

## Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else by Chrystia Freeland

- The new super rich are largely self-made wealth, not inherited, and education is a key element; both where educated and contacts made there
  - Super rich have more in common with each other worldwide than they do with their countrymen
  - The issue isn't the 99% and the 1%, it is the 1% and the .1% where the greatest gap occurs
  - It is discouraged to talk about inequity – neither the wealthy, nor the middle class want to hear of it
  - The new working super rich are under so much pressure to maintain their lifestyle that the poorer middle class is actually happier
  - Going forward, the super rich will try to insure their children remain in their sphere, eliminating the uniqueness that got them to that position
- The first gilded age was in the late 19<sup>th</sup> century. Now the developing world is going through its first gilded age, while the developed world is going through a second, technology driven, gilded age.
  - The collapse of Communism ushered in the second gilded age
  - In the 1<sup>st</sup> gilded age “the fruits of innovation go to the landlords and are not widely shared” (Henry George) – the very key behind inequity
  - In the 2<sup>nd</sup> gilded age wages are more important than rents and are equally inequitable
  - The 2<sup>nd</sup> gilded age members are largely males who are aggressive, intensely educated mathematicians who chose their life path early and attended the right schools – Alpha geeks
- Oligarchs overwhelmingly have advanced degrees in math and physics. The impact of “skill biased technical change” on income distribution has brought the technocrats to class power. This polarizes the labor market:
  - Huge rewards for those at the top
  - Not much impact for the low-paying, “lousy” jobs at the bottom
  - Hollowing out the well-paying jobs that used to support the middle class
- George Marshall (1875): The industrial revolution made superstars shine more brightly, while it also depressed the wages of lesser artisans – increasing the price of top talent, while pushing down the wages of lesser professionals
- Under communism, technical skills and higher education were the most important defining characteristic of the new party elite – much like the capitalist plutocrats of today
- Jets, mobile communications, and the opening of the world's borders have contributed to the globalization of the super elite
  - The movement from acres to shares is the biggest reason for the mobility of the rich
  - Companies are increasingly based around their customers, not in the U.S.
- CEOs are a very special kind of superstar, because they also are in charge of the company that pays their salary. Unless there is a very strong board, there is no ability to rein in their desires
- The biggest disequilibrium of the 20<sup>th</sup> century was the economic gap between the developed Western economies and everywhere else
  - The single biggest catalyst for change was the collapse of Soviet communism.
- Moments of revolutionary change are also usually moments when it's possible to make an instant fortune. Thanks to the twin gilded ages, we are living in an era of a lot of revolutionary change
  - One set of changes is in the emerging markets
  - A second set is technological change
  - There is a global trend toward more open markets

- Revolution is the new status quo, but not everyone is good at responding to it. *Key:* Harvard kids that went to public schools, i.e. very smart people who can see outside the social bubble
  - Responding to revolution may be a biological trait and one way to increase success in your society is to open your borders to immigrants, i.e. people who responded to revolution and 'stepped' into a new world
  - Dopamine is linked with curiosity, adventure, entrepreneurship and helps drive results in uncertain environments – a common characteristic of many immigrants
- “We are living in a world that is more competitive than any other era, where change is faster and less predictable, and where long-established order – whether economic, political, or industrial – is being challenged and supplanted. In this world, the difference between ‘success’ and ‘failure’ is greatly magnified. This applies to specific labor market skills, businesses, industries, and entire countries.”
- Most people/companies respond to revolutionary change by doing more of what they were doing before. The rare ability to spot paradigm shifts and adapt to them is one of the economic forces creating the super elite.
- Often successful companies are ones that are able to pivot from a bad idea to a good one very quickly. The ability to turn on a dime, when confronted with evidence is, emotionally, very hard.
  - George Soros: My conceptual framework, which basically emphasizes the importance of misconceptions, makes me extremely critical of my own decisions.”
  - Pivoting is so hard that it is the prime reason traditional companies will be overtaken by bolder, more agile emerging market champions
- You must place an emphasis on problem finding, not only on problem solving
  - Warren Buffett: If you want to get a reputation as a good businessman, be sure to get into a good business
- Economic transformation – the waves of revolution we are living through – has a very uneven impact.
  - George Soros can respond to revolution by cutting his losses and making a different bet; finding a new profession at forty-five, after your old one has been rendered redundant, isn't so simple
- While fortunes may be made by individuals, they are often helped and maintained by rent-seeking – using political muscle to increase your wealth
- One reason the preeminence of the financiers within the global super elite matters is that it highlights how crucial financial deregulation has been to the emergence of the plutocracy
  - Explicit corruption is far outdistanced, in the developed world, by legal corruption – the lack of regulation and oversight
  - Perhaps begun to provide opportunity and transparency, legal corruption gets more complicated and more compromising once you start dividing the spoils
- While the rest of the world was rushing to deregulate banks, Canada required its banks to hold more capital and permitted less leverage. They were also the only country to be able to withstand the 2008 global economic crisis without any assistance to its banks.
  - The Minister of Finance noted, “...we knew there was going to be a banking crisis...we wanted to be sure it didn't occur or sideswipe banks in Canada.”
- Currently, our regulatory choice is to be either pro-market or pro-business.
  - Large businesses, being interested in restricting the market so they cannot be displaced by truly free and open competition, require large lobbies to ‘encourage’ lawmakers to help protect them
  - This has created a revolving door between the regulators and the regulated
  - True capitalism lacks a strong lobby
- Humans have a tendency to believe in what suits them (self justification) – our viewpoint is guided by our biases.
  - When all government leaders – say in finance or on the Supreme Court – are drawn from finance or the Federal Judiciary, the viewpoint of that arm of government will reflect the biases of the area they are drawn from – hence the need for a broader background when selecting for these positions
- What separates successful states from failed ones is whether their governing institutions are inclusive or extractive
  - Extractive states are controlled by ruling elites, whose objective is to extract as much wealth as they can from the rest of society and to maintain their own hold on power
  - Inclusive states give everyone a say in how their society is ruled and access to economic opportunity.
  - It is often income inequality that causes a society to move from being inclusive to being extractive
- Elites don't sabotage the system that created them on purpose, but short term self-interest and family connections always result in a more extractive system, unless there is an outside counterbalance to prevent this (Communism in the early 20<sup>th</sup> century)