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MONEYBOX

Park Avenue Marauding Through SoHo!

There *is* a war against the rich, but it's being waged by other rich people.

By Daniel Gross

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Last week, I wrote that the Republican claim that Obama is fighting [a war against the rich](#) was bogus. Over the weekend, I thought better of it. It turns out there *is* a war on the rich. Only it's not being waged by vicious overlords in Washington intent on depriving honest, hardworking stiffs of their livelihoods. Rather, it's a civil war, a war *between* the rich. It's Park Avenue marauding through SoHo, Buckhead rampaging through Hilton Head, Palm Beach shelling Bal Harbour with the big cannons.

Call it the War Between the Estates.

In the past two years, since the market peaked, investors have suffered some [\\$11 trillion in stock losses](#). Of course, stock ownership is more widely spread today than it has been in the past. But wealth is also much more concentrated than it has been at any point since the 1920s. And so while all ships are swamped by a rising tidal wave, some of the yachts have suffered the most damage. The worst of the losses haven't been in mutual funds and college-savings programs that cater to the middle class. No, when it comes to lighting piles of money on fire, blowing up assets, and generally causing financial carnage, the rich have been going at one another ferociously.

The downfalls of Bear Stearns, Lehman Bros., AIG, Citigroup, and Merrill Lynch all provide examples of rich people causing immense financial damage to other rich—though not quite as rich—people. Employees at these firms, even those who had nothing to do with the activities of the minority who destroyed the joints, were paid in stock over the years. At Lehman and Bear, in particular, employee stock ownership was an important component of the culture. In the last year, tens of thousands of people, many of whom earned six-figure incomes and were millionaires several times over, saw their wealth utterly destroyed because of mismanagement by their peers and superiors. Think of all the money managers and stock brokers—Merrill Lynch's thundering herd—who took seriously the mandate to preserve the wealth of their clients. Many of them put their own assets, and those of their clients and relatives, into ultrasafe investments like AAA-rated Lehman Bros. bonds or Bear Stearns preferred stock. After all, analysts, top executives, and credit rating agencies—aka the rich—told them it was perfectly safe.

The hedge-fund industry, which by definition is open only to rich individuals and to large institutions, has similarly been engaged in a war on the rich. In 2008, [according](#) to Hedge Fund Research, the industry—of the wealthy, by the wealthy, for the wealthy—turned in its "worst performance year in history." The HFRI Fund Weighted Composite Index fell by 18.3 percent for all of 2008, with six straight down months between June and November. To add insult to injury, many funds prohibited their wealthy investors from pulling out money by erecting gates, literally locking in the losses. In *Vanity Fair*, Bethany McLean [examines](#) the fate of the hedge-fund company Fortress Investment Group, which went public in 2007. Its

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top partners cashed out. But the founders, as well as many top employees, have their money tied in up Fortress' funds and in its stock, which has [lost about 90 percent of its value in the past two years](#). So while they've lost the cash that everyday investors entrusted to them, they've also lost their own fortunes.

The private-equity industry is supposed to be the sober older brother of the hedge-fund industry. And yet its performance in the past year provides another example of the rich gutting the rich. In the past year, companies like the Blackstone Group and the Carlyle Group have taken [big write-downs](#) in their funds. They've also caused large losses to banks that extended them credit and to sophisticated investors (i.e., rich people) who bought bonds issued by their portfolio companies. As is the case with hedge funds, the partners and many employees of private-equity firms have their own savings in the funds.

And while a lot of (small) bad loans were made to poor people by the subprime-lending industry, a bunch of (really big) bad loans were made by wealthy institutions—Wall Street investment banks, opportunity funds, hedge funds—to other really rich people. [Broadway Partners](#), a high-flying real estate investor, recently [defaulted on a loan](#) it took from other high-flying financial institutions, which it used to buy the John Hancock tower in Boston [for \\$1.3 billion in December 2006](#). (The *Boston Globe* [estimated](#) the building is now worth between \$700 million and \$900 million.) And the most toxic of the toxic assets—collateralized debt obligations, commercial mortgage-backed securities, credit-default swaps—were explicitly off-limits to middle-class investors. They were manufactured by rich investment bankers and sold to hedge funds and proprietary trading desks.

Finally, let's not forget the scams. Plenty of poor and working-class people got fleeced in housing-related scams. But you could add them all up, and they'd still be dwarfed by the biggest one of them all, Bernard Madoff's Ponzi scheme, which [disproportionately targeted the already wealthy](#).

The [Dumb Money](#) debacle required the active work (or passive nonwork) of hordes of really well-compensated professionals: executives at financial-services companies, hedge-fund managers, corporate board members, credit ratings agency officials, private-equity investors, CEOs. These were people who had every incentive to preserve the system and the wealth it had produced for them, their friends, and their neighbors. So if you want to find the real culprits in the war on wealth, don't look to Washington. Walk down Fifth Avenue, get on a chairlift at Aspen, turn on CNBC, or charter a jet to St. Bart's.

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