"Summary of article by G. William Domhoff: The Corporate Community and the Upper Class" in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 52-55

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This book, an update of the author's 1967 classic work, documents the existence of a small, wealthy, socially cohesive upper class in America, and shows that the upper class is vastly over-represented in the top echelons of government, business, and other institutions. The sections of a chapter summarized here argues that, contrary to the conventional wisdom, members of the upper class control many of the largest corporations and banks. Other sections of the chapter, omitted from this summary, discuss other aspects of the sociology of the upper class, including the role of upper-class women (who are rarely involved in business), and patterns of intermarriage and intergenerational persistence of social status.

It is widely believed that direct control of corporations by individual owners has been virtually eliminated by the dispersal of stock ownership. There is often said to be a separation of ownership and control in the modern corporate economy. A four-part response to this popular view, presented here, shows that

> (1) members of the upper class own almost half of all privately held corporate stock in the United States; (2) many large stockholding families in the upper class continue to be involved in the direction of major corporations ... ; (3) members of the upper class are disproportionately represented on the boards of large corporations ... ; and (4) the professional managers of middle-level origins are assimilated into the upper class both socially and economically and share the values of upper-class owners. (71-72)

Stock Ownership and Control

While it is true that there are millions of stock owners, systematic studies repeatedly show that most of them own very little stock. Several studies, ranging from the 1920s to the 1990s, found that the top 1 percent of all adults own between 50 percent and 76 percent of all privately held stock. There is significant concentration even within this small group; one study found that in 1969 the top 0.2 percent of adults held one-third of all privately owned stock. The concentration of stock ownership does not by itself settle the question of corporate control; it would still be possible for ownership of each firm to be dispersed within the upper class, preventing the exercise of individual control. However, further evidence shows that such dispersion of ownership is far from universal.

There are important categories of businesses in which there is a clearly visible, close relationship between ownership and control. Many fairly large corporations, such as Mars Candy, Levi Strauss, and Amway, are privately owned by a family or group of families. Several dozen of these would have been in the *Fortune 500* listing of the largest corporations in the mid-1990s, if they had been publicly owned. (Ninety-two of them have made their owners wealthy enough to appear in the Forbes 400 listing of the wealthiest individuals.) Among publicly held corporations just below the 200 or 300 largest firms, several studies show that there are often a few large owners who also serve as directors and top managers. The problem of the relationship between ownership and control thus arises primarily for the very largest of corporations.

Patterns of Family Ownership

Even within firms where no major owners are apparent at first glance, wealthy families or individuals may continue to play significant roles. Wealthy families sometimes create family offices or holding companies to manage their investments. Such devices provide coordination and professional advice to family members, and in some (not all) cases may also serve to conceal the identity of the investors.

For example, a detailed sociological study of the Weyerhauser family, whose wealth is concentrated in the lumber industry, showed that in the 1970s they controlled not only the Weyerhauser Corporation, but also Potlatch and Arcata National, two other major lumber companies where family control was not immediately apparent. The family office, Fiduciary Counselors, Inc., and two related holding companies, Rock Island Corporation and Green Valley Corporation, coordinated the family's investments, as well as its charitable and political contributions. It would not be obvious to the casual observer that these nondescript corporate entities represent vehicles for one family's ownership.

Three major studies providing detailed evidence on the extent of family ownership in large corporations were available as of the early 1980s; all three reached similar conclusions. The most extensive study examined the owners of the 500 largest industrial corporations in 1980. One individual or family held at least 5 percent of the stock in 44 percent of the 423 firms that were not controlled by other corporations or foreign interests; two to four families held at least 5 percent of the stock and were represented on the board of directors in another 7 percent. Among the 50 largest, however, only 17 percent had evidence of significant family ownership.

Such studies may, in fact, represent underestimates of family control. The study of the top 500 industrials found that the Weyerhausers owned 5 percent of Arcata in 1980, while the company itself reported that the three Weyerhausers on its board owned 7.5 percent of its stock in 1975. When the company decided to buy up its outstanding stock and go private in 1981, it turned out that the Weyerhauser family owned about 30 percent of Arcata's common stock.

The Board of Directors

There are cases, particularly among the very largest corporations, where stock is widely dispersed. Often the largest owners are pension funds or other financial institutions, which rarely take any role in influencing management. In such cases, the composition of the board of directors is of great importance. Several sociological studies have found that the directors of the largest corporations have elite social backgrounds, with roughly one-third coming from families listed in the Social Register, attending prestigious private schools, and belonging to exclusive upper-class clubs.

Small groups within the upper class often play important roles in the corporate world, as suggested by the author's study of alumni of Saint Paul's, a small, exclusive private school. Of the several thousand alumni who were over 45 in 1980, 102 were directors of one or more of the 800 largest U.S. corporations. They were particularly concentrated in the financial sector; 21 Saint Paul's graduates were officers or directors of Morgan Guaranty Trust, one of the largest banks in the country.

Other social institutions connect top executives and directors. Exclusive clubs such as the Links Club in New York provide meeting places for the elite; in 1970, 21 of the top 25 industrials and 20 of the top 25 banks nationwide had a director who belonged to the Links Club. The Bohemian Grove summer festivities are a famous gathering of the economic elite; in 1980, one officer or director attended Bohemian Grove from 30 percent of the 800 largest corporations, and much higher proportions of the very largest firms.

All measures of upper-class social origins and activity are most pronounced for those who are directors of more than one corporation. In 1970 there were 8,623 people on the boards of the 800 largest corporations, of whom 1,572 were on two or more boards. Those who serve on multiple boards of directors are often bankers, or executives who sit on bank boards; they play a crucial role in coordination and communication among corporations. These interlocking directorates do not represent distinct corporate cliques, but rather interconnections throughout the corporate world as a whole. This role is played largely by members of the upper class: those on two or more boards of directors are roughly twice as likely as single directors to be in the Social Register, to have attended a prestigious private school, or to belong to an elite social club.

The Assimilation of Rising Executives

Despite the prominent role of upper-class families and individuals, there are many top executives in major corporations who have worked their way up from middle-class origins. These upwardly mobile executives enter a process of assimilation into the upper class that often begins in college - regardless of social origins, a disproportionate number of CEOs attended the most prestigious private colleges - and continues as they rise in the business world. They frequently join elite charitable and cultural organizations and social clubs (as do their spouses). Their children are much more likely to attend private schools and Ivy League colleges than they were.

Assimilation occurs in economic as well as social terms. Rising executives receive generous stock options, making them into owners as well as managers, and ensuring that they will understand the perspective of wealthy investors. In view of this process of assimilation, it is not surprising that there are few, if any, important differences between the behavior of managers in owner-controlled and management-controlled firms. There is no difference in profitability, nor in the managerial interest in profit maximization. When giving public speeches, executives at managerially controlled firms were no more likely than their counterparts in owner-controlled firms to emphasize the social responsibility of corporations; nor were their differences in their attitudes toward government regulation, government spending, or labor relations.

The evidence presented in this chapter leads to the conclusion that

> The upper class is based in the ownership and control of profit-producing investments in stocks, bonds, and real estate. In other words, the nationwide upper class rooted in the corporate community is a capitalist class as well as a social class. Its members are not simply concerned with the interests of one corporation or business sector, but with such matters as the investment climate, the rate of profit, and the overall political climate. (116)

The corporate power of the upper class gives them direct influence over the economic lives of the great majority of Americans, and indirect influence over political life as well.