord’s political power. The property of the feudal baron—“long-distance landowning,” to use Wickham’s term (2005, 188)—was often dispersed over a big territory, not unlike the local branches of a large contemporary corporation. The feudal lord considered infrastructure construction and maintenance in villages and cities in his region to be his responsibility; for instance, he was concerned about the state of dikes and the security of roads.

Whereas money played a secondary role in medieval times (Innes 2000), financial resources serve as the basis of a contemporary corporation’s political power and autonomy. A corporation’s political power is also based on the number of employees and branches the organization manages (equivalent to the number of knights and peasants under the control of feudal bosses). Indicators of the corporation’s power include its financial performance, the degree of market control, and the level of salaries and bonuses paid. These well-known signs of the political power held by managers and owners of corporations correspond to success in war in medieval times.

The number of branches a corporation controls is an important indicator of its power, in the same way as the number and size of the patronage network of a medieval baron determined the extent of his influence (Wickham 2005, 191). A contemporary corporation’s clientele is quite similar to the networks run by medieval barons (Kawata 2006). The number of employees in a corporation is akin to the number of peasants who depended on a medieval lord. A company’s control over its workers, including their wealth, pensions, and health insurance benefits, is comparable to medieval relationships between a landlord and his peasants. The services offered by a landlord to his peasants, which included judicial protection and help during disasters, could be compared to the activities of a corporation, which provides its employees with a variety of services (medical, educational, and legal, as well as entertainment benefits). Of course, we should not forget that peasants were barred from leaving their residences, while today’s corporate employees can and do leave on a regular basis (Lindblom 1988; Jouvenel 1951; Kanter 1993).
Corporate power is also seen in the level of influence a firm has on the local community or its surrounding city. Big corporations, like medieval manors, are sometimes involved in maintaining city infrastructure, parks, transportation, and a range of other city-level services. The greater a corporation’s involvement in a city’s well-being, the higher its public prestige. A corporation, as the main employer in a city, maintains close relations with the local authorities. The same was true of big landlords in medieval France or England. Vinogradoff (1924, 458) suggested that manorial administrations maintained relations with village communities and their “peculiar self-government.”

Personal connections between corporate owners or leaders and government officials (similar to the connections between lords and kings), as well as between corporations via their interlocking directorates, play an important role in society (Bowman 1996, 19–20). For medieval barons, marriage was the interlocking device. The concept of networks is as necessary for describing social relations in medieval France as it is in contemporary America. The participation of corporate managers in various meetings, including at the White House or on Capitol Hill, is just as important to them as the attendance at tournaments, various ceremonies, and the royal court was for knights. Some authors, following Mills, have pointed to the personal backgrounds of owners and top managers of big corporations, and suggested that their “aristocratic” heritage and ties to members of the economic and political elite determine their career paths (Dogan 2003, 1–3).

Of great importance to the political power of corporations is the number of elected officials who defend their interests in Congress, and the number of “friendly” media outlets. For corporations, the media are as important today as the Church’s opinion was for barons. Media sources can establish a company’s image as a pro-social organization that willingly takes some responsibility for the nation and its people (for instance, campaigns against smoking or obesity). In a similar fashion, the medieval Church would spread the view of powerful lords as good Christians, illuminating their contributions to the Church. The lords would then, in turn, support the Church with donations of money and land. Contemporary corporations perform essentially the same exchange with the media by paying for commercial advertisements.

As discussed in the next sections, corporations acquire privileges from the government both directly and indirectly. In some cases, they use their material resources—money to begin with—to obtain privileges from the executive, legislative, and judicial branches. In others, they use the election process to promote people who will later reward the corporation with various privileges.
Rent-Seeking Activity

The rent-seeking theory explains how corruption helps corporations gain various advantages from the government. The idealization of money and the disregard of its political and often destructive role explain, in part, why the rent-seeking theory did not emerge until the late 1960s (Tullock 1967, 1989). A rent-seeking activity is considered by many authors to be a particular case of corruption, in which corporations bribe government officials to receive privileges (Treisman 2000; Ades and Di Tella 1999). The concept that was later termed rent seeking entered the economic literature in the 1960s. However, the term was proposed by Anne Krueger in 1974. In fact, the first author to write a major book about the interaction between the government and corporations was Rudolf Hilferding (1981), an Austro-Hungarian Marxist who talked about the increasing role of banks in capitalist economies. Hilferding entered the history of economic thought with his ideas about the coalescence of financial capital and government, which were later widely used by Vladimir Lenin in his famous work *Imperialism: The Highest Stage of Capitalism* (1917).

Jain (1998) has noted that the neoclassical mainstream scholars have mostly ignored the concepts of rent seeking and corruption (Keim and Zeithaml 1986; Colander 1984). Mark Mizruchi (Mizruchi and Koenig 1986, 1988; Mizruchi 2004), who wrote abundantly about the social issues of corporations, ignored relations between corporations and the government. Even Scott Bowman, in an important book that critically analyzed corporations, did not mention rent-seeking activities or corporate involvement in corruption (Bowman 1996). It is remarkable that Reich, an economist and politician who is critical of the American economic system, almost completely ignores corruption and rent-seeking activities, judging from his numerous publications and recent book *Super Capitalism* (Reich 2007). Sociologists who study corporations and white-collar crime also tend to ignore rent seeking.

Rent Seeking in the Middle Ages

Rent seeking can be found in any place or time in which money plays an important social and political role. According to the economic historian Postan (1944, 123), “economies wholly natural never existed and money always played an important role in Middle Age life.” The royal administration and medieval lords yearned for money, which they used for a variety of purposes, including expanding the royal domain, strengthening its military forces, and supporting
a high lifestyle. The need for money pushed social actors to sell various privileges to each other, and to common people as well (Cantor 1993, 464). The government, the barons, and the Church each possessed a monopoly on various resources, which they exchanged for money. Tollison and his colleagues showed how this concept could be used for analyzing the Roman Catholic Church as “the dominant firm in the salvation industry” (Ekelund, Hebert, and Tollison 1989, 309).

Along with demanding taxes, the state frequently forced the bourgeoisie and cities to “borrow” money. The central administration could also draw money from other big actors, such as guilds, through negotiations or promises of autonomy and other privileges. Another source of money came from the sale of positions in the royal administration, a common practice (Pirenne 1937).

Privileges from Rent Seeking

Rent-seeking activities are usually defined as those political activities of organizations, groups, or individuals that extricate special monopoly privileges from the government by compensating officials in various ways. The concept of rent seeking supposes a high level of autonomy for the state, an idea that is incompatible with Marxist and radical views of the state. An orthodox Marxist perspective would insist that the United States government is “a committee for managing the common affairs of the whole bourgeoisie.” Even neo-Marxists—such as Poulantzas—who suggest that the state machine has some autonomy still ultimately contend that it is no more than a mechanism for coordinating corporate interests (Poulantzas 2000). Rent seeking is not always illegal. The privileges that corporations receive include government contracts, which are especially valuable in the defense industry; the exemption from or lowering of taxes; “redistributive legislation” (laws favorable to corporations); concessions in regulations; immunity against judicial prosecution; the speeding up of registration processes; autonomy in management, including the waiving of national laws; licenses for foreign trade; easy credit; and the elimination of competitors during the sale of state property, which makes it easy to bankrupt one’s rivals or block their entry in the market. A bank, for instance, may gain a great advantage over its competitors when government officials select it as the agent who distributes budget money (Lindahl and Carter 1959).

A special type of rent-seeking activity is the buying and selling of official political positions, from ambassadorships to memberships in Congress or
parliament (Buchanan, Tollison, and Tullock 1981; Mitchell and Munger 1991). The case of Illinois governor Blagojevich is a clear illustration of feudal elements in American political life. Blagojevich was arrested in December 2008 on federal corruption charges. Prosecutors said that he had conspired to profit from his authority to appoint a successor to Barack Obama, who resigned his U.S. Senate seat after being elected president (Davey 2008). Like a feudal boss, the governor attempted to use his official powers to extract compensation from local organizations and individuals, in exchange for subsidies or government contracts (New York Times blog, 2009). Blagojevich was the fifth of the last eight Illinois governors to be charged with a crime. Since 1971, one thousand Illinois public servants have been convicted of corruption (Zernike 2008).

Pork-barrel practices, in which legislators manage to attach expenditures to special bills that are useful for their constituency as a sort of payment for their election or reelection, are a form of rent seeking. Pork barreling, which has been an important social and political issue over the years, emerged prominently during the 2008 presidential election campaigns. The borders between rent-seeking activities and legislators performing their duties as representatives of a single territory are indeed gray. Still, acquiring special privileges for individual territories, whatever the opportunity cost, is at least similar to rent seeking (Tullock 1989; Mueller 1990; Harris 1995). As suggested by one author, perhaps with some exaggeration, recent increases in rent seeking have destroyed the reputation of Congress (Parker 1996). An important sphere of rent-seeking activity is the government’s provision of public goods. Powerful political actors, such as corporations and universities, are able to acquire public goods, such as free land, in exchange for supporting legislators or other officials (Gradstein 1993).

Rent Givers

Those who pursue rent-seeking activities (corporations and other major social actors) spend money and other resources in order to receive privileges from officials. The money used to bribe officials is considered a transaction cost, which reflects the expenditures of the firm on its public activities. Of course, transaction costs influence the price of goods and services (Williamson 1996, 25–28).

5. “Pork barrel” spending, or earmarking, is a practice by which legislators secure federal funding for their home districts. See, for instance, the article, “Pork Barrel Spending Emerging as Presidential Campaign Issue: Candidates, Critics Differ on Definition of and Remedies for the Practice,” by Michael W. Drudge (Drudge 2008).
Responding to the Blagojevich scandal, a journalist from the *New York Times* suggested that “politicians routinely receive political contributions in return for their decisions, whether they involve making appointments or taking a stand on legislation. Lawmakers vote in favor of bills and steer appropriations backed by their donors without fear that prosecutors will bug their offices and homes” (Johnston 2008).

Blagojevich is a product of Chicago's notorious political machine, which has roots going back to the late nineteenth century, when immigrants, predominantly from Ireland, Poland, and Italy, were often discriminated against and sought protection from local political bosses. In exchange for food, housing, and jobs, immigrants promised their loyalty and votes to their benefactors. The feudal character of the Chicago political machine became well known in the era of Mayor Richard Daley (1955–76). His contemporaries talked about him as “the wily machine boss who ruled Chicago like a feudal preserve,” as a tyrant who maintained “a feudal political system of patronage and fear,” and as a “feudal boss” (Cohen and Taylor 2000, 3, 496–97). Even before Daley, however, Otto Kerner, who served as governor in the 1960s, was found to have accepted bribes in racetrack stock. And the ascension to power by Richard Daley’s son, Richard Jr. (who has ruled the city since 1989, having been re-elected five times, the last in 2007), fits the feudal model as well.

Following the 1970 death of Paul Powell, an Illinois secretary of state from 1965 until his death, the police discovered $800,000 in cash hidden in his closet—a considerable amount of savings for a man whose salary was about $30,000 a year (Zernike 2008). What other analytical tool can explain this and other similar aspects of big-city politics, where semilegal rent-seeking activities mix with pure corruption as organic parts of urban society (Bennett 1997)?

Chicago is not a feudal island, of course. Many other cities and regional governments have their feudal elements as well. According to the Corporate Crime Reporter, the ten most corrupt states (in order) are Louisiana, Mississippi, Kentucky, Alabama, Ohio, Illinois, Pennsylvania, Florida, New Jersey, and New York (Corporate Crime Reporter 2009).

The costs and efficiencies of rent-seeking activities vary greatly. The costs may include expenditures on lobbying and bribing officials with cash, gifts, the transfer of corporate stock, the provision of apartments, and high-class entertainments. Providing lucrative jobs in the private sector to officials following their retirement from government is another important form of corruption. Some officials have tried to confront this development. President Obama, for instance, prohibited officials from resigning from government and immediately
taking certain positions in business (Reich 2007). Donations to political campaigns are also an effective form of rent-seeking activity.

Enron’s connections to the White House are an excellent example of rent seeking. There is a great deal of evidence showing that Enron, in the person of Kenneth Lay, participated in the formulation of President Bush’s energy policy. This was vitally important to Enron, the nation’s largest buyer and seller of natural gas. Lay met privately with Vice President Dick Cheney in 2001, when Cheney led the National Energy Policy Development Group, which drafted Bush’s energy policies (Simon 2002, 50, 52). The company’s influence on the White House was illustrated by the fact that Bush’s economic counselor, Lawrence Lindsey, had been a paid adviser to Enron. Karl Rove, Bush’s political strategist, was a big investor in Enron, and the Republican national chairman, Marc Racicot, was a paid lobbyist for Enron (Simon 2002, 49). The company had a long relationship with powerful members of Congress from Texas. Senator Phil Gramm’s wife was an Enron director. The company also had connections to House majority whip Tom DeLay and others. President George H. W. Bush was hired by Enron as a consultant (Simon 2002, 52). Enron always supported George W. Bush and his political allies.

The employees and directors of Enron gave Bush $623,000 over the course of his political career, which began in 1994. The Bush presidential campaign in 2000 received $74,200 in contributions from two dozen top executives and board members. From 1999 to 2001, Enron also gave $1,895,964 in soft money contributions to the Republican and Democratic national parties (Simon 2002, 47–48). In essence, rent-seeking activities are not aimed at creating resources, but at redistributing them. For this reason, rent seeking is a political instrument used by management, and it depends on the political environment. In fact, rent seeking is a mechanism that provides one actor with a monopoly on some limited resource and deprives this resource from others, even if these others could use it more effectively.

The Consequences of Rent Seeking

Rent-seeking activities are mostly illegal and lead to an unproductive allocation of resources (Colander 1984). Some authors use stronger statements, insisting

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6. As discussed by Reich, after leaving office, more than half of the senior people in the Clinton administration became lobbyists. Tom Daschle, Democratic minority leader of the Senate, after his fiasco in the election of 2004, found a very well-paying position in a lobbying firm that served mostly Republican clients (Reich 2007, 138–39).
that “rent seeking in the form of bribes and corruption can lead to a nation’s economic decline” (Mueller 2003, 358). Of course, rent seeking also has a tremendously negative effect on democracy and social order. As Jomo wrote, “rent-seeking activities thus impose avoidable costs involving resource transfers or, alternatively, resource use on socially unnecessary and unproductive activities, which are deemed socially wasteful” (Jomo 2003, 338; see Diamond 2003). Meanwhile, rent seeking is almost totally ignored in most economic textbooks. One exception can be seen in the work of Galambos and colleagues (Galambos 1988; Galambos and Pratt 1988).

**Regulation and Rent Seeking**

The government’s regulation of corporations generates a complex set of relations between public agencies and private businesses; much of this interaction can be interpreted best using the feudal model. As many researchers have noted, corporations participate in politics in order to protect and expand their economic welfare and ensure their survival (Epstein 1969; Williamson 1975, 1981; Sitkoff 2003–4; McChesney 1997). As suggested by Cheung (1987), a corporation’s participation in politics can be thought of as a transaction cost (see Williamson 1985). The importance of rent seeking is proportionate to the influence of federal and local regulations on corporations. Rent-seeking activities attempt to mitigate relations between government and corporations, which can be very antagonistic. As David Vogel suggests, “nearly every corporate department developed a counterpart in the regulatory bureaucracy: decisions as to what to produce, where to produce it, whom to hire and promote, how to allocate research and development funds and—even for a brief period—how much to charge customers and pay employees became subject to a highly complex process of negotiations and bargaining between corporate officials and regulators, congressmen and judges” (Vogel 1983, 26–27; Weidenbaum 1986, 285–89).

**The Technology of Rent Seeking**

In the United States, where lobbying is a legal business, rent seeking has become a substantial economic sector that employs thousands of people. From 7. For instance, by the mid-1970s, nearly every aspect of the automobile was regulated, including its exhaust levels, fuel efficiency, and safety; a major share of the car industry’s research and development became devoted to compliance with government directives, while the cumulative impact of eighteen government-mandated specifications adopted between 1968 and 1974 was estimated to have increased the retail price of the average car by $300 (Vogel 1981, 27).
time to time, lobbying in the United States has been a target of criminal investigation, some of which has led to prison terms, as in the case of Jack Abramoff in 2006 (Epstein 1969).

Rent-seeking activities demand that corporations create their own bureaucracy and network of organizations in order to influence the government. Between 1975 and 2005, the number of registered lobbyists in Washington increased almost tenfold from 3,400 to 32,890. In 1950, fewer than one hundred companies had an office in the capital. By the 1990s, this number had increased by five times. These companies employed more than 60,000 lawyers. In 2006, the initial salary for a lobbyist with good connections in Washington was about $50,000 (Reich 2007, 134–35, 139; McGrath 1979).

Legislators, whose decisions can influence business, are often the target of rent-seeking activities (Keim and Zeithaml 1986). A good example is the case of Frank Lorenzo, chairman of Eastern and Continental Airlines. He was a generous donor to the Republican Party. As soon as the senior Bush became president, he helped Lorenzo in his dispute with the unions, taking Lorenzo’s side in the conflict, despite the recommendation of the National Mediation Board to create a federal emergency strike settlement board and provide a sixty-day cooling-off period (Eitzen and Baca Zinn 2004, 408).

Direct Corporate Influence on Politics: The Academic Debate

A number of mainstream sociologists have conspicuously ignored the role of corporations when it comes to describing political life in America. (We put aside here the important and highly debated issue illustrated in Berle and Means’s The Modern Corporation and Private Property [1968], which described the political and social character of contemporary corporations as being the relative role of their managers, boards of directors, and stockholders.) Mark Mizruchi, a prominent author on the role of corporations in American life, noted in 2004 that sociologists recently lost interest in the study of the role of corporations in American political life (Mizruchi 2004).

Several sociology and political science textbooks, notwithstanding their various critiques of American society, do not discuss corporations as political actors at all (see, for instance, Stark 2001; Andersen and Taylor 2002). Take, for example, two sociology textbooks edited by Neil Smelser. In one (1994), the term corporation was never used. In the other, his noted Handbook of Sociology,
corporations were mentioned only in the context of international relations (see Evans and Stephens 1988, 755–56).

Political scientists also tend to ignore corporations as leading political actors in American society, as seen in Rodee’s *Introduction to Political Science* (1983) or Burns, Peltason, and Cronin’s *Government by the People* (2000). You will not find the term corporation in *Politics in Three Words: An Introduction to Political Science* (Best, Rai, and Walsh 1986) or in *Sociology: Micro, Macro, and Mega Structures* by Jones, Gallagher, and McFalls (1995).

Some political scientists even ignore the political activities of corporations when describing elections in American society. The authors of *People, Power, and Politics* devote twenty pages to the election process in the United States, but never mention the role of corporations as donors (Donovan et al. 1993). The political activities of corporations even go unnoticed in *The Role of the Modern Corporation in a Free Society*, a book devoted to this institution (Danley 1994). No less surprising is the absence of this subject in Mueller’s eight hundred-page *Public Choice III* (2003), which pays much attention to rent-seeking activities and lobbying—and the influence of these phenomena on political processes such as elections—but talks only about “interest groups,” without specifying them and without making distinctions between big corporations, dairy farmers, and small political parties.

As mentioned earlier, economists often sidestep this subject as well. For instance, the prominent economist Gregory Mankiw, in his popular textbook *Principles of Macroeconomics* (2007), almost completely ignores the subject of corporations. The government is discussed in the book only in relation to government debt, governmental purchases, and the level of taxes. Nothing is said about rent-seeking activities and the complex relations between government and business (Mankiw 2007).

Other textbooks on macroeconomics follow a similar template, ignoring the political role of corporations and rent seeking (Case and Fair 2002; McConnell and Brue 2006; Blanchard 2003). The economist Oliver Williamson only pays minor attention to the state, and ignores other institutions in his discussion of market mechanisms. In fact, given his focus on transaction costs, Williamson—not unlike Coase and Simon—supports contemporary institutionalism. One of his major books, *The Economic Institutions of Capitalism* (1985), contains a chapter titled “The Modern Corporation,” yet there is no mention of rent-seeking activities or corruption or even a general statement about corporate-government relations. In a more recent book, *The Mechanism of Governance*,
Williamson (1996) continued to ignore the political and social context of big business.

Only a few economists have focused on the political dimension of large corporations. Among them, Joseph Stiglitz (2003, 76) suggested that corporations “are often associated with bribing governments and contributing to corruption.” More credit should go to the economist Robert Solo (1967), who described the American economy as a “hybrid system” and as a network of autonomous organizations, such as corporations, governments, trade unions, and households. He also discussed the influence of corporations on public policy.

While the contemporary discussion is lacking, there has been some debate over the role of corporations in American politics, particularly in the rather distant past. Interest in this issue emerged as corporations became the leading economic force in society in the early twentieth century. Two opposing views rose to prominence. In one camp, the advocates of “corporate liberalism” treated corporations as “corporate individuals” and saw them as “normal” actors in the competitive world of politics. This group suggested that freedom of speech protected the rights of corporations to spend as much money as they wished to circulate their views. Close to this camp were those who advocated a “pluralistic model” of American political order and conceptualized the corporation as just one of many different interest groups operating in a “competitive democratic market” (Bowman 1996, 27).

In the opposing camp were some politicians and scholars who, while recognizing the importance of corporations as promoters of technological progress, regarded them as “special actors” that, given their high concentration of economic power, presented a significant danger not only to economic competition, but also to democratic institutions and liberal freedoms. Among others, Herbert Croly talked about the destructive consequences of economic concentration to American democracy in his book *The Promise of American Life* (1909). A few years later, with a focus on corruption, Walter Weyl (1912) seconded Croly’s concern about the impact of corporations on political order in society. These and a few other classic writers even labeled corporations as “feudal,” “oligarchic,” or “plutocratic,” and called for restraints on corporate intrusion in the political process (Arnold 1940).

Several other prominent writers of the time were active in denouncing the political activities of corporations. Lincoln Steffens was an ardent critic of the political party machines of the early twentieth century (Steffens 1931). Lippmann, Lewis, and others highlighted the problems created by corporate activities in politics. Edwin Sutherland, a well-known sociologist and a pioneer in
the study of white-collar crime, wrote that illegal business contributions to political candidates, even if infrequent, “tear at the social fabric more insidiously than do crimes of the common street variety” (Sutherland 1949, 83–88, 109–10).

There are many contemporary authors who stress the pernicious impact of corporate political activities on society. Peter DeLeon stated, “The corruptive political behavior of corporations seems omnipresent in contemporary American political systems” (DeLeon 1993). Bowman (1996, 281) talked about “the displacement of democracy by oligarchic rule throughout society.” Among contemporary authors, Cavanagh strongly rejects attempts to justify the political activity of corporations in any period of American history. He bluntly states that “corporations have no natural rights” to participate in political processes, “nor do corporations have the right to use shareholder monies for political purposes that may be contrary to individual shareholder’s preferences” (in Cavanagh and Mander 2002, 141).

Several other authors, with various political affiliations, have shared a similar view, including Dahl (2006) and Polsby (1963). Politicians have taken this position as well. Feingold suggested that corporate executives, with their tremendous power, permanently threaten “ideal, or pluralistic democracy” (see Sitkoff 2003–4, 30–36). Lindblom was quite explicit about the negative role of corporations in political processes when he contended that corporations have neither an ethical nor a logical legitimate role in the democratic process (Lindblom 1988). Reich is another politician who strongly condemns the political activities of corporations (Reich 2007).

Sitkoff argues against the thesis that corporate election donations damage investment activities or the interests of stockholders. He suggests, rather, that political donations have a positive effect on business, and opposed laws that limit campaign donations. Of course, Sitkoff’s argument, which at least recognizes the existence of rent seeking, has little to do with the impact donations have on democratic principles and the honesty of elections. He may be right that the donations have a favorable effect on business. It may also be true, as he suggests, that some individuals, such as Ross Perot or Jon Corzine, make even bigger contributions to election campaigns than many corporations, but this misses the point (Sitkoff 2003–4).

A number of authors have exonerated or even praised corporations for their political activities. Some deny the accusation that corporations have threatened democracy. They tend to stress the separation between the business of lobbying, which is legal, and what is essentially illegal interference in elections.
Others suggest that the participation of big business in the election process is necessary to balance the power of trade unions.

Peter Drucker insisted that the political activities of corporations were “normal,” because a corporation is an autonomous institution possessing “a triple personality”—economic, governmental, and social. He insisted that political activity is a normal element of corporate life (Drucker 1993). This view is shared, to some extent, by supporters of the various concepts of managerialism. Many prominent authors, such as Schumpeter (1954) and Galbraith (1952), have followed Berle and Means’s (1968) analysis of the motivation of top managers. They discussed the leading role managers have played in the economy (the technostructure in Galbraith’s terms), and recognized that managers yearn to play an active political role in society (Burris 2001; Pindyck and Rubinfeld 1998). Some advocates of managerialism have even contended that many CEOs are “more bipartisan,” “closer to the political center,” “less estranged from big government,” and more “convince[d] of the necessity to expand the role of government to prevent deep depressions and possible radicalism” (Monson and Cannon 1965, 46–48). At the same time, critics of managerialism, such as Peter DeLeon (1993) and Scott Bowman (1996), have insisted that most managers, with their oligarchic, antidemocratic ideology, push the American political system away from the Jeffersonian ideals of democracy.

Participation in the Election Process

In society, corporations play a political role, acting as activists in election campaigns (Johnson-Cartee and Copeland 1991; Middleton and Chamberlin 1988). While hundreds of publications in recent years have been devoted to the topic of campaign financing by private businesses, this issue has only rarely been discussed in terms of a general theory of society (see Ferguson 1995; Berg 1994). Public choice theorists represent an exception to this rule.

Meanwhile, in the last two decades, the role of corporations in campaigns increased enormously, as the election process at all levels became more expensive. In a 1997 speech, President Bill Clinton reported that spending in congressional campaigns had increased sixfold in the last two decades (Gibbs et al. 1997). As suggested by many authors, corporations and wealthy people often play a crucial role in election outcomes (Green 2004). The defenders of the unlimited use of money in election campaigns use the free-speech argument—any restraint placed on spending money contradicts the First Amendment—
which was supported to some extent by *Buckley v. Valeo*, the Supreme Court decision of January 1976 (Bowie 2007; Lange and Rose 2007).

The role of corporations and wealthy individuals in election campaigns is particularly important when the candidates refuse to take public money and rely only on private money (Broder 2008). After the adoption of the McCain-Feingold Act of 2002, a corporation could not directly contribute soft money to a campaign in order to promote a particular candidate, but it could spend money for promoting “the issue” or for some other purposes, such as voter registration. For this reason, a corporation can finance the election campaign through political action committees (PACs), which directly participate in the campaign on the side of one or another candidate. However, a corporation cannot spend more than $5,000 on one candidate (Behan 2001).

Corporations can also mobilize their employees, shareholders, and all of their families for this purpose; each individual can make a contribution of up to $2,300 to each candidate and $28,500 to a national party committee (Fisch 1993; Khanna 2003). The role of PACs increased tremendously in the 1970s. In 1974, there were only 608 PACs in the United States. In 1989, there were 4,234. Among them, 1,802 were corporate and 349 were labor (Johnson-Cartee and Copeland 1991). Corporations can also cover the operational costs of independent PACs, which collect money from the general public (Etzioni 1988; Drew 1983; Sabato 1984).

During the federal election cycle of 2000, as data from the Center for Responsive Politics show, “large individual donors” gave one-third of all contributions. The contributions of “big donors” surpassed the contributions of “small” donors (those who gave less than $200) by almost two times. At the same time, in comparison with 1996, the contribution of big donors also increased by almost two times, while that of small donors diminished by one-third (Phillips 2003). By the end of June 2008, donations above $2,299 made up 22 percent of all donations to Obama’s campaign and 39 percent of McCain’s. It should be noted that wealthy individuals can also finance their own campaigns, which makes them stronger candidates than their rivals who do not have the same assets.⁹

Corporations and the wealthy know how to get around laws that limit their

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⁹ As Marc Green wrote, “In 2000, twenty-seven House and Senate candidates spent at least $500,000 of their own money on their own campaigns. Self-financing is especially pronounced for challengers and for candidates in open-seat races. Challengers in the 1996 House elections spent an average of over $40,000 of their own money, one sixth of their total campaign costs; candidates in open-seat races spent over $90,000. The average Senate challenger that year spent $645,000—one quarter of his/her total campaign costs—out of his/her own pocket” (Green 2004, 158).
contributions. For instance, the 2002 campaign finance laws restricted the use of “soft money” from corporations and other big donors, which was channeled through political party campaign committees, but the mechanics of “bundling” and the use of lobbyists for this purpose allowed candidates to circumvent the new legislation. George W. Bush used these strategies for the first time during the 2000 presidential election. Bundling allows candidates to bypass the $2,300 cap on individual contributions. A campaign’s strongest supporters go beyond simply offering donations, by attempting to collect or “bundle” money from other donors (Green 2004; Reich 2007; Kirkpatrick 2007). In some cases, political donations can be disguised as charitable donations or as tickets for fundraising dinners organized on behalf of the party (Handler, Godtfredsen, and Mulkern 1980; Malbin 1979; Mulkern, Handler, and Godtfredsen 1981; Swanson 1981; Chappell 1982; Herndon 1982; Kau and Rubin 1982).

Yet another way to make large donations is to create special organizations called 527s, which are free to accept unlimited “soft” money (Luo 2008a). These organizations received their name from Section 527 of the federal tax code. While many groups fall into this category, election observers tend to be most concerned about independent 527s that are not connected to a PAC or a party, which means they exist outside the government’s strictest regulations, as dictated by the 1971 Federal Election Campaign Act (Cantor 2006). Wealthy people and corporations can also use paid advertisements that claim to support “the issue” but, in fact, promote a chosen candidate (Reich 2007).

The existing laws contain loopholes that allow corporations to receive privileges in exchange for money without formally violating the law. For example, the Democratic National Committee, during the presidential campaign of 2008, was not permitted to solicit soft money from corporations and managers. There was one important exception, however: corporations and unions could send as much money as they wanted to the party’s convention. As reported in the New York Times, “donors who give $1 million or more at the ‘Presidential Sponsor’ level are given convention credentials to all hospitality suites and are assured of invitations to private events.” The author continues, “One key fund-raiser for the Democratic convention is Steve Farber, a founding partner of one of Washington’s leading lobbying firms and a major Democratic donor who has played golf with former President Bill Clinton and raised money for his presidential library.” The newspaper cites a DNC brochure that promised to bring together “a unique group of business leaders, high-level lawmakers, members of the national and international media, and prominent academics” (Wayne 2008).

In conclusion, the report suggested that “more recently, with the nominees
selected months in advance, they have turned into giant festivals promoting their nominee and providing opportunities for members of Congress and high-level corporate executives and lobbyists to meet in social settings—and for corporations to write large checks to support the party” (Wayne 2008). While federal elections are regulated by strong laws, the rules about donations in states are much more lenient. As Scott Turow writes, “in Illinois . . . there are literally no limits on political donations—neither on how big they can be nor who can give them. Anybody—union officials, regulated industries, corporations, lobbyists—can throw as much money as they like at Illinois politicians” (Turow 2008).

The impact of corporate donations on the outcome of elections is usually high. Such donations are especially beneficial for incumbents, given their established relations with corporations (Green 2004). As Ashford (1986) demonstrated, there was a link between the magnitude of corporate campaign contributions and the success of candidates in the 1980 congressional election. Burns, Peltason, and Cronin, in Government by the People, wrote that “those who give most are those who have the most.” This situation is contrary to the ideals of democracy. Corporations, as these authors suggest, achieve all sorts of goals through elected officials, from idealistic ones to very egotistical ones—such as obtaining ambassadorships or invitations to a White House dinner for high-level administrators—which ignore even the interests of corporations (Behan 2001; Burns, Peltason, and Cronin 2000). Several authors have supported the idea that corporations have a major impact on the results of elections (Freidreis and Waterman 1985), while some have refuted this view (Grenzke 1988).

Obama’s presidential campaign claimed that the American public had financed its efforts and that “small donors” ($200 or less) were the main contributors. As reported in the New York Times, however, these suggestions were exaggerated. In fact, small donors made up only 26 percent of contributions, while those giving $1,000 or more made up 47 percent. The difference between Obama’s big donor contributions and McCain’s big donors (59 percent) was not as great as initially reported. Kerry’s campaign, at 56 percent, and Bush’s second campaign, at 60 percent, were also mostly supported by big donors (Luo 2008b).

Conclusion

The feudal model is a useful tool for understanding the social circumstances in which people and organizations use their financial resources to acquire
additional (often illegal) revenues that they do not deserve, according to the principles of the liberal and authoritarian models. In the Middle Ages, landed property permitted the aristocracy to receive feudal rents. In contemporary liberal society, big money is the basis of feudal relations. The concentration of money diminishes competition in the economy and in politics, and fosters corruption in society.

The manor was the key feudal actor in medieval times, while the corporation plays this role in contemporary society. The two actors have much in common, as they exert their power on individuals and society using similar techniques. Both actors extract monopolistic privileges from the central government in exchange for various resources. The political activities of corporations are not in line with the principles of political equality or the liberal model. While big corporations impair the election process, they do not, contrary to the Marxist perspective, always behave as a united front in politics. Feudal conflicts between firms, and between firms and the state, play an important role in corporate politics.

The feudal behaviors of corporations and public officials, which result in special privileges for corporations, are a danger to liberal society that harms the public interest and the efficiency of the market. Corporations also participate in political processes, elections in particular, and damage the democratic principle of political equality. Feudal behavior is normal and natural in the sense that it represents a recurrent and patterned social phenomenon. For a society to move toward the liberal model, it must first examine and come to understand these feudal tendencies.