The precious networks of the rich: How the wealthiest prevent progressive tax reforms.

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Research question:

Do the ultra-wealthy use their political connections to obstruct progressive tax reforms?

Description:

It is difficult to overstate the importance of progressive tax reforms to redistribute wealth more equally and counteract the reproduction of wealth across generations. Despite their apparent benefits, implementing such reforms—including truly progressive personal income taxes[1], net wealth taxes, and taxes on corporate windfall profits—has proven to be a political challenge, in the U.S. and many countries worldwide. Contrary to the assumption that these reforms are unpopular and thus difficult to realize through the democratic process, U.S. poll data shows that the general public is largely supportive of progressive taxation, with a considerable majority in favor (Gallup 2023; General Social Survey 2023). Instead, Page and Seawright (2023) identify two primary obstacles to progressive tax reform: an institutional bias favoring the status quo and significant political opposition from wealthy individuals. Indeed, evidence from the U.S. indicates that most multi-millionaires and billionaires are against any kind of progressive tax reform (Page, Barry and Seawright 2013), and there is compelling evidence that actual political outcomes tend to align closely with the preferences of the wealthy (Bartels 2008; Gilens 2005; Gilens 2014). What remains unclear, however, is the exact means by which the ultra-wealthy exert their influence.

This project aims to explore one potential mechanism through which the wealthy may obstruct progressive tax reform: their connections to political decision-makers. Specifically, we will investigate whether members of the U.S. Congress are less likely to support progressive tax reforms when they are more strongly connected to the ultra-rich. The proposed research has three primary objectives:

1. Identify connections between ultra-rich individuals and legislators in the U.S. Congress. Since direct connections are difficult to measure, we focus on two proxies of connection. First, the educational trajectories of Forbes 400 billionaires and members of Congress to identify whether they attended the same university at the same time. Second, political donations by Forbes 400 billionaires to members of Congress.

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[1] Most advanced economies have implemented progressive income taxes on labor income. However, this is not the case for income from capital, particularly for individuals at the upper end of the wealth distribution. Even in countries where personal income from labor and capital is taxed jointly, like in the U.S., empirically, the wealthiest pay a lower tax rate on personal income than the average taxpayer (see Piketty, Saez and Zucman 2023 and Yagan 2023).

2. Identify tax-related bills that were voted on in the U.S. Congress between 2000 and 2020. To select the most relevant tax-related bills and classify them as 'progressive' or 'regressive, we adopt Bonica's (2016) approach. We use a partially supervised topic model based on the text of bills and issue labels from the Congressional Research Service (CRS) and manually check the identified bills. We then gather the voting records of Congress members on these bills.

3. Examine whether politicians with greater exposure to Forbes 400 billionaires are more likely to vote against (in favor of) progressive (regressive) tax-related bills compared to those with less exposure, controlling for factors such as age, party affiliation, and term length. We draw on a combination of synthetic control methods and fixed effects estimators to tackle issues surrounding the identification of social influence effects (see methods).

This project makes two contributions. First, we enhance the data infrastructure for the study of wealth inequality by (i) documenting the overlapping educational trajectories of Forbes 400 billionaires and members of congress and (ii) measuring donations flows between them. Second, we provide quantitative evidence on the wealthy as a barrier to tax reform. This evidence sheds light on how wealth is reproduced, not just through families and communities, but also through democratic institutions. In an era of surging inequality, a deeper understanding of how wealth-driven networks shape legislative outcomes is crucial to inform the public debate on democratic control of economic equity.

Our choice of the U.S. as our sample area is primarily driven by the need to streamline data collection within the winter/summer school's timeframe. The U.S. offers the most robust data infrastructure for exploring our research question, especially with its accessible datasets on members of Congress, their received donations, and voting behaviors. While we plan to expand our research to other countries post the winter/summer school, the U.S. serves as a useful laboratory for studying wealth and political influence dynamics. Democratic processes in the U.S. resemble those of several presidential republics all over the world and patterns of inequality and wealth dynamics in the U.S. tend to be similar – though often more pronounced – than in other economies (Blanchet and Martínez-Toledano 2022).

Data:

For this project, we both collect new data and draw on existing databases to assemble the following datasets:

1. Educational trajectories of Forbes 400 billionaires and members of Congress who voted on tax-related bills between 2000 and 2020.
2. Political donations of Forbes 400 billionaires to members of Congress between 2000 and 2020.
3. Votes of members of Congress for all relevant tax-related bills between 2000 and 2020.

1. Educational trajectories and other attributes of billionaires and Congress members

Forbes has already collected the universities that Forbes 400 billionaires have attended. If we cannot acquire these data, we hand-collect them as this information is available from Wikipedia, newspaper articles, and other public sources. This effort is manageable for a group of 5-6 researchers since there are less than 1000 Forbes 400 billionaires in the US between 2000 and 2020. We would start the collection effort before the summer/winter school to spread the work into smaller pieces and draw on large language models (e.g. ChatGPT) to facilitate the process.

We have already obtained a dataset from Americansfortaxfairness.org with basic demographic attributes of Forbes 400 billionaires between 1997 and 2023, which will be employed as control variables (age, gender, city and state of residence, industry).

For the educational background of Congress members, we will draw on the CQ Member Profiles that are available from the [CQ.com](CQ.com) subscription database. We have requested demo access to the database and will look into funding options to gain full access to the database. Some attributes of members of Congress members could also be sourced from efforts by the Brookings Institution.

2. Political donations

To link political donations of Forbes 400 billionaires to members of Congress, we draw on the DIME and DIME+ database (Bonica 2016). DIME provides a general resource for the study of campaign finance and ideology in American politics. The database is freely available and contains over 500 million itemized political contributions made by individuals and organizations to local, state, and federal elections covering from 1979 to 2020. This includes donations from Forbes 400 billionaires. DIME+ also contains electoral outcomes and legislative behavior of Congress members (discussed below). Figure 1 summarizes the available information:

Figure 1: The DIME database (adapted from Bonica 2016).
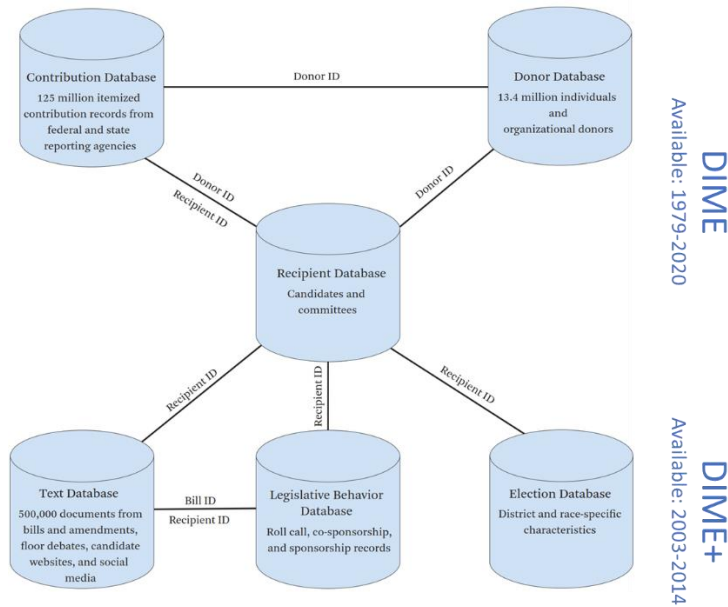
3. Votes of members of Congress on all bills on taxation between 2000 and 2020.

In a first step, we aim to identify all bills on taxation Congress has voted on between 2000 and 2020. To accomplish this, we will utilize the DIME+ database which entails all bills, also including those that were struck down in Congress. To categorize each bill into one or multiple issue areas in this dataset, Bonica (2016) employs a partially supervised topic model based on issue labels assigned by the Congressional Research Service (CRS) and the text of the bills. As indicated in Table 1, the 'Economy' category predominantly comprises tax-related terms. From the bills labeled under 'Economy', we will select those that specifically mention 'tax' in their text. For the period from 2003 to 2014, this approach yields less than 100 bills, which we will manually review to determine their relevance and categorize as either 'progressive' or 'regressive'.

Since DIME+ covers only the years between 2003 and 2014[2], we will replicate Bonica's (2016) methodology to extend the dataset for the remaining years.

Table 1 also provides insights into potential areas for comparison. For instance, we could explore whether the influence of the wealthy is more pronounced in tax-related topics as they pertain directly to their economic interests as compared to topics unrelated to redistribution, such as Civil Rights, or abortion. In

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[2] Note that DIME and DIME+ are two distinct datasets, each covering different time frames. DIME encompasses data on Congress Members and their received donations and is available for the period between 2000 and 2020. DIME+ covers bills, their issue areas, and legislative voting on these bills, but is only available for the years 2002 to 2014.

other words, we could contrast the wealthy's impact on tax legislation with their broader effect on legislative processes.

Table 1: Top terms by issue category (Bonica 2016)

	term 1	term 2	term 3	term 4	term 5	term 6	term 7	term 8
Latent	work	make	congress	million	important	country	nation	going
Federal agencies and regulation	commission	sec	office	activity	requirement	director	government	development
Economy	tax	code	credit	revenue	taxable	respect	qualified	benefit
Health care	care	drug	medical	medicare	coverage	disease	patient	insurance
Education	school	education	grant	student	educational	child	local	eligible
Defense and foreign policy	country	government	international	foreign	war	world	force	right
Banking and finance	financial	loan	insurance	housing	credit	mortgage	business	company
Law courts and judges	court	action	person	product	violation	claim	civil	employee
Energy	energy	fuel	oil	gas	vehicle	renewable	facility	production
Procedural	fiscal	budget	appropriation	available	provided	authority	office	congress
Parks and recreation	land	area	management	forest	water	river	project	park
Environment	water	administrator	environmental	species	protection	system	control	project
Veterans' affairs	veteran	defense	military	force	armed	affair	operation	code
Crime	enforcement	child	crime	criminal	attorney	justice	general	grant
Agriculture	food	agricultural	agriculture	farm	producer	crop	payment	assistance
Transportation	transportation	project	safety	system	vehicle	highway	air	funding
Immigration	alien	immigration	border	homeland	status	employer	visa	nationality
Intelligence and surveillance	intelligence	general	internet	person	surveillance	electronic	foreign	privacy
Higher education	education	student	institution	college	higher	science	university	loan
Civil rights	election	right	candidate	vote	voting	voter	political	civil
Emergency	emergency	line	disaster	page	flood	SA	proposed	hurricane
Indian affairs	indian	tribe	native	tribal	land	water	agreement	hawaiian
Women's issues	woman	violence	sexual	assault	domestic	victim	child	prevention
Abortion and social conservatism	right	abortion	religious	cell	woman	human	stem	research
Guns	firearm	person	gun	general	attorney	model	code	ammunition

In a second step, we add data on how various members of Congress voted on the bills we identify in the first step. For the period between 2002 and 2014, we can directly extract this voting information from the DIME+ database, based on the common identifiers of DIME and DIME+. The database also includes information on sponsors and co-sponsors of each bill, which we could use to substantiate the results obtained on voting patterns. As DIME+ only covers the years from 2002 to 2014, we plan to expand the DIME+ dataset by following the methodology outlined by Bonica (2016). This involves obtaining congressional voting records from voteview.com through the W-NOMINATE R package. We will then merge these additional voting records with the DIME dataset, linking each Congress member to their respective voting behavior.

Methods:

To measure whether members of Congress with a higher exposure to the ultra-wealthy are more likely to block progressive legislation, we will draw on peer effect modeling (An, Beauville, and Rosche 2022; Bramoulle, Djebbari, and Fortin 2020; Rosche 2022). The peers in our context are the Forbes 400 billionaires. Identifying peer effects is notoriously challenging with observational data due to the confounding effects of peer selection and shared environment. However, in recent years remarkable

progress has been made in overcoming network endogeneity under certain conditions (An 2011, 2015; Hsieh, Lin, and Patacchini 2020; Abadie 2021).

Our identification strategy builds on these advances and tackles the confounding effects of peer selection and shared environment head-on:

Confounding effect of peer selection: The first concern is that, rather than exposure to billionaires, observed and unobserved differences among congress members drive their position on taxation that are correlated with the exposure to billionaires. To tackle this issue, we use synthetic control methods (Abadie 2021) to identify statistical siblings that are identical with respect to age, gender, party affiliation, term length and only differ in their exposure to the wealthy. In addition, we can employ fixed effect models that remove all time-constant unobserved differences if there is enough variation over time in the exposure to billionaires (as measured by political donations) for individual members of Congress.

Confounding effect of shared environment: The second concern is that the environment shared with billionaires rather than exposure to billionaires drives the peer effect. For instance, rather than the exposure of U.S. representative Terri Sewell to Jeff Bezos at Princeton University in the 1980s, it is the environment at Princeton that creates their similar stance on taxation. To tackle the issue, we will employ university fixed effects, which remove shared environment effects by comparing the effect of exposure to billionaires that attended the university at the same time to the effect of exposure to billionaires that attended the same university at a different time and therefore had no opportunity to meet.

The collected data also allows us to analyze the networks of billionaires and politicians themselves. Therefore, if time permits, we could also study the network structure itself. This analysis can be conducted using two-mode exponential random graph modeling (Krivitsky et al. 2023) or by projecting the two-mode network back to a one-mode network. These projected one-mode networks would allow us to analyze networks of Congress members who share connections with the same billionaires and networks of billionaires that are linked to the same members of Congress.

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