Top US hedge fund managers earn 22,255 times pay of average worker

Kate Randall
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Two new reports document the staggering growth of income inequality in the United States, which grew last year to records levels.

Leading the list in pay and compensation were the nation's top 20 private equity and hedge fund managers, who pocketed an average annual income of $657.5 million, or 22,255 times the pay of the average US worker.

"Wages and Bonuses in Investment Banking," a report issued by the US Bureau of Labor Statistics (BLS), concludes that average pay in the investment banking sector, which includes hedge funds and private equity firms, is ten times the average for all private sector jobs, even when the modest pay of clerks, secretaries and others in the investment banking field is included.

A study by the Institute for Policy Studies (IPS) and United for a Fair Economy (UFE), "Executive Excess 2007: The Staggering Social Cost of US Business Leadership," examines the earnings of top executives in publicly held US companies, as well as the astronomical wages for executives in businesses fueled by the private equity boom.

Taken together, these two reports highlight the vast amounts of wealth being siphoned off by these corporate executives, while the income and conditions of life for the vast majority of working and poor Americans steadily deteriorate. The earnings of the managers of private equity and hedge funds account for a disproportionate and growing percentage of this wealth drained from the economy.

The fact that executives in the investment banking sector are by far the most highly paid of all corporate executives speaks profoundly to the unprecedented level of parasitism that characterizes the US capitalist economy. The specific role of this sector, and the practical result of the operations of its leading personnel, is the extraction of the maximum return to the wealthiest layers at the direct expense of the productive base of society.

The huge fortunes that are generated to hedge fund and private equity managers and the like are largely the outcome of speculative buyouts and takeovers of manufacturing and other companies that produce real goods and services, which are then overloaded with debt, downsized and carved up, at the cost of countless thousands of jobs.

Immense sums are pocketed by bankers, in the form of fees, interest on loans, and the sale of so-called collateralized debt obligations to other big investors; hedge fund and private equity managers are paid huge sums by their rich stakeholders and they also rake in a percentage of the inflated values generated by their speculative operations; corporate lawyers, consultants and others on the gravy trains take their share as well.

The immense degeneration of American capitalism is expressed in the degree to which economic life is subordinated to precisely these, the most parasitic sections of the ruling elite. Today's gilded age is dominated not by the "captains of industry" of the robber baron era—Rockefeller of Standard Oil, Carnegie of US Steel—but by those most removed from and inimical to production.

The two studies cited above point to two parallel phenomena: the growing gap between worker and CEO pay, and the disparity within the executive ranks themselves, where top earnings have soared to stratospheric levels.

The highest-paid CEO of a publicly held company, Terry Semel of Yahoo!, was paid $71,600,216 in total compensation in 2006. By comparison, during this same period, James Simons, president and CEO of Renaissance Technologies, a hedge fund management company, pulled in $1.5 billion. That breaks down to $28,846,154 a week, $721,154 an hour, $12,019 a minute—or $200 a second! (This assumes Mr. Simons puts in a 40-hour week, 52 weeks a year.)

These fantastic levels of pay come as the average wages for all Americans declined for the third year in a row. The average hourly wage has been falling since February, when it stood at $17.42 an hour. The US Census Bureau reported on August 29 that household income grew by 0.7 percent in 2006. But while median income was also slightly up, this was because more people were working longer hours.

The IPS/UFE report shows that CEOs of large, privately held US companies averaged $10.8 million in total compensation in 2006, or more than 364 times the pay of the average American worker. In other words, on average these executives earn in a day what an average US worker takes home in an entire year.

The situation is even bleaker for workers earning the minimum wage, which rose this year from $5.15 to $5.85 an hour. With this meager increase, the real value of the minimum wage has actually declined, falling in 2006 to 7 percent below its 1996 value. A worker laboring 40 hours a week, 52 weeks a year at the minimum wage earns only a little more than $12,000, before taxes.

The BLS report focuses on the phenomenal economic growth of the investment banking sector, and its geographical concentration in 10 counties, predominantly in the US Northeast.

In the first quarter of 2006, private sector investment banking in the US recorded average weekly wages of $8,367. Manhattan (New York County), where more than 1.8 million people are employed in this sector, recorded the second highest weekly average for investment banking wages for this quarter, at $16,849.

Top place for investment banking earnings was held by Fairfield County, Connecticut, home to the town of Greenwich, where average weekly wages in the sector soared to $23,846 in the first quarter of 2006. This hedge fund center has seen a quadrupling of jobs in investment banking and securities in the last decade, rising from slightly fewer than 1,500 in 1996 to 6,137 in 1996.

Among the most lucrative operations of private equity and hedge fund managers are corporate takeovers. Last year there were more than 1,000 corporate buyouts worldwide, at an estimated total value of $500-700 billion. Top executives are raking in annual earnings in the low hundred millions to $1.5 billion range as they lead a surge of leveraged buyouts.

In one such case, Bain Capital purchased KB Toys Inc. in 2000 for $305 million, paying around $20 million in cash and borrowing the remainder. In 2002, Bain proceeded to strip more than $121 million out of KB Toys, including $83 million that flowed back to Bain managers and $31 million that ended up in the pockets of top KB Toys executives.

Before the sale, KB was the largest mall-based toy retailer in the country, with more than 1,300 stores and about $1 billion in annual sales. The company filed for bankruptcy in 2004; 4,000 workers lost their jobs.

For their speculative risk, private equity and hedge fund managing partners typically receive 20 percent of the profits generated by their funds, as well as an annual fee equal to about 2 percent of the assets they manage, with some managers bringing in far more. James Simons of Renaissance Technologies takes in 44 percent of profits and 5 percent of assets from the two hedge funds he controls—one of the main sources of his $1.5 billion earnings in 2006.

Growing income inequality between American workers and this super-wealthy elite is complemented by a widening gap in pensions. Last year, executives at large companies saw a $1.3 million average increase in the value of their pensions. The value of Textron CEO Lewis B. Campbell's pension account increased by $10.7 million in 2006.

William McGuire of UnitedHealth Group had a supplemental retirement account valued at $91.3 million by the end of 2006. The retirement account of Edward Whitacre of AT&T was worth $83.7 million.

By contrast, the share of ordinary workers with any type of retirement account has declined in recent years. In 2004, only 36.3 percent of US households headed by someone 65 years or older had a retirement plan, and these accounts held an average of $173,552—a mere 1.7 percent of the retirement funds stashed away by America's top executives.

Despite turning a profit, companies such as IBM, Verizon, Motorola, Hewlett-Packard and Sears have slashed pensions for their employees, a trend that is expected to continue.

The annual salaries of the nation's top-earning executives are also supplemented by the value of exorbitant perks they enjoy. The authors of "Executive Excess 2007" describe Chad Dreier, CEO of homebuilding giant Ryland Group, as "Perk Porker of the Year," writing that he "received a salary of $1 million, modest by CEO standards. But the company's proxy reveals that Dreier received an additional $6,977,759 for private aircraft use, life insurance, tax payments, reimbursement for out-of-pocket medical care, and $80,000 for a 'personal health and services allowance.'"