Old money out, new money in: U.S. wealthiest list in state of flux

Did you ever flip over a news clipping only to find the back more interesting than what you had cut out? I was looking at a list of Forbes magazine’s 400 richest Americans and on the back side of an article saw these names: Rockefeller, Carnegie, JP Morgan, Fisk, Vanderbilt, Gould and so on.

There were about 30 names that any reader would recognize as among the richest Americans of their time. Where are they or their descendants today?

Only one man had even a single descendent on the current Forbes list. John D. Rockefeller’s great-grandson David was No. 149 on the list, with a worth of $2.2 billion – less than 1/20th of the current worth of top-ranked Bill Gates.

Not long after I wrote that last line, Forbes announced a new list: the Forbes 400. Nebraska investor Warren Buffett was on top of the world list, followed by Mexican entrepreneur/tycoon Carlos Slim. Gates, after a 13-year run, had faded to third.

Truly, as the ancient saying goes, high places are slippery.

Some people say that America is a stagnant society, with entrenched wealth and little chance for the rest of us to move up. These assertions defy all facts.

America is a land of constant economic churning. The old money dissipates and new wealth is constantly created as the innovative, creative and to some extent, the lucky, seize America’s almost boundless opportunity. Also the face of the world’s billionaires is less and less American, as other countries change tax and regulatory systems unleashing business creativity and energy.

When Forbes’ list of the 400 richest people in America celebrated its 25th anniversary now top-ranked Bill Gates was a long-haired kid working in not much more than a garage. The not-quite-so-long-haired kids of today are the now-34-year-old founders of Google, Larry Page and Sergey Brin, ranked fifth and sixth.

Several others under 40 have made fortunes with hedge funds. But their tenure at the top may well be short as the luck that put them there turns. By contrast the 77-year-old Buffett’s investments are a lot more solid. The top 10 Americans are all men and not a dime of their fortunes was inherited. The Walton clan, which had long dominated the top 10, has slipped into the second tier. Note that dad Sam ran a dime store. They were not born to money.

Another study is the Internal Revenue Service’s so called “fortunate 400” list – or those with the highest reported incomes. The names are by law confidential, but the incomes are public.

It took $100 million reported income to make the 2005 list and the average has doubled from $104 million in 2002 to $214 million in 2005. This is seen by some, wrongly I believe, as evidence of the increasing concentration of wealth.

A retiring farmer – or even a long term Illinois State University employee taking the pension in a lump sum – can have a million-dollar income for a year.

That income, in reality, is the accumulation of a lifetime. The majority of income at the very top is capital gain. The family business, grown large was sold. Reducing the tax of this lifetime gain in 2003 from 20 percent to 15 percent encouraged a lot more people to sell out. This is good for business dynamism and treasury revenue.

Now what is life like for the rest of us? I tried a small experiment with three classes of students that confirmed the word is out that America lacks much opportunity or hope for the ordinary person.

This time it was an of-repeated IRS study of about 100,000 taxpayers, all at least 25 years old, comparing where they stood in 1996 and again in 2005.

“What happened,” I asked the students, “over ten years to those in the bottom 20 percent?”

The consensus was that most were still stuck at the bottom and “the rich” were improving their position at the top.

But the reality was the opposite. Almost 60 percent of those in the bottom 20 percent had moved up out of that group, and adjusted for inflation, the income increase of that bottom group averaged a whopping 90.5 percent.