

*By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions*

ModernRecession.com

Some Individual and Corporate Hoarding Facts

3.1.1: Why Suddenly Now Do We Have Individual Hoarding Issues?

Today, more than ever before, we have many wealthy individuals who make disproportionate salaries. We currently can do nothing but idly stand by and watch one **hedge-fund¹ manager make \$3.7 billion in one year**, by apparently betting on the recent U.S. housing crisis, with others not far behind him in yearly salary.

Remark 3.1: “LONDON (Reuters)—Bets on a U.S. housing crisis earned hedge fund manager John Paulson \$3.7 billion in 2007, ahead of industry legend George Soros and 2006’s highest-paid manager James Simons, according to Alpha Magazine. Paulson, whose bet that investment grade mortgage bonds would be subject to default in record numbers”²

Although it is disturbing how an individual can profit from a housing crisis, equally problematic is the ability of many individuals to make that kind of a yearly salary. What is even more shocking is that such individuals paid no higher federal tax percentage than someone in the 35% bracket that makes \$372,950. In fact, it is reported that many hedge fund investments (including this one) were only subjected to 15% tax! This tax aspect is also discussed in Chapter 4.

These are privileged assets. This money is suddenly at risk. The U.S. has no control over this money’s future and how it may or may not be re-invested, nor whether it will end up recirculating back into the economy through job-friendly investments.

But why now? Haven’t the wealthy always “been there and done that” (i.e. hoarded money)? Let’s look at some facts that demonstrate how things are different now than ever before.

Remark 3.2: “It was reported in June 1998 that on average Chief Executive Officer (CEO) salaries had increased to 326 times the pay of factory workers compared to 1980 CEOs made 42 times as much as factory workers and only 4 times as much in 1960.”³

However, top hedge-fund managers now make greater than \$2 billion (see below). That is 100,000 times a factory worker’s salary (of \$20,000) or equal to 100,000 jobs!

¹ An investment company that uses high-risk techniques, such as borrowing money and selling short, in an effort to make extraordinary capital gains.

² www.earthtimes.org/articles/show/199378,hedge-fund-manager-paulson-earns-37-billion.html

³ www.thirdworldtraveler.com/Society/CEO_Greed.html

By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions

ModernRecession.com

Remark 3.3: “Highest paid hedge fund managers (what they made in 2008 for a 1 year salary): James Simons, \$2.5 billion (Renaissance Tech), John Paulson, \$2 billion (Paulson & Company), John Arnold, \$1.5 billion (Centaurus Energy), George Soros, \$1.1 billion (Soros Fund), Raymond Dalio, \$780 million (Bridgewater Assoc.), Bruce Kovner, \$640 million (Caxton Assoc.), Dave Shaw, \$275 million (DE Shaw & Co.), Stanley Druckenmiller, \$260 million (Duquesne Capital) and so on.”⁴

Here are some examples of current top-CEO salaries.

Remark 3.4: “CEO salaries in 2007 (top 3 men and women): Steve Schwarzman, Blackstone Group (BX) \$350.7 million, Pete Peterson, Blackstone Group (BX), \$174.3 million, Frank Fertitta III, Station Casinos (STN) \$146.6 million, Sharilyn Gasaway, Alltel (AT), \$38.6 million, Safra Catz, Oracle (ORCL) \$34.1 million, Diane Greene VMware (VMW), \$16.4 million.”⁵

Athletic salaries are now in many cases higher than CEO salaries.

Remark 3.5: “Highest paid athletes in 2007 according to Sports Illustrated: Tiger Woods: \$111 million, Phil Mickelson: \$57 million, Oscar De La Hoya: \$55 million, Shaquille O’Neal: \$35 million, Kobe Bryant: \$34 million, LeBron James: \$30 million, Derek Jeter: \$29 million, Alex Rodriguez: \$28 million. As of 2008 the lifetime earnings of the top five baseball players are: \$198.4 million for Alex Rodriguez, \$188.2 million for Barry Bonds, \$167.6 million for Randy Johnson, \$162.3 million for Manny Ramírez, and \$161.2 million for Derek Jeter.”⁶

Celebrities’ yearly incomes are now unimaginable.

Remark 3.6: “Oprah Winfrey’s earnings (2007) were a staggering \$275 million. *Forbes* announced (2007) the top five actors and actresses collectively made \$487 million! (Will Smith: \$80 million, Johnny Depp: \$72 million, Eddie Murphy: \$55 million, Mike Myers: \$55 million, Leonardo DiCaprio: \$45 million, Cameron Diaz: \$50 million, Keira Knightley: \$32 million, Jennifer Aniston: \$27 million, Reese Witherspoon: \$25 million, Gwyneth Paltrow: \$ 25 million.)”⁷

The Top Ten TV Earners in 2004 (U.K./U.S.) are:

⁴ *New York Times*, March 2009

⁵ http://money.cnn.com/galleries/2008/fortune/0809/gallery.women_men_highest_pay.fortune/index.html

⁶ http://en.wikipedia.org/wiki/List_of_highest_paid_baseball_players

⁷ www.inthefablane.com/life/celebrity/archive.php?month=7&year=2008, *Forbes Magazine*, www.people.com/people/article/0,,20214402,00.html

By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions

ModernRecession.com

Remark 3.7: “Simon Cowell: \$34.2 million, 2. John Mahoney (*Frasier* sitcom): \$33.4 million, 3. Anne Robinson: \$19 million, 4. Jane Leeves: \$14.9 million, 5. The Osbournes: \$13.3 million, 6. Graham Norton: \$12.92 million, 7. Jerry Springer: \$11.4 million, 8. Jamie Oliver: \$9.12 million, 9. Chris Tarrant: \$8.83 million, 10. Peter Kay: \$8.55 million.”⁸

Remark 3.8: “Simon Cowell: \$144 million for the 2008–2009 season (5 months’ work), up from \$34.2 million in 2004.”⁹

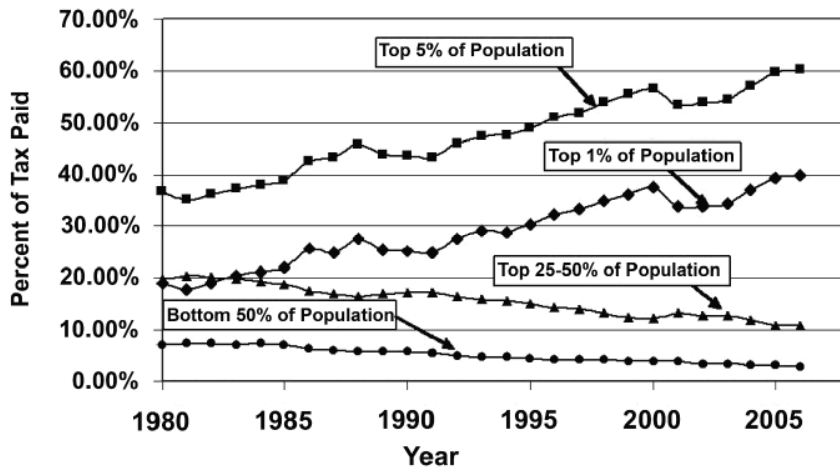


Figure 1.1 Plot of federal individual income tax data from 1980 to 2006 with selected percentage contribution from the U.S. population¹⁰.

But how do we know for sure that this is worse now than ever before. Looking at Figure 1.1, it is clear. Table 3.1 provides the actual data that was used to generate Figure 1.1.

⁸ www.contactmusic.com/new/xmlfeed.nsf/mndwebpages/cowell%20named%20britain.s%20top%20tv%20earner

⁹ <http://ducatimonsterforum.org/index.php?action=printpage;topic=26040.0>

¹⁰ Analysis of July 8, 2008 data obtained from the Tax Foundation, www.taxfoundation.org/news/show/250.html

By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions

ModernRecession.com

It provides our population's percent share of income tax paid from 1980 to 2006. Note the last 3 columns present the number of individuals (in 1000's) that filed tax returns in the key groups. The trend is clear: the top 1% and 5% have increased incomes that as of 2006 made up 39.9% and 60.1% of tax revenues collected, with the number of individuals who filed at 1,357,000 and 6,786,000 respectively. In contrast, the bottom 50% make up only 3% of all revenues collected and consist of 67,860,000 individuals who paid taxes. This trend, shown in Figure 1.1, was a disaster waiting to happen, and is one clear root of our financial crisis. This division of wealth is far worse than the housing bubble. Consumer spending by the general population is down because wealthy U.S. individuals are taking up most of the earnings resources in the country.

Table 3.1 Population Percent Share of Income Tax from 1980–2006 ¹¹

Year	Top 1%	Top 5%	Top 26-50%	Bottom 50%	Top 5% Filings*	1% Filing*	50% Filings*
1980	19.1%	36.8%	19.9%	7.1%	4,662	932	46,619
1981	17.6%	35.1%	20.3%	7.5%	4,729	946	47,293
1982	19.0%	36.1%	20.2%	7.4%	4,721	944	47,213
1983	20.3%	37.3%	19.7%	7.2%	4,767	953	47,665
1984	21.1%	38.0%	19.2%	7.4%	4,922	984	49,219
1985	21.8%	38.8%	18.8%	7.2%	5,031	1,006	50,313
1986*							
*	25.8%	42.6%	17.5%	6.5%	5,104	1,021	51,044
1987	24.8%	43.3%	17.0%	6.1%	5,308	1,062	53,077
1988	27.6%	45.6%	16.4%	5.7%	5,444	1,089	54,436
1989	25.2%	43.9%	17.0%	5.8%	5,566	1,113	55,656
1990	25.1%	43.6%	17.2%	5.8%	5,641	1,128	56,406
1991	24.8%	43.4%	17.2%	5.5%	5,690	1,138	56,902
1992	27.5%	45.9%	16.5%	5.1%	5,633	1,127	56,326
1993	29.0%	47.4%	15.9%	4.8%	5,684	1,137	56,841
1994	28.9%	47.5%	15.7%	4.8%	5,749	1,150	57,495
1995	30.3%	48.9%	15.0%	4.6%	5,864	1,173	58,637
1996	32.3%	51.0%	14.4%	4.3%	5,972	1,194	59,721
1997	33.2%	51.9%	14.1%	4.3%	6,075	1,215	60,752
1998	34.8%	53.8%	13.1%	4.2%	6,189	1,238	61,888
1999	36.2%	55.5%	12.5%	4.0%	6,300	1,260	63,004
2000	37.4%	56.5%	12.1%	3.9%	6,411	1,282	64,114
2001	33.9%	53.3%	13.1%	4.0%	6,441	1,288	64,409
2002	33.7%	53.8%	12.6%	3.5%	6,416	1,283	64,162
2003	34.3%	54.4%	12.7%	3.5%	6,430	1,286	64,305
2004	36.9%	57.1%	11.9%	3.3%	6,519	1,304	65,186
2005	39.4%	59.7%	10.9%	3.1%	6,631	1,326	66,306
2006	39.9%	60.1%	10.8%	3.0%	6,786	1,357	67,860

* Filings in 1000s

¹¹ www.taxfoundation.org/news/show/250.html

By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions

ModernRecession.com

** Tax Reform Act of 1986 changed the definition of Adjusted Gross Income, so data after and below 1986 is not strictly comparable

The trend has been very clear; it should have never been ignored. If economists had a reliability approach to our economy, studying economic change over time and making reliability policy improvements, things may have been different today. However, currently there are no formal reliability economists, since the discipline did not exist (until this book).

.....
 .
 .
 .
 .
 .

Table 3.2 is a list of the top 20 wealthiest people in the world, whose tremendous accumulation of wealth logically must be affecting the velocity (speed) of money exchanging hands. In finance, everyone is connected.

Table 3.2 Top 20 Billionaires in 2009 and Their Assets Over Three Years¹²

Name	Company	Assets in Billions of Dollars		
		2009	2008	2007
Bill Gates	Microsoft	40	58	56
Warren Buffett	Berkshire Hathaway	37	62	52
Lawrence Ellison	Oracle	22.5	25	21.5
Jim Walton	Wal-Mart	17.8	19.2	16.8
Alice Walton	Wal-Mart	17.6	19.2	16.7
Christy Walton	Wal-Mart	17.6	19.2	16.7
S. Robson Walton	Wal-Mart	17.6	19.2	16.7
Michael Bloomberg	Bloomberg L.P.	16	11.5	5.3
Charles Koch	Koch Indus.	14	17	12
David Koch	Koch Indus.	14	17	12
Michael Dell	Dell	12.3	16.4	15.8
Donald Bren	Irwin	12	13	8.5
Sergey Brin	Google	12	18.7	16.6
Larry Page	Google	12	18.6	16.6
Steven Ballmer	Microsoft	11	15	15
George Soros	Soros Fund	11	9	8.5
Paul Allen	Microsoft	10.5	16	18
Jacqueline Mars	Mars	9	14	10.5
John Mars	Mars	9	14	10.5
Abigail Johnson	Fidelity	10	15	13

¹² http://en.wikipedia.org/wiki/List_of_the_100_wealthiest_people

*By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions*

ModernRecession.com

These figures are unimaginable even for the modern era. Marco Cagetti (University of Virginia) and Mariacristina De Nardi (Federal Reserve Bank of Chicago), in August of 2005, published a report on wealth inequality, data, and models.

Remark 3.9: “In the United States wealth is highly concentrated and very un-equally distributed: the richest 1% hold one third of the total wealth in the economy.”¹³

Although it is hard to find updated 2009 studies, this separation of wealth has most likely grown since 2005 as illustrated from our tax study in Figure 1.1 and in Table 3.1. It has perhaps spiraled out of control. It is certainly difficult to understand how such studies are ignored by economists in power.

.
. .
.

If any of these top billionaires (in Table 3.2) died in 2010, due to the repeal of the death tax, these huge sums of U.S. dollars would fully go into their estate to be distributed, most likely, to family members. There are ways that this money should instead be invested into our economy so that we all may benefit. We will describe appropriate investments for the truly wealthy that

.
. .
.

. 3.2.2: Large-Business Hoarding Facts

Top executives and money managers in corporate America follow the general notion, as discussed, that “Cash is King,” and will sideline money when they can in preparation for any economic downturn. This sounds like reasonable judgment, but maintaining an extreme amount of sidelined money is fiscally irresponsible at a time when jobs are being lost in such magnitudes and we are in the midst of a housing crisis. There are many creative ways that a company can spend excess dollars to improve their competitive advantage and at the same time promote job growth.

For example, in February 2009, when the recession was in full swing, Intel’s President and CEO Paul Otellini announced the following:

Remark 3.12: “WASHINGTON, D.C., February 10, 2009—Intel President and CEO Paul Otellini today announced the company would spend \$7 billion over the next two years to build advanced manufacturing facilities in the United States. The investment funds deployment of Intel's industry-leading 32 nanometer (nm) manufacturing technology that will be used to build faster, smaller chips that consume less

¹³ www.chicagofed.org/publications/workingpapers/wp2005_10.pdf

*By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions*

ModernRecession.com

energy....‘We’re investing in America to keep Intel and our nation at the forefront of innovation,’ Otellini said...”¹⁴

Such spending amounts to a large portion of Intel’s assets. We see that this is already starting to show on their balance sheet.

Remark 3.13: Intel—As of April 2009 reported \$10.6 billion, way down from April 1, 2008, showing assets of \$13.7 billion (amount represents cash and short term investments)¹⁵

The fact that Intel has made this kind of commitment in the midst of a major recession is noteworthy especially since at the time they had about \$8 billion in cash. This is the kind of investment that has trickle down economic impact and has saved many jobs, including the company I work for. Many companies, however, in either a non-recessionary or a recessionary period seek shelter for their cash.

Remark 3.14: Exxon Mobil—(September, 2008): “\$39 billion in cash amounts to 15 percent of assets, almost six times the average of the company’s 10 biggest peers, according to data compiled by Bloomberg.”¹⁶

Exxon has a history of maintaining large assets. It has had at least \$32 billion since 2005. However, in March of 2009, Exxon announced it was finally spending some of its huge reserves!

Remark 3.15: “Exxon Mobil is pumping up its spending to fuel growth. On Thursday, the company said it would increase its capital spending by double-digit percentages in 2009 with long-term growth opportunities to meet global demand.... it will spend about \$29.0 billion this year, up 11.1% from \$26.1 billion in 2008, and at the high end of its annual target for \$25.0 billion to \$30.0 billion based on its five-year spending plan....‘...In a world where there’s a credit squeeze, the idea of strategically aligning yourself with someone who has tremendous access to capital makes a lot of sense,’ said energy expert Amy Jaffe of Rice University’s James A. Baker III Institute for Public Policy.”¹⁷

We can see this coming off their balance sheet.

Remark 3.16: Exxon-Mobil—As of April 2009, reported \$25.6 billion, way down from April 1, 2008, showing assets of \$41.4 billion (amount is for cash and short-term investments).¹⁸

¹⁴ www.intel.com/pressroom/archive/releases/20090210corp.htm

¹⁵ <http://data.cnbc.com/quotes/INTC/tab/7>

¹⁶ <http://royaldutchshellplc.com/2008/09/22/exxons-cash-hoard-fuels-biggest-stock-price-drop-in-27-years/>

¹⁷ www.forbes.com/2009/03/05/exxon-mobil-capital-markets-equity_oil_tillerson.html

¹⁸ <http://data.cnbc.com/quotes/xom/tab/7>

By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions

ModernRecession.com

Exxon and especially Intel have finally broken their trend, not keeping their mountain of money hidden under a massive mattress account during the recession. This is in contrast to a number of companies that have maintained their sideline cash:

Remark 3.17: Cisco—As of April 2009, reported \$33.5 billion, up from April 1, 2008, showing assets of \$24.4 billion (amount is for cash and short-term investments).¹⁹

Remark 3.18: The *New York Times* noted in February 2009—“Cisco Systems likes to point out it has more cash on hand than any other technology company.”²⁰

Remark 3.19: Microsoft—As of April 2009, reported \$25.3 billion, a bit down from April 1, 2008, showing assets of \$26.3 billion (amount is for cash and short-term investments).²¹

Remark 3.20: Apple, Inc.—As of April 2009, reported \$25.0 billion, up from April 1, 2008, showing assets of \$19.4 billion (amount is for cash and short-term investments).²²

Remark 3.21: Google—As of April 2009, reported \$17.8 billion, way up from April 1, 2008, showing assets of \$12.1 billion (amount is for cash and short-term investments).²³

Remark 3.22: Yahoo, Inc.—As of April 2009, reported \$3.5 billion, way up from April 1, 2008, showing assets of \$2.6 billion (amount is for cash and short term investments).²⁴

The atmosphere is similar in other countries such as England that increased cash as the global recession hit, and at a time when spending would have helped the employment picture.

Remark 3.23: “Firms Hoarding Cash to Weather Storm, Says Bank, By Richard Tyler, Enterprise Editor, July of 2008—Businesses are hoarding cash as they prepare to weather what they believe will be the worst trading conditions in 16 years. High street bank Lloyds TSB has said that smaller firms, those with sales of less than £15m, are depositing “record” sums of money into their business accounts as its six-monthly survey of business conditions shows collapsing sales, profits and confidence.... “We are taking record levels of deposits from businesses. What it says is that businesses are looking to conserve cash.”²⁵

¹⁹ <http://data.cnbc.com/quotes/cSCO/tab/7>

²⁰ <http://bits.blogs.nytimes.com/2009/02/09/ciscos-cash-hoard-swells-alongside-acquisition-rumors/>

²¹ <http://data.cnbc.com/quotes/MSFT/tab/7>

²² <http://data.cnbc.com/quotes/AAPL/tab/7>

²³ <http://data.cnbc.com/quotes/GOOG/tab/7>

²⁴ <http://data.cnbc.com/quotes/YHOO/tab/7>

²⁵ www.telegraph.co.uk/finance/yourbusiness/2793649/Firms-hoarding-cash-to-weather-storm-says-bank.html

*By Alec Feinberg
Based On Chapter 3, From the book
The Truth of the Modern Recession - Root Causes and Reliable Solutions*

ModernRecession.com

What can be done about companies that hoard cash during a recession? The answer is: it is recommended that anti-hoarding legislation for wealthy companies be implemented during a recessionary period. We have provided two such proposals on our website, www.SolutionsWithoutUSDebt.com.

First of all, this author proposes a hoarding quota amount something in the neighborhood of:

\$300,000 per employee

The amount of \$300,000 is a guideline. The actual amount would have to be set by the FOMC (Federal Open Market Committee). This kind of quota could also help save jobs, as companies would be allowed to keep more cash if they had more employees. After this amount, all other monies should be invested either in company growth or in corporate America. More guidelines are provided in our anti-hoarding legislation at [our website](#).