

Mike Novogratz, principal of the asset management firm Fortress Investment Group, thinks CEOs need to have a "moral revolution."

By Lauren Silva Laughlin

FORTUNE -- Mike Novogratz and the other principals of hedge fund Fortress Investment Group (**FIG**) became instant billionaires when the company went public in 2007. Like many other uber-rich on Wall Street, their wealth, some of it created by loose monetary policy, has become the target of criticism from politicians and activists.

Recent statistics have renewed the debate about income inequality in the U.S. As referenced recently in the *New York Times*, 17.6 million households did not have enough to eat at some point in 2012. The Census Bureau recently reported that 15% of Americans, or 46.5 million people, live in poverty. But, according to the *Economist*, the share of national income flowing to the rich is at a record high of 19.3%, ahead of both 2007 and 1929.

Breaking from typical canned responses given by many on Wall Street, Novogratz offers a candid interview with *Fortune* about how policy can change to close the income gap, how CEOs need to have a "moral revolution" when thinking about their businesses, and how making oodles of money isn't always considered capitalism.

Many people at the country's biggest employer -- Wal-Mart -- are on some sort of government support. In your opinion, how did this country get to where it is now?

It's the powerful combination of globalization and technology. In 1989, there were roughly 500 million people who constituted the developed world. Then the Berlin wall fell, and China opened up. Over the next 25 years, the developed world would go from 500 million to 3 billion. Labor supply increased, driving down wages, and the cost of intellectual capital went way up. So you look at a guy like **Mark Zuckerberg**. He developed a scalable idea that can go to the entire world. His single idea was very valuable.

The rich got a lot richer since the financial crisis

In a lot of ways, this divergence of wealth was going to happen no matter who was at the watch. The Gini index [a measure of a

country's inequality] has been on a one-way trend since the '80s through both Republican and Democratic regimes. Change is happening so fast, many people and maybe our political system just can't keep up. What the government has a responsibility to do -- and has the possibility of doing -- is looking at these mega-trends and looking at what this does to our communities. Is this the environment that we want to live in? Is this the country we want to live in?

Many would argue that Wal-Mart is the quintessential company that exploited global trends over the last 25 years. Do you blame the likes of Wal-Mart for what is happening? Do you think they are being greedy?

Yes and yes. Wal-Mart (**WMT**) will make \$15 billion this year. 49% is owned by the heirs and trusts of Sam Walton. They have 1.3 million workers who on average make around \$12 an hour. So a full time employee, someone who works 40 hours a week doesn't make a living wage. And the U.S. taxpayer subsidizes that wage bill with an estimated \$1.5 billion a year. The family has net worth of over \$130 billion. Something doesn't feel right there, does it?

If I looked at only those last two sentences, and replaced Wal-Mart with Fortress, I'd think that you were talking about yourself and your partners. You might not have \$130 billion, but you're all billionaires. How is this different?

My issue isn't with people making money. I really think our first priority is to focus less on inequality and more on making sure the working class can support themselves. Wall Street employees, including ours, are in an industry with large margins and **a very inflated pay scale**. Our industry sits at the crossroads of globalization. We have a huge competitive advantage here in the U.S. which has a long history of being at the center of global finance. We have the training grounds of investing and risk taking. I am sure in time, that advantage will disappear but not in the near future. So we are in a position to pay all our employees extremely well.

Uncle Sam? More like Uncle Bernie if one group gets its way So, in the case of Wal-Mart, government subsidies of the poor employees make the founders even richer. What do you think that the government should do?

The first step is for both sides to recognize what is happening and

why. I was a big Obama supporter, yet the moment he gets on the campaign trail he blames the rich. He says billionaires and millionaires are rigging the system to take all the money. That immediately puts the people you need to help [the situation] on the defensive. I am not saying that people in power don't tweak things to their advantage' what I am saying is that is not the root cause of the inequity.

But, specifically, what changes need to be made?

We need a change of thinking in corporate America. Globalization and the fear of having your lunch eaten by the Chinese has made "shareholder value" the be-all and end of running a company. It is in the DNA of most of our CEOs. We need a shift where company leaders look at a balance between shareholders, customers, and employees. I guess that is a moral revolution.

Short of that, the government can do things both to promote growth and to give the working and middle class a better shot. The right structural changes need to be made. First, we need to look at the things that are overhanging us. Making even a down payment on our long term budget problems is key. Fixing the **social security system** should be a top priority. And, of course, we should means test. So rich people shouldn't get social security, even though they paid into it. Once we show we can get something done, confidence will pick up. Second, the government needs to help **get people employed**. Here's a sad statistic: 9% of 25-55 year old males are on disability, up from 2%-3% from 20 years ago. Of course there are people on the list that are disabled. But many are just chronically unemployed. We have a whole lost generation. It's not unlike the hobos during the depression era. These men never got jobs; never got married; never have a reason to build a nest egg. That's the really scary and depressing thing. The best way to spur employment is to get the business community to believe you're on their side. It's why blaming is such bad policy. We need to unleash the pent up capital and creativity.

Are Republicans trying to kill the Twitter IPO?

Third, take a look at **monetary policy, QE3**. This was meant to stimulate the economy by driving asset prices up. But it's the rich people who own the assets. Manhattan is a perfect example. Manhattan apartments, Hamptons houses, stock prices have all gone higher. We've all gotten richer! We need to recognize it. Maybe the

Fed should expand its mandate to direct lending to small and medium-size companies as opposed to QE forever.

Finally, the government needs to regulate **minimum wage**. An employee making minimum wage should not have to be subsidized by the government to live. A more comprehensive minimum wage system puts the responsibility back onto the businesses. It's also a more dignified way at redistribution. I am sure those Wal-Mart employees would rather have that extra \$2,500 a year come from their company as opposed to a government handout.

What about taxes? Since the rich, like you, have gotten richer, don't you think redistribution of wealth through taxes could help? Or put another way, how is a lower tax rate on capital gains, which essentially helps the rich, not like a government subsidy similar to the one Wal-Mart receives?

Taxes play a role for sure. Most wealthy people I know wouldn't mind redistribution if they believed it wouldn't be wasted. Government hasn't shown that it hasn't been a good steward of GDP. In most cities our public school system is a debacle. This idea -- the disconnect between the need for government programs and the true implantation of them -- has caused a polarized system that throws a wet blanket over anything you want to get done. I wish I had an answer. **Political gridlock** is one of the reasons for the muted recovery. Once you have confidence, people start borrowing money and investing in the future.