Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else
(Chrystia Freeland)

October 30, 2018

From the cover, I expected this book to be a lightweight documentary version of *Crazy Rich Asians*, offering painfully amusing stories about the foibles of the super-rich, accompanied by cautions about the negative effects of such behavior upon the rest of America. Plus, the picture of private jets in the driveway attracted me as a vision of my hoped-for future, since I am comfortably in the 0.1%, and much of my time is spent struggling to reach yet higher. Instead, this book is a pretty dense, though rambling, web of analysis, with no funny stories at all. Still, it's modestly worthwhile in itself, and it has the additional benefit that it sheds light on today.

How is today different than 2012, when this book was published? There are basically the same number of rich people, after all. Trump is what's different, of course. I don't think Trump is the explanation for, or relevant to, everything. But the perception of the American plutocracy by ordinary Americans, of its attitudes and of how it got its money, is a large part of why Trump was elected. This book, because it says nothing about Trump, says a great deal about Trump.

Plutocrats is basically a compilation of statistics, intercut with anecdotes, mostly gleaned from the very many interviews the author, Chyristia Freeland (a semi-famous journalist, recently appointed Canada's Minister of Foreign Affairs) conducted with the rich and powerful, everyone from Eric Schmidt to George Soros. The latter, in fact, is mentioned every few pages, each time as a sage of unique wisdom and insight. (The Soros worship is so over the top, actually, that the reader wonders if Freeland has some relationship with him.) Books organized around an author's interviews with the powerful tend to smack of vanity in an author, who usually seems to think the reviewee's aura rubs off, but other than with Soros, Freeland does a pretty good job of restraining fanboy-ism.

The author initially frames her book by citing the Kuznets curve—the idea that inequality necessarily diminishes as a civilization gets richer overall. This was not an original idea with Simon Kuznets in the 1950s;

the same concept was also advanced by Alexis de Tocqueville. So far, though, the idea has been proven false—inequality is increasing as we get richer. Why that is, and what will likely result, is the theme of the book.

Immediately, though, crops up a significant problem with Freeland's book—a failure to sharply distinguish inequality of income from inequality of wealth. She slides back and forth between the two, sometimes in the same sentence, treating them as functionally identical, which they are not. Inequality of income is, in large degree, a statistical artifact, since the people at the top are often only there briefly, and something like fifteen percent of the population is in the top one percent of income for at least one year in their lives. Inequality of wealth, that is, of assets, is much more problematic if inequality is the focus, in that there is less turnover in who is wealthy, which means it is harder to reach the top (as I know myself, to my shame and sorrow—I am much farther from the top 0.01% in assets than in income). The envy that is the inevitable fruit of inequality is reduced, at least in America, if people feel like they have a shot at reaching the top, which today, they increasingly do not. But Freeland never even acknowledges this critical distinction.

This is not the only reason the book sometimes feels confused; another problem is that Freeland tries to achieve a global focus, by citing individuals and statistics from India, Russia, and China, but comparing inequality in those areas with inequality in America muddles matters rather than illuminating them, since the book again shifts rapidly among things that cannot be compared directly to each other. On the other hand, the foreign oligarchs do add a frisson to the book—the Sword of Damocles position of many non-Western plutocrats is very obvious and chilling. Freeland adduces the obvious cases of executed Chinese oligarchs and imprisoned Russian magnates, but several of the people she interviewed who were riding high in 2012 are not now. For example, the Brazilian Eike Batista, who made tens of billions in oil and mining, and is noted in the book as among the ten richest men in the world, is now bankrupt and serving a thirty-year prison sentence. I'd rather have less money and more security, myself. I like to sleep easy at night.

Despite these problems, Freeland does a competent job laying out what modern inequality generally looks like, with nods to the Gilded Age as a precursor of today. Not only is inequality increasing, and it has been for decades, most Americans are staying in the same position, at best, or falling backward (at least until very recently, with the advent of what looks like a genuine broad economic boom as a result of Trump's economic policies). It is only the upper crust that is registering, and hoarding, gains. Americans, rich and poor, used to frown somewhat on inequality of outcome, and a great deal on inequality of opportunity. But since the 1970s, this social consensus fragmented, both due to internal political changes, and to the impacts of technology and globalization. The world as a whole got richer, and very many foreigners were pulled out of poverty by the free market (not by Western charity)—but large numbers of Americans did not share in the bounty, and the elites stopped caring.

If this book were written in 2018, Donald Trump would be the focus, with this feeling of unfairness and being left behind cited as a driver for his rise. Instead, having gotten basic data out of the way, Freeland turns to explicating the culture of plutocrats. She discusses that today's rich largely are not *rentiers*; they made their own money, rather than inheriting it, and they work to keep it coming, rather than clipping bond coupons. Many of the richest are innovators who provide value to consumers, or at least perceived value. She discusses their consumption, but also their unhappiness, the risks they take, and the cost on their families (noting that, for all practical purposes, zero women count as this type of plutocrat—they feature only occasionally, as wives and as inheritors of wealth). Not that the reader cries for them, but it does make the reader realize the plutocracy is not just a bunch of caricatures playing Mr. Moneybags.

The most important cultural characteristic, however, is that modern plutocrats are cosmopolitan citizens of the world, feeling essentially no loyalty to the countries of their birth. I would add, in the case of most American plutocrats, that they affirmatively despise much of America and its culture, while sucking up to the "values" of foreigners. This latter point Adam Smith foresaw, how liquid capital erodes loyalty to country, and this accurate perception of American plutocrats is a key driver of Trump's success. When American CEOs state openly that if "four people in China and India [are lifted] out of poverty and into the middle class, and meanwhile one American drops out of the middle class, that's not such a bad trade," it is no wonder that Trump has wide appeal. It's not just ideological, either—as Freeland notes, "Western businesses are less dependent on a prosperous domestic middle class because they can now sell to the rising middle class of the emerging markets." American CEOs can preen themselves on being progressive while making money, naturally taking advantage of the stability and protections, legal and otherwise, of America, while giving little or nothing to other Americans.

Finally, along the same lines of plutocrat culture, Freeland notes the "coarsening" effect of privilege and the feeling of plutocrats that "the world should be built around you and your needs." This is not news (I distinctly remember when I first became rich noting the creeping tendency to feel that the rules didn't apply to me, something that has to be continuously fought against) and is why in past ages the obligations of the aristocracy to the masses were taken seriously and drummed into young aristocrats. Unfortunately, along with the rest of taught virtue, that instruction is gone, and the result is the Rich Kids of Instagram, Dominique Strauss-Kahn, and myriad other appalling behavior.

Freeland then takes a lengthy tangent, talking about economic "superstars," people at the top of various industries, from music to finance, who make vastly more than most in their line of work. This effect compounds as society as a whole gets richer, since those with money chase hiring the best in every area, from lawyers to art, who by definition are in limited supply. Technology enhances the effect—the top nineteenth-century opera singers could still only reach a limited number of people, but today's superstars can often sell to millions. All this is interesting enough, but feels a lot like padding out the book.

Next we get a second long tangent, talking about the impact on plutocracy of revolutions around the world, both real revolutions and economic revolutions such as technology in general and the Russian fire sale of assets. (Freeland overrates the impact of computers; only someone quite ignorant could claim that computers are equivalent in impact to "electricity and the internal combustion engine.") All of these contributed to the composition of today's plutocratic class, and Freeland seems to be trying to say that plutocrats risk a new revolution less beneficial to them, where heads end up on pikes.

Most interesting to me is how often, when Freeland quotes various plutocrats, variations on the phrase "value creation" crop up. That's because many plutocrats get their wealth from non-productive activities, from businesses that most definitely do not create value. We tend to focus on the high-profile actual creators of value: whatever you may think of Jeff Bezos, he earned his money. (It is far less clear, though, whether big companies that have enriched their owners, because people are willing to pay for what they offer, have actually created social value—if Facebook, Twitter, and Snapchat disappeared, and maybe Amazon too, the world would probably be better off. Mark Zuckerberg is not Henry Ford or even Jay Gould.) But many plutocrats, less high profile for good reason, got rich from crony capitalism of various types, ranging from overt bribery in many countries to regulatory capture in the United States, or from being transactions costs, as is true for much of the financial plutocracy and many of the lawyers. That is not "creating value." Again, most of non-plutocratic America distinguishes how a plutocrat made his wealth; it is a variation on the known phenomenon that the working class resents those rich who are perceived to have earned their wealth much less than the parasitical rich, and far less than they resent the professional-management elite.

Freeland wanders along, ending up talking about "active inertia," how every plutocrat eventually cannot keep up with change and remains stuck in his rut, except for truly wonderful and exceptional geniuses like, you guessed it, George Soros. Finally, though, we get back on track, if the track is the problem with today's plutocrats, with a whole chapter on rent-seeking. Freeland channels my favorite academic, Luigi Zingales of the University of Chicago Booth School of Business (though she incorrectly characterizes him as a Republican). Zingales makes the key distinction between being promarket and probusiness—most object less if people get rich by succeeding in the market, but the reality is that most plutocrats loathe the market, and want to use the government or other anti-competitive means to line their pockets. Of course, the best recent example of such behavior is the massive bailouts of firms during and after the 2008 financial crisis, socializing losses while privatizing gains, all of which firms should have simply been forced into bankruptcy, their equity owners wiped out, and their executives disgraced. Instead, Goldman Sachs bankers and their acolytes robbed America. Zingales, less histrionic than me, is famous for noting that Treasury Secretary Henry Paulson, when he "argue[d] that the world as we knew it would end if Congress did not approve the $700 billion bailout . . . to an extent he was right: His world—the world he lived and worked in—would have ended had there not been a bailout. But Henry Paulson's world is not the world most Americans live in—or even the world in which our economy as a whole exists." Damn skippy.

That's just one example of rent-seeking in one industry. And 2008 is merely the most naked example. Unfortunately, though, Freeman does a bad job of providing specifics about rent-seeking, merely muttering darkly mostly about deregulation, which is not the main driver of crony capitalism. Like Rana Foroohar in her book *Makers and Takers*, we never get the details, and as I complained when talking about Niall Ferguson's recent *The Square and the Tower*, despite its immense power, the network of Goldman Sachs is never unraveled and exposed. (I was talking to a Jewish friend of mine yesterday, who by chance mentioned that many Jews see criticism of George Soros and Goldman Sachs as anti-Semitic dog whistles. For the record, I think Jews, and Israel, are awesome, and not just in the "some of my best friends are Jews" sense. Even so, Soros is the Great Satan.) In fact, deregulation is irrelevant to the point at hand, since regulation is mostly not designed to hamper crony capitalism, but rather to reduce fraud, so deregulation, to the extent it leads to a free market and is promarket, rather than probusiness, is the opposite of crony capitalism. Freeman glosses over that this is exactly what Zingales says, even though she quotes him for this precise point. The real problem, which Freeman only touches on in passing, is regulatory and legislative capture—the reader would benefit from more detail, such as for example how the stock offering market, which was hoped to be democratized by the internet, is still a walled garden for underwriters who take no actual risk, just a massive slice off the top, of money that should go to stockholders. Freeman isn't wrong about rent-seeking, but her explanation is deficient.

The free market creates winners and losers, to be sure, and there is a strong argument that in the modern world, with the leverage that technology and globalization provides, the talented will always pull away from the mass. Freeland hints at this, quoting Andrew Carnegie, "The experienced in affairs always rate the man whose services can be obtained as partner as not only the first consideration, but such as render the question of his capital scarcely worth considering: for such men soon create capital; in the hands of those without the special talent required, capital soon takes wings." This is the truth; I can count on the fingers of one hand the number of people I know personally with the real talent to create capital in this way. The vast majority of people, even those in the elite, simply are not capable at operating at the top level of actual wealth creation. Such rare people (almost all men, again) will nearly always become rich, if they desire it. But that does not absolve them of responsibility to the rest of society, and it is that disconnect that is the real problem with today's plutocracy. Freeland tell us, of "the institutions that permit social mobility," that it takes "economic redistribution—i.e., taxes—to pay for those institutions." That's false—almost all taxes are spent to line the pockets of the elite, or to provide for the poor, not the working masses, who struggle along. Not to mention that most social mobility is not the result of government "institutions," but of the right culture not hampered by the government. The responsibility of plutocrats here is not to pay more taxes, but to pay attention, in business and politics, to the interests of those less successful.

Freeland ends by comparing us to Venice, which is said to have declined after its oligarchy closed its ranks to new entrants and clamped down on vigorous entrepreneurialism. Only partially true, but given that Venice never regained even a fraction of its power, security, or relevancy, that doesn't help us much, nor does Freeland offer us even a hint of what we should do.

I have a few ideas, though! We can start by having Congress break up all large finance entities and aggressively discourage future rent-seeking, capture and revolving door activity. Among other methods we should forbid, under penalty of ten years' imprisonment, any work of any kind in the financial industry by former government employees. Also, anyone who has ever worked at Goldman Sachs, even as an intern or secretary, should be instantly fired from any position in the federal government and barred from ever working in government again.

It's not just finance, though. That's the tip of the iceberg. I think we should return to the Brandeisian view of antitrust law, viewing with deep suspicion all concentrations of corporate economic power. In fact, Zingales and his podcast partner, Kate Waldock, were just discussing this on their excellent podcast "Capitalisn't," which I highly recommend you check out. And there are some books coming out on this very topic, which I expect to review as well, since I think this is a critical matter. For current purposes, we should just agree that we can erode the power of the plutocrats, and increase opportunity for all Americans, by judicious hammering of entities that have acquired excessive power and are using that power in a way that does not benefit all of America.