Highest Wall Street pay tops $1 billion a year

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The highest paid US hedge fund operator made more than $1 billion in 2004, the first time a Wall Street financial manager has topped the billion dollar mark in annual income, according to a survey published last week by a trade publication. Edward S. Lampert made $1.02 billion, while his firm, ESL Investments, raked in a 69 percent return on investment, largely due to Lampert's deal-making in the merger of Kmart and Sears.

While thousands of Kmart and Sears workers have lost their jobs—Kmart announced hundreds of additional job cuts this weekend with the closing of customer cafeterias in 188 stores—the price of Kmart stock soared after the merger. Lampert is now chairman of the merged company as well as chief of ESL Investments. His income more than doubled, from $420 million in 2003.

Hedge funds are private investment firms that cater only to millionaire clients and pay stratospheric fees to the managers. The typical hedge fund formula is "1 and 20," meaning the manager collects a fee of 1 percent of assets plus 20 percent of all profits. Some particularly successful managers have received fees as high as 50 percent of profits.

According to the survey by *Alpha*, a magazine published by Institutional Investor that follows hedge funds, the average compensation for the top 25 hedge fund managers was $251 million, over $6 billion combined. This figure has nearly doubled since 2002.

Besides Lampert, others in the top 10 of hedge fund managers included James Simons of Renaissance Technologies, $670 million; Bruce Kovner of Caxton Associates, $550 million; Steven Cohen of SAC Capital Advisors, $450 million; David Tepper of Appaloosa Management, $420 million; George Soros of Soros Fund Management, $305 million (Soros was number one in 2003, with $750 million); Paul Tudor Jones II of Tudor Investment Corp., $300 million; Kenneth Griffin of Citadel Investment Group, $240 million; Raymond Dalio of Bridgewater Associates, $225 million; and Israel Englander of Millennium Partners, $205 million.

These gargantuan incomes dwarf even the huge salaries and bonuses paid to corporate CEOs. Edward Lampert's income is 200 times the salary of the typical Fortune 500 CEO ($5 million a year), which is, in turn, 200 times the salary of the typical worker ($25,000-$30,000 a year). Here we have the upper crust of the financial oligarchy that dominates American society.

The $6 billion combined income of the top 25 hedge fund managers is more than the entire budget of the city of Chicago. It is more than the gross domestic product of 33 of the 51 countries in Africa. It would provide full four-year college scholarships for 60,000 students. It would pay the annual salaries of 200,000 workers making the median wage—or 600,000 making the minimum wage.

This $6 billion rewards activities that are counterproductive and parasitic from the standpoint of the interests of society as a whole. Lampert and his counterparts at other hedge funds produce nothing. They perform no useful labor. They devise methods through which, by the manipulation of paper and electronic assets, the rich get richer while the economy as a whole grows more indebted, conditions of life deteriorate, and working people are impoverished.

The hedge fund managers are one element in the formation of what the *New York Times* described Sunday as the American "hyper-rich," a layer of wealthy that "have even left behind people making hundreds of thousands of dollars a year." The top 0.1 percent of American taxpayers had at least $1.6 million in annual income, and an average income of $3 million, an increase of 150 percent since 1980. The share of US national income held by this tiny layer—145,000 households out of nearly 150 million—came to 7.4 percent in 2002, double the level of 1980.

According to figures compiled by the *Times*, the hyper-rich are reaping the lion's share of Bush's tax cuts, even compared to the "merely rich," those with incomes between $200,000 a year and $1.6 million. The 400 wealthiest taxpayers—those making $87 million a year or more—pay the same share of their income in federal income tax and Medicare and Social Security taxes as those making between $50,000 and $75,000.

One figure provided by the *Times* is particularly striking: it compares how much the top 14,000 households, the richest 0.01 percent, gained for each new dollar earned by the bulk of taxpayers, the bottom 90 percent. From 1950 to 1970, for every additional dollar earned by working class and middle-class people, the hyper-rich gained an additional $162. But from 1990 to 2002, for every additional dollar earned by the bottom 90 percent, the top 0.01 percent gained $18,000.

Such figures not only prove the existence of a financial aristocracy in the United States, they demonstrate that this social layer profited under Clinton and the Democrats as well as under Bush and the Republicans. Both parties carried out policies that enriched the privileged few at the expense of the mass of working people.

The assets under management by hedge funds have risen from $400 billion in 2000 to more than $1 trillion in January 2005—a figure which itself expresses the staggering increase in the wealth of the super-rich, since only the wealthy can find entry to these funds.

The runaway growth of hedge funds is not only an example of parasitic wealth accumulation. It is also an extremely destabilizing economic factor. The flood of capital into this form of speculation, despite the exorbitant fees taken by the managers, is driven by the poor performance of more traditional, relatively more stable investment vehicles: the stock market has stagnated for the past two years, while bond rates remain at historical lows.

The hedge funds themselves have faced increasing difficulty in this environment. According to figures compiled by UBS Investment Research, while hedge fund assets reached an all-time high, fund managers' fees declined 21 percent from 2003 to 2004. (The combined fees of the thousands of hedge funds worldwide were still a massive $44.8 billion.)

These funds, largely unregulated, play a growing role in the functioning of the stock, bond and currency markets. Under conditions of major financial shocks, hedge fund operations can become an enormously destructive force in the markets.

Because they are highly leveraged, their impact on day-to-day trading far outweighs the actual size of their assets. Griffin's Citadel Investment Group, for instance, accounts for more than 1 percent of daily trading on the New York, London and Tokyo stock exchanges. Another of the top 10 funds accounts for 3 percent of trading in New York alone.

Hedge funds were originally devised as a means of guarding against the risk of a sudden fall in asset values, by balancing purchases of one kind of assets, expected to rise in value, with the purchase of another kind of asset that generally rises when the other asset falls. Thus, a corporation might hedge against fluctuations in the value of the dollar by buying euros, since the fall in one currency will generally be mirrored in the rise of the other. Many of the more than 8,000 hedge funds now operating, however, are nothing more than large one-way bets, which can be easily lost if the markets move in a different direction.

As the *New York Times Magazine* noted in a generally admiring profile of one hedge fund operator, also published June 5, "What got lost over time was the idea that hedge funds were supposed to hedge. That was primarily because of the powerful bull market that began in August 1982 and ended in March 2000. Investors took outsize risks and invariably wound up being rewarded, because the market was going straight up. The bull market forgave a lot of investing mistakes. Hedging seemed unnecessary—even a little silly."

The result: "A vehicle developed to help reduce individual risk has heightened risk to the system."