You Have No Idea How Much $1 Billion Is

Rich is Not Rich: The First Step to Understanding American Inequality

Noah Omdal, Jan 21, 2019

Despite their heavy presence in our societal psyche, there are only 540 billionaires in the United States. Collectively they control about $2.4 trillion, which is over 3% of all the wealth in the country. We see their names in our greatest cultural institutions, their likenesses represented in books and movies and television, and it's no surprise that the word "billionaire" has become unremarkable in the American vernacular. What is surprising, however, is how little most of us really grasp what having $1 billion really means, and the broader implications for society when there exist people with this sort of wealth. The number — 1 billion — is a relatively arbitrary measure when we look at American wealth and inequality. What it really represents in my usage is people with staggering amounts of wealth (like between $500 million and $100 billion), while $1 million will be people with a moderate to a great amount (more like $1–20 million, leaning on the higher side). We'll adopt these simplifications for the ease of reference as well as their frequent usage in our society.

Whether and why anyone should be able to even have $1 billion is a question for a different post, for it's enough of a challenge to make sense of how much money that is in the first place. We like to think in large, round numbers, and this is on full display in the language we use around metrics of wealth. You make "six figures." There are "millionaires" and "billionaires." We think of people in terms of "the one percent" or "the 99%." Such implications are problematic when we try to untangle inequality in the United States. There are about 15 million people with net worths over $1 million. This is a group that is often referenced alongside the billionaires. We hear people like Bernie Sanders decrying "the millionaires and billionaires" as though the groups are one step apart from one another. Of course all of us understand that there's a massive difference between these two parties; however, what does this difference really represent? How do we make sense of the gap in wealth of a person with $1 million and a person of $1 billion?

Well, the easy way to think of it is that the difference between $1 million and $1 billion is the same as the difference between $0 and $999 million. In other words, about $1 billion, which is *a lot* of money. Even the difference between a billion and 30 million is essentially one billion — I mean, do you really think there's a significant lifestyle gap between a person with $970 million and $1,000 million? There are massive differences among lower levels of wealth (for instance, a person with $500K in net worth is likely going to have a much different standard of living than someone with $10 million, even though that gap is much smaller than the one between 970 and 1000 million). There is little analogy to be made between these groups — those closer to 1 million and those closer to 1 billion— yet the numbers are so often mixed up. For instance, I recently had a friend complain to me about how a county software project had wasted $15 billion in development costs. What she meant to say was "million," and although this is a harmless mistake, her easy conflation of these values is telling. Plenty of nurses, accountants, and middle managers can crack the $1 million net worth mark by the middle of their careers, yet there is only one way to make $1 billion: through the ownership of assets, almost exclusively in the form of securities (like owning stock in a company) or real estate (to a much lesser extent)…

The first problem is that people with, say, $10 million in the bank and people with $500 million may seem pretty similar on the outside to a casual observer. Both groups are supposed to fetishize certain brands, are financially capable of extensive international vacations, frequent Michelin-starred tables, and float between multiple homes. These sort of things — the exterior symbols — shape our ideas of the wealthy, but knowing whether they have an 8 or 9 digit portfolio is near impossible to tell from a glance on the outside, and that's not accounting for the many ultra-high net worth individuals who choose not to flex their wealth in an outward way. This presents only more problems.

When we think of wealth through a lens of "lifestyle," it biases us to our own life experiences and interactions with other people. Thinking that rich is rich will result in an inaccurate view of our economic landscape and the extent of inequality. You might think you're smarter than this, but it's difficult to make sense of than you might imagine. It's likely that you know someone who you consider "rich," but it's even more likely that you don't know anyone with more than $100 million, let alone $1 billion. The difference between these — just being seen as "rich" vs. having $100 million or more — need to be noted to properly understand the language being used around inequality and the sort of impact various policy measures will have on our lives.

So why do people seem to think themselves so familiar with what mega-wealth looks like? I don't know any people on a Forbes list, and neither does anyone I do know, yet all of us could probably conjure up a mental image of what a billionaire's life should be. How do we do this? Through the previously mentioned equation between certain lifestyles and wealth. However, this is a dangerous way of viewing wealth in America, for it doesn't give us room to properly assess how much more money $1 billion is compared to $1 million. It's an illusion of familiarity rooted in aesthetics and not the digits in their bank account. A millionaire can afford a nice home, maybe a cabin, likely some fancy brands, possibly to pay for their children's college, perhaps a pool in the backyard, and frequent international trips. A millionaire pushing 10, 20, or 30 million can bring all of that up a level, trading in the speedboat for a smallish yacht, the cabin for a ranch, and ensure their kid's attendance at an Ivy. However, at a certain point, you hit a ceiling. Once you surpass this threshold, then the money really starts to pile up. You buy bigger and better and more, but the truth is that goods in this world *do* have some level of price limit. There's only so much a person can spend on college tuition. Go to the Gucci store and there's a maximum price tag ($100 million would buy you enough $5000 bags to wear a different one every day for 55 years) and only so much you can wear. Even the most expensive restaurants in NYC won't break $500 a person. So how much really is $1 billion?

What is so often ignored in this conversation is the interest coming along with that money and how fast it starts to compound. The late Paul Allen signed the pledge to give away his fortune when he was only worth $10 billion, and in the following decade he gave away billions to respectable causes, repeatedly making individual donations in excess of 9 figures. Yet when he died last year, his net worth had risen to *$20 billion,* or twice that of when he began trying to give it away. All those years, the money grew so fast that he couldn't donate it fast enough. Likewise, Allen's fellow Microsoft founder, Bill Gates, has given away even more billions, yet his net worth continues to climb toward $100 billion. The system is working against them, and this is something we all need to recognize.

With the cost of goods theoretically constant for all Americans, the exponential curve of compound interest can be stunning. Making the first million is tough, but each subsequent one gets easier because all you have to do is keep expenses growing at a slower rate. Example: let's say the year you hit $1 million in net worth your expenses were $100,000. You covered them through wages and moving forward you decide that you're done trying to save money and will just let your current nest egg grow. Well, if you're getting a 7% return on your money (ignoring inflation) then that means you can spend anything less than $107,000 the next year while still allowing your money to accumulate at an ever-increasing rate (and this is without any changes to earnings, and it also doesn't factor in the additional money you'd be spending from your wages since you're no longer saving any). If you spend $115,00 the next year and then allow yourself to go up an addition $15K each subsequent year, you'll still be approaching $2 million in wealth by the end of a decade even as your spending continues to increase. Money begets money. The rich get richer. On the other side, if you have a low net worth, you won't see this trend emerge because you have to out-earn your expenses by a decent enough margin to get there in the first place. If you have large amounts of debt, you'll witness this same trend, *except it'll be working against you.* A person's lifestyle can only get so cheap. If you make $30,000 (especially if you live in a more expensive part of the country), it will be extremely difficult to cover the base expenses at all, let alone save enough to start seeing the power of compound interest.

Now let's apply it to a billionaire...
Let's say your tech startup got gobbled up by Google and you find yourself a fledgling capital-B Billionaire. The wealth of billionaires around the world has been growing at a mind-boggling 20% recently year-over-year. (It helps when you have enough money to literally open an investment firm solely dedicated to making your richer.) What does that mean for you? Well, you don't have time to get the family wealth office fully off the ground yet, so let's be safe and give you a 10% interest rate. That means you're looking at a cool $100 million that you're going to *have to spend* next year if you want to just keep your money right where it is. If you fail to do so, then that billion will jump to $1.05 billion next year. So now you have to spend over $100 million to keep your wealth from increasing. But maybe blowing through just $5 million a month instead is enough for you. Well if it is, then 10 years after starting at $1 billion flat and spending $60 million *each year,* your net worth will have actually *increased* to $1.5 billion. That's almost $200,000 each *day*, which is more than the average American household earns in 3 *years*. Keep in mind that all of this assumes you aren't earning a single dollar during that 10 year period and that you're exclusively living off the $1 billion you started the decade with. How. Crazy. Is. That. To apply this to someone like Bill Gates, just multiply all these numbers by 100. He would need to give away $1 billion a year to keep his fortunate from growing. The logistics of doing so are dizzying, and I imagine there are few charities (his own included) that have the infrastructure to deal with this sort of cash.

This is far from remarkable math, but it's something that most people (myself included, until recently) don't often think about. When you cross a certain threshold of wealth, gravity fails to affect you. There's only so much money to spend, and at a certain point, it will begin to accumulate to mind-numbing levels capable of fueling generations of children and grandchildren who had little to do with earning the wealth in the first place. Yes, you see this math replicated for smaller fortunes (in those $1–10 million range), but it's far less pronounced, as it's much easier to spend $100K or even a few million in a year than it is $100 million.

Say what you will about the system that enables people to own such lucrative assets in the first place (another article worth writing), but there is no arguing that this economic structure is driving inequality at an unprecedented rate. I could link article after article about it, but I'll leave the Googling to you. The point I'm trying to make is that rich is not just rich. Someone with several million in the bank may seem similar in some ways on the outside to someone with several hundred million, but the math behind their fortunes is operating on completely different scales, a comfortable life vs. a dynasty... Still, I'm no economist, and my point isn't to suggest the best way to address rampant inequality in America. Rather, I'm trying to help you, my dear reader, come to terms with the difference between the 1%, the 0.1%, and the 0.0001% of American wealth, because it is massive, and the gap between each group and the rest of America needs to be thought of and addressed in a unique and informed way.