

# **Plutocrats: The rise of the super-rich and the fall of everyone else**

**By Chrystia Freeland, The Penguin Press, New York, 2012 ISBN 978-1-5940-409-8**

*By Richard Irving, Ph.D., Associate Professor(retired) Schulich School of Business, York*

*University, January 19, 2025*

Chrystia Freeland, in 2012, was writing as an accomplished reporter and editor, illuminating a global problem. Her role was to research and define the problem of the increasing wealth and power of the global 1%. Her book is clearly written and well-researched. However, as a reporter, it was not her job to develop policy alternatives, though she does point us in some general directions. As I will

show, the problems have only worsened since 2012.

## **Key Takeaways**

In her introduction, Freeland describes how income inequality, the difference between the richest 1% and the rest of us, has increased dramatically in the last thirty years.

She also ties these changes to the Kuznets Curve, an inverted U-shaped distribution. The Kuznets curve showed that as society moved from undeveloped to developed, income inequality followed an inverted U-shape whereby social inequality was Low at the undeveloped stage (the vast majority were poor); High during the developing stage (a few individuals controlled

much of the wealth) and Low again at the developed stage (income became widely distributed across society). This relationship continued until the 1970s when the top 1% dramatically increased their share of the pie. The curve no longer seemed to hold.

*I recently read a 2022 special report from the Wall Street Journal by Josie Green covering data from 1976 to 2021 which reports that the share of wealth controlled by the top 1% in the US rose from 23.9% to 38.9%. This of course was happening globally as well. Technological change may have moved us to a new Koznets curve, but we would have to wait years to determine that. In the meantime, we must deal with our current reality.*

## **Why is this a problem?**

Freeland concludes that the excessive power of the 1% combined with government policies that are beneficial to them, moves society towards a situation where its institutions become less inclusive. In part, this is a result of rent-seeking. She refers to Johnston and Rajan, who argue that “we need to be constantly alert to the efforts by the elite to get rich by using their political muscle to increase their share of the preexisting pie, rather than by adding value to the economy and thus increasing the size of the pie overall.”

Successful rent-seeking distorts the economy in favour of special interest groups and makes society and its institutions less inclusive. Freedland quotes

Daron Acemoglu and James Robinson who state that “what separates successful states from failed ones is whether their governing institutions are inclusive or exclusive”.

Exclusive states are controlled by ruling elites whose objectives are to extract as much wealth as possible from the rest of society and to maintain their hold on power. (*Myanmar comes to mind*)

Inclusive states give everyone a say in how their society is ruled and access to economic opportunity (*Norway?*).

One measure of inclusivity is the Great Gatsby Curve. (GGC). The GGC traces the relationship between income inequality and social mobility.

When societies become more unequal (e.g. more

exclusive), social mobility is reduced. Combining this with the Gini coefficient, a measure of social inequality, gives a sense of how a society is trending over time.

A paper by Marie Connolly, Catherine Haeck and David Lapierre in 2021 for Statistics Canada entitled *“Trends in Intergenerational Income Mobility and Income Inequality in Canada”* concludes that *“Canada and all its provinces has been going up the Great Gatsby Curve. More inequality has gone hand in hand with lower mobility.”*

Social inequality can be measured by the ratio of CEO-to-worker pay. David Macdonald, senior economist with the Canadian Centre for Policy

Alternatives (CCPA) said the CEO-to-worker pay ratio continues to grow. *"The long-term trend is pretty clear,"* Macdonald said in an interview with CBC News. *"In the 1980s, CEOs made about fifty times the average worker. In the '90s, it was one hundred times. We're now, I think, pretty solidly over two hundred times."* In the USA, the current figures are over three hundred times and rising.

A 2014 study in Psychological Science by Kiapongsan and Norton used survey data from 14 countries and 5238 respondents covering a range of social and economic classes to identify the perceived ideal ratio of CEO to worker salaries.

*They found that people underestimated the actual ratios (340:1 in the USA) and those actual ratios*

*far exceeded the average estimated ratio (30:1) and the 'ideal' ratio (7:1).*

**It would seem the plutocrats are winning.**

Freedland concludes; “Dividing the plutocrats into the rent-seekers and the value-creators is a good way to judge whether your economy is inclusive or extractive.”

*According to a report by the Board of Governors of the Federal Reserve System (US), the percentage of total wealth held by the top 1% increased from just under 24% in 1990 to just under 39% in 2024. In Canada, the percentage of wealth controlled by the top 1% of Canadian families increased from 24.8%*



*in 2019 to 26% in 2022 according to a 2023 report by Global News.*

In other words, Freeland's 2012 findings are even more pronounced today. CEO are increasingly making disproportionate high salaries relative to workers and society is becoming less inclusive and egalitarian.

## **What I would ask Freeland if I had the chance**

What specific policies would you enact to:

- decrease income disparity,
- increase social mobility, and
- protect the economy from rent-seeking plutocrats?



## **The Details Chapter by Chapter**

Having described the problem in the Introduction, Chapter One provides a historical context from the Industrial Revolution which created the Plutocrats, to current times which have facilitated their rise.

Part of the current rise she ascribes to the Washington consensus which sees economic growth as a result of benign economic forces and part to the Liberal view which views it as a result of politics. Freeland also quotes economist Joe Stiglitz who argued that globalization has resulted in wages in high-wage countries being depressed.

Chapter Two discusses the culture of current Plutocrats, which she describes as highly educated geeks who operate in a mobile global environment

while governments and the middle class operate within national boundaries. Without some form of global regulation, this leads to major economic conflicts.

In Chapter Three, Freeland examines the characteristics of the current class of Plutocrats which can be described as engineers, economists and physicists. Most are highly trained professionals with a narrow technocratic focus. She refers to a 1990s poll of economists that named technological change as the main reason for income polarization. This polarization is driven by the Rosen effect (the power of technology-driven scale) and the Marshall effect (rapid growth of in-person performances for an affluent society). *For*

*examples of the former, consider the dominance of Facebook and X; for the latter, consider the social phenomena of Taylor Swift or Beyonce. These issues are also addressed at length in “ The Chaos Machine” a 2022 book by Max Fisher, which documents the deleterious effects of the social media algorithms developed by Silicon Valley.*

In Chapter Four, ‘Responding to the Revolution’, Freeland considers the difficulty of predicting financial crises and paradigm shifts. She attributes the ability to spot paradigm shifts and adapt to them as one of the economic forces creating the super-elites.

Chapter Five examines the economic phenomenon of ‘Rent-Seeking’. In this case, it is the efforts of

the elite to increase their share of the existing pie by using their political muscle rather than adding value to the economy and thus increasing the size of the pie. In other words, rent-seeking through reallocation rather than value creation.

She proceeds to identify three types of rent-seeking:

- 1) Transformative privatization of centrally planned economies and the deregulation of the financial sectors of the Anglo-American economies.
- 2) Powerful groups use influence to bend the rules of the economic game to their benefit.
- 3) Innovators can become rent seekers if they become so successful that their companies become monopolies.

Freeland also describes rent-seeking in China as how the system works.

The chapter ends with a discussion of Legal and Naked corruption. Legal corruption occurs when a corporation convinces a politician to change the rules of the game in its favour. Naked corruption occurs when a person takes an outright bribe.

Freeland concludes that legal corruption is going global.

In Chapter Six – Plutocrats and the Rest of Us, Freeland discusses how the plutocrat bubble is isolated from the rest of us, and how they are treated. The concept of Cognitive Capture, where those in charge internalize the objectives, interests and perceptions of reality of the vested

interest groups they are meant to regulate, is introduced, as is the concept of the Coarsening Effect of Privilege, based on a study by Paul Piff which found that relative to lower-class individuals, individuals from upper-class backgrounds behaved more unethically.

The chapter concludes with a quote from Luigi Zingales a professor at the University of Chicago ‘If everyone in their networks is drawn from the same milieu, the information and ideas that flow to policy-makers will be severely limited’. This leads to cognitive capture.

In her final chapter, Conclusions, Freeland states; “What separates failed states from successful



ones is whether their governing institutions are inclusive or exclusive.”

Exclusive states are controlled by the ruling elites whose objectives are to extract as much wealth as possible from the rest of society and to maintain their hold on power. Inclusive states give everyone a say in how their society is ruled and access to economic opportunity.

Another measure is social mobility, as measured by the Great Gatsby Curve. Canadian economist Miles Croak's Great Gatsby Curve traces the relationship between income inequality and social mobility. As societies become more unequal, social mobility is choked off.

Dividing plutocrats into rent-seekers and value-creators determines whether your economy is inclusive or exclusive.