# Meet the Wealth Gap

By Gabriel Thompson

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For a delivery worker, perched on a bicycle with plastic bags of food dangling from each handlebar, Manhattan's East Side offers many opportunities for a trip to the emergency room. I learn this one May afternoon as I trail 26-year-old Apolinar Perez, a chubby-faced Mexican immigrant who skillfully steers his black mountain bike through the chaos. A taxi switches lanes without warning, nearly clipping my front wheel. Suit-clad men and women stride purposefully into the street, too wrapped up in their phone conversations to notice they're crossing against the light. A black Suburban with tinted windows screeches to a halt in front of us, directly in the path of the bike

Perez arrived in New York City five years ago, after crossing the Texas border in the back of a truck while hidden beneath a pile of children's toys. Since then, he's delivered food for the same Italian restaurant, working eleven hours a day, six days a week. Pay couldn't be simpler: before heading home each night, one of the managers hands him a $20 bill. That's an hourly wage of $1.82--well below the state's $4.85 minimum wage for delivery workers. The rest of his earnings come through tips, which average $60 a shift. There's no overtime or healthcare, no sick days or workers' comp. I inquire about any benefits I might be forgetting. "For Christmas they give me $50," he says. "Sometimes."

I first encounter Perez as he is locking up his bike in front of 500 Park Avenue, a large, glassy building that serves as the headquarters for the hedge fund Caxton Associates, which manages more than $11 billion. Caxton was founded in 1983 by Bruce Kovner, a broad-shouldered 63-year-old with bushy eyebrows and a ruddy face who was among the top-ten highest-paid hedge-fund managers in 2006, with an income of $715 million. Though he has never shied away from public involvement--Kovner is chair of the American Enterprise Institute (AEI)--he does shy away from the press (an assistant told me he never speaks to the media). Perez wraps a chain around his bike's frame and attaches it to a post, then grabs two orders of pasta and heads through the revolving doors. Every lunch hour in Manhattan, the very poor meet the very rich. Today, wealth will be distributed downward, slightly: Perez emerges with a $2 tip. "I usually don't get very good tips from the fancy buildings," he will later tell me.

Four blocks away from the offices of Caxton Associates is 590 Madison Avenue, a forty-three-story building made of steel and granite, boasting a backup generator that can service its corporate tenants for four days without refueling. Behind a desk on the first floor stands security guard Timothy Williams. Williams, who has been an employee of TNM Protection for a year, is a 24-year-old African-American who, like Perez, lives in the Bronx, the borough with the lowest rents in New York City. After graduating from high school in 2002 he joined the Army, partly in the hope that it would help pay for college. He served in Iraq from August 2004 to July 2005, fighting the war that Kovner's AEI so aggressively pushed. AEI "Freedom Scholar" Michael Ledeen hoped the United States would turn the Middle East "into a caldron," and AEI fellow Richard Perle promised that Iraq's oil would pay for the reconstruction. "Maybe it won't work perfectly," admitted AEI vice president Danielle Pletka on the eve of the invasion, "but does that mean we shouldn't try?"

Williams, though, is disillusioned. "I was for going into Afghanistan, but I'm against Iraq," he tells me at the beginning of a noon-to-midnight shift. Wearing a dark suit with an American flag pin affixed to his lapel, he says that his time in Iraq convinced him that the mission wasn't working, which is one of the reasons he cast his primary vote for Obama.

Now back home, he's earning $12.50 an hour, with no union and no healthcare. "This is just a job I'll have for a little bit," he explains. He's able to get by with the help of the $1,300 monthly checks he receives from the GI Bill, which also covers his tuition at Monroe College, a private school in the Bronx geared toward working students, where he's pursuing an associate's degree. He plans to join the NYPD and hopes one day to become a lawyer. In the meantime, he has joined the National Guard–"I see the military as a place where I can actually have a career"– and recently learned he'll be sent back to Iraq next year.

Journey twenty-nine floors up from where Williams stands guard and the growing disparities of wealth again come into stark contrast. Here you will find the headquarters of Paulson & Company, a $32 billion hedge fund, this one run by John Paulson, the highest-paid individual in 2007. By short-selling the subprime market, he earned $3.7 billion last year. (In January, after a year in which 2.2 million households filed for foreclosure, Paulson told the *Wall Street Journal*, "I've never been involved in a trade with such unlimited upside.")

For Williams, who would likely shepherd Paulson to safety in the event of a building emergency, that upside is hard to discern: he would have to work more than twenty years as a security guard to earn what Paulson made last year in one hour.

On the East Side of Manhattan two very distinct classes of New Yorkers cross paths every day: the working poor (undocumented immigrants and citizens alike), who cook, deliver, secure and protect–for little money and no benefits–and the titans of finance, hedge-fund executives and heads of private-equity firms, who stare at numbers on screens while moving other people's money in and out of stocks and commodities or buying and selling companies, and whose wealth is expanding so quickly they have difficulty figuring out what to do with it.

While workers in the first group struggle to survive on wages that don't get much higher than $10 an hour, the financial elite continue to break income records. The just-released 2007 earnings figures find the top five hedge-fund managers all clearing $1.5 billion. As *Alpha* magazine notes, "The top 25 on the list earned an average $892 million, up from $532 million in 2006"–in a year when the economy began to stall, the group needing no help ended up nearly doubling its income. The top ten earners alone made a combined $16.1 billion, more than the GDP of Nicaragua.

Some hedge funds took a hit with the downturn: Kovner of Caxton Associates saw his annual earnings drop to a measly $100 million. But even in a down year, an executive like Kovner has plenty of money to spend--and he isn't shy about protecting his interests. Along with being the chair of AEI, he's also a trustee of the conservative Manhattan Institute and a supporter of the conservative *NY Sun*. Called "George Soros's

Right-Wing Twin" by *New York* magazine, Kovner has a commitment to neoconservatism that is unsurpassed. His fund is reported to manage much of AEI's investments, and he has been a major donor to the Republican National Committee; in recent years he has sent checks to candidates Rudy Giuliani, John McCain and Joe Lieberman. In 2004 he donated $110,000 to Softer Voices, a conservative group supporting Senator Rick Santorum in what would prove to be a failed 2006 re-election bid, and he sent a quarter of a million dollars last year to All Children Matter, a 527 group that advocates school choice. The group was recently fined a record $5.2 million by the Ohio Elections Committee for illegally transferring money to Republican candidates.

Although Kovner donates to candidates and causes, his real desire is to transform the world through sweeping ideas–the sort of ideas that set the stage for the invasion and occupation of Iraq and that now urge confrontation with Iran. Along with its nation-conquering agenda, AEI is also a voice for an unfettered free market that abhors any sacrifice from the wealthiest among us. Articles in AEI's American magazine have titles that seem to be taken from the pages of the *Onion,* such as “The Upside of Income Inequality” and “Why Do We Underpay Our Best CEOs?” One AEI scholar, on the op-ed pages of the *Wall Street Journal*, bemoans "the left's 'inequality' obsession."

The "upside" of income inequality is best considered from above: for example, with a view from the fifth floor of Kovner's mansion overlooking Central Park, which he purchased in 1999 from the International Center of Photography for $17.5 million. With the infusion of another $10 million in renovations, the structure–which had contained two floors of gallery space, the museum school and offices–was transformed into his private fortress. In the basement is a rare-book vault, where Kovner presumably keeps copies of an edition of the King James Bible that he financed, with a price tag in excess of $20,000 per volume. Other vantage points from which to assess the benefits of growing income inequality in a clear-eyed fashion might include Kovner's 200-acre estate in Millbrook, NY, or his twelve acres of linked oceanfront properties in Carpinteria, California, which he purchased last year for $70 million in what the *Wall Street Journal* called "among the largest U.S. residential real-estate deals."

For the fortunate like Kovner, being on the winning end of inequality isn't just about flipping through expensive Bibles in a personal book vault or owning a large chunk of the West Coast; it's about the vast political power conferred by wealth, which can be deployed to support institutions pushing policies that, in turn, magnify the wealth divide.

One simple step to mitigate income inequality would be to raise the earnings of workers like Perez and Williams. But as a trustee of the Manhattan Institute, Kovner subsidizes senior fellows like Steven Malanga, who sees something sinister in a living-wage movement that "seeks to force urban firms to pay up to double the minimum wage." The idea that companies would have to pay their workers up to $12 an hour sends Malanga over the edge; he calls the movement a "sneaky way of bringing socialist economics to America's cities." One wonders if Malanga has ever survived on such a puny paycheck; with funding from the superrich like Kovner, it's unlikely.

Over at AEI, labor unions are a target of visiting scholar Richard Vedder. In 2002 he co-wrote a report with Lowell Gallaway that concluded, with the help of a number of confusing charts, that between 1947 and 2000 unions cost the US economy more than $50 trillion in lost income and output. As an example of how unions damage our economy with their burdensome demands, the authors link the decline of the coal industry not primarily to a shift in other energy sources like oil and gas but to the militancy of the United Mine Workers. Another way to evaluate the worth of the UMW would be to study the number of lives saved through union-won protections, but such calculations hold little interest for Vedder. Vedder is also an enthusiastic cheerleader for Wal-Mart; he penned a book about the virtues of the company and has argued that Wal-Mart is a "force for good" that is "saving America."

The living wage as socialist plot, unions as massive drain on the economy and Wal-Mart as corporate savior: this is the sort of scholarship that Kovner subsidizes. Without squinting too hard, the outlines of such a capitalistic dream world–imagined by well-paid fellows and funded by a billionaire–comes into focus: out from under the thumb of Big Labor, workers are free to work long hours for whatever wages a boss feels like paying. If they fall ill, they're free to visit the emergency room. If they're really sick, they're free to declare bankruptcy. With Wal-Mart as the model, all workers become associates, free from the bonds of health coverage and overtime pay.

Like Malanga and Vedder, Ivan Shelley is an expert on low-wage work; that's because, unlike them, he's a low-wage worker. This tends to shape one's perspective. Now 44, Shelley has been a security officer for the Long Island-based firm Pro Quest Security for nearly six years. When he was hired to guard 280 Park Avenue, another large building on Manhattan's East Side, he made $9 an hour; since then, he has received an annual 50-cent raise. "$11.50 an hour shouldn't get me out of bed, but it does," he says ruefully, then cracks a smile. "I've got dogs to feed."

"It's rough, but somebody's got to do it," he says. "At my age, though, it's time to slow down." Shelley's notion of "slowing down" means that he gets off early on Fridays, bringing his workweek down to a mere fifty-seven hours. Like that of most security guards, Shelley's healthcare is "whatever I have in my medicine cabinet."

Shelley is now a leader in the fight to organize security officers in NY City, a campaign directed by the Service Employees International Union's Local 32BJ. "The security officer industry has historically been one of extremely low wages, where companies compete against each other in how little they could pay," says Kevin Doyle, 32BJ's executive vice president. The race to the bottom has left the guards who protect some of the most valuable real estate in Manhattan with a median wage of $10.14 an hour. SEIU is currently targeting office buildings south of Fifty-ninth Street, an area, it says, where 70 percent of the security guards lack a union.

In April 32BJ was able to realize Malanga's worst fears in Washington. After gaining leverage by pushing through a living-wage bill for guards in the District, the union inked a contract with four companies, covering 1,500 security guards. The contract provides workers a minimum wage of $12.40 an hour or, for people already earning that, a 50-cent raise, plus employer-paid healthcare. After a four-year campaign, three-quarters of the District's office security guards have a union.

In May the Center for Economic and Policy Research released a report that found the benefits of union membership were greatest for low-wage workers. Among workers in NY State in the lowest wage bracket, being in a union meant earning a

wage 16 percent higher than that of non-union workers with similar backgrounds. "Too often, people think there's not much we can do to reverse polarization in our economy," says David Dyssegaard Kallick, senior fellow at the Fiscal Policy Institute. "Here's clear evidence that unionization helps: it raises wages for all workers, and it raises them especially among lower-wage workers."

But unions do more than raise wages and provide healthcare. For the working class, unions are one of the few ways to exert economic and political power. People like Kovner can buy power with their individual largesse, which allows them to propagate their views far and wide through political contributions and the support of think tanks. In the past ten years, Kovner has given nearly $500,000 to conservative candidates and PACs, along with an untold amount to AEI, the Manhattan Institute and the *NY Sun*. He's only one citizen, but he shapes the political landscape according to his worldview.

A security officer like Williams might see his life profoundly affected by the efforts of people like Kovner--after all, Williams fought their war in Iraq--but his lone vote just can't compare with the vast network Kovner subsidizes. (And a noncitizen like Perez, the delivery worker, lacks even the power of the ballot.) Belonging to a union like SEIU would connect Williams to a movement that could amplify his concerns; instead of registering his opposition to the war simply by voting for Obama, Williams would join 1.9 million members throwing their organizational muscle behind ending the war, winning national healthcare and supporting sympathetic Congressional candidates. In the 2007-08 election cycle, for example, SEIU was the largest donor to 527s, spending more than $6 million. The union was the top donor to Progressive Majority--a political action committee that works to elect progressive local and state representatives--and has given more than $3.5 million to America Votes, a voter registration and mobilization project focusing on the November election.

"I see the union as a way to get good benefits, a pension and somebody to speak up for me," says Shelley. Even though he works most days from 6 am to 6 pm, the union drive has added a bounce to his step. He was quoted recently in the *NY Daily News* and did an interview with a prominent radio station. He tells me with a smile that his newfound activism has caused his bosses to pay him visits while at work. One of the owners of Pro Quest, an ex-cop, has tried to discourage workers at the building from signing union cards with 32BJ. Shelley found this ironic. "I told him, 'You of all people should know how important it is to have a strong union behind you.'"

Despite being one of the richest and most powerful Americans, Kovner maintains a low profile. Like the hedge-fund industry in which he made his money, he wields wide influence but operates mostly below the radar. For tycoons like Kovner, the more that is known about the industry–especially about the compensation of its managers–the more people will wonder why so few earn so much. Indeed, the earnings of hedge-fund and private-equity executives have quietly left regular CEOs in the dust. According to *Executive Excess*, a report published by the Institute for Policy Studies and United for a Fair Economy, the average income in 2006 of the top twenty highest-paid CEOs of publicly held companies was $36 million–impressive, but only 5 percent of the average raked in by the hedge-fund and private-equity executives. That's not the sort of information that executives like to boast about, however, as it seems a bit, well, excessive. Hedge funds turn an axiom on its head: for them, all press is bad press. Most of their websites are bare-bones affairs, a single page with a banal description, frequently not even a phone number to call. Unless you're rich, they don't need you; if you are rich, you already know about them.

Hedge funds are simple structures that engage in extremely complex investments. Essentially, they are nothing more than a group of wealthy individual and institutional investors. Because these rich investors are presumed to know how to handle their money intelligently–and absorb losses–the Securities and Exchange Commission leaves the funds largely unregulated, and the managers are able to guard their investments carefully. They can move money in and out of stocks or commodities rapidly around the globe in response to market trends and fresh analysis. Investing with borrowed money (leverage) is a trademark of hedge funds, allowing for exponential returns on investment.

But with light regulation, nothing keeps a fund from becoming dangerously leveraged–which has implications not just for a fund's investors (which include pension funds) but also for our increasingly integrated economy (the ripples from the implosion of Bear Stearns being the obvious recent example). In September 1998, the sudden collapse of hedge fund Long-Term Capital Management threatened the banking system and led to a bailout by investment banks. The collapse came as such a shock–as a hedge fund, LTCM didn't have to report its shaky investment practices–that it led to a call from politicians for larger hedge funds to report their activities. The move for transparency was defeated, though, and hedge funds remain largely unregulated; Federal Reserve chair Ben Bernanke has insisted that the market will regulate itself..

Private-equity firms are related to hedge funds–both rely on borrowed money–but private-equity funds focus on taking over companies perceived to be underperforming, which they restructure and usually manage for several years and then sell. In the process, the companies typically see their debt load double or triple and often lay off a significant number of workers. The debt-saddled corporations also serve as a tax-avoidance strategy: companies are able to deduct from their taxes the interest on the debt. Last year, SEIU launched a private-equity project highlighting the growth of the buyout industry and contrasting the highly compensated private-equity firm managers with the stagnant wages of workers at the companies they own.

The two industries became powerful political actors last year, after a bill was introduced by Representative Sander Levin that proposed closing a loophole in the tax code that allows billionaire fund managers to pay taxes at a lower rate than their secretaries. Private- equity and hedge-fund managers' income arrives through a "two-and-twenty" system– they typically receive a managerial fee of 2% of the amount invested, along with a performance fee of 20% of the earnings made on the investment, called carried interest.

“Carried interest is no different than giving a bonus to a restaurant manager for being successful,” explains Leo Hindery, head of a private-equity company, Inter Media Partners, and the former economic policy adviser to John Edwards. The difference is how carried-interest income is taxed: instead of paying an income tax, which for the wealthy is 35%, a manager pays only the 15% capital gains tax. In 2006, the loophole allowed Kovner to avoid paying $28.6 million in taxes; last year, it allowed Paulson to pocket an additional $150 million.

The nonpartisan Joint Committee on

Taxation estimated that Levin's bill, which also eliminated the ability of fund managers to shift compensation to offshore havens, would bring in nearly $50 billion to the Treasury within ten years. Edwards, Clinton and Obama all came out in support of the legislation; even *Fortune* magazine concluded it was a sensible proposal. On November 9, it passed the House.

The industry responded aggressively. A primary target was Senator Charles Schumer, who sits on both the Banking and Finance committees and is close to the hedge-fund industry. Checks started flowing in to the Democratic Senatorial Campaign Committee (DSCC), which Schumer chairs. Schumer, author of a book whose subtitle is *Winning Back the Middle-Class Majority*, publicly expressed his opposition to the bill, arguing that it unfairly targeted the two industries. In December, the Senate overwhelmingly signed a bill leaving the tax loopholes in place.

On the day before the Senate vote, Frederick Iseman, then head of the private-equity arm of Caxton Associates, donated $28,500 to the DSCC. The day after the bill was passed, Paulson wrote the DSCC another $25,000 check. The gifts made up what was a record year for hedge-fund contributions, with individual giving more than doubling to nearly $10 million in the 2007-08 election cycle, according to the Center for Responsive Politics. About three-quarters of those donations went to Democrats. Private-equity lobbying also had a watershed year, with spending rising from $740,000 in 2006 to $10 million in 2007, according to *Congressional Quarterly*.

The giving patterns at Paulson & Company illustrate the newfound political muscle of the industries. During the 2005-06 election cycle, only one employee of the company made a donation, giving $1,500 to the Women's Campaign Fund. The 2007-08 cycle, which covers the period when legislation was introduced to close the loopholes, finds employees making more than seventy donations, totaling more than $200,000. These included $105,000 to the DSCC; $20,700 to Max Baucus, chair of the Senate Finance Committee; $19,400 to Richard Durbin, chair of the Subcommittee on Financial Services and General Government; and $8,000 to the Managed Funds Association, the industry's PAC.

Hindery supports closing the tax loopholes (he tells me some of his peers in the private-equity industry have called him a traitor for taking this stance), and he's been frustrated by the ability of industry lobbyists to decisively influence Congress. Still, he holds out hope that in "a country that's nearly broke" and suffering from "pervasive income inequality," the loopholes benefiting the richest Americans can't be ignored forever.

At a House hearing on the bill, Bruce Rosenblum, managing director of the Carlyle Group and chair of the Private Equity Council, the industry's new lobby group, argued that the risks taken by fund managers are "significant." Primarily, they "forgo other opportunities that provide greater security and guaranteed returns in exchange for the greater upside potential." In other words, for the risk of forgoing the chance to earn lots of money in investment banking in order to potentially earn even more money in private equity, firm managers deserve to be taxed at lower rates than your average teacher or janitor. Perhaps sensing that this argument wasn't persuasive enough, Rosenblum went on to highlight the other "assets" that managers stand to lose if their funds perform poorly, namely "good will, business relationships and reputations."

The brave risk-takers of the hedge-fund and private-equity worlds are on my mind as I listen to Timothy Williams, the security guard who protects John Paulson, describe his tour of duty in Iraq. Much of the time was spent in Anbar province, conducting raids and patrols and manning traffic checkpoints. His battalion lost nine soldiers, but it could have been worse.

"During one patrol, I saw my lieutenant's Humvee get hit with an IED right next to us," Williams recounts. "The Humvee was completely destroyed, but somehow everyone survived. In Iraq, things are always exploding. The first week I was nervous all the time, but you get used to it. My mom, though, never wanted me to sign up."

Williams, uninsured and working for a nonunion company, sees taking these risks as his only means to a stable career. That's why, despite his opposition to the war, he signed up for a six-year term with the National Guard. "After that," he says, "I only need ten more years to retire." Meanwhile, Kovner, who never served in the military, is chair of a think tank that aggressively pushed the United States to invade Iraq and is now fighting (from desks in air-conditioned offices) to maintain troop levels until "late 2009," in the words of AEI resident scholar Frederick Kagan. Domestically, Kovner funds groups that rail against the living wage and unions alike, curtailing the chances for working people like Williams ever to earn a decent living as civilians. Kovner's daughter hasn't ever faced such a choice; her path eased by her father's connections, she worked as a reporter for the paper he funds, *the Sun*, and now clerks for conservative Supreme Court Justice Antonin Scalia.

For Williams, higher wages and generous benefits can't be found guarding buildings in Manhattan, and without union organizing, the security guard industry will continue to be made up of the working poor. And when jobs like these–which have replaced the unionized, decently compensated blue-collar jobs of old– remain union-free, with stagnating wages, the military can become the best option for advancement. Someone needs to provide the "vigilant and effective defense" that is AEI's mission, after all, and it certainly isn't going to be the children of people like Kovner.

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# Ending Plutocracy: A 12-Step Program

**by Sarah Anderson & Sam Pizzigati**

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America's first Gilded Age didn't merely end. Progressives had to fight to end it. Our forebears did battle, decade after decade, for proposals that dared to "soak the rich."

How quaint that phrase now seems. Progressives today do talk about making the superrich pay their "fair tax share"; but we no longer dare imagine an America without the superrich. We have become addicted to a politics that ignores the power of the fabulously wealthy to define–and distort–our nation's political agenda.

How can we end this addiction? In the twelve-step spirit of dependency-busters everywhere, we offer a dozen policy approaches that can help slice America's superwealthy down to democratic size. To help us rebuild our plutocracy-busting self-confidence, we begin with the somewhat more winnable.

**Step 1: Admit we are powerless unless we learn more about how concentrated our**

**nation's wealth has become.** In 1907, Joseph Pulitzer ended his publishing career with a farewell that urged readers to forever beware "predatory plutocracy." He had started that career, years earlier, exposing wealthy tax dodgers. Disclosure has been a prime weapon in the progressive arsenal ever since.

§ Require government contractors to reveal how much their executives make. The Securities and Exchange Commission requires publicly traded companies to reveal how much their top five executives are making. But privately held companies face no such mandate, and the CEO of private security giant Blackwater last fall refused to divulge how much he has pocketed from his company's contracts in Iraq. A bill now before Congress, the Government Contractor Accountability Act, would force companies like Blackwater to disclose their top executive pay.

§ Require corporations to report CEO-worker pay gaps. CEOs now take in, as a share of corporate earnings, twice as much as they walked off with just a decade ago. The labor share of national income, meanwhile, has shrunk to record lows. Which companies are shoving the most cash up the corporate flowchart? If corporations were required to document annually the gap between their highest- and lowest-paid employees, we would know.

§ Require the superrich to make their tax returns public. In 1934, early New Dealers enacted legislation that made the incomes of wealthy people–and the taxes they pay–a matter of public record. But the superrich quickly launched a fervid PR campaign that attacked the statute as an open invitation to kidnappers. In an America still reeling from the infamous Lindbergh baby snatching, that claim gave lawmakers a convenient cover for repealing this tax sun-shine mandate. In 2005 America's top- earning 400 paid a paltry 18.2% of their income in federal tax. It's time to let the sunshine back in.

**Step 2: Trust in a power greater than CEOs and their buddies.** The top one-hundredth of 1% of America's taxpayers have seen their collective income quadruple, after inflation, over the past two decades. Corporate executives account for about a fifth of that income. How have CEOs engineered their awesome take-homes? They essentially pay themselves. They sit on one another's corporate boards and rubber-stamp executive pay plans that come from consultants who know where their bread is buttered. Democratizing corporate governance could help end this enabling.

§ Give shareholders a "say on pay." The House of Representatives voted last year to give shareholders the right to vote on executive compensation. But these votes would be advisory only, and such non-binding votes–in Britain, for instance–haven't done much to break executive pay spirals. Still, the prospect of shareholder no votes could dampen the willingness of corporate boards to keep signing blank checks. The Senate has so far stalled on "say on pay."

§ End Kremlin-style corporate board elections. To really rein in CEO pay, shareholders need more than an advisory say on pay. They need a say on who sits on corporate boards. Corporate board elections currently sport all the democratic trimmings of Leonid Brezhnev's Supreme Soviet, complete with fixed slates. In 2003 the SEC proposed giving shareholders a halfway meaningful right to vote for alternative candidates. But fierce opposition from the Business Roundtable, the nation's leading CEO club, nyeted this attempt at corporate perestroika.

§ Give all stakeholders a real corporate voice. Shareholders, suitably empowered, could help check executive excess. But workers and their communities have just as much stake in CEO pay decisions as shareholders–because over-the-top pay plans give CEOs an incentive to pump up short-term bottom lines at the expense of long-haul enterprise success. Mandating worker and community representation on corporate boards could institutionalize a voice for all corporate stakeholders.

**Step 3: Don't let the tax code enable executive excess.** Corporate boards don't deserve all the blame for excessive executive compensation. Lawmakers have been enablers, too. They've littered the tax code with provisions that encourage outsized rewards at the top of the corporate ladder. Progressives ought to be launching an "anti-littering" campaign.

§ Eliminate stock-option accounting sleight-of-hand. Corporations can legally claim tax deductions for executive stock options that run up to ten times higher than the cost of these options that corporations record in their annual financial statements. In 2005, just-released IRS figures show, the gap between what executive options cost corporations and what corporations deducted from their taxes for these options hit $61 billion. Senator Carl Levin has introduced legislation that would shut this loophole and raise billions annually in new tax revenue.

§ End bankruptcy bonanzas. In 2005, Congress banned companies in bankruptcy proceedings from giving executives retention and severance bonuses that run over ten times the bonus that workers receive. But the law doesn't limit "performance-based" bonuses, and corporations are sailing through this loophole. Calpine, a California energy company, exited bankruptcy last winter with a workforce cut by nearly a third. The company's CEO exited with a $10.9 million bonus.

§ Cap tax-free "deferred pay." Of Fortune's top 1,000 US companies, 90% have set up deferred-pay accounts to let top executives shield unlimited amounts of compensation from taxes. Target CEO Robert Ulrich, for example, held $133.5 million in his deferred-pay account at the end of 2006. By contrast, the cubicle crowd faces strict limits on how much income can be deferred via 401(k) plans–$15,500 is the max for most workers. Corporate lobbyists last year squashed a Senate effort that would have placed a modest $1 million cap on executive pay deferrals.

**Step 4: Insist on a searching IRS inventory of super-wealthy wallets.** Today's IRS agents, *OMB Watch* reported earlier this year, are actually spending more time auditing poor taxpayers than rich ones. Progressives ought to be demanding an IRS that zeroes in on the awesomely affluent.

§ Shut down offshore income hideaways. A University of Michigan study estimates that the superrich are dodging as much as $50 billion per year in federal taxes by stashing income overseas. Arbitrary time limits on IRS investigations help make recovering these lost billions next to impossible.

§ End charitable giveaway scams. Wealthy Americans are routinely overvaluing the artwork they donate to museums–and the IRS remains too understaffed to stop them. America's rich, overall, claim about $1 billion a year in tax write-offs for donated artwork. Let's stop subsidizing art museum vanity wings.

§ Put the kibosh on wealth warehousing at elite alma maters. Superrich alums are saving beaucoup bucks in taxes by pouring enormous wealth into elite private universities. Harvard's endowment last year hit $34.6 billion–at a time when public colleges are cutting programs and hiking tuitions. Elite endowments pay a mere 2% excise tax on their investment earnings. They should pay at twice that

rate–and even higher if they don't spend, on education, at least 5% of their endowment value a year.

**Step 5: Clamp down on hedge-fund kingpins.** Last year fifty hedge-fund managers took home more than $210 million each. Perhaps even more amazing: hedge-fund office receptionists pay more of their incomes in taxes than their bosses. How is that possible? A good bit of hedge-fund-manager income comes as a cut of the profits the funds generate. Our financial royals can claim this cut as a capital gain, a neat maneuver that chops their tax rate from 35 to 15%. Last year an attempt to shut this hedge- and private-equity-fund loophole died in the Senate.

**Step 6: Make amends to those who truly earn their income.** We could skip Step 5 if we simply taxed "earned income"–the money people make from actual labor–at the same rate as the "unearned income" that comes from sitting back and letting money do all the heavy lifting. America's richest regularly realize vast amounts of this unearned income, mostly through dividends and capital gains from trading stocks, bonds and other forms of property. On these unearned billions, they pay taxes at a 15% rate, less than half the 35% top rate on ordinary earned income.

**Step 7: Treat outsized pay as a defect of corporate character.** Our tax law lets corporations claim reasonable business expenses as tax deductions. But what's reasonable? Corporations can deduct as "reasonable" whatever they shell out in excessive executive pay, so long as they label that excess a reward for "performance." Representative Barbara Lee's Income Equity Act, a bill introduced last year, would cap the executive pay that corporations can deduct at twenty-five times the pay of a company's lowest-paid workers. State senators Paul Pinsky and Richard Madaleno have introduced similar legislation in Maryland.

**Step 8: Awake to the simplicity of tax surcharges.** Debating the ins and outs of the tax code can take time. In the past, progressives used a shortcut to hike taxes on the financially fortunate: the surcharge, a simple add-on to the tax owed under existing law. Last year, Representative Charlie Rangel proposed a 4% surtax on couples' income over $200,000 and a 4.6% surcharge on income over $500,000, hikes that would raise $832 billion over ten years. Commentator Nicholas von Hoffman has urged a somewhat edgier surcharge, a special "Victory Over Terror" levy that would subject incomes over $5 million to a 20% extra charge that would expire only "when the war on terror is won or declared over."

**Step 9: Seek a more progressive reckoning with the dearly departed.** In 2001, the first Bush tax cut included a phaseout of the estate tax, our nation's only levy on inherited wealth. But after 2010, unless Congress acts, the estate tax on America's largest bequests will revert to pre-W levels. Estate tax foes, to prevent that, want estate tax rates slashed to mere nuisance status. If they succeed, the last three decades of excess in corporate America will turn into a skyscraper-high foundation for a new aristocracy that would have the wealth–and power–to frustrate progressive social change for generations to come. Representative Jim McDermott has a better idea. He's promoting legislation that would place a 55 percent estate tax on fortunes greater than $10 million.

**Step 10: Restore sanity to the taxation of wealth.** Typical American families have little net worth outside the value of their homes. The superwealthy, even those with multiple mansions, hold the vast bulk of their wealth in financial investments. Normal property taxes leave this financial wealth untaxed. The result: average Americans pay a tax on their wealth; rich Americans don't. About a dozen European nations sidestep this double standard by levying a small annual tax on all wealth holdings. In the United States, economist Edward Wolff has calculated, a wealth tax that exempted the first $250,000 of household wealth, then imposed a graduated rate that topped off at 0.8 percent on fortunes over $5 million, would raise about $60 billion a year.

**Step 11: Leverage the power of the public purse.** Our tax dollars, by law, do not go to companies that increase racial or gender inequality. We deny government contracts to firms that discriminate, in their employment practices, by race or gender. So why should we let our tax dollars go to firms that increase economic inequality? Hundreds of billions of taxpayer dollars are flowing annually to companies that pay their CEOs more for a day's work than their workers make in a year.

One antidote: we could deny federal contracts or subsidies to companies that pay their top executives more than twenty-five times what their lowest-paid workers receive. One bill pending in Congress, the Patriot Corporations of America Act, steps in this direction. The bill would extend tax breaks and federal contracting preferences to companies that meet benchmarks for good corporate behavior. Among the benchmarks: not compensating any executive at more than "10,000 percent"–100 times–the income of the company's lowest-paid full-timer.

**Step 12: Admit to ourselves that maybe Ike had it right.** In Eisenhower's America income over $400,000–the equivalent of less than $3 million today–faced a top marginal tax rate of 91%. Our current top rate: 35%. In 2004, after exploiting loopholes, taxpayers who took home more than $5 million paid an average 21.9% of their incomes in federal tax. In 1954 the federal tax bite on taxpayers with comparable incomes averaged 54.5%.

How much revenue could be raised by a significant tax hike on America's highest incomes? If the top rate was raised to 50% on all income between $5 million and $10 million and 70% on income above $10 million, federal revenues would jump $105 billion– and the nation's richest 0.1% would still be paying less in taxes than they did under Ike.

A century ago, progressives never actually agreed on any one set of proposals to end rule by the rich. They vigorously–and constantly– debated competing proposals. That debate needs restarting. We hope this list helps.

We also need to recognize that blueprints for social change don't go anywhere without social changers, without organized pressure from below. In America's first great triumph over plutocracy, that pressure came mainly from a resurgent labor movement. To repeat that success, labor once again needs to be surging, one big reason initiatives that aim to help unions organize– like the Employee Free Choice Act campaign– have a key role to play in any plutocracy-busting offensive.

Can such an offensive succeed? Why not? Our forebears faced a plutocracy more entrenched than ours. They beat that plutocracy back. Our turn.

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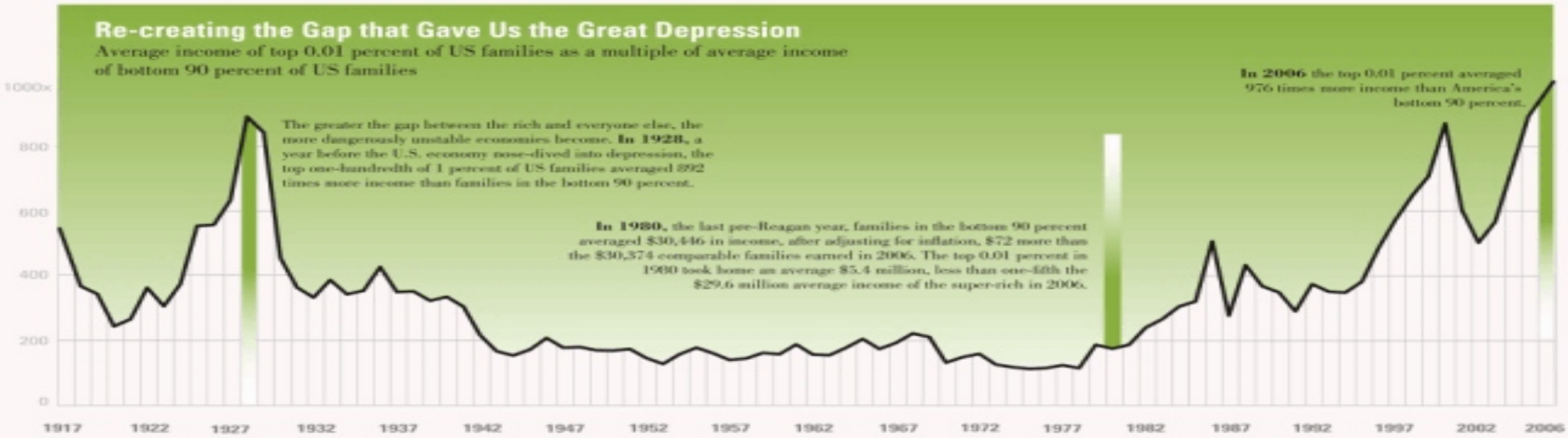
# PLUTOCRACY REBORN

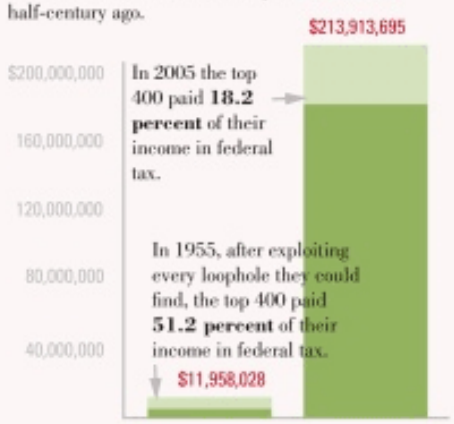
A half-century ago, thoughtful Americans considered the Gilded Age ancient history. By the 1950s, robber baron fortunes no longer dominated – or dazzled – America's political and economic landscape. But that's all changed. The awesomely affluent haven't just returned. Today they cast an even greater shadow.



## Good Times at the Tippy-Top

Top 400 average income, in 2005 $

America's 400 highest-earning taxpayers in 2005 collected, after adjusting for inflation, 18 times more income than their counterparts in 1955, a half-century ago.

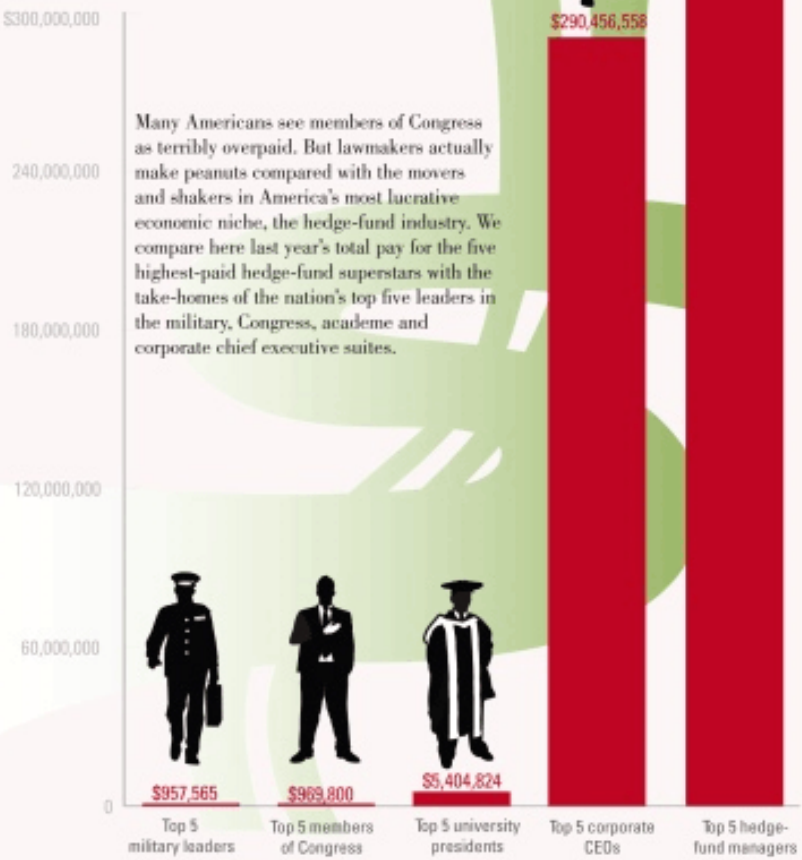




This bar is not to scale – not even close. To reflect the actual pay gap, this top hedge-fund pay bar would have to stretch over 13,000 times higher than the height of the top military leaders pay bar.

## Fab Fives: How Do Our Leadership Superstars Match Up?

Total annual compensation




Many Americans see members of Congress as terribly overpaid. But lawmakers actually make peanuts compared with the movers and shakers in America's most lucrative economic niche, the hedge-fund industry. We compare here last year's total pay for the five highest-paid hedge-fund superstars with the take-homes of the nation's top five leaders in the military, Congress, academe and corporate chief executive suites.