How the Stinking Rich Ate the Economy

By Timothy Noah

Income inequality is accelerating fastest at the top. Who are the 0.1%?

photolinc/Shutterstock

"If a $100,000-a-year household thinks itself to be middle class," the neoconservative writer Irving Kristol once wrote, "then it is middle class." This sentiment is widely held, but it makes no mathematical sense. Any family whose income exceeds that of 90 percent of all other families cannot sensibly be called anything but rich. To believe otherwise would oblige you to judge your child mediocre when his teacher gives him an A.

But within the top decile distinctions are nonetheless worth making.

-- **The Rich**, defined as the top 10 percent, which today means everyone making $109,000 or more, increased their share of national income during the Great Divergence from about one third (34 percent) to nearly one half (48 percent).

-- The top 5 percent (**Basically, Undeniably, Really, and Stinking Rich**; today, everybody making at least $153,000) increased their share from 23 to 37 percent.

-- The top 1 percent (**Undeniably, Really, and Stinking Rich**; today, everybody making at least $368,000) more than doubled their share of the national income from 10 to 21 percent.

-- The top 0.1 percent (**Really and Stinking Rich**; today, everybody making at least $1.7 million) tripled their share of the national income to 10 percent.

-- The top 0.01 percent (the **Stinking Rich**; today, everybody making at least $9.1 million) nearly quadrupled their share of income during the Great Divergence, from 1.4 to 5 percent.

Notice a pattern? The richer you are, the faster you expand your slice of your country's income. Or as Emmanuel Saez put it to me, "The [inequality] phenomenon is more extreme the further you go up in the distribution," and it's "very strong once you pass that threshold of the top 1 percent."

WHO ARE THE STINKING RICH?

The Great Divergence is a dramatic departure from the status quo that prevailed in the United States from the end of World War II through the early 1980s. Although top income shares are rising in many developed countries, nowhere are they rising as fast as in the United States. Also, nowhere (except Argentina) have top income shares reached the same high level as in the United States. Indeed, if you update income share for America's one-percenters to 2008, the United States pulls slightly ahead of Argentina--not that this is a competition any sensible country would want to win.

Who is it exactly who got rich?

A 2010 study by Jon Bakija, Adam Cole, and Bradley Heim, economists at Williams College, the U.S. Treasury, and Indiana University, respectively, found that among the Really and Stinking Rich -- the top 0.1 percent, who currently make at least $1.7 million -- 43 percent were executives, managers, and supervisors at nonfinancial firms, and 18 percent were financiers. Together they accounted for the majority. The professions next in line were law (7 percent), medicine (6 percent), and real estate (4 percent).

American chief executives typically get paid two to three times what their European counterparts earn. Such pay levels were not the norm during most of the twentieth century. Pay for top executives declined steeply during World War II, increased gradually from the mid-1940s to the mid-1970s, and then took off like a rocket during the 1980s and 1990s. In 1973, a survey of large companies in the United States found that chief executives were paid twenty-seven times more than the average worker. By 2005 that had risen to 262 times.

The 43 percent of the Really and Stinking Rich who run America's nonfinancial corporations were very significant players in the Great Divergence. No other occupational group had a larger membership among the top 0.1 percent. But, incredibly, the quadrupling of chief executives' pay during the 1990s wasn't enough to increase this group's presence among the Really and Stinking Rich once the run-up in top income shares began. Proportionally, its membership actually diminished slightly, from 48 percent in 1979 to percent to 43 percent in 2005.

The group to watch -- the group that expanded its share of the top earners' pie -- was the nation's financiers. Back in 1979, the financial sector represented only 11 percent of the Really and Stinking Rich. By 2005, financiers represented 18 percent. In their 2010 book 13 Bankers, Simon Johnson, an economist at MIT's Sloan School of Management, and James Kwak, a former consultant at McKinsey and Company, describe the financial sector's astonishing growth over three decades through mergers and expansions into new businesses.

> Between 1980 and 2000, the assets held by commercial banks, securities firms, and the securitizations they created grew from [the equivalent of] 55 percent of GDP to [the equivalent of] 95 percent ... The growth was faster still for the largest banks. Between 1990 and 1999, the ten largest bank holding companies' share of all bank assets grew from 26 percent to 45 percent, and their share of all deposits doubled from 17 percent to 34 percent.

In effect, Wall Street ate the economy.

Excerpted from The Great Divergence by Timothy Noah, published by Bloomsbury Press, 2012.

This article available online at:

http://www.theatlantic.com/business/archive/2012/02/how-the-stinking-rich-ate-the-economy/253187/