

## How the Pie is Sliced

Presented by Walker Sydnor  
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(First an ad lib story about my first realization of extreme wealth as a young person on a trip to Aspen). (Slide of Jed Clampett, then slide of private jets parked at Aspen)

“I want to warn the country of some things that give me a great concern, a dangerous concentration of power in the hands of a few ultra wealthy people, and the dangerous consequences if their abusive power is left unchecked.

Today an oligarchy is taking shape in America of extreme wealth, power and influence that literally threatens our entire democracy, our basic rights and freedoms and a fair shot for everyone to get ahead.” Words of President Joe Biden in his farewell speech, January 15, 2025.

I promise you I didn’t ask the President to write the introduction to my paper on wealth inequality (as I had conceived much of this paper well before his speech and even the election), but I don’t think he could have done a better job for me than with these heartfelt remarks.

Americans are not accustomed to discussing oligarchs, mostly associating the term with Russia and other totalitarian states. Here is a definition. (slide with the definition)

The Trump inauguration had several business leaders in attendance especially from the tech sector, the tech bros given the first row seating at the event, actually in front of elected officials and cabinet members. Notable attendees were Mark Zuckerberg, Jeff Bezos, Sam Altman, Elon Musk, and Tim Cook. This group formed arguably the first assembly of the new American oligarchs, all gathered around the newly elected President Donald Trump. Each of these men (or their companies) reportedly donated \$1M to the inauguration ceremony. This group of men had been politically neutral in the past, perhaps even leaning left. The seating signals a transactional environment not previously seen in our government, closely fitting the definition of oligarchy referenced by President Biden. Is the White House for sale? Oligarchy and corruption go hand in hand. Right after his inauguration President Trump announced the issuance of his meme coin, a perfect way for anonymous donors seeking favor to contribute. Cabinet members have been awarded stock in a Trump media company. According to numerous news sources, business leaders are now paying \$5M to dine with president Trump individually at Mar a Largo. This is even advertised. Trump recently announced a freeze on enforcement of the Foreign Corrupt Practices Act (explain). The Public Integrity Section of the Justice Department, a unit formerly regarded as a “crown jewel” of Justice, has recently been gutted by President Trump. Probably not so good an idea to have the corruption police around while oligarchs roam the White House! Recently Trump signed an executive order to offer a “gold card” for immigrants who can

pay 5 million for guaranteed citizenship, including Russian oligarchs. Trump said he knows a number of nice Russian oligarchs and he could sell the gold card to them. "If you add up the numbers, it looks pretty good." Democracy and oligarchy are uneasy bedfellows.

Wealth inequality is nothing new. There have always been a few with more, and more with less.

In John 26:11 Jesus lectured his disciples "the poor will always be with you" as he called on them to show compassion and care for the poor.

The sources of wealth have changed over the centuries. In medieval Europe, wealth came with land. If one, for example, helped a royal in battle, land might be given in return, and family wealth would grow. After the passage of hundreds of years, wealth began to grow from commerce and finance as well. Monied merchants were central to the growth of the famous Italian cities. Wealth, however accumulated, is passed on generation to generation via inheritance. Whatever the source of wealth, the concept of "few having more" has been with humanity through the ages. The question is, how extreme can it get for society to function well?

The reaction over time to the accumulation of wealth by the few has been varied. What is society to do with the extremely wealthy? In ancient Athens, wealthy citizens were expected to support causes such as choruses, schools and temples, or face penalty of exile or death. An ancient scholar once argued that in times of crisis, the elite should be required to serve as "private barns of money." Indeed this once was actually the case in more modern US history. A failed effort of several Montana magnates to corner the copper market led to a run on banks in 1907. JP Morgan formed a group of tycoons including John D Rockefeller to put up personal funds to back the financial markets. It worked and the market crash was avoided. Public reaction to the scandal, however, was one of outrage, eventually leading to the creation of the Federal Reserve. The Federal Reserve effectively relieved the wealthy elite of the "onus" of funding society that they had carried since medieval times. What then is the societal value of a handful of wealthy elite? What good do they serve? Perhaps charity? There certainly are examples of great charity from wealth such as The Bill and Melinda Gates Foundation, a charity that has aggressively attacked poverty, health, and education issues in the US and around the world. Many of the extremely wealthy today, however, and particularly the tech barons, do little for traditional charities, claiming that they eventually intend to do really big things like ending hunger. There is an elitism to their thinking, normally not being willing to support much ordinary charitable work.

One of the greatest things about the US, many think, is the ability for anyone to get rich. There are numerous examples of a person coming from poverty using his or her ambition and skills to amass wealth. "Land of opportunity" is a phrase often used to describe America. A favorite president of many Americans, Ronald Reagan, once said "What I want to see above all is that the country remains the country where someone can always get rich." Reagan won a landslide

election victory over Jimmy Carter, who had the misfortune to preside over a very tough economic stretch in the 70s, a period marked with a hostage crisis, several recessions, interest rates around 20%, and gasoline shortages. I clearly remember wondering if Sallie and I had made a mistake by my coming to Virginia for a new job, moving back to Virginia from Texas in 1975. There were no gasoline shortages in Texas when we left, but in Roanoke we discovered that people were suddenly jumping up from their desks and running to their cars, all based on a new rumor that a nearby gas station might open for a while. Anyway, Reagan's excellent communication skills and his positive message about a better economy, plus perhaps the possibility of getting rich, carried the election for him.

One thing that that the Reagan administration is known for is the "trickle down" theory of economics. The idea is that the general public should be happy to see the rich get richer, because the economic benefits of their wealth will eventually trickle down to everyone, poor included. This theory is today mostly discredited by economists. Beyond a certain point the very wealthy stop investing in goods and services, that being good for the overall economy, and just plow the additional wealth back into their portfolio. The point of bringing this up relative to wealth inequality is that the idea of favorable treatment of the rich, especially in taxes and regulations, is a cornerstone of today's Republican Party and the Trump administration. The importance of tax policy relative to wealth inequality cannot be overstated. Unbalanced tax policy not only helps to create inequality, but also helps to sustain it. The 2017 Tax Cuts and Jobs Act of Trump's previous administration heavily favored the rich. As a share of after tax income, this act gave the top 5% more than triple the tax cut received by the bottom 60%. The following is an average reduction in annual taxes by wealth category:

Top 0.1% households.....\$ 252,000 average reduction (this sliver of the population is an estimated 238,000 households, each having net worth of \$50M+)

Top 1%.....\$61,000 reduction average

On the other side of the coin:

Lowest quartile....\$70 reduction average

2<sup>nd</sup> lowest quartile....\$390 reduction average

The act also lowered corporate tax rates substantially, especially for the largest multi national corporations. While the tax reductions were appreciated by many (who doesn't want to pay less taxes?), the national debt exploded under the first Trump administration, jumping to \$27.75T, up from \$ 19.95T when he started, almost \$8 trillion more. A substantial piece of this new debt is attributed to the loss of revenue from the tax reductions. A current major priority of the Trump administration, perhaps THE priority, is to extend the 2017 tax cuts once again, estimated to cost an extra \$4.5 trillion over the next decade. If this extension occurs, our federal debt will balloon another 20 trillion to 211% of GDP as compared to 100% currently. In order to try to

offset some of this massive new debt and have a chance to pass in Congress, the administration is determined to cut essential programs like Medicaid. Medicaid is the primary source of healthcare for 70M Americans, especially important for children, the elderly, and the poor. All hospital systems like our own Centra heavily depend on government funding of programs, specifically Medicaid and Medicare, those two making up approximately 2/3 of Centra's total annual revenue. SNAP funding is also proposed to be cut, along with veteran benefits. Social Security is being discussed as well. At the present time Elon Musk and his gang of 20 year old raiders are attacking all existing government programs under the banner of DOGE, an unofficial organization with "unofficial" leadership, eliminating large numbers of employees in areas like medical research, air safety, nuclear weapons oversight, park service, the IRS and many, many other long standing government functions. The DOE has recently been gutted, losing approx 50% of employees. Public education appears to be at great risk, losing favor to private vouchers. Several recent court decisions have put DOGE actions on hold based on legality questions.

Aside from greatly disrupting the lives of tens of thousands of government employees with these firings, little has been accomplished financially...essentially the savings to date adding up to a rounding error within the federal budget (despite Musk waving a chainsaw in the air at a recent conservative rally, suggesting massive cuts). Anything meaningful in deficit reduction has to come from basic entitlement programs like Medicaid, Medicare, Social Security, and of course Defense. AND FOR WHAT?! Help fund extending the tax cuts for the very wealthy so that we can have more billionaires? Sadly, there is no other plausible explanation. Few would argue that government services will be better after the heavy handed cuts of DOGE. Cutting revenue generating areas such as the IRS and the Park Service doesn't even make financial sense. Right now government programs are in a state of chaos.

Curiously, our own Republican governor has fully endorsed these massive employment cuts despite the significant damage to Virginia families and our economy. Northern Virginia is the home of many federal employees. Thought he was the governor of Virginia serving Virginians.

In the US today we have a bumper crop of billionaires. In 1990 the US had 66 billionaires. In 2023, that number had grown to 748, according to a report published by Statistical Research in August 2024. Also, in 2024 the total US wealth in households was distributed as follows:

Top 0.1% 13.5%

Top 1%. 31%

Bottom 50%. 2.4% (SHOCKING, only 2.4 % for ½ of the population)

The trend toward growth of the top few percent has been increasing as financial markets and real estate have soared in recent years. Here is a short video on the subject (from 2020):

<https://www.youtube.com/watch?app=desktop&v=DANUXO-GQwU>

In addition to being a billionaire himself, Trump has tapped 13 billionaires for his administration. This is uncharted territory for the US, with the combine net worth of this administration surpassing \$460 billion. This combined wealth exceeds the GDP of midsize countries. Most people of this immense wealth are intertwined with the government in numerous ways, beyond basic tax and regulation policies. This can create serious conflicts of interest, the king of the conflicted now being Elon Musk. According to federal contracting data, Musk business deals with the government over the past 16 years totaled \$20 billion. Tesla and SpaceX greatly benefit from government subsidies (Tesla was actually once propped up by the Obama administration in its early struggling days). The Musk enterprises are an integral part of our national security ranging from satellite communications to the rockets that propel us into space. Most recently SpaceX is being considered to replace the FAA air traffic control system despite the gross errors committed by DOGE since its inception and recent rocket explosions. Obviously a huge conflict of interest. Musk was politically vague in the past, but in recent years has tacked to the right, contributing \$290 million to the recent Trump campaign. More recently Musk has signaled an intent to funnel an additional \$100M into Trump controlled political organizations. During the Presidential campaign Musk paid Trump voters in Pennsylvania, a critical battleground state, \$1M to the winner of a daily lottery drawing at campaign events. All entrants were prescreened for appropriate political beliefs, and the winner was required to sign a NDA.

Aside from the US political activities, Musk lobbied in Europe for right leaning candidates, including a neo Nazi candidate in Germany. At Trump's inauguration, Musk famously (twice) gave a proper Nazi salute to an adoring crowd, his actual intent not clear. Recently he said that Hitler didn't cause the millions of Holocaust deaths, actually blaming it on public employees....the German equivalent of "deep state" I guess. Musk appears to have initially benefitted financially from his political activity and the election, but more recently his unpopularity with the DOGE activity has hit his Tesla stock holdings hard, losing an estimated \$180B in recent weeks, close to 50% of total value. Sooner or later it all adds up to real money! President Trump is so concerned for his buddy (the richest man in the world) that he recently hawked new Tesla's on the White House lawn and appeared to buy one (though he can't drive). Musk has been labeled "co-president" by some due to his influence and constant presence with Trump (slide), not to mention his office in the West Wing. A question to consider: What will happen with the Musk/ US government entanglement greatly affecting national security should a candidate unattractive to Musk (i.e. a Democrat) gain office? Should an unelected person like Musk make military and governmental decisions, as he once did denying Ukraine satellite communications for a planned Ukrainian military operation? More recently the US has withheld intelligence information and weapons from Ukraine as the Russians continue their bombardment, killing many.

Other tech bros have joined Musk in endorsing Trump, as shown by the inauguration donations and their presence at the event. Many tech leaders were politically neutral in the past. One theory (aside from fear of retribution if not in the Trump camp) involves the rapid growth of AI. Democrats like Biden had expressed some concern about unchecked expansion of AI and the lack of an “off switch,” while no such concern or regulatory threat has yet come from Trump. It is debatable whether this potential difference with AI approach could cause such a sudden political shift with the tech barons, or whether it instead is a product of a fuller embrace of American oligarchy by the ultra wealthy.

One additional note concerning the influence of the tech tycoons: A recent poll found that 54% of American adults get a good amount of their news from social media, and the group of tech bros surrounding Trump now control ALL of it. This combined with the broadly adopted new social media policy of “no fact checking” is a cause of concern for many. Good information is a key to a successful democracy. We used to get it from highly trusted person like Walter Cronkite on the evening news. Barack Obama conducted an experiment while President and watched only Fox for a few days. He commented at the end of the trial that he would “hate himself too” if Fox was all that he watched. Disinformation is a big issue for our democracy and any free society.

So back to the big picture. Can our democracy survive the rapid growing of wealth inequality? Oligarchs once entrenched are difficult to remove. A look at Russia under Putin is instructive. Boris Yeltsin and then Putin managed to take the national assets of the former Soviet Union and distribute them to a handful of very loyal cronies. Mr Putin himself has done well with his oligarchy, having an estimated net worth of \$200B, despite never having a job outside of government and his current salary of \$140,000 annually. It is estimated that today in Russia 35% of the nation’s entire wealth is held by 110 people. These oligarchs become nearly impossible to dislodge, other than by an action of the strongman himself. Are we too headed to a rule by oligarchs who have no interest in democracy? A former Supreme Court justice, Lewis D Brandeis once said, “We must make our choice. We may have democracy, or we may have wealth concentrated in the hands of a few, but we cannot have both.”

In 2024, 65.6% of American households owned homes, while 62% of households also owned stocks. Of those, the top 1% owned 50% of the stock market. In the period 2020 through 2024, the rate of inflation versus the rate of wage growth both averaged around 4%, a wash. Thus those living on wages remained stuck in neutral with no real gain, while those owning assets, (real or financial), saw rapid wealth growth as real estate values soared and the stock market hit record highs. If you wonder why today there seems to be a constant undercurrent of anger and political unrest, look no further than the 1/3 of Americans that live hand to mouth, owning few assets. They realize that the train has left the station and that they missed it.

This is a segue to a related subject. I would like to shift gears and discuss employee ownership of corporations. This can be at least a partial antidote to wealth inequity. Employee ownership won't eliminate oligarchs or reduce the number of billionaires, but it can help to spread wealth. Here is a short video on the subject: <https://www.youtube.com/watch?v=xtwQw8wGRJM>.

In 1976 Sallie and I moved to Lynchburg when I joined Scott Insurance after working for two national insurance companies. Scott was a forward looking firm that in 1975 had established an employee ownership plan called ESOP (Employee Stock Ownership Plan). An ESOP is a retirement plan that primarily invest in its own company's stock. In the early 70's Louis Kelso, an economist philosopher, managed to persuade powerful Senator Russell Long (La) to join him for a dinner. Senator Long was the son of the famous populist Huey Long. By the end of dinner Kelso had Senator Long fully on board with the concept that employees should have the beneficial aspects of ownership, aligning all financial interests. They both embraced the saying that "the problem with capitalism is that there are too few capitalists." Since the average employee doesn't have the means to purchase stock in his company, a mechanism had to be established whereby employees would get the benefits of ownership through retirement contributions, thus the birth of ESOP. The enabling legislation was passed in 1974 by Congress. Scott Insurance was the first ESOP company of any kind in Virginia with its ESOP in 1975, and one of the early ESOP companies in the entire US. Credit for its establishment at Scott goes to my predecessor as president, Bob Nein. I became president of Scott in 1986 after Bob's retirement and held the position until my retirement in 2014, thus living the employee ownership life for most of my career. I have a few observations:

1. An ESOP is an excellent perpetuation plan for companies ( the main motivation for Scott in 1975). An ESOP company can perpetuate itself using untaxed money, perhaps the only way to achieve this advantage. Rather than selling out to an outside non-local firm, the company can remain as is. Successful companies with local headquarters are important to any community, especially communities the size of Lynchburg.
2. An ESOP in a successful company will effectively share the financial success among all employees – nobody can be excluded. Over time, a mature ESOP like Scott can create wealth over a broad base. A number of career employee owners in non-executive positions have retired early with seven figure accounts from Scott. ESOP is a great motivator when people can come to work as owners rather than just as employees. ESOP is naturally a great retention tool.
3. Any ESOP company requires principled management that understands and upholds the spirit of employee ownership. There are many routes for mischief if this is not embraced. I used to receive calls from executives around the country that were considering ESOP, and I had a standard lecture on this point. (Explain)
4. There are many other types of great companies that reward their employees by various means. ESOP is not right for all companies and situations. There always is the risk having all

retirement assets in one basket, certainly requiring the company to be successful. Under ESOP law one can begin to diversify into traditional stocks in your 50's to lessen risk as retirement is approached.

Does employee ownership improve the performance of companies? A Harvard business review study of 238 companies concluded that ESOP companies grow faster and provide substantial benefit to employee owners. This is especially significant in an era of woefully inadequate retirement assets across the United States, many retirees having little more than Social Security and perhaps a small 401k.

There are 6,400 ESOP companies across the US today, involving 10.8 million employees (8% of the workforce). (Mention local ESOP's in addition to Scott.....Moore's Electric, Lynchburg Honda, Delta Star, Foster Electric, Harris Tire, Hurt and Proffitt, S Air, Wiley Wilson, to name a few). Yet, ESOP growth has leveled off. Part of the reason is the complexity of the plans as well as the expense to install and maintain. Also private equity has emerged as a competitive vehicle for owners to retire and sell their equity. It is interesting to note that some private equity firms are using an employee ownership formula to achieve their goal. (Explain the KKR new approach).

To take this from theory to reality, the final slide is a slightly redacted actual annual ownership statement of a 14 year Scott employee/owner, in order to give you a feel how it works in real life. (Slide)

The Scott that I joined in 1976 had 20+ employees in a Langhorne Road office (now the Horizon building next to Hardee's). Today there are 450 employee owners across 9 offices in four states, the company still headquartered in Lynchburg (dual offices at Graves Mill Rd, Old Graves Mill Rd intersection). Scott is one of the largest privately owned agencies in the southeast today, and I believe employee ownership is a significant part of the success formula.

I never regretted being part of an employee owned firm, in fact, I grew to embrace it. Employee ownership of companies has many positive features that help not only the employee/owners, but also the firm and the community.

So how is the pie sliced today in America? I suspect that there are as many answers to this question as there are people in this room. Some like myself and Joe Biden think it has become dangerously top heavy, while others likely would opine that the imbalance reflects what makes America great....unlimited opportunity, including the chance to become rich. What seems clear is that the great American experiment depends on our getting the answer right.

Thank you.