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READING 37

The Rise of the New Global Elite

Chrystia Freeland

C. Wright Mills's notion of the power elite can be seen in many social contexts in the United States, including the recent political and economic maneuvering related to terrorism, homeland security, and the recent war in Iraq. We also see evidence of the power elite in the evolution of PACs (political action committees) to the new super PACs that get around campaign financing reforms and allow wealthy individuals and organizations to donate huge sums to political campaigns. The following reading by business journalist Chrystia Freeland is excerpted from a 2011 article in The Atlantic, *where Freeland examines how the power elite is now a global phenomenon generated by the wealth created from transnational companies and the expansion of global capitalism. Freeland demonstrates well that this new global elite is increasingly separate from national governments and other social institutions that defined Mills's original view of the Iron Triangle in the United States: the U.S. government, the military, and American corporations.*

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If you happened to be watching NBC on the first Sunday morning in August last summer [2010], you would have seen something curious. There, on the set of *Meet the Press*, the host, David Gregory, was interviewing a guest who made a forceful case that the U.S. economy had become "very distorted." In the wake of the recession, this guest explained, high-income individuals, large banks, and major corporations had experienced a "significant recovery"; the rest of the economy, by contrast—including small businesses and "a very significant amount of the labor force"—was stuck and still struggling. What we were seeing, he argued, was not a single economy at all, but rather "fundamentally two separate types of economy," increasingly distinct and divergent.

This diagnosis, though alarming, was hardly unique: Drawing attention to the divide between the wealthy and everyone else has long been standard fare on the left. (The idea of "two Americas" was a central theme of John Edwards' 2004 and 2008 presidential runs.) What made the argument striking in this instance was that it was being offered by none other than the former five-term Federal Reserve chairman Alan Greenspan: iconic libertarian, preeminent defender of the free market, and (at least until recently) the nation's foremost devotee of Ayn Rand. When the high priest of capitalism himself is declaring the growth in economic inequality a national crisis, something has gone very, very wrong.

This widening gap between the rich and nonrich has been evident for years. In a 2005 report to investors, for instance, three analysts at Citigroup advised that "the World is dividing into two blocs—the Plutonomy and the rest":

> In a plutonomy there is no such animal as "the U.S. consumer" or "the UK consumer," or indeed the "Russian consumer." There are rich consumers, few in number, but disproportionate in the gigantic slice of income and consumption they take. There are the rest, the "nonrich," the multitudinous many, but only accounting for surprisingly small bites of the national pie.

Before the recession, it was relatively easy to ignore this concentration of wealth among an elite few. The wondrous inventions of the modern economy—Google, Amazon, the iPhone—broadly improved the lives of middle-class consumers, even as they made a tiny subset of entrepreneurs hugely wealthy. And the less-wondrous inventions—particularly the explosion of subprime credit—helped mask the rise of income inequality for many of those whose earnings were stagnant.

But the financial crisis and its long, dismal aftermath have changed all that. A multi-billion-dollar bailout and Wall Street's swift, subsequent reinstatement of gargantuan bonuses have inspired a narrative of parasitic bankers and other elites rigging the game for their own benefit. And this, in turn, has led to wider—and not unreasonable—fears that we are living in not merely a plutonomy, but a plutocracy, in which the rich display outsize political influence, narrowly self-interested motives, and a casual indifference to anyone outside their own rarefied economic bubble.

Through my work as a business journalist, I've spent the better part of the past decade shadowing the new superrich: attending the same exclusive conferences in

Europe; conducting interviews over cappuccinos on Martha's Vineyard or in Silicon Valley meeting rooms; observing high-powered dinner parties in Manhattan. Some of what I've learned is entirely predictable: The rich are, as F. Scott Fitzgerald famously noted, different from you and me.

What is more relevant to our times, though, is that the rich of today are also different from the rich of yesterday. Our light-speed, globally connected economy has led to the rise of a new superelite that consists, to a notable degree, of first- and second-generation wealth. Its members are hardworking, highly educated, jet-setting meritocrats who feel they are the deserving winners of a tough, worldwide economic competition—and many of them, as a result, have an ambivalent attitude toward those of us who didn't succeed so spectacularly. Perhaps most noteworthy, they are becoming a transglobal community of peers who have more in common with one another than with their countrymen back home. Whether they maintain primary residences in New York or Hong Kong, Moscow or Mumbai, today's superrich are increasingly a nation unto themselves.

The Winner-Take-Most Economy

The rise of the new plutocracy is inextricably connected to two phenomena: the revolution in information technology and the liberalization of global trade. Individual nations have offered their own contributions to income inequality—financial deregulation and upper-bracket tax cuts in the United States; insider privatization in Russia; rent-seeking in regulated industries in India and Mexico. But the shared narrative is that, thanks to globalization and technological innovation, people, money, and ideas travel more freely today than ever before.

Peter Lindert is an economist at the University of California at Davis and one of the leaders of the "deep history" school of economics, a movement devoted to thinking about the world economy over the long term—that is to say, in the context of the entire sweep of human civilization. Yet he argues that the economic changes we are witnessing today are unprecedented. *Britain's classic industrial revolution was far less impressive than what has been going on in the past 30 years*, he told me. The current productivity gains are larger, he explained, and the waves of disruptive innovation much, much faster.

From a global perspective, the impact of these developments has been overwhelmingly positive, particularly in the poorer parts of the world. Take India and China, for example: Between 1820 and 1950, nearly a century and a half, per capita income in those two countries was basically flat. Between 1950 and 1973, it increased by 68 percent. Then, between 1973 and 2002, it grew by 245 percent, and continues to grow strongly despite the global financial crisis.

But within nations, the fruits of this global transformation have been shared unevenly. Though China's middle class has grown exponentially and tens of millions have been lifted out of poverty, the superelite in Shanghai and other east-coast cities have steadily pulled away. Income inequality has also increased in developing markets such as India and Russia, and across much of the industrialized West, from the relatively laissez-faire United States to the comfy social democracies of Canada and Scandinavia. Thomas Friedman is right that in many ways the world has become flatter; but in others it has grown spikier.

One reason for the spikes is that the global market and its associated technologies have enabled the creation of a class of international business megastars. As companies become bigger, the global environment more competitive, and the rate of disruptive technological innovation ever faster, the value to shareholders of attracting the best possible CEO increases correspondingly. Executive pay has skyrocketed for many reasons—including the prevalence of overly cozy boards and changing cultural norms about pay—but increasing scale, competition, and innovation have all played major roles.

Many corporations have profited from this economic upheaval. Expanded global access to labor (skilled and unskilled alike), customers, and capital has lowered traditional barriers to entry and increased the value of an ahead-of-the-curve insight or innovation. Facebook, whose founder, Mark Zuckerberg, dropped out of college just six years ago, is already challenging Google, itself hardly an old-school corporation. But the biggest winners have been individuals, not institutions. The hedge-fund manager John Paulson, for instance, single-handedly profited almost as much from the crisis of 2008 as Goldman Sachs did.

Meanwhile, the vast majority of U.S. workers, however devoted and skilled at their jobs, have missed out on the windfalls of this winner-take-most economy—or worse, found their savings, employers, or professions ravaged by the same forces that have enriched the plutocratic elite. The result of these divergent trends is a jaw-dropping surge in U.S. income inequality. According to the economists Emmanuel Saez of Berkeley and Thomas Piketty of the Paris School of Economics, between 2002 and 2007, 65 percent of all income growth in the United States went to the top 1 percent of the population. The financial crisis interrupted this trend temporarily, as incomes for the top 1 percent fell more than those of the rest of the population in 2008. But recent evidence suggests that, in the wake of the crisis, incomes at the summit are rebounding more quickly than those below. One example: After a down year in 2008, the top 25 hedge-fund managers were paid, on average, more than $1 billion each in 2009, quickly eclipsing the record they had set in prerecession 2007. . . .

The Road to Davos

To grasp the difference between today's plutocrats and the hereditary elite, who (to use John Stuart Mill's memorable phrase) "grow rich in their sleep," one need merely glance at the events that now fill high-end social calendars. The debutante balls and hunts and regattas of yesteryear may not be quite obsolete, but they are headed in that direction. The real community life of the 21st-century plutocracy occurs on the international conference circuit.

The best-known of these events is the World Economic Forum's annual meeting in Davos, Switzerland, invitation to which marks an aspiring plutocrat's arrival on the international scene. The Bilderberg Group, which meets annually at locations in Europe

and North America, is more exclusive still—and more secretive—though it is more focused on geopolitics and less on global business and philanthropy. The Boao Forum for Asia, convened on China's Hainan Island each spring, offers evidence of that nation's growing economic importance and its understanding of the plutocratic culture. Bill Clinton is pushing hard to win his Clinton Global Initiative a regular place on the circuit. The TED conferences (the acronym stands for "Technology, Entertainment, Design") are an important stop for the digerati; Herb Allen's Sun Valley gathering, for the media moguls; and the Aspen Institute's Ideas Festival (co-sponsored by this magazine), for the more policy-minded.

Recognizing the value of such global conclaves, some corporations have begun hosting their own. Among these is Google's Zeitgeist conference, where I have moderated discussions for several years. One of the most recent gatherings was held last May at the Grove Hotel, a former provincial estate in the English countryside, whose 300-acre grounds have been transformed into a golf course and whose high-ceilinged rooms are now decorated with a mixture of antique and contemporary furniture. (Mock Louis XIV chairs—made, with a wink, from high-end plastic—are much in evidence.) Last year, Cirque du Soleil offered the 500 guests a private performance in an enormous tent erected on the grounds; in 2007, to celebrate its acquisition of YouTube, Google flew in overnight Internet sensations from around the world.

Yet for all its luxury, the mood of the Zeitgeist conference is hardly sybaritic. Rather, it has the intense, earnest atmosphere of a gathering of college summa cum laudes. This is not a group that plays hooky: The conference room is full from 9 a.m. to 6 p.m., and during coffee breaks the lawns are crowded with executives checking their BlackBerrys and iPads.

Last year's lineup of Zeitgeist speakers included such notables as Archbishop Desmond Tutu, London mayor Boris Johnson, and Starbucks CEO Howard Schultz (not to mention, of course, Google's own CEO, Eric Schmidt). But the most potent currency at this and comparable gatherings is neither fame nor money. Rather, it's what author Michael Lewis has dubbed "the new new thing"—the insight or algorithm or technology with the potential to change the world, however briefly. Hence the presence last year of three Nobel laureates, including Daniel Kahneman, a pioneer in behavioral economics. One of the business stars in attendance was the 36-year-old entrepreneur Tony Hsieh, who had sold his Zappos online shoe retailer to Amazon for more than $1 billion the previous summer. And the most popular session of all was the one in which Google showcased some of its new inventions, including the Nexus phone.

This geeky enthusiasm for innovation and ideas is evident at more intimate gatherings of the global elite as well. Take the elegant Manhattan dinner parties hosted by Marie-Josée Kravis, the economist wife of the private-equity billionaire Henry, in their elegant Upper East Side apartment. Though the china is Sèvres and the paintings are museum quality (Marie-Josée is, after all, president of the Museum of Modern Art's board), the dinner-table conversation would not be out of place in a graduate seminar. Mrs. Kravis takes pride in bringing together not only plutocrats such as her husband and Michael Bloomberg, but also thinkers and policy makers such as Richard Holbrooke, Robert Zoellick, and *Financial Times* columnist Martin Wolf, and leading them in discussion of matters ranging from global financial imbalances to the war in Afghanistan.

Indeed, in this age of elites who delight in such phrases as *outside the box* and *killer app*, arguably the most coveted status symbol isn't a yacht, a racehorse, or a knighthood; it's a philanthropic foundation—and, more than that, one actively managed in ways that show its sponsor has big ideas for reshaping the world. . . .

One of the most determined is the Ukrainian entrepreneur Victor Pinchuk, whose business empire ranges from pipe manufacturing to TV stations. With a net worth of $3 billion, Pinchuk is no longer content merely to acquire modern art: In 2009, he began a global competition for young artists, run by his art center in Kiev and conceived as a way of bringing Ukraine into the international cultural mainstream. Pinchuk hosts a regular lunch on the fringes of Davos and has launched his own annual "ideas forum," a gathering devoted to geopolitics that is held, with suitable modesty, in the same Crimean villa where Stalin, Roosevelt, and Churchill attended the Yalta Conference. Last September's meeting, where I served as a moderator, included Bill Clinton, International Monetary Fund head Dominique Strauss-Kahn, Polish president Bronislaw Komorowski, and Russian deputy prime minister Alexei Kudrin. . . .

As an entrée into the global superelite, Pinchuk's efforts seem to be working: On a visit to the U.S. last spring, the oligarch met with David Axelrod, President Obama's top political adviser, in Washington and schmoozed with Charlie Rose at a New York book party for *Time* magazine editor Rick Stengel. On a previous trip, he'd dined with Caroline Kennedy at the Upper East Side townhouse of HBO's Richard Plepler. Back home, he has entertained his fellow art enthusiast Eli Broad at his palatial estate (which features its own nine-hole golf course) outside Kiev, and has partnered with Soros to finance Ukrainian civil-society projects.

A Nation Apart

Pinchuk's growing international Rolodex illustrates another defining characteristic of today's plutocrats: They are forming a global community, and their ties to one another are increasingly closer than their ties to hoi polloi back home. As Glenn Hutchins, co-founder of the private-equity firm Silver Lake, puts it, *A person in Africa who runs a big African bank and went to Harvard might have more in common with me than he does with his neighbors, and I could well share more overlapping concerns and experiences with him than with my neighbors.* The circles we move in, Hutchins explains, are defined by "interests" and "activities" rather than "geography": Beijing has a lot in common with New York, London, or Mumbai. You see the same people, you eat in the same restaurants, you stay in the same hotels. But most important, we are engaged as global citizens in crosscutting commercial, political, and social matters of common concern. We are much less place-based than we used to be.

In a similar vein, the wife of one of America's most successful hedge-fund managers offered me the small but telling observation that her husband is better able to navigate the streets of Davos than those of his native Manhattan. When he's at home, she

explained, he is ferried around town by a car and driver; the snowy Swiss hamlet, which is too small and awkward for limos, is the only place where he actually walks. An American media executive living in London put it more succinctly still: *We are the people who know airline flight attendants better than we know our own wives.*

America's business elite is something of a latecomer to this transnational community. In a study of British and American CEOs, for example, Elisabeth Marx, of the headhunting firm Heidrick & Struggles, found that almost a third of the former were foreign nationals, compared with just 10 percent of the latter. Similarly, more than two-thirds of the Brits had worked abroad for at least a year, whereas just a third of the Americans had done so.

But despite the slow start, American business is catching up: The younger generation of chief executives has significantly more international experience than the older generation, and the number of foreign and foreign-born CEOs, while still relatively small, is rising. The shift is particularly evident on Wall Street: In 2006, each of America's eight biggest banks was run by a native-born CEO; today, five of those banks remain, and two of the survivors—Citigroup and Morgan Stanley—are led by men who were born abroad.

Mohamed El-Erian, the CEO of Pimco, the world's largest bond manager, is typical of the internationalists gradually rising to the top echelons of U.S. business. The son of an Egyptian father and a French mother, El-Erian had a peripatetic childhood, shuttling between Egypt, France, the United States, the United Kingdom, and Switzerland. He was educated at Cambridge and Oxford and now leads a U.S.-based company that is owned by the German financial conglomerate Allianz SE.

Though El-Erian lives in Laguna Beach, California, near where Pimco is headquartered, he says that he can't name a single country as his own. *I have had the privilege of living in many countries,* El-Erian told me on a recent visit to New York. *One consequence is that I am a sort of global nomad, open to many perspectives.* As he talked, we walked through Midtown, which El-Erian remembered fondly from his childhood, when he'd take the crosstown bus each day to the United Nations International School. That evening, El-Erian was catching a flight to London. Later in the week, he was due in St. Petersburg.

Indeed, there is a growing sense that American businesses that don't internationalize aggressively risk being left behind. For all its global reach, Pimco is still based in the United States. But the flows of goods and capital upon which the superelite surf are bypassing America more often than they used to. Take, for example, Stephen Jennings, the 50-year-old New Zealander who co-founded the investment bank Renaissance Capital. Renaissance's roots are in Moscow, where Jennings maintains his primary residence, and his business strategy involves positioning the firm to capture the investment flows between the emerging markets, particularly Russia, Africa, and Asia. For his purposes, New York is increasingly irrelevant. In a 2009 speech in Wellington, New Zealand, he offered his vision of this post-unipolar business reality: *The largest metals group in the world is Indian. The largest aluminum group in the world is Russian. . . . The fastest-growing and largest banks in China, Russia, and Nigeria are all domestic.*

As it happens, a fellow tenant in Jennings' high-tech, high-rise Moscow office building recently put together a deal that exemplifies just this kind of intra-emerging-market trade. Last year, Digital Sky Technologies, Russia's largest technology investment firm, entered into a partnership with the South African media corporation Naspers and the Chinese technology company Tencent. All three are fast-growing firms with global vision—last fall, a DST spin-off called Mail.ru went public and immediately became Europe's most highly valued Internet company—yet none is primarily focused on the United States. A similar harbinger of the intra-emerging-market economy was the acquisition by Bharti Enterprises, the Indian telecom giant, of the African properties of the Kuwait-based telecom firm Zain. A California technology executive explained to me that a company like Bharti has a competitive advantage in what he believes will be the exploding African market: *They know how to provide mobile phones so much more cheaply than we do. In a place like Africa, how can Western firms compete?*

The good news—and the bad news—for America is that the nation's own superelite is rapidly adjusting to this more global perspective. The U.S.-based CEO of one of the world's largest hedge funds told me that his firm's investment committee often discusses the question of who wins and who loses in today's economy. In a recent internal debate, he said, one of his senior colleagues had argued that the hollowing-out of the American middle class didn't really matter. *His point was that if the transformation of the world economy lifts four people in China and India out of poverty and into the middle class, and meanwhile means one American drops out of the middle class, that's not such a bad trade,* the CEO recalled.

I heard a similar sentiment from the Taiwanese-born, 30-something CFO of a U.S. Internet company. A gentle, unpretentious man who went from public school to Harvard, he's nonetheless not terribly sympathetic to the complaints of the American middle class. *We demand a higher paycheck than the rest of the world,* he told me. *So if you're going to demand 10 times the paycheck, you need to deliver 10 times the value. It sounds harsh, but maybe people in the middle class need to decide to take a pay cut.*

At last summer's Aspen Ideas Festival, Michael Splinter, CEO of the Silicon Valley green-tech firm Applied Materials, said that if he were starting from scratch, only 20 percent of his workforce would be domestic. *This year, almost 90 percent of our sales will be outside the U.S.,* he explained. *The pull to be close to the customers—most of them in Asia—is enormous.* Speaking at the same conference, Thomas Wilson, CEO of Allstate, also lamented this global reality: *I can get [workers] anywhere in the world. It is a problem for America, but it is not necessarily a problem for American business. . . . American businesses will adapt. . . .*

The Backlash

The cultural ties that bind the superrich to everyone else are fraying from both ends at once. Since World War II, the United States in particular has had an ethos of aspirational capitalism. As Soros told me, *It is easier to be rich in America than in Europe, because Europeans envy the billionaire, but Americans hope to emulate him.* But as the wealth gap

has grown wider, and the rich have appeared to benefit disproportionately from government bailouts, that admiration has begun to sour.

One measure of the pricklier mood is how risky it has become for politicians to champion Big Business publicly. Defending Big Oil and railing against government interference used to be part of the job description of Texas Republicans. But when Congressman Joe Barton tried to take the White House to task for its postspill "shakedown" of BP, he was immediately silenced by party elders. New York's Charles Schumer is sometimes described as "the senator from Wall Street." Yet when the financial-reform bill came to the Senate last spring—a political tussle in which each side furiously accused the other of carrying water for the banks—on Wall Street, Schumer was called the "invisible man" for his uncharacteristic silence on the issue.

In June, when I asked Larry Summers, then the president's chief economic adviser, about hedge funds' objections to the carried-interest tax reform, he was quick to disassociate himself from Wall Street's concerns. *If that's been the largest public-policy issue you've encountered,* he told me, *you've been traveling in different circles than I have been over the last several months.* I reminded him that he had in fact worked for a hedge fund, D. E. Shaw, as recently as 2008, and he emphasized his use of the qualifier *over the last several months.*

Critiques of the superelite are becoming more common even at gatherings of the superelite. At a *Wall Street Journal* conference in December 2009, Paul Volcker, the legendary former head of the Federal Reserve, argued that Wall Street's claims of wealth creation were without any real basis. *I wish someone,* he said, *would give me one shred of neutral evidence that financial innovation has led to economic growth—one shred of evidence.*

At Google's May Zeitgeist gathering, Desmond Tutu, the opening speaker, took direct aim at executive compensation. *I do have a very real concern about capitalism,* he lectured the gathered executives. *The Goldman Sachs thing. I read that one of the directors general—whatever they are called, CEO—took away one year as his salary $64 million. Sixty-four million dollars.* He sputtered to a stop, momentarily stunned by this sum (though, by the standards of Wall Street and Silicon Valley compensation, it's not actually that much money). In an op-ed in *The Wall Street Journal* last year, even the economist Klaus Schwab—founder of the World Economic Forum and its iconic Davos meeting—warned that "the entrepreneurial system is being perverted," and businesses that "fall back into old habits and excesses" could "undermin[e] social peace."

Bridging the Divide

Not all plutocrats, of course, are created equal. Apple's visionary Steve Jobs is neither the moral nor the economic equivalent of the Russian oligarchs who made their fortunes by brazenly seizing their country's natural resources. And while the benefits of the past decade's financial "innovations" are, as Volcker noted, very much in question, many plutocratic fortunes—especially in the technology sector—have been built on advances that have broadly benefited the nation and the world. That is why, even as the TARP-recipient bankers have become objects of widespread anger, figures such as Jobs, Bill Gates, and Warren Buffett remain heroes.

And, ultimately, that is the dilemma: America really does need many of its plutocrats. We benefit from the goods they produce and the jobs they create. And even if a growing portion of those jobs are overseas, it is better to be the home of these innovators—native and immigrant alike—than not. In today's hypercompetitive global environment, we need a creative, dynamic superelite more than ever.

There is also the simple fact that someone will have to pay for the improved public education and social safety net the American middle class will need in order to navigate the wrenching transformations of the global economy. (That's not to mention the small matter of the budget deficit.) Inevitably, a lot of that money will have to come from the wealthy—after all, as the bank robbers say, that's where the money is.

It is not much of a surprise that the plutocrats themselves oppose such analysis and consider themselves singled out, unfairly maligned, or even punished for their success. Self-interest, after all, is the mother of rationalization, and—as we have seen—many of the plutocracy's rationalizations have more than a bit of truth to them: As a class, they are generally more hardworking and meritocratic than their forebears; their philanthropic efforts are innovative and important; and the recent losses of the American middle class have in many cases entailed gains for the rest of the world.

But if the plutocrats' opposition to increases in their taxes and tighter regulation of their economic activities is understandable, it is also a mistake. The real threat facing the superelite, at home and abroad, isn't modestly higher taxes, but rather the possibility that inchoate public rage could cohere into a more concrete populist agenda—that, for instance, middle-class Americans could conclude that the world economy isn't working for them and decide that protectionism or truly punitive taxation is preferable to incremental measures such as the eventual repeal of the upper-bracket Bush tax cuts.

Mohamed El-Erian, the Pimco CEO, is a model member of the superelite. But he is also a man whose father grew up in rural Egypt, and he has studied nations where the gaps between the rich and the poor have had violent resolutions. *For successful people to say the challenges faced by the lower end of the income distribution aren't relevant to them is shortsighted,* he told me. Noting that *global labor and capital are doing better than their strictly national counterparts* in most Western industrialized nations, El-Erian added, *I think this will lead to increasingly inward-looking social and political conditions. I worry that we risk ending up with very insular policies that will not do well in a global world. One of the big surprises of 2010 is that the protectionist dog didn't bark. But that will come under pressure.*

The lesson of history is that, in the long run, superelites have two ways to survive: by suppressing dissent or by sharing their wealth. It is obvious which of these would be the better outcome for America, and the world. Let us hope the plutocrats aren't already too isolated to recognize this. Because, in the end, there can never be a place like Galt's Gulch.