Top US hedge fund managers took in $25.3 billion

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The top 25 managers of US hedge funds took home a record $25.33 billion in 2009, according to the new issue of the industry journal *AR: Absolute Return+Alpha*. The unchecked moneymaking in 2009 marked a dramatic reversal from the crisis year of 2008, when the top 25 took home “only” $11.6 billion. It surpassed even the heady days of 2007, when they combined for $22 billion.

This almost unfathomable level of personal enrichment exposes President Barack Obama’s Wall Street bailout. With the official unemployment rate near 10 percent, and with every level of government slashing jobs, education, and social programs, a small handful of individuals have—through sheer financial manipulation—reaped one-year profits counted in the billions.

The biggest gainer in 2009 was David Tepper, head of Appaloosa Management, who took home $4 billion. In late 2008, when the share values of the major banks were crashing, Tepper correctly wagered that Obama would carry on the Bush administration’s efforts to prop up the finance industry. Tepper invested heavily in the twice-bailed out insurance giant, American International Group (AIG), which the Treasury Department determined could not be allowed to collapse because of the threat posed to its politically-connected counter-party, Goldman Sachs.

Buying into the big finance houses on the cheap, Tepper has benefited enormously. Of course, “it did not hurt that the Treasury Department was a fellow investor,” as a *New York Times* analysis notes. Undoubtedly Tepper’s ties to his former employer, Goldman Sachs, were also beneficial. The most powerful investment bank’s former executives, one-time colleagues of Tepper’s, populated key economic posts in the Obama and Bush administrations.

Number two on the list is Hungarian-born speculator George Soros, who is better known as a prominent financier of Democratic Party candidates and European “color revolutions.” Soros took home $3.3 billion in fees and investment gains in 2009, while his fund, Quantum Endowment, grew by 29 percent, exceptionally high but far off the 130 percent gain of Appaloosa.

At fourth place is John Paulson, who was number one on the list for 2007, when he raked in $3.7 billion by betting against the subprime mortgage industry. He has since carried on his good fortune by betting against the banking industry early in 2008, and then buying back in when prices were low, preparing the way for his 2009 windfall of $2.3 billion.

Of the top 25 hedge fund managers, the most lowly-paid took home $350 million in 2009.

The $25.33 billion paid out to 25 individuals in one year was greater than the GDP of about 100 nations in 2008. These 25 managers took home about $7 billion more in one year than California’s current deficit, which has been used as a sledge hammer against social programs, public education, and the jobs and wages of government workers in the most populous US state.

In his 2010 budget, Obama proposed cutting funding for low-income home heating assistance (LIHEAP) to $3.3 billion. Thus a program that last year helped some 20 million Americans stay warm would next year receive the same amount of money as the number two hedge fund manager.

It is not only revealing that the hedge fund managers have reaped windfall payments in spite of the economic crisis, but *how* they have done so.

In 2008 the hedge funds, along with the finance industry as a whole, very nearly fell victim to their own mad speculation. The Wall Street bailout—which has placed the US Treasury and Federal Reserve at the disposal of the major finance houses—substituted for this state of affairs a new speculative frenzy. The *AR* data reveals that those managers who fared the best in 2009 correctly anticipated that the new occupant in the White House would, as he repeatedly promised, “do whatever it takes” to right the Wall Street ship.

Obama has not disappointed the financiers. Not only has he continued to funnel trillions to the finance industry, his administration has scuttled any attempt to apply even the mildest limits to executive compensation and the most symbolic regulations to the banks and hedge funds.

Now, with the state bailout of Wall Street assured, the hedge funds are preparing to move on to new sources of profit. Veteran corporate raider Carl C. Icahn, who came in at number 6 on the 2009 list with $1.3 billion in profits, summed up the philosophy of the top hedge fund managers. “Last year, there was a great opportunity in debt. It was very, very undervalued,” he said. “Today, it’s fully valued. There are still great opportunities in bankrupt companies, but dealing with bankruptcies is an arcane art and much more complicated than simply buying distressed debt.”

Icahn’s reference to “great opportunities in bankrupt companies” should be taken as a warning that the financiers are preparing a new assault on the jobs and wages of the working class similar to the destructive mergers and acquisition craze of the 1980s, which saw entire industries and whole regions of the US devastated for the personal enrichment of a layer of criminal speculators. Icahn should know—in the 1980s his “investments” led to the breakup or near-destruction of such icons of industry as US Steel, the airline TWA, and Texaco Oil.

Such destructive practices are the bread-and-butter of the hedge funds, shadowy investment clubs usually open only to their own executives and elite investors. Managers are rewarded primarily for short-term gain, paid as they are by the industry standard “2 and 20” rate—2 percent of the fund’s overall asset value plus 20 percent of its profit.

The hedge funds’ massive bets against companies or entire nations often cause their desired outcome. In late February, for example, the *Wall Street Journal* reported that leading hedge funds had recently held private talks in New York City that focused on a joint attack against the euro over the Greek debt crisis. Prominent among those present was George Soros.

During an “exclusive ‘idea dinner’...hosted by a boutique investment bank at a private townhouse in Manhattan, a small group of all-star hedge-fund managers argued that the euro is likely to fall” sharply, the *Journal* reported. The investors were keenly aware that their own actions and pronouncements could prove decisive in such an outcome, with Soros the week before warning that unless the debt crisis gripping Greece and other countries was resolved “the euro may fall apart.”

The campaign against Greece over its sovereign debt has not only resulted in a fall in the euro—presumably to the enrichment of the hedge fund managers. It has also led to the imposition of massive cuts to wages, pensions, and social spending in Greece and other countries—in other words, to the direct plundering of the working class.

Such destructive practices mark a sharp acceleration of long-term trends in US capitalism that are now being played out on a global scale. Hedge funds were virtually unknown until the late 1960s, and did not come to the fore until the mid 1980s. Now the 213 largest US hedge funds have combined assets of $1.82 trillion—equivalent to the world’s eighth largest economy.

In earlier periods, the richest figures in the American business world, however ruthless, were associated in one way or another with the production of commodities. Their names were tied to a particular industry, such as Vanderbilt (railroads), Carnegie and Morgan (steel), Rockefeller (oil), and Ford (automobiles).

Today the real money is to be made in the *destruction* of value. It is noteworthy that pay among business CEOs declined somewhat in 2009. To be sure, the top CEOs took home annual pay that dwarfs by a factor of thousands that of their workers. Ray Irani of Occidental Petroleum was paid $52 million, Robert Iger of Disney $21 million, Samuel Palmisano of IBM $20 million, and William Weldon of Johnson & Johnson $20 million. But while the top four US CEOs took home a combined $113 million, the top four US hedge fund managers raked in $12.1 billion, *more than 100 times as much*.

The enrichment of the financial speculators is the outcome of conscious political decisions. It was made possible, it must be reiterated, by the Wall Street bailout—without question the largest-ever transfer of wealth from a public treasury to the wealthy elite.

Now the Obama administration is forcing the working class to foot the bill. While trillions were given to the banks, Obama has refused assistance to the states and cities, leading to wholesale layoffs among teachers and government workers. Obama has put in place a freeze on discretionary social spending, and with passage of his so-called “health care reform” has set the stage for drastic reductions in Medicare spending and cleared the decks for an assault on Social Security.