International New York Times

For Gates-Like Wealth, Look Beyond Wall Street

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April 4, 2012 5:45 pm

Get out your smallest violin.

It is harder than ever to become one of the world's wealthiest individuals by working on Wall Street.

Profits are getting crimped as new regulations put the brakes on some of Wall Street's riskiest — and most lucrative — practices. Compensation is falling. And stocks, a large part of industry pay, are under pressure.

In this environment, the financial industry is unlikely to be minting new billionaires anytime soon.

But that's nothing new. Wall Street has rarely generated the wealthiest of the wealthiest.

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Just take a look at any of the various lists of the top 10 richest individuals in the world. None of them work on Wall Street. Not one. Most of them were entrepreneurs (or relatives of entrepreneurs) who built businesses like Microsoft, Oracle and Wal-Mart Stores.

While Lloyd Blankfein, the chief executive of Goldman Sachs, and Jamie

Dimon, the chief executive of JPMorgan Chase, may be examples of Wall Street's freewheeling ways, they are more 1 percent than 0.01 percent. Sandy Weill, the architect of Citigroup, lost his billionaire status after the financial crisis.

On Wall Street, the founders of hedge funds and private equity firms have collected the truly outsize paydays. Think George Soros (worth $20 billion), John Paulson ($12.5 billion), Carl Icahn ($14 billion) or Stephen Schwarzman ($5.5 billion).

But the chances of up-and-coming financiers breaking into the billionaires' club are slim. The so-called alternatives industry — once the entrepreneurial corner of finance — now looks more like a staid, established financial firm. With most of the money flowing to the biggest players, it's harder for upstarts to break into the business and make the big money.

The next generation of big wealth creators is more likely to know Sand Hill Road in Silicon Valley or the Bund in Shanghai — like Mark Zuckerberg of Facebook and Robin Li of Baidu.

None of this is meant to suggest that Wall Street has not made a lot of money — or that top financial executives will not continue to take home large seven-figure paychecks. Over the last 30 years, Wall Street has churned out loads of millionaires, and some billionaires, too. Taken together, the financial industry has put more wealth in more hands than just about any other business (even technology). But it has rarely made anyone Bill Gates-rich.

To really understand the opportunities for — or the obstacles to — creating great wealth on Wall Street today, it is worth reading a study by Thomas Philippon and Ariell Reshef of the National Bureau of Economic Research, which traces industry wages over the last century. Its conclusion might not surprise you: financiers, to put it plainly, were overpaid.

The authors even quantified it. By their calculations, "30 to 50 percent of wage differentials" — the difference between an average worker's income and that of a Wall Street financier — is the result of overpayment and "can be expected to disappear." The study, "Wages and Human Capital in the U.S. Financial Industry:

1909-2006," provides a striking history lesson that may prove to be a predictor of what Wall Street — and compensation — may look like over the next 30 years.

Before the Great Depression, the researchers found that the finance sector "was a high-skill, high-wage industry." After the stock market crash, "a dramatic shift occurred," the study said, as Wall Street's "human capital" and "wage premium" started to decline. From 1950 to 1980, the trend continued, albeit at a "more moderate pace."

"By that time, wages in the financial sector were similar, on average, to wages in the rest of the economy," the study said.

Then something curious happened. After 1980, the finance sector returned to its roots, handing out large paychecks to highly skilled workers. By 2006, the authors found, "relative wages and relative education levels went back almost exactly to their pre-1930s levels."

What the authors did not mention in that passage was why wages changed so markedly. Now, go back and look at the dates again. Most periods coincided with great changes in industry regulation.

After the Depression, the advent of the Securities and Exchange Commission and the Glass-Steagall Act made Wall Street more boring. And the industry trudged along in much the same manner until the 1980s, when lawmakers began to dismantle those rules.

Now, policy makers are scrambling to draft new rules under the Dodd-Frank regulatory overhaul enacted in the wake of the financial crisis. If Mr. Philippon and Mr. Reshef are right, Wall Street is likely to be boring again.

It may be good for the financial system, but bad for would-be billionaires in finance.

Correction: April 6, 2012
The DealBook column on Thursday, about Wall Street's paucity of billionaires relative to entrepreneurs, misstated the given name for the leader of Baidu, China's most popular search engine. He is Robin

Li, not Richard.
