

John Locke Institute Essay Competition 2023

Economics Category

Question 3) What would happen if we banned billionaires?

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Eichhornia crassipes, or water hyacinths, is an aquatic plant that originates from South America. Due to its capacity to bioconcentrate toxic pollutants such as endocrine disruptors and neonicotinoids, it serves as an excellent indicator species for polluted water (Laet, 2019). If *Eichhornia crassipes* indicate polluted water, *billionaires* indicate problematic economies. That is, the existence of billionaires suggests the existence of a crucial problem lying within the fundamental principles of fairness and competition in our society. In fact, this problem is ever-more pertinent: there were 2,640 billionaires as of May 2023 which is 19 times higher than the number of billionaires in 1987 (Peterson-Withorn, 2023). To that extent, this essay argues that unless the crucial problem that allows billionaires to thrive is not resolved, changes in society as a result of banning billionaires would be minimal as they are simply the symptom of our economy's problems. After pointing out the lack of change the measure would bring, I shall then argue that an outright ban on billionaires will in fact cause irresistible damage to the fundamental incentive structures of our economy.

Why would banning billionaires not achieve our goal much?

To examine what major changes an economy without billionaires would involve, one must refer to the ultimate goal of banning billionaires. Whether the government decides to ban billionaires by taxing 60-70% of the income of those earning above \$10 million annually as argued by Alexandria Orcasio-Cortez, or, by implementing a wealth tax at 6% of the net wealth of billionaires as proposed by Elizabeth Warren and Thomas Piketty, all efforts are de facto implementations of a maximum wealth cap (Manjoo, 2019). Likewise, comparable to a maximum wage which caps the income an individual may earn to prevent excessive pay gaps in society that disadvantages the lower income workers' quality of living and social mobility, the ultimate goal of banning billionaires is to increase social mobility and reduce economic disparity. In theory, making a more just society is for the common good which appeals to everyone. However, the fact that billionaires must vanish to achieve this goal may be unappealing to billionaires themselves. After all, as Nozick puts it, insofar as people are accumulating wealth through fair and legitimate means, the state has no right to seize the hardly earned fruits of one's labour (Mack, 2014). The problem is that billionaires are not entitled to their fortune. To analyse why this is the case, let us examine the different types of billionaires. There are two types of billionaires based on how they have amassed their fortunes: hereditary and self-made billionaires (Leckelt, 2022). Hereditary billionaires who have inherited fortunes from extremely lucrative profit generating dynasties or assets maintained through generations are *malum in se*. This is because in a healthy economy, persistently high profits that create a generations-long dynasty cannot and should not exist. If markets are functional, billionaires should only be temporary beings until other firms promptly enter take a fraction of the market share; thus, the very existence of hereditary billionaires indicates a market failure.

For self-made billionaires who have amassed their wealth in a single generation, many of their wealth is acquired from rent-seeking behaviour: exploiting markets or government failures to gain favourable access to land, licences and resources. In fact, the tech firms in the United States that have formed a de facto monopoly – Google has 92% of the market share in the search engine sector – achieved this by being the biggest lobbyists in Washington, with eight tech firms collectively spending \$100 million on lobbying and PAC fundings in 2018 (The Economist, 2018). In fact, of the 15% of the Gross Domestic Product that billionaires consist in the US economy, wealth derived from rent-seeking behaviour amounts to 6% of the GDP, with India and Russia accounting for 8% and 19% of their respective GDPs (The Economist, 2019). Nevertheless, even if billionaires did not engage in rent-seeking behaviour to amass a fortune, the wealthier they become, the more inclined they become ‘to convert their financial might into political power’ (Reeves, 2014). This is due to the innate human desire to pass on the financial status and the associated privilege for their future generations to enjoy. The unique harm of billionaires behaving in this way is doing so, billionaires pull up the social ladder for others, decreasing their social mobility. This is not only because billionaires deliberately strive to maintain small privileged groups, but also because they are simply not motivated to increase the social mobility of other groups. For instance, billionaires are less interested in improving public schools and healthcare than median income families are because they do not use these services and thus find it unnecessary to spend their resources into promoting these agendas. This problem worsens when billionaires are banned due to the blurred distinction between a multi-billionaire and someone who has barely £1 billion. Multi-billionaires will be more incentivised to differentiate themselves through investing in ‘non-price determinants’ such as purchasing their way through increased political influence and connections. Doing so, billionaires are creating a glass floor for others to break into that creates a way of acquiring more wealth or influence and perpetuates a vicious cycle for social mobility.

Evidently, the aims of increasing social mobility and reducing economic disparity are not achieved by banning billionaires. Furthermore, billionaires are only a sign of government failure in that the government has allowed hereditary billionaires who are *malum in se* to enjoy their financial status and self-made billionaires to engage in rent-seeking behaviours that harms the economy and social mobility. As such, banning billionaires is just a whack-a-mole approach where the government is not looking underneath the ground to examine what caused the mole to pop out, but simply trying to push the mole back.

What does it change?

Although banning billionaires may be insufficient to achieve justice and social mobility, what it *does* drastically change is our system of incentives. Superficially, banning billionaires may seem to incentivise us to work harder by setting a tangible goal for people to earn up to. However, not only is the power of these incentives overestimated, but also banning billionaires can transform the societal atmosphere of competition in workplaces.

On an individual level, reduced disparity by banning billionaires incentivises the less well-off to work harder. This is because in the status quo, individuals feel relatively deprived by comparing one's financial and social position to the unrealistic, unreachable status of multi-billionaires. As a result, individuals develop a fundamental distaste and frustration where they find it meaningless to work hard. In contrast, banning billionaires effectively relieves society from the problems that arise due to people rushing blindfolded towards an unapproachable goal. However, the premise of the previous argument is that since individuals lack the incentive to work harder due to unreachable benchmarks set by billionaires, by setting the benchmark to £1 billion, people will be more incentivised again to work harder. Yet, it is flawed to believe that just because the goal is lower, the pressure and deprivation individuals feel will be lower. For the majority of the population, a net worth of £1 billion is still unapproachable; therefore, if people were severely reluctant to work when there were billionaires worth £43 billion, it is naïve to believe that a maximum wealth cap set at £1 billion would effectively incentivise people to work.

On a societal level, banning billionaires may reduce the level of toxic competition in society. Insofar as 'the sky's the limit,' people are unable to cease the race as they are constantly desperate to outperform their colleagues for promotions to reach the top. Some degree of motivation may boost productivity, but an excessive cut-throat corporate environment created as a result decreases workplace solidarity and productivity that eventually backfires on the firm. However, this may not be the case, especially in the status quo. In fact, firms with billionaire owners and CEOs are often more conscious of how they are portrayed to the public as their and thus how they deal with social issues out of business affects the profitability of the firm. This incentive mechanism has proven successful in deterring Nike and its CEO Phil Knight from relying on sweatshops in Bangladesh, Vietnam or Sri Lanka following a widespread boycott movement that resulted in a stock price decrease of 15% and a sales decrease by 8% in 1999 following reports that revealed its harsh working environments (Hart, 2015). Hence, it is in the billionaire's interest to build a healthy corporate environment which has a real interest in not only their shareholders but also their stakeholders.

However, at what cost? By banning billionaires, society loses a crucial passionate group of investors and philanthropists who contribute to societal progress through investing in technological innovations or donating to marginalised communities. Unlike the government who is the next best possible alternative in regards to the amount of investment or redistribution it can provide, billionaires are more effective spenders. The most important cause of this is because billionaires can freely select and specialise when and where to allocate their funds. For instance, Warren Buffett's decision in 2007 to invest in TaeguTec, a South Korean Tungsten manufacturer, was possible because he could freely select and specialise where to allocate his funds. Without pioneering risk-takers with great operational assets like Buffett, TaeguTec could not have made groundbreaking innovations as it was an unpopular decision, considered to be a 'boring' high-risk low-return investment in a distant nation from the rest of his investment (Crippen, 2007). This shows the level of agency and flexibility billionaires have on choosing how to allocate resources whose potentials can be maximised with significant funds to make a meaningful change to society. In contrast, the government has significantly less autonomy over spending decisions than individual billionaires as its limited budget incurs significant opportunity costs of having to decrease spending from one sector for every increase in another sector of the budget. Moreover, every decision is assessed by members of parliament, economic policy advisors and external interest groups making it more inefficient and slow in allocating its resources. Nevertheless, a monopoly of disposable assets by a few group of people is risky and unsustainable. Not only is the sheer number of billionaires who engage in such philanthropic or entrepreneurial behaviour severely lacking, but also private spending depends heavily on the passions and interests of the single individual: once this weakens or the billionaire discovers another area they wish to allocate more of their resources onto, there is a risk of losing entire support. Thus, there is no guarantee that the funding provided will be sustainable, making the recipient become more dependent on the funding provided by the billionaire over time whereas the government there is a safer guarantee that as part of the social welfare programme, support will continue. In essence, the specialised and committed funding from billionaires can be an appealing offer, but in that regard, banning billionaires will not entirely, but partially decrease the dependency on such actors.

In the end, banning billionaires do little to change our economy. It is not the panacea to the disease that our economy currently has, which is severe wealth disparity and the lack of incentives and social mobility that stem from it. Banning billionaires may superficially decrease the range between the highest and lowest amount of individual wealth, but it does little to change the fundamental system that causes this gap. However, the rent-seeking behaviour of billionaires to amass wealth and a toxic race-to-the-top corporate environment will persist, constantly demotivating society and individuals. The government can continue removing the indicator species that point to its failures, but unless the failures themselves are tackled, indicator species will simply continue to appear.

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