Michael Lin

San Francisco State University

Spring 2014

Power Elite Theory: Is Mill’s Analysis Still Relevant?

Clinton undertook some of the most comprehensive deregulatory reforms of the twentieth century. For example, the Financial Services Modernization Act of 1999 removed the legal divisions between commercial and investment banking…thus scrapping one of the major Keynesian legislations of Franklin Delano Roosevelt’s New Deal. The potential dangers of such profound deregulations of the finance sector would not become fully apparent until the global financial crisis of 2008-9.

-Manfred B. Steger and Ravi K. Roy, 2010

**I. INTRODUCTION**

Why and how did the financial sector become so radically deregulated during Bill Clinton’s presidency? Were the tycoons of the financial sector simply too powerful for the president and the congress to oppose? Or did the Clinton administration sincerely believe in the national benefits of deregulating the financial sector? These questions came to light in the aftermath of the 2008 financial crisis because of what the crash revealed about the disastrous state of the financial sector and the economy as a whole. Many of these questions were directed at the American government, which had only 9 years earlier touted the benefits of removing the Glass-Steagall regulations to create more competition in the financial sector. The reasoning put forth for removing these long standing regulations had rested upon the “outdated” state of the regulations and the benefits of lower costs and better quality that would accompany deregulations (Steger and Roy 2010, 125). Whether the government can be solely faulted for the 2008 crisis is up for debate but given the current focus on the Glass-Steagall deregulations that occurred in 1999, it both relevant and important that the deregulation process be reexamined.

After all, much has been made of the lack of regulatory oversight within the financial sector due to the strong relationships that existed between the regulators and the regulated. In fact, several of the prominent members of government working on the repeal of Glass-Steagall went to work for financial sector after leaving their posts. The most notable official has been Robert Rubin, who worked as an investment banker at Goldman Sachs before joining the Clinton Administration and left to work for Citigroup in 1999 after lobbying and working on the removal of Glass-Steagall during his time as President Clinton’s economic adviser and treasury secretary (Geisst 2004, 386). Others officials such as Phil Gramm, who chaired the Senate Banking Committee and was integral to getting the Glass-Steagall Act repealed, also left their government posts to work in the financial sector when he was hired by UBS Warburg in 2002 (Geisst 2004, 386). If such power relationships do continue to exist between the government and the financial sector then they would appear to confirm C. Wright Mills’ theory on the power elite.

More importantly, while Mills’ theory was published back in 1956 in his work: “The Power Elite”, it seems to have retained its relevance in being able to account for the decision making process that has characterized the deregulation of the financial sector, especially with regard to the removal of Glass-Steagall. While Mills’ theory focuses on three major spaces of power in American politics, only two are relevant for the case of financial deregulation. Mills highlighted the corporate rich and the political directorate as two institutions that formed the highest levels of power in American society and decided the most nationally consequential policies. Given the seemingly renewed relevance of Mills’ theory along with the broad and ongoing ramifications of removing Glass-Steagall for American society, it is only appropriate that the decision making process in deregulating the financial sector be reexamined to determine whether Mills’ theory can account for the process behind Glass-Steagall’s removal. This paper will therefore examine the case of Glass-Steagall’s repeal within the framework of Mills’ theory to ascertain whether the decision making process was decided by a power elite. It will be shown that Mills’ theory does account for the process behind the deregulation of the financial sector despite the important role institutions, such as the Federal Reserve, that Mills never focused on in his theory. This omission, however, can likely be attributed to the growth in power of the Federal Reserve since Mills’ theory was first published. Finally, this paper will reflect on the implications for the democratic-ness of American institutions that the presence of a power elite poses.

**II. RELEVANT ASPECTS OF MILL’S THEORY**

However, before this paper begins to elaborate on the deregulation of the Glass-Steagall Act, it is necessary to provide the basic outline of Mills’ theory on the power elite. Mills’ conception of a “power elite” is based on three institutions that he goes greatly into depth and operationalizes for his research. They are: the corporations, the state and the military. He considers the top positions within these institutions to be the foundations for the formation of a power elite. Moreover, he also shows that these three institutions have developed over time to form concentrated points of power in American society. Here, it is important to note that this paper is attempting to examine the validity of Mills theory for a case that is over four decades from when power elite theory was first published. As a result, Mills’ theory is historically specific and he says as much:

What I am asserting is that in this particular epoch a conjunction of historical circumstances has led to the rise of an elite of power; that the men of the circles composing this elite, severally and collectively, now make such key decisions as are made; and that given the enlargement and centralization of the means of power now available, the decisions that they make and fail to make carry more consequences for more people than has ever been the case in the world history of mankind (Mills 1956, 28).

Mills clearly situates his theory within the historical developments that he had observed during his time. The expansion of power within the institutions of the state, the corporation and the military along with the concentration of power in each institution is therefore pivotal of the theoretical foundations of Mills’ theory. Therefore, any application of Mills’ theory toward the case of Glass-Steagall is predicated on the belief that the structure of American institutions has remained as powerful and as concentrated as during Mills’ time.

In addition, Mills’ theory of the power elite focuses onnationally consequential decisions. As highlighted in the introduction, this paper has chosen the repeal of Glass-Steagall for precisely this reason. The issue of financial deregulation has had severe and ongoing consequences in the United States. Therefore, the process of choosing Glass-Steagall as a case study for Mills’ theory is predicated on the belief that the repeal of Glass-Steagall was a decision nationally important enough to involve the power elite. Since the power elite were the leaders of their respective institutions, the role of the power elite would only be revealed when nationally consequential policies were at stake.

Furthermore, he says regarding his conception of the power elite that “by the power elite, we refer to those political, economic and military circles which as an intricate set of overlapping cliques share decisions having at least national consequences. In so far as national events are decided, the power elite are those who decide them” (Mills 1956, 18). For Mills, these positions and the people who occupied them were clearly the ultimate arbiters of power in American society. The power elite are clearly only concerned with nationally important decisions. Therefore, the repeal of the Glass-Steagall Act is hypothesized to be a nationally important event that would involve the power elite.

Moreover, another important condition of Mills’ theory for this paper is where the power elite operate within the different levels of American society. Mills’ theory rests on the concentration of power within the institutions of the corporations, the state and the military that helped to form his conception of the power elite. With regard to the conception of the power elite, Mills argued that “the political directorate, the corporate rich, and the ascendant military have come together as the power elite, and the expanded and centralized hierarchies which they head have encroached upon the old balances and have now relegated them to the middle levels of power” (Mills 1956, 296). Thus, the power elite is considered to be at the highest level of decision making but this raises questions of what Mills meant by the “middle levels of power.”

In order to operationalize Mills‘ theory within the case of the repeal of Glass-Steagall, it is necessary to first examine his conception of the middle levels of power. Mills believed that the power elite process followed a decision making structure that was separated from the “middle level of power” because the power elite were operating in the “higher circles of power.” More specifically, the middle levels of power in Mills’ theory referred to the United States Congress. In fact, Mills has argued that: “the congressman is part of the compromised balances of local societies, as well as one or the other of the nationally irresponsible parties. As a result, he is caught in the semi-organized stalemate of the middle levels of national power” (Mills 1956, 257). If the power elite were not in Congress, then where exactly did the power elite operate in the US government? For Mills, the space of the power elite within the US government was within the executive branch. He goes on to state:

But in the middle third of the twentieth century…the power of the Executive and the increased means of power at its disposal, is far greater than at any previous period, and there are no signs of its power diminishing. The executive supremacy means the relegation of the legislature to the middle levels of political power; it means the decline of the professional politician, for the major locale of the party politician is the legislature (Mills 1956, 259).

The subordination of the legislative branch of the US government to the executive branch is a key aspect of Mills’ theory, especially for examining the case of the repeal of the Glass-Steagall Act. It does not mean that the legislature is unimportant but simply that historical developments have created a stalemated congress and a more powerful executive. As a result, the positions of the power elite reside within the executive branch for Mills. It is therefore necessary to also examine the specifics of these positions in Mills’ theory to gain a better understanding of what positions are occupied by the power elite.

More specifically, Mills has argued that the space within the executive branch where the power elite operate are in the top positions of the presidency, the cabinet and the department heads. Mills states:

A small group of men are now in charge of the executive decisions made in the name of the United States of America. These fifty-odd men of the executive branch of the government include the President, the Vice President and the members of the cabinet; the head men of the major departments and bureaus, agencies and commissions… (Mills 1956, 231).

In addition, he goes on to explain that “accordingly, it is in the executive chambers and in the agencies and authorities and commissions and departments that…many conflicts of interest and contests of power have come to a head--rather than in the open arena of politics of an older style” (Mills 1956, 229). Mills believed that the true decisions of power in the US government resided with the officials of these top positions within the executive because of the “legislative labyrinth” that was the Congress and because of how “centralized” and consolidated power had become within the executive branch.

As a result, he theorized that the “top policy making positions in the country” were in the “state, treasury and defense” departments. Accordingly then, if the Glass-Steagall repeal was a case of power elite decision-making, it should have been negotiated and acted upon within the executive by the cabinet members and department heads. Moreover, since Glass-Steagall dealt with the economic realm of policy making, then the treasury department and the secretary of the treasury should have been the ones leading the elite process behind the debate on deregulating the financial sector according to Mills’ theory.

Also of importance in Mills’ theory to this paper was how power elite members in the US government also represented the interests of the corporations. Mills argues that “the shift of the corporations executives into the political directorate has accelerated the long-term relegation of the professional politicians in the Congress to the middle levels of power” (Mills 1956, 275). This observation by Mills is part of a greater trend that he has outlined of the coinciding interests between the political directorate and the corporation rich. He attributes the presence of members of the business community in the state to “the growth of the executive branch of the government, with its agencies that patrol the complex economy” which translated into “the ascendancy of the corporation’s man as a political eminence” (Mills 1956, 275). Here, the fusion of the political and economic interests of the power elite into the space of the executive shows not only the subordination of the interests of the legislature but the elevation of the interests of corporations within the highest levels of the state.

As a result, Mills pointed to the presence of “political outsiders” that represented the dominant interests of the corporate rich. Mills believed that the top levels of the executive branch in his era had become increasingly staffed by appointed “political outsiders”who were a sign of “the decline of the legislative body and to the by-passing of elected offices in the higher political career” (Mills 1956, 231). He observes that these members of the political directorate are “anchored in other institutional areas. In fact, he [political outsider] is usually considered by the professionals as a representative or as an agent within the government of some non-governmental interest or group” (Mills 1956, 228). Mills therefore concludes that “the political outsiders who occupy the executive command posts and form the political directorate are legal, managerial, and financial members of the corporate rich” (Mills 1956, 235). This is why Mills speaks of these men and their positions not as separate from the corporate rich but as one conceptually singular “power elite.” The interests of a power elite would therefore only be reflected in the spaces of decision making that reside within the highest levels of the executive and involve the participation of the “political outsider.”

Therefore, if Mills’ theory holds up in the case of the repeal of the Glass-Steagall’s Act, then one should observe within the higher levels of the executive that: firstly, the political outsiders are from the financial sector; secondly, that these political outsiders are in alignment with the interests of the financial sector before the decision making process reaches the middle levels of power in the U.S. Congress; thirdly, that by the time the process reaches Congress, there is consensus among the power elite members in the government and the corporations about their positions regarding the Glass-Steagall case because their decision making process has already taken place; and fourthly, that the interests of the power elite were realized by the end of the process.

**III. HISTORY OF GLASS-STEAGALL AND ITS REPEAL**

In order to understand the full extent of the Glass-Steagall deregulations that were passed by Congress in 1999 and signed into law by President Clinton later that year, it is important to view the repeal of Glass-Steagall Act as a process carried out over the course of two decades from the 1980s to 1999. Therefore, it is pivotal that this history be examined from when the efforts to first weaken the law began. While Glass-Steagall was deregulated in 1999 by the passage of the Financial Services Modernization Act, the subsequent history will show that the journey towards deregulation actually started much earlier. However, it is first necessary to review the passage of the Glass-Steagall regulations in 1933.

When the Glass-Steagall Act was enacted in 1933, it was part of a series of banking regulations that were meant to keep the financial sector regulated and prevent crises such as the stock market crash in 1929 and subsequent Great Depression from occurring again (Grant 2010, 378). The Glass-Steagall Act was meant to “create separate rooms for bankers and securities brokers” according to author Joseph Grant (Grant 2010, 378). Moreover, authors Steger and Roy have asserted that “the 1929 crash and the ensuing Great Depression had exposed the dangers of the savings and loan industry partaking in the speculative frenzy on Wall Street, which had ultimately lead to the bankruptcy of many commercial banks and the loss of their customer’s assets” (Steger and Roy 2010, 124). In large part then, the Glass-Steagall regulations were aimed at commercial banks because of the threat that their failures posed to the rest of society. Grant concludes that the lack of regulation in banking had allowed commercial “banks to engage in speculative investments” which was why the Glass-Steagall Act kept commercial banks from entering investment banking by “prohibiting commercial banks from underwriting most securities” (Grant 2010, 374). However, the Financial Services Modernization Act, also known as the Gramm-Leach-Bliley Act changed all that. Grant laments that it “swept away almost six decades of financial services regulation” by repealing the Glass-Steagall Act “which was passed in the 1930s and designed to stamp out commercial speculation and other perceived evils that lawmakers at the time viewed as causing the Great Depression” (Grant 2010, 374). Implicit then in this historical rationale for constructing these banking barriers was the idea that commercial banks needed to be regulated in order to prevent the industry from engaging in risky speculative behavior. Banks would have to choose one industry: commercial or investment banking, in order to keep consumer and business deposits safe from risky investments. Having reviewed the origins of the Glass-Steagall regulations, it is now necessary to examine where and when the impetus for repealing Glass-Steagall sprang from.

The impetus to change the Glass-Steagall regulations originated in the 1970s. According to scholars Sandra Suarez and Robin Kolodny:

During the 1960s and early 1970s, large commercial banks had very little interest in expanding into other areas of finance because they were able to make money from interest-free or low-interest deposits, safe government securities and commercial loans. By the mid-1970s, their profitability started to erode because bank customers began to look for higher-return investments such as mutual funds and money market accounts, and borrowers were able to secure loans from other sources such as commercial paper and junk bonds” (Suarez and Kolodny 2011, 85).

However, with the declining rates of profitability, the commercial banking industry began to look to other areas of the financial sector that had been off-limits to them. According to Suarez and Kolodny, commercial banking sought to expand into the securities and insurance markets by pushing Congress and President Reagan’s administration to enact legislation that would repeal the Glass-Steagall regulations that were preventing them from entering other markets. However, the securities and insurance industries lobbied against the repeal efforts and were able to successfully preserve control of their respective industries (Suarez and Kolodny 2011, 83). Ultimately, “divisions within the financial community, reflected in the positions of the different congressional committees with overlapping jurisdiction over the legislation, thwarted the efforts of commercial banks to achieve financial deregulation” (Suarez and Kolodny 2011, 84). This clearly shows that the efforts to repeal Glass-Steagall started during the Reagan administration, long before President Clinton ever came into office. While the commercial banking interests and their congressional and executive counterparts were unsuccessful, this process was far from over. In fact, the process of repealing Glass-Steagall had only begun. Moreover, it was not the unwillingness of the political directorate to repeal Glass-Steagall but the competing interests within the financial sector that prevented political action from repealing Glass-Steagall. However, the stalemate in the financial sector would not keep the interests of the commercial banking industry at bay for long.

In fact, author Charles Geisst writes that “The trend for the future was becoming clear. Glass Steagall was likely to remain, so new attempts would need to be made to circumvent it with a few well-timed end runs” (Geisst 2004, 334). It would be the Federal Reserve, the United States’ central bank, which provided the means to circumvent Glass-Steagall. Three prominent commercial banks, J.P. Morgan, Bankers Trust and Chase Manhattan, came to the Fed in early 1987 to grant them the power to cross over into the investment banking sector (Suarez and Kolodny 2011, 85). According to Geisst, “most commercial banking activities fell under the Fed’s jurisdiction. It allowed what had been forbidden for over fifty years: a limited number of commercial banks began underwriting corporate stocks and bonds on a trial balloon basis” (Geisst 2004, 355). Although the Glass Steagall wall had not been destroyed, it was slowly being compromised by the Fed’s new spin on the Glass-Steagall regulations. This monumental shift granted commercial banks the right to have a subsidiary conduct 5 percent of its business in investment banking (Suarez and Kolodny 2011, 85). Geisst observes that the Federal Reserve, who had been charged with overseeing bank holding companies, such as the three aforementioned banks, since the passage of the Bank Holding Company Act, used a technicality in section 20 of the Glass Steagall Act to let these three commercial banks enter the investment banking industry (Geisst 2004, 356).

The decision-making process to weaken Glass Steagall reflects the presence of a power elite operating at a higher level of power. In essence, Geisst shows that the Fed and the commercial banks had effectively bypassed Congress to reshape Glass-Steagall in accordance with their elite interests. Here, the decisive power was exercised within the higher levels of power in the executive branch but, more specifically, by the Federal Reserve, with regard to the Glass-Steagall regulations. Furthermore, the evidence also shows the Fed and the commercial banks operating within the Federal Reserve in a very elite based process. Just as Mill’s theory outlines, the power elite’s positions were still firmly lodged in the concentrated powers of the executive branch, except this now appeared to include the Federal Reserve. In fact, the Federal Reserve’s powers in the decision making process regarding regulatory policies appear to show an expansion of its role and power since Mills’ time.

Furthermore, the coincidence of interests between the Fed and the commercial banks with regard to the Glass-Steagall regulations shows further evidence for a power elite. According to Geisst, the Fed’s argument was that allowing commercial banks into the investment banking market would make the market more competitive and drive down costs for customers (Geisst 2004, 356). Similarly, the commercial banks had been claiming that investment banking services would become less costly if they were allowed to enter into the business (Geisst 2004, 355). The arguments and positions presented by the commercial banks and the Fed in making the case for repealing Glass-Steagall were clearly a case of coinciding interests. This intersection of interests between the Fed and the commercial banks provides further evidence supporting the continued existence of a power elite.

Moreover, the Fed’s decision to ease the Glass-Steagall regulations also pointed to how its role had changed since Mills’ era, further building the case for its inclusion as an institution of the power elite. Extraordinarily, the above case shows how the Federal Reserve had acted with the power of all three branches. It had reinterpreted the Glass-Steagall Act, recreated the regulatory policy in banking, and enforced it all in one broad motion. The only real opposition to the actions by the Fed came from a lawsuit from the Securities Industry Association, an investment banking group, that wanted to prevent new competitors within its markets but was unsuccessful after the Fed’s decision was upheld by the U.S. Supreme in 1988 (Suarez and Kolodny 2011, 81). In fact, the Federal Reserve Board justified its decision to the public by arguing that the times had changed and the presence of the SEC, savvy investors, and credit rating agencies would be able to deter the kind of disastrous banking that had caused the 1929 crash (Steger and Roy 2010, 124). The extraordinary powers exercised within the Fed in 1987 show that it was clearly operating at a higher level of power than Congress, just as an institution of the power elite would be expected to do.

In the mean time, the efforts to repeal Glass-Steagall in Congress continued. As the commercial banking sector chipped away at Glass-Steagall with the aid of the Federal Reserve, the progress of congressional legislation to repeal the Glass-Steagall regulations continued to encounter resistance from other parts of the financial sector. It should be noted however, that the Reagan administration along with Senate Republicans had supported the commercial banking industry’s efforts to have Glass-Steagall repealed (Suarez and Kolodny 2011, 84). In fact, President Reagan’s undersecretary of the treasuryhad also publicly stated the need to remove deregulations and allow banks to expand in order to compete internationally (Suarez and Kolodny 2011, 85). However, when such efforts in Congress failed to result in the deregulations that commercial banks had strongly desired, the Federal Reserve was turned to. This trend would repeat itself in similar fashion in 1989. Once again, the congressional gridlock here reflects Mill’s depiction of the legislature as the stalemated middle levels of power. With Congress unable to act, the executive would once again become the space of decision making in weakening the Glass-Steagall regulations.

In fact, in 1987, when Alan Greenspan was appointed the new chairman of the Federal Reserve, he openly advocated for the complete repeal of the Glass-Steagall regulations. (Suarez and Kolodny 2011, 85). This coincidence of interests between the treasury under President Reagan, the Federal Reserve, and the commercial banking sector in repealing Glass-Steagall once again points to the presence of a power elite. Is it unsurprising then that through the concerted efforts of the commercial banking sector and the Federal Reserve, Glass-Steagall was weakened again? This elite process was repeated in 1989 when the Federal Reserve doubled the amount of business that banking subsidiaries could do to 10 percent of their revenue (Suarez and Kolodny 2011, 87). An elite process had once again taken place through the Federal Reserve within the executive branch to further weaken the Glass-Steagall regulations.

Meanwhile, the newly inaugurated President George H.W. Bush and his treasury secretary, Nicholas Brady, an investment banker, eagerly took up the fight to have Glass-Steagall repealed. In fact, Suarez and Kolodny write that “treasury secretary Brady…argued that commercial banks needed to be able to enter the securities and insurance industries in order to ensure competitiveness and survival” (Suarez and Kolodny 2011, 87). However, the 100th Congress ultimately failed to pass legislation repealing Glass-Steagall because of the conflicting interests within the financial sector from the banking, securities, and insurance industries (Suarez and Kolodny 2011, 86). This struggle between commercial banks that wanted to repeal Glass-Steagall, and securities and insurance companies that wanted to preserve it changed at the end of 1989. It is once again worth pointing out that legislation to repeal Glass-Steagall in Congress had not passed because of the competing interests within the financial sector, not because of any opposition from the public at the time. In fact, the power elite within the executive had been for repealing Glass-Steagall once again as shown by the treasury secretary’s support under President George H.W. Bush‘s administration.

However, after the Fed allowed commercial banks to further encroach into the investment banking business in 1989, the Securities Industry Association decided to change its approach. Suarez and Kolodny state that “The Securities Industry Association decided that, instead of fighting the repeal of Glass-Steagall, they would try to shape legislation to their liking…securities firms wanted to be allowed to expand into commercial banking…” (Suarez and Kolodny 2011, 88). This left only the insurance industry in opposition to legislation that would repeal Glass-Steagall. Unfortunately for the advocates of financial deregulation, this proved to be enough to stalemate the Congressional process again. This left the Glass-Steagall repeal efforts during George H.W. Bush’s administration unrealized in 1991 because of “the diverse and generally conflicting interests of the financial sector” (Suarez and Kolodny 2011, 89).

While the commercial and investment banks continued to lobby for repealing Glass Steagall, the Fed and the Office of the Comptroller, an office within the Treasury Department, joined in the foray to deal another blow to the Glass-Steagall regulations. Geisst observes that “In the fall of 1996, the Comptroller of the Currency allowed banks to engage in securities underwriting and sell insurance to customers if they did so through subsidiary companies”(Giesst 2004, 367). What was important to note was that all commercial banks were now allowed into the insurance industry as well. However, Geisst notes that the OCC ruling meant that bank subsidiaries were still going to be subject to the 10 percent rule originally allowed by the Fed in 1989 (Geisst 2004, 367). This would have important consequences, especially for the insurance industries later on.

However, this 10% limitation was dismantled later that year according to Steger and Roy when the “Federal Reserve Board under the leadership of Alan Greenspan ruled to allow bank holding companies to own investment bank affiliates with up to 25% of their business in securities underwriting” (Steger and Roy 2010, 124). The Fed had once again taken matters into its own hands and, for the third time in the span of less than a decade, unilaterally increased the amount of investment business that commercial banks could engage in. The Glass-Steagall regulations were under attack once again. However, this time, the department of the treasury would also begin to actively dismantle Glass Steagall as well. Geisst states that “it was clear that the Glass Steagall wall was again under pressure although Congress still refused to remove it [Glass-Steagall] altogether, allowing the Fed and the Comptroller to chip away at it out of the public eye” (Geisst 2004, 367). The executive branch continued to act in concert with the banking sector, demonstrating not only a longstanding coincidence of interests but the decisive ability of the executive to dictate policy in spite of the stalemate in Congress. The interests of the the power elite were gradually but surely repealing Glass-Steagall without any real opposition from Congress, the Supreme Court or the public.

In addition to the Fed and the treasury‘s repeal efforts, this assault on Glass-Steagall was still being carried out in Congress, as evidenced by the vice chairman of the Federal Reserve’s comments regarding his desire to see Congress take up the repeal of Glass-Steagall (Geisst 2004, 367). The Fed was not only weakening Glass-Steagall but also lobbying for its full repeal in Congress as well. In addition, the Clinton administration had also begun to actively support the lobbying efforts to repeal Glass-Steagall in 1995, according to Suarez and Kolodny (Suarez and Kolodny 2011, 91). It was only the opposition from the insurance companies and select members of Congress that stood in the way of a comprehensive repeal of the Glass-Steagall Act. However, this opposition would soon be transformed into support. While this inability for the banking sector and the executive to have legislation passed in Congress to repeal Glass-Steagall can be construed as the failure of the power elite to realize their interests, what is important to remember is that this repeal effort was an ongoing process that eventually culminated in the comprehensive repeal of Glass-Steagall in 1999. Moreover, Mills also theorized that “When the power elite find that in order to get things done they must reach below their own realms-as is the case when it is necessary to get bills passed through Congress-they themselves must exert some pressure” (Mills 1956, 291). For Mills then, the need for the power elite to actively lobby Congress for certain policies, such as repealing the Glass-Steagall Act, was fully recognized. Therefore, the power elite process could extend into the middle levels of power in congress according to Mills' theory. The fact that legislation to repeal Glass-Steagall continued to occupy the Congressional agenda for over a decade is evidence of the lobbying efforts of the power elite to keep the issue of deregulating the financial sector alive.

In fact, the insurance industry joined in the efforts to repeal Glass-Steagall in 1996 as it became increasingly clear that the interests of the financial sector and the executive branch were heading towards greater deregulation. According to Suarez and Kolodny, “the insurance industry was now hinting that it also wanted Congress to permit its entry into commercial banking. This was also a defensive move in reaction to the 1996 Supreme Court ruling that permitted national banks to sell insurance in towns of five thousand or fewer residents” (Suarez and Kolodny 2011, 92). Clearly, the insurance industry began to realize that its opposition to repealing Glass-Steagall was becoming futile as the executive branch increasingly weakened the Glass-Steagall regulations. Moreover, the insurance industry could instead work to repeal Glass-Steagall for its own gain by advocating for its ability to enter commercial banking. As a result, Suarez and Kolodny observed that: “Along with securities firms, insurance companies were now pressuring Congress to legislate a repeal of Glass-Steagall and the Banking Act to enable them entry into the commercial banking and securities business, while at the same time ensuring a lax regulatory oversight of their new operations” (Suarez and Kolodny 2011, 92). However, Congress was unable to pass any legislation repealing Glass-Steagall in 1998 because, in a dramatic shift, the commercial banks began to oppose any legislation on Glass-Steagall. After all the gains made by commercial banks since 1987, they were in opposition to any further deregulation because they did not wish to see the insurance industry and securities industry enter commercial banking and cut into their business.(Suarez and Kolodny 2011, 93).

However, the emergence of a merger between Citicorp and Travelers Insurance in 1997 finally created consensus in the financial sector for repealing Glass-Steagall. According to Suarez and Kolodny: “The new entity now known as Citigroup became a major proponent of the bill because otherwise, federal regulators, who continued to operate under the rules of Glass-Steagall Act of 1933 and the Bank Holding Company Act of 1956, would have no choice but to force it to break up within two to five years” (Suarez and Kolodny 2011, 93). Suarez and Kolodny state that the merger created a new urgency to pass congressional legislation repealing Glass-Steagall, especially since the massive conglomerate, Citigroup, the creation of two already large commercial and insurance companies, was now on board (Suarez and Kolodny 2011, 94). While the debate on the Financial Services Modernization bill did not enjoy overwhelming support in Congress, it eventually passed according to Suarez and Kolodny because of the “unified lobbying by the financial services community,” especially after Citigroup helped to create consensus between the commercial, investment and insurance industries (Suarez and Kolodny 2011, 95). While this monumental bill allowed the financial sector to operate with new freedoms, it left the oversight structure in the executive branch largely unchanged. Suarez and Kolodny note that from the view of the new bill, “the expectation was that the market would regulate itself” (Suarez and Kolodny 2011, 95). The comprehensive repeal of Glass-Steagall was finally passed after over a decade of being gridlocked in Congress. The converging interests of the financial sector and the lobbying of the executive branch proved to be pivotal in the end to creating enough political pressure in Congress to ensure the passage of the Financial Services Modernization Act and solidify the repeal of Glass-Stegall. This convergence of interests across the broader industries of commercial banking, investment banking and insurance was representative of the clout of thepower elite**,** especially when it became fully united towards one agenda. The ability of the power elite in the greater financial sector to exert their influence and realize their interests as a whole attests to how elite the process of decision making was. While Congress passed the final repeal of Glass-Steagall, it is important to examine the role of the executive during the emergence of Citigroup to ascertain a better understanding of what occurred. For this, it is necessary to return to the Federal Reserve and the Treasury within the executive branch.

Within the executive, the Federal Reserve and the Treasury’s support in the form of lobbying efforts by Fed Chairman Greenspan and treasury secretary Robert Rubin were crucial to shaping and passing the Financial Modernization Act in 1999. With regard to the Treasury, former Clinton Economic adviser Joseph Stiglitz argues that “In the mid-nineties, the banks mounted a concerted campaign to have Glass-Steagall repealed. The conditions were favorable. Prosperity made the notion of bank failure seem very remote. Another significant positive factor fell into place with the appointment, in 1995, of Robert Rubin…Rubin was a banker…and he actively supported the repeal effort.” (Stiglitz 2003, 160). Furthermore, Stiglitz adds that both the “banking industry and its Treasury Department champions also advanced another argument: scrapping the law…was of no consequence because the banks had learned how to circumvent it anyways” (Stiglitz 2003, 160). Clearly the Treasury and secretary Rubin were aligned in their interests with regard to their position and arguments on repealing Glass-Steagall. In fact, the Office of the Comptroller of the Currency went even further by allowing banks to get into the stock issuing business in 1997 thus further advancing their entry into investment banking by allowing them to provide stock brokerage services (Geisst 2004, 385).

On the other hand, the Fed was no less instrumental in helping to create the final push for Glass-Steagall repeal during the Clinton administration. The Fed helped to once again resurrect the efforts to repeal Glass-Steagall in Congress by using its jurisdiction over bank holding companies to approve the Citigroup merger. Geisst argues that “dismantling the Glass-Steagall Act legally proved to be difficult…However, the Fed’s gradual nudging of the process since 1989 finally gave dealmakers an opportunity to test the limits of Congressional resolve and pull off one of the most astounding deals of the postwar years” (Geisst 2004, 385). In other words, the Fed had been simultaneously weakening Glass-Steagall, while forcing the issue on the legislature to completely repeal the act.

Moreover, the ultimate expression of this was when the Federal Reserve approved the Citicorp and Travelers merger in spite of Glass-Steagall’s stipulations and created a massive conglomerate with significant business in the commercial, securities and insurance industries, thus reigniting the movement for repealing Glass-Steagall. According to Geisst, the issue of Glass-Steagall had been “dead” in the legislature until the Fed revived it with its extraordinary approval of Citigroup’s merger (Geisst 2004, 385). The Federal Reserve Board accomplished this maneuver by adding a caveat to its approval. It made its approval of the merger dependent on Citigroup’s adherence to Glass-Steagall’s regulations within 2 years’ time (Geisst 2004, 386). This would have effectively forced Citigroup to give up its business in either commercial banking or investment banking and insurance underwriting to continue operating. Therefore, Geisst concludes with regard to the Fed’s caveat that: “The only way to hurdle that barrier was to get Glass-Steagall repealed” (Geisst 2004, 386). As evidenced, the Federal Reserve was the space where Citigroup was approved and the opposition from commercial banks to the repeal of Glass-Steagall disappeared after 1997 thus enabling consensus in the broader financial sector. Here, within the sphere of the Federal Reserve was where the interests of the commercial banks, the investment banks and the insurance industry finally intersected and where the decision to retake up the repeal of Glass-Steagall in Congress was made for the final time. The decision to allow the Citigroup merger helped culminate in the passage of the Financial Services Modernization Act of 1999. However, the fact that a conglomerate, Citigroup, had been able to violate Glass-Steagall so blatantly before it had been repealed was nothing short of extraordinary. More importantly, the decision to approve the merger also reflected a thoroughly elite process. In addition, the fact that this merger was engineered and approved within the Fed to revive the repeal efforts in Congress and bring the broader financial sector’s interests in alignment shows how far this removed this decision was from even Congress. In fact, the final version of the bill was even drawn up by the Fed and the Treasury themselves (Suarez and Kolodny 2011, 95).

In the final moments leading up to the passage of Glass-Steagall in 1999, it was none other than Alan Greenspan and the newly appointed treasury secretary, Larry Summers, who had replaced Rubin when he left to become co-chairman of Citigroup, whom worked together to outline the remaining regulatory structure that would accompany the Financial Services Modernization Act. The final version of the bill allowed both the Fed and the Treasury to cooperatively oversee the newly deregulated financial sector (Suarez and Kolodny 2011, 95). This negotiation was emblematic of the process all along. The Treasury and the Federal Reserve were the ones dictating policy to Congress. But, it was in conjunction with the commercial banks at all times. This power elite process was largely devoid of any influential voices representing consumers or those within the middle or working class. Moreover, the entire process of deregulating Glass-Steagall was engineered and fueled by the concerted efforts of the Federal Reserve, the Treasury department, and the commercial banking sector. This long and negotiated process for repealing Glass-Steagall clearly stayed within a framework that fit the conceptions of the power elite Mills had outlined. The presence of any significant opposition to removing Glass Steagall was gone once the commercial banking, the securities industry and the insurance industry came to together with the Federal Reserve and the Treasury department to push for the demise of the nearly 66 year old banking regulation.

**IV. IMPLICATIONS OF FINDINGS FOR MILL’S THEORY**

It then seems clear to assert that the findings within the Glass-Steagall case for Mills' theory were supportive of a power elite. While it is important to reiterate that Mills' does not discuss the Federal Reserve as part of the space of the power elite, its role as an elite institution within the case of Glass-Steagall points strongly to the inclusion of the Fed into his conception of the power elite. Moreover, the presence of “political outsiders” such as Nicholas Brady, the chairman at the investment firm of Dillon Read, Alan Greenspan, former Board member of J.P. Morgan, and Robert Rubin, an investment banker with Goldman Sachs, helps to lend further credence to Mills’ theory. In fact, throughout the process of the efforts to repeal Glass-Steagall from 1987 to 1999, the top officials in the Treasury and Federal Reserve were all from the financial sectors on Wall Street. The three treasury secretaries that were present throughout this time period were: Nicholas Brady, Lloyd Bentsen and Robert Rubin. But more importantly, they all had ties to the broader financial sector. In addition, the Federal Reserve Chairman appointed from 1987 and present through Glass-Steagall repeal in 1999, Alan Greenspan, was also a financial consultant and had significant ties to the commercial bank, J.P. Morgan. These men were “political outsiders” that had come from the financial realm into the political realm as appointees that the banking sector was able to continuously count on for support in repealing Glass- Steagall.

Furthermore, during the course of the repeal efforts of Glass-Steagall beginning in the 1980s, the higher levels of decision making were clearly displayed within the executive branch. The top members of the executive had managed to act decisively and create policy with regards to repealing Glass-Steagall, thereby relegating the legislature to the middle levels of power. However, the power elite within the executive had also been simultaneously lobbying the Congress to repeal Glass-Steagall as the act was being chipped away at by the Fed and the Treasury. The executive remained part of the higher circles of decision making power just as Mills had originally contended. Moreover, the executive had also continued to be the domain of the power elite in exercising decisions that had national consequences, as repealing Glass-Steagall’s regulations would have in the global financial crisis.

In addition, the decision making within the Federal Reserve and the constant coincidence of interests between the treasury, the Fed and the commercial banking sector was a hallmark throughout the long process of repealing Glass-Steagall. The fact that these aforementioned institutions conformed with Mills’ conception of the power elite by being based within the executive branch and the largest corporations is no coincidence. These are clearly the institutional spaces of the power elite, and they showed themselves to be as much, especially when the initial efforts to repeal Glass-Steagall through congressional action were unsuccessful. The work of the Federal Reserve and the treasury department in gradually breaking down Glass-Steagall and allowing the commercial banks to enter investment banking without congressional action was inherently an elite process. The fact that the Mills considered Congress within the middle levels of power because of the concentration of power within the executive and its’ inability to escape gridlock is clearly demonstrated in the process leading to Glass-Steagall’s repeal. Time and time again, legislation to repeal Glass-Steagall became bogged down but the executive continued to act on repealing Glass-Steagall by creating policy in place of the legislature.

Moreover, Mills' theory also accounts for the intense lobbying by the power elite in the middle levels of power because of the divisions within American political institutions. He referred to it as “high-level lobbying”, because it required the power elite members to operate in a lower level of power than they were accustomed to (Mills 1956, 291). This elitist process behind the repeal of the Glass Steagall Act has demonstrated that there is clearly a power elite that operates within the arena of American politics, sharing personnel and a coincidence of interests.

**V. IMPLICATIONS FOR AMERICAN DEMOCRACY**

In the final analysis, the elite process that took place in a nationally consequential decision such as the repeal of Glass-Steagall had important ramifications for the democratic-ness of American institutions, especially with regard to economic policy. If the economic policy of the country can be decided within the board rooms on Wall Street and in the offices of the Treasury and Federal Reserve, how could such institutions ever be considered democratic? The interests of these institutions were clearly tied to the interests of the financial sector and not the broader electorate. In addition, there is no accountability to the electorate for an institution such as the Federal Reserve that is shielded from elections and whose board members are composed of executive from the banking community (Phillips 2002, 94-95). Even members of the public that may be informed about the matters of economic policy making within American institutions would be hard pressed to understand the full implications of any given economic policy. The inaccessible language used, along with the complexity of the policies being decided create a divide between what the public and the financial sector know. This divide not only excludes the public but members of congress who often defer to “experts” within the executive and the business community on matters of economic policy. This results in a very undemocratic process that resembles the power elite model outlined by C. Wright Mills. From the case of Glass-Steagall’s repeal, it seems that the undemocratic nature of American institutions, as observed by Mills in the 1950s, has not changed in the contemporary era. In fact, further examination of institutions such as the Federal Reserve, which Mills never discussed, only serves to show how much more undemocratic America has become since he first postulated his theory on the power elite. The ability of Mills’ theory to account for the process behind the repeal of Glass-Steagall is not only indicative of an absence of democracy but the presence of a powerful elite in American society.

**VI. CONCLUSION**

This paper has demonstrated that C. Wright Mill’s theory on the Power Elite remains relevant through the case of Glass-Steagall’s repeal from the 1980s to the 1990s. This has been accomplished by highlighting the most relevant aspects of Mill’s theory with regard to the economic policy making realm that Glass-Steagall’s repeal fell under. This started with Mill’s conceptions of the power elite as the source of decision making in the highest level of power. This also included an examination of the Congressional policy making process that Mills highlighted as the middle levels of power. Mill’s theory places the decision making process of the power elite within the space of the executive branch of the American government when it comes to policies of national consequence. To the extent that the Congress remained relevant in this process, it was only as a means for implementing the decisions made within the executive branch by the power elite.

After Mills’ theory was outlined, the history of Glass-Steagall’s repeal was retraced with a focus towards the executive and congressional realms to examine whether a power elite process was taking place. It was observed that within the executive branch of the American government, the treasury and Federal Reserve often became the space of decision making with regard to whether Glass-Steagall ought to be repealed. In addition, the legislative space of Congress was constantly gridlocked by the divergent interests in the broader financial sector. Therefore, it was also observed that the power elite within the executive often created and implemented policies repealing Glass-Steagall without any participation or approval from the legislature. When the Congress finally repealed Glass-Steagall in 1999, it was only due to the broad cooperation by interests in the financial sector and the “high-level lobbying” from the executive branch that made the Financial Services Modernization Act possible.

The Financial Services Modernization Act represented a culmination of efforts to repeal Glass-Steagall that was initiated, shaped and decided by the power elite. Mills’ theory was therefore successfully confirmed by the case on repealing the Glass-Steagall Act in the end of the 20th century. The implications of the continuing relevance of Mills’ theory reflects a dark and ominous assessment for the democratic-ness of American institutions today. The fact that the top members of the executive were able to shape the decision making process early on and exclude the electorate’s input and Congress' approval is a testament to the undemocratic nature of American institutions, especially with regard to economic policies.

Finally, the examination of Mills' theory through the case of Glass-Steagall’s repeal raises unanswered questions about the nature of the Federal Reserve in Mills' theory and in American politics in general. Perhaps a future paper could explore just how the Federal Reserve would fit into an “updated” or “revised” version of Mills' theory on the power elite. Moreover, further research could also make a worthwhile contribution to American politics by examining the historical development of the Federal Reserve and how democratic its current structure is within the United States. It is, unfortunately, out of the scope and ability of this paper to further examine the Federal Reserve’s role. However, further research on the Federal Reserve’s role could help to contribute to Mills' theory and build on this paper’s findings along with the larger field of American politics.

Bibliography

Geisst, Charles. 2004. *Wall Street: A History.* Oxford University Press.

Grant, Joseph Karl. 2010. "What the Financial Services Industry Puts Together Let No Person Put Asunder: How the Gramm-Leach-Bliley Act Contributed to the 2008-2009 American Capital Markets Crisis." *Albany Law Review* 73, no. 2: 371-420.

Phillips, Kevin. 2002. *Wealth and Democracy: A Political History of the American Rich.* New York, NY: Broadway Books.

Steger, Manfred B. and Ravi K. Roy. 2010. *Neoliberalism: A Very Short Introduction.* Oxford University Press.

Stiglitz, Joseph E. 2003. *The Roaring Nineties: A New History of the World’s Most Prosperous Decade.* New York, NY: W.W. Norton & Company, Inc.

Suárez, Sandra, and Robin Kolodny. 2011. "Paving the Road to “Too Big to Fail”: Business Interests and the Politics of Financial Deregulation in the United States." *Politics & Society* 39, no. 1: 74-102.

U.S. Congress. House of Representatives. Committee on Banking and Financial Services. 1999. *The Financial Services Modernization Act of 1999.* 106th Congress, 1st Sess., 10 February.

Woodward, Bob. 1994. *The Agenda.* New York, NY: Simon and Schuster, Inc.