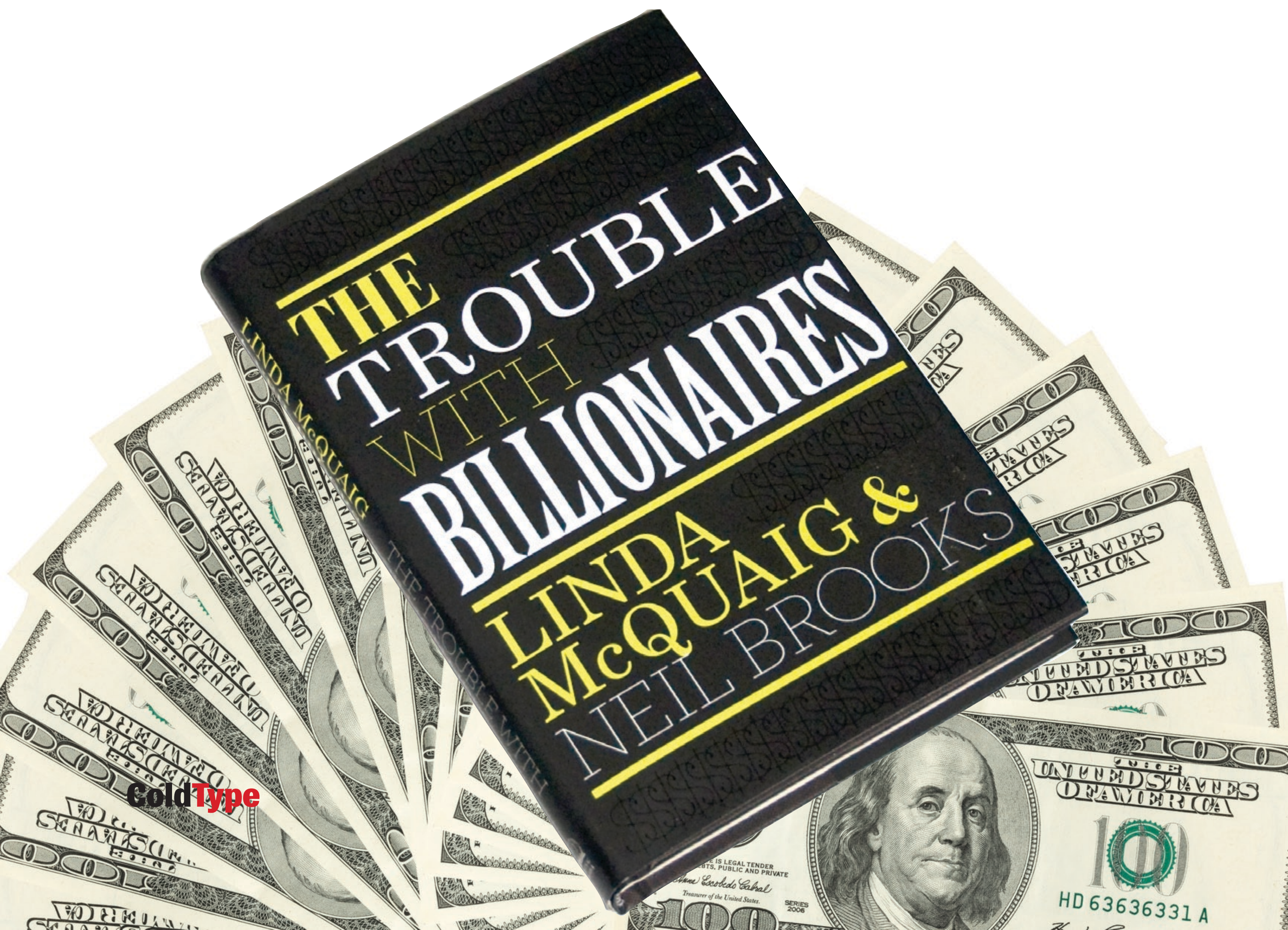
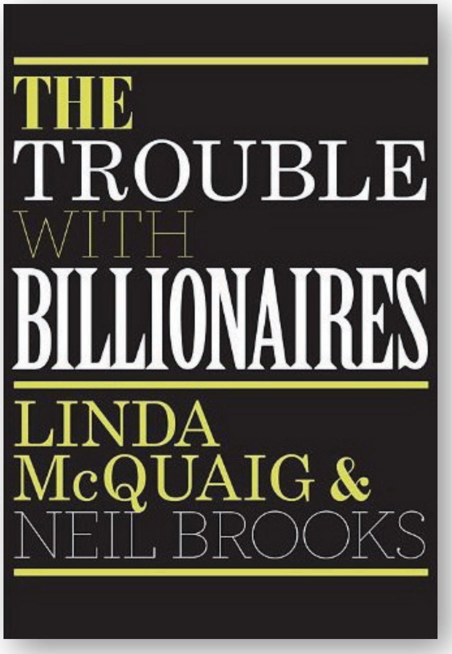
RETURN OF THE PLUTOCRATS

An excerpt from

THE TROUBLE WITH MILLIONAIRES

By LINDA McQUAIG and NEIL BROOKS





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Imagine this: you are given one dollar every second.

At that rate, after one minute, you would have sixty dollars. And after twelve days, you would be a millionaire – something beyond most people's wildest dreams.

But how long would it take to become a *billionaire*?

Well, at that rate, it would take almost thirty-two years.

Being a billionaire isn't just beyond most people's wildest dreams, it's likely beyond their comprehension.

Another way to grasp the sheer size of billionaires' fortunes is to imagine how long it would take Bill Gates, generally considered the world's richest man, to count his $53 billion. If he counted it at the same rate – one dollar every second – and he counted non-stop day and night, he'd have it all tallied up in 1,680 years. Or still another way to look at it: if Bill Gates had started counting his fortune at that rate back in AD 330 – the year the Roman emperor Constantine had his wife boiled alive and chose Byzantium as the empire's new capital – he'd just be finishing up now.

"By the beginning of 2009, the only thing scarcer than jobs for the masses was mea culpas from the elite

NO ONE EVER ACCUSED Wall Street bankers of being modest, unassuming, or prone to self-doubt. Still, their decision to collectively pay themselves a record $140 billion in 2009 – outstripping even their 2007 record – seemed perverse, given that they'd just brought the world economy to its knees. But then, many in the elite have seemed determined to shake off any responsibility for the 2008 financial meltdown, not just those who directly engineered it, but also those who dismantled the regulatory walls or who simply encouraged the culture of greed that brought it about. By the beginning of 2009, the only thing scarcer than jobs for the masses was mea culpas from the elite.

This was evident at the annual elite gathering that January in the Swiss town of Davos, where business leaders, financial innovators, political shakers, and other big thinkers have been coming for years to celebrate the globalized world of liberated financial markets, shrunken government, and reinvigorated capitalism. The benefits this new world offered were evident by looking at the members of this dazzling crowd, whose financial holdings typically matched their bulging intellectual endowments. Naturally, there was some bewilderment in Davos in January 2009, even a few questions about why markets had done such a poor job of policing themselves. A dispatch posted on the website Slate captured the mood: "DAVOS MAN, CONFUSED." Still, as journalist Julian Glover noted in the U.K.'s *Guardian*: "The shock is real, the grief has hardly begun, but no one in Davos seems to think [this] means they should be less important or less rich."

That would have involved a deep change of mindset, which was not what these economic overlords seemed inclined toward. After all, a key concept behind the economic order of the past few decades has been the central importance of individual talent, and the need to nurture it with abundant financial rewards. That way, the brilliant in our midst would be lured into the top jobs running the world. Ensuring the active participation of these giants among us was clearly understood to be worth a lot, and pay scales were adjusted accordingly, going through the roof at the upper end. Just because the global economy was now in a free fall hardly seemed like grounds to go beating up the very people who'd played key roles in designing it.

So, in Manhattan, then Merrill Lynch CEO John Thain apparently saw no irony as he explained why he'd felt it necessary to pay $4 billion in executive bonuses to keep the "best" people on staff – right after those same over-achievers had steered the company to a staggering net loss of $27 billion and in the process helped trigger the global economic meltdown. (One wonders what some less capable types might have done – just carry on regular banking?) And there was particular outrage over a media report in October 2009 that a member of the kitchen staff of bailed-out Wall Street firm AIG had received a $7,700 bonus. (Surely that was less outrageous than the million-dollar bonuses paid to those who'd carried out the firm's financial business. After all, the kitchen helper had presumably produced something that at least could be eaten.)

"Without them, Wall Streeters will all look for other jobs. Do we really want these greedy, incompetent clowns building our houses, teaching our children or driving our cabs?"

Away from the rarified air of Davos and Manhattan, the high fliers who had so recently basked in the respect and awe of the less gifted underwent a precipitous drop in regard. Some of those less-gifted types were now clamouring for change, even suggesting that cutting executive pay might induce the hyper-talented to seek more socially useful employment in areas like teaching or health care. But a letter to the *New York Times* clarified the danger of this approach, making a compelling case for maintaining extravagant pay, even huge executive bonuses: "Without them, Wall Streeters will all look for other jobs. Do we really want these greedy, incompetent clowns building our houses, teaching our children or driving our cabs?"

AS A RESULT of the increasing concentration of income and wealth at the top during the last few decades, the United States, Britain, and Canada have become extremely unequal societies.

Before going any further, we should point out that we are not against all inequality. On the contrary, we believe that some reasonable degree of inequality is not only acceptable but even desirable, reflecting different levels of individual effort and contribution. But what exists today in the Anglo-American countries is an excessive level of inequality that has rarely been seen in modern history.

In the past few decades the middle and lower classes have experienced almost no growth in income. Virtually all the income growth has been at the top, particularly at the very top. The top-earning 1 percent of Americans now enjoys a whopping 24 percent of the national income. These high rollers make up an enormously rich and powerful class that can best be described as a plutocracy – not unlike the plutocracy of financial interests that dominated America back in the 1920s, when the opulence of the wealthy and their disproportionate influence over the political process was particularly pronounced.

America's return to plutocracy is all the more striking because, between the extreme inequality of the 1920s and the extreme inequality of today, something very different happened. During the intervening years – particularly the early postwar period, from the end of World War II until 1980 – the United States achieved, along with many other industrialized nations (including Canada), a degree of equality and egalitarian distribution of income rarely seen in any period of modern history. Since the 1980s, though, the revival of plutocracy has had sweeping effects, profoundly changing the nature of American society and the lives of Americans (and pulling Canadians in the same direction). Yet, even as this remarkable transformation has taken place, the issue of inequality and its consequences has largely disappeared from public debate, rendering it strangely invisible.

“In the past few decades the middle and lower classes have experienced almost no growth in income. Virtually all the income growth has been at the top, particularly at the very top

OF THE WORLD'S 1,011 BILLIONAIRES, it seems fitting to begin with John Paulson, who made a fortune betting against the subprime mortgage market.

Mild-mannered, dark-suited, and with a mysterious half smile somewhat reminiscent of the Mona Lisa – one of the few objects on the planet with arguably a higher net worth – Paulson exudes a kind of normalcy. This in itself is odd because, as the forty-fifth richest individual in the world with a fortune of $12 billion, Paulson (no relation to former U.S. Treasury secretary Henry Paulson) is certainly not average in any meaningful sense of the word. Still, there's nothing in the outward appearance of this fifty-four-year-old hedge fund manager that would suggest anything other than a middle-aged man, married with two children, quietly going about his business. Though he moves in elite circles and has all the trappings of wealth, he doesn't keep a chauffeur waiting for him, and is known to travel by cab and even public transit. He doesn't appear to suffer from the syndrome that, as journalist Matt Taibbi notes, causes some Wall Street high rollers to “start seeing Brad Pitt in the mirror.” John Paulson probably doesn't much bother looking in the mirror. Why would he, when he could spend that time more profitably pondering which defective subprime mortgages inside a collateral debt obligation would be most likely to yield an unconscionable rate of return?

A dedication to making a serious amount of money has always been a guiding influence for Paulson, who grew up in a middle-class neighbourhood in Queen's, New York, but whose family on both sides has a background in money management. Particularly influential in shaping Paulson's mindset was his maternal grandfather, Arthur Boklan, a successful Wall Street banker who, even during the Depression, managed to house his family in grand style in the elegant apartment building that still stands at 93rd Street and Central Park West.

Paulson always knew he wanted a large fortune, and he systematically went about laying the groundwork for acquiring one, applying himself sufficiently at New York University to graduate first in his finance class and then winning top honours in the Harvard MBA program. From there he soon gravitated, as water down an incline, to the money-making palaces of Wall Street, opening his own hedge fund in 1994 in order to best make use of his unusual talent for spotting the biggest money-making opportunity going. The ultimate one came his way in April 2005, when he developed a hunch that the ultra-hot subprime mortgage market was headed for spectacular collapse. Keeping that particular insight to himself, he turned his research staff loose on the problem and figured out how to make money betting that the millions of people signing up for mortgages they could only dream of actually affording would soon start defaulting. When they did, Paulson was there, watching money flood into his hedge fund with the torrential force of a great deal of water travelling down a very steep incline. In 2007 he personally pocketed $3.7 billion, giving him the record – perhaps of all time – for financially profiting from the misery of others.

But no sooner had Paulson nailed that record than another challenge arose; competition for the title of top-earning hedge fund manager. Hedge funds – pools of capital restricted to wealthy investors – are the ultimate symbol of the new Gilded Age that's emerged in the last few decades. They barely existed before 1980, but have quickly become key vehicles for unregulated financial speculation by the super-rich. By the end of the 1990s, there were 515 of these funds, managing $500 billion; by 2005, there were 2,200 funds, handling almost $1.5 trillion for the world's wealthy elite. Since hedge fund managers take a percentage – generally 2 percent of the value of their accounts and 20 percent of the profits – these individuals have catapulted themselves into a stratosphere of income compensation that is in a league all of its own, vastly higher than even the wildly extravagant CEO pay levels at leading multinational corporations.

“ As the Wall Street meltdown pushed the world economy into a brutal recession in 2008, hedge fund managers' pay fell by about 50 percent. Even at that dramatically reduced level, the top twenty-five managers still earned an average of $464 million each

And the financial crisis of 2008 turned out to be nothing more than a brief downward blip for the hedge fund industry. As the Wall Street meltdown pushed the world economy into a brutal recession in 2008, hedge fund managers' pay fell by about 50 percent. Even at that dramatically reduced level, the top twenty-five managers still earned *an average* of $464 million each. To put that in perspective (as much as it's possible to put something like that in perspective), let's stack it up against the income of John D. Rockefeller, who in his day and for many decades afterward served as the legendary Richest Man Imaginable. In 1894, at the height of the Gilded Age, Rockefeller had a staggeringly large income of $1.25 million ($30 million in today's dollars) – which was *7,000 times* the average U.S. per capita income at the time. Yet in 2008 the average income of the top twenty-five hedge fund managers (not the top guy, just the average of the top guys) was *12,000 times* that of the average American.

And by 2009, while the world economy remained deeply mired in recession, the hedge fund industry had bounced back fully; the total pay of its top managers exceeded even the record year of 2007, when Paulson alone, in the top slot, had received $3.7 billion. The top spot was now claimed by hedge fund manager David Tepper, who collected $4 billion, basically by betting that the U.S. government would likely come to the rescue of the big banks (Paulson ranked fourth, with a piddling $2.3 billion). Overall, the top twenty-five hedge fund managers made $25.3 billion in 2009 – averaging a little *more than $1 billion each,* more than double the $464 million average of the previous year. This meant that the average income of the top twenty-five hedge fund managers in 2009 had risen to the point that it was now more than *24,000 times* that of the average American.

Paulson and Tepper vividly illustrate the sheer scope of today's top incomes, and how far they outstrip that of the very top earners in the past. Indeed, Paulson and Tepper are among an elite group that financial historian Charles Geisst has called "the highest earners of all time." As these numbers reveal, it's not just that the rich are getting richer, but that they're pulling so dramatically ahead of the rest of society. With North American workers experiencing little or no growth in their real wages over the past few decades, middle-class families now typically need two earners to keep up the material standard their parents achieved with one. So if they're holding their ground, they're doing so by working much harder.

The extreme concentration of income at the top is by no means confined to the hedge fund industry. Consider, for instance, how the pay of the average CEO compares to that of the average worker. In the 1970s the gap was about 30 to 1; by 2007, it had risen to 340 to 1. But even this understates the size of the gains made by the very top rung of CEOs. If we look at

"In celebrity rankings by *Forbes* magazine, more than fifty movie stars earned in excess of $20 million in 2007–8, while Steven Spielberg made $130 million, Oprah Winfrey $275 million, J.K. Rowling $300 million

the average pay of just the 100 highest-paid CEOs and compare it to the pay of the average worker, we find that the gap in the 1970s was about 45 to 1. By 2006 that gap had become 1,723 to 1.

Sometimes referred to as "Winner Take All," this gravitation of pay toward the very top has become the new normal in a wide range of fields. For athletes and entertainers, the pay at the top is now enormous. *Sports Illustrated* compiles an annual list of the incomes of the highest-paid athletes; in 2007, the average for this select group was $25 million. At the pinnacle Tiger Woods, two years before his fall from grace, was making more than $100 million a year. In celebrity rankings by *Forbes* magazine, more than fifty movie stars earned in excess of $20 million in 2007–8, while Steven Spielberg made $130 million, Oprah Winfrey $275 million, J.K. Rowling $300 million.

Then there's *Forbes* annual list of the four hundred wealthiest Americans, ranked by net worth. In 1982, the first year the list was published, it was topped by fourteen billionaires. Twenty-five years later, in 2007, all four hundred individuals on the list were billionaires. Anyone with a net wealth below $1.3 billion didn't even make the cut. And again, as in the case of the hedge fund managers, we can see that the 2008 financial crisis created little more than a temporary drop in the wealth of billionaires, with a quick recovery the following year. Gates's fortune – the world's largest for most of the past fifteen years – dropped in value from $58 billion to $40 billion on the *Forbes* 2009 list. But by 2010, it had bounced back to $53 billion (just slightly behind the world's new richest man, Mexican Carlos Slim Helù, with $53.5 billion).

In Canada, where the pattern is similar although less extreme than in the United

States, there's also been a stunning surge of income and wealth at the top. Over the past dozen years, while incomes of ordinary Canadians have stagnated, compensation for the fifty highest-paid CEOs has risen by 444 percent. In 1995 the ten top-earning CEOs took home $60 million, a total that had more than quintupled to $330 million by 2007. The top-paid CEO in 1995 was Gerald Pencer of Cott Corporation, with an income of $13 million. But by 2007 twenty-five Canadian CEOs were making at least $13 million, and the pay of the top earner (newcomer Mike Lazaridis, co-founder of Research in Motion) had almost quadrupled, to $51.5 million.

The ranks of Canada's billionaires also continued to swell, rising from twenty-five in 1999 to fifty-five in 2009. Far out in front of the Canadian money pack was the Thomson family (they rank number ten on the *Forbes* worldwide list, with a net wealth of $21.99 billion), followed by the Irvings ($7.28 billion), Galen Weston ($6.47 billion), Jimmy Pattison ($5.07 billion), and the Rogers family ($4.7 billion), just to name the top five.

One can perhaps grasp the sheer size of billionaires' wealth by imagining how lavishly they are able to spend, just by living off the interest from their fortunes. If they were to indulge in the wildest orgies of consumption, diligently sustained over long periods of time, it would be a struggle for them to make even a small dent in their capital. Take Larry Ellison, CEO of business software giant Oracle, with a net worth of $27 billion. Assuming a 10 percent rate of return, Ellison could spend $51 million a week – or $303,000 an hour, every hour of the day, seven days a week – and still not dig into his principal at all. Moreover, at that same 10 percent return, the taxes on Ellison's sprawling twenty-

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three-acre California estate could be entirely paid from his interest payments in just six hours, during one night's sleep. Nevertheless, in 2008, Ellison contested the tax bill for the estate and won a $3 million refund, which had to be repaid by local school boards and municipalities. The Portola Valley School District in northern California was ordered to repay the billionaire some $250,000, roughly the cost of hiring several new teachers. For Ellison, the tax refund was yet more pocket money – enough, for instance, to increase that week's hourly spending from $303,000 to $321,000.

THESE DOLLAR AMOUNTS become numbing after a while. To get a clearer sense of how very rich the top income earners have become – and how dramatically they've pulled ahead of the population at large – it's helpful to create a visual image. To do so, we've borrowed a concept created by Dutch statistician Jan Pen. Pen's idea was to present the distribution of income as a national parade in which everyone in the country marches. The height of the marchers is determined by their incomes. The entire parade takes one hour, during which time the entire nation marches by very quickly, in order of height, starting with the shortest marchers (the lowest income earners) at the front and ending with the tallest ones (the highest income earners) at the rear.

What's striking about the parade, as Pen noted when he first applied it to British incomes in the early 1970s, is how short just about everyone is – that is, how much the national income is concentrated in the hands of a few incredibly tall marchers who appear at the very end. Indeed, Pen dubbed it “a parade of dwarves (and a few giants).” And of course that was more than thirty years ago, before the post1980 revolution that dramatically increased inequality in the United States, Britain, and Canada. If we really want to appreciate the huge jump in top incomes that has occurred here in recent decades, it's best to compare the Canadian income parade of the late 1970s to what such a parade would look like today.

In the 1978 version, nothing but very tiny people – less than a foot tall – were visible for the first six minutes. This low-income crowd, all earning less than $7,000, included welfare recipients, part-time workers, and old-age pensioners. The height of the marchers rose ever so gradually. By about fifteen minutes there were fast-food workers, retail clerks, and parking lot attendants, all less than three feet tall.

Eventually, slightly taller receptionists, factory workers, and truck drivers appeared. But they were still awfully short, not measuring more than four feet. Their ranks seemed never-ending.

The parade had been going on for almost forty minutes before we started to see people of normal height – reflecting average income levels. It was only in the last ten minutes that really tall people started to appear. These were typically high-income professionals – doctors, lawyers, accountants, engineers – and they stood well above the crowd, seven or even eight feet in height. In the last six minutes, the marchers became taller still – more than fourteen feet tall.

But it's what happened in the last minute that was truly eye-catching. With only twenty-five seconds remaining, the marchers had reached heights of thirty feet. Then, in the last few seconds, some real giants walked by. Among these, standing 167 feet tall, was Ian David Sinclair, CEO of Canadian Pacific, with an income of $334,725. Then came Edgar Bronfman, chairman of Seagram's, with take-home pay of $397,582, standing 199 feet tall. But towering even above him was the final marcher in the parade: John Armstrong, CEO of Imperial Oil, with an income of $453,820, and reaching a commanding height of 224 feet.

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Now let's re-run the parade, using today's income earners.

Actually, for the first fifty minutes, this parade is strikingly similar to the 1978 one. But with just ten minutes to go, it starts to look very different, with the people noticeably taller.

As in the 1978 parade, the real giants appear only at the very end, particularly in the last few seconds. But in today's parade, they aren't just very tall, they're truly gigantic. We can recognize some prominent CEOs in the crowd – except that the faces are so high up that it's hard to see them. Way up there, for instance, is Siegfried Wolf, CEO of Magna International, with an income of $13 million, standing 2,054 feet tall – more than nine times as tall as John Armstrong, the tallest person in the 1978 parade. Indeed, Wolf is so immense, he is actually taller than the CN Tower. Then there's Paul Desmarais Jr., CEO of Power Corporation, with a $29 million income, standing more than twice as high at 4,582 feet, and Jim Balsillie, CEO of Research in Motion, at $32 million and 4,980 feet tall. Robert Milton, the former CEO of Air Canada, who took home pay of $42 million even as the company suffered terrible losses and thousands of Air Canada workers lost their jobs, is there too, standing 6,636 feet tall, well over a mile high. Then finally, at the very end of the parade, is the tallest man in Canada, Michael Lazaridis, another CEO of Research in Motion, with a take-home pay of $51 million, standing

8,058 feet tall – more than a mile and a half high. From the viewing deck at the top of the CN Tower, we don't even come up to his knees.

Most Canadians probably regard extreme inequality as a thing of the past. But while kings and nobles of pre-industrial times enjoyed a standard of living that was wildly lavish and grand compared to the poor in their day, that gap was not as extreme as the one that separates Canadian billionaires from the homeless living in Toronto, Calgary, and Vancouver today. The lives of the destitute may not have changed that much over the past few hundred years, with today's homeless often living on streets or in makeshift shelters in ravines. But the rich have become vastly richer than their pre-industrial counterparts. Here, for instance, is what an income parade would have looked like in the year 1688 in England. While it's definitely a parade of dwarves (and a few giants), the level of inequality back then was considerably less extreme than it is today.

At the outset of the 1688 parade, we see some very tiny characters – vagrants, gypsies, rogues, vagabonds – who manage to collect about two pounds a year, begging or performing magic tricks for village gatherings. These extremely little people are followed by a large number of paupers and cottagers, who are still very low to the ground. Following close behind, about fifteen minutes into the parade, are household servants and common labourers, with incomes of about fifteen pounds a year, measuring about two feet tall. Eventually we start to see the middle class – blacksmiths, silversmiths, masons, tinkers, tailors, weavers, cobblers, cordwainers (leather workers) – all earning about thirty-eight to forty pounds a year and standing about normal height. Just slightly taller are prosperous shopkeepers, ale-sellers, and innkeepers. Then come the naval officers, about ten feet tall. Only in the last few minutes do we see some giants – successful merchants and sea traders, measuring above fifty feet. Then in the last seconds, heavily armoured knights appear, standing 108 feet tall. Behind them, in heavy church garb, are pious-looking archbishops and bishops, earning 1,300 pounds a year and soaring up to 175 feet, even as they proclaim that the poor will inherit the earth. Finally, a couple of dozen magnificently attired dukes and earls, with incomes above six thousand pounds, stretch a lordly 815 feet into the air – a fraction of the height of today's mile-high giants.

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As stupendous as the growth in top Canadian incomes has been in the last few decades, we still have not reached the extreme level of inequality that exists today in the United States. The rise in incomes at the very top in the U.S. has been simply colossal. It's possible to really zoom in on this phenomenon by looking at U.S. government data on the top four hundred incomes in the United States each year. The growth of these very top incomes over time is startling – especially compared to the paltry growth in the incomes of the bottom 90 percent. In 1961, for instance, the average income of these very top earners was $13.7 million (in 2006 inflation-adjusted dollars). By 2006, the average income of this top-earning crowd had risen spectacularly to $263 million – more than nineteen times bigger. Yet over that same time period, the average income of the bottom 90 percent grew (in inflation-adjusted dollars) from $22,000 to $31,000 – only 1.4 times bigger.

But once again, we can capture the feel of this runaway inequality much better if we assemble Americans into a parade.

As we watch Americans march past us, we see that, like our own parade the U.S. version consists of many dwarves and a few giants. And, like our parade, it's the end that is a sight to behold. Recall that Mike Lazaridis, the final giant at the end of the Canadian parade, stood a mile and a half high. But he's tiny compared to some of these American giants. In the last fraction of a second of the parade, we need a set of binoculars to see the faces now appearing: Tiger Woods, with an income of $100 million, measuring 2.9 miles high; Jerry Bruckheimer, creator of the hit TV series Without a Trace and CSI: Crime Scene Investigation, $145 million, 4.3 miles high. As the very end approaches we get a glimpse of the hedge fund crowd – or at least of their feet. Their knees are utterly beyond view, even with high-powered binoculars. Then, finally, we're directly facing the soles of the shoes of the tallest man in the parade: John Paulson. With a 2007 income of $3.7 billion, Paulson stands 110 miles high. A high-flying airplane is about at his chest level. His head juts well into outer space.

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