What would happen if we banned billionaires?

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10 July 2023

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Billionaires play a complicated role in society. According to economic theory, they're considered a source of innovation and economic growth[1]. In reality, however, they're also a minuscule part of the population that is the cause of a large part of climate and inequality problems. A strike on billionaire wealth has been proposed multiple times, most recently by Elizabeth Warren. [2] A complete ban, although not conceptualised, can pose some likely scenarios.

For the majority of billionaires, their greatest contribution to society has arguably been their revolutionary work for job creation. According to Forbes, the 12 highest-earning billionaires created at least 2.3 million jobs in 2016[3]. Currently, Jeff Bezos' Amazon employs nearly 1.5 million people.[4] Walmart, the world's biggest employer with 2.1 million workers,[5] was started by members of the Walton Family who are now worth a combined $247 billion.[6] It is to be noted that all such companies have done remarkable innovation in their market to garner demand and therefore labour. Research indicates that in the absence of the possibility of accumulating so much wealth, which is a financial incentive to innovate, innovation could decline. In 2010, an experiment was done at a large Asian IT company testing whether providing a reward would improve the ideas suggested by employees. A discussion paper on this experiment found that with financial incentives, more people contributed ideas and individual people contributed better ideas. [7] In other words, innovation was of higher quality and the competition increased when a monetary reward was present. The prospect of earning substantial wealth arguably serves as a similar incentive for people to innovate, which won't be present if we make being a billionaire illegal and therefore could lead to a fall in employment in the long run. Evidence from a study of 19 European countries suggests that "in order to

promote per capita economic growth, attention must be paid to policy strategies that promote innovation."[8] Therefore, if we ban billionaires, we may see a decline in innovation.

An added detriment could occur particularly in developing nations. Consider India- in 2022, Reliance Industries, owned by Indian billionaire Mukesh Ambani, accounted for 8.9% of India's total GDP. [9] A lower incentive to innovate would cause less innovation within companies like Reliance, as well as less innovation to create companies like Reliance. This impacts the millions of people Reliance employs as well as their ability to pay taxes and allow the government to raise tax revenue for welfare.

However, it can be argued that competition may increase in the market. If billionaires are banned, there is likely to be an increase in the number of millionaires in the short run since all the former billionaires will also join the sub-elite. Research has shown that SMEs are typically more affected by barriers to entry than large firms because of lower financial power. [10] Therefore, banning billionaires would reduce barriers to entry for SMEs as the financial power and number of large firms would decrease, leading to a more competitive market and consequently more "productive growth" as per the OECD.[11]

Banning billionaires can also lead to a shift of productive resources from the economy through the growth of an 'underground economy'. The International Monetary Fund offers a range of situational definitions for the term,[12] although it can simply be defined as the economic activity in an economy that is untaxed and unrecorded. It is important to note that billionaires are oftentimes accused of being the cause of inequality which is the likely reason for the ban. A White House Study showed that the 400 richest Americans only paid an individual tax of 8.2% compared to an average American's 13% the same year. [13] Another investigation revealed that the 25 richest Americans only paid a true tax rate of 3.4% on $401 billion. [14] This means they are paying less than they should but benefitting more than they should as well, which could be a reason for the ban. The richest 1% of the world has also earned two-thirds of all new

wealth created since 2020. [15] Although banning billionaires will involve several policies, the central one is likely to be a wealth or capital tax that affects the wealthiest people, similar to the ones suggested by Piketty, Saez and Zucman in their infamous papers on reducing the wealth of the wealthy. [16] [17] If billionaires are banned by using a wealth tax as suggested, it could "lift 2 billion people out of poverty" according to Oxfam.[18]

Considering this reasoning, there is a great incentive to shift to an underground economy with the presence of a higher tax burden or greater regulation in general. This can be explained by the Laffer Curve, wherein taxation at a point beyond the maxima reduces tax revenue[19]. This is also supported by the Allingham-Sandmo model of tax evasion[20] and the IMF[21]. Empirical work done on data from Pakistan concluded: "If the tax rate is higher than the return to investment, the firm moves into the underground economy, that is, it engages in tax evasion." [22] The owner of a multi-billion dollar business does not stand to gain much from the public of benefits taxation so theoretically its "return on investment" is lower and the likelihood of switching to an underground economy to prevent losing wealth is greater. Even if the ban does not involve taxes, the incentive to move to the informal economy remains since wealth earned there is not part of one's official wealth, so despite the ban one can theoretically remain a "billionaire." The International Monetary Fund discusses some consequences of such a shift- lower tax revenue will lead to less welfare spending; however, whether or not economic growth is hampered is debatable considering the increased consumption that occurs in an informal economy,[23] although the likelihood of capital flight can greatly affect this in favour of lowered growth.[24] Another paper authored by Vito Tanzi discusses the increases in inequality that are likely to occur as a result of inequitable taxation and the difficulty in policymaking considering the challenges of measuring an underground economy.[25]

It must be noted that the probability of a major shift to an underground economy is largely circumstantial. Global law will determine whether or not capital flight occurs. The underlying principle according to

economic theory is that individuals will want to retain their wealth, all things considered. Therefore, if the USA bans being a billionaire but Guatemala doesn't, capital flight may increase as individuals can earn greater wealth offshore. However, even if a high tax is implemented or billionaires are banned, it is possible that firms and entrepreneurs don't shift to an underground economy because there are several factors besides a financial motive that come into consideration and there is no general trend. This is visible when considering the USA's comparative tax rate to the rest of the world. [26] Even though there are countries that tax a lot lesser, most of the USA's richest people still reside in the USA.

Many businesses with the most consumption globally- Apple, LVMH, Amazon, Google et cetera- are controlled partly by billionaires who have a massive stake in the company or companies owned by billionaires. Therefore, large investments drive the expansion of these companies. Economic theory suggests that "firms grow stronger with size" [27] because they're able to enjoy economies of scale that lower their production costs as output increases. This phenomenon may become a lot rarer if extreme wealth accumulation is banned. From a microeconomic perspective, an absence of significantly wealthy individuals may cause an absence of significant stakeholders in companies, which could lead to a dispersed ownership structure. This could lead firms to a demise like the company 'Blockbuster,' a former Netflix competitor whose dispersed ownership structure prevented swift decision-making, ultimately preventing the company from adapting to the dynamic market. [28] Empirical work has also shown that dispersed ownership is likely to cause equity disputes. [29]

In the same vein, though, firms may be able to avoid diseconomies of scale, particularly organisational diseconomies, if billionaires are banned and the ownership is more evenly distributed. Research has

shown that smaller firms can retain employees and solve problems better in certain industries such as R&D in comparison to bigger firms, who have to deal with organisational diseconomies of scale. [30] Some research also indicates that they may even benefit from a dispersed ownership structure in "high-risk, high-competition" industries. [31] However, evidence is scarce in proving that firms may actually become better off in such a scenario whilst there is plenty of support from real-world examples, economic theory and research for the contrary.

Billionaires are the biggest polluters of the environment. According to an Oxfam report on carbon inequality, the top 1% of the world is responsible for double the carbon emissions of the bottom 50%.[32] In fact, according to one study, American billionaire Bill Gates' air travel alone caused more emissions than 105 Americans would make overall annually. [33] The three nations with the most billionaires- the USA, China and India- are also the three biggest carbon polluters in the world. [34] When including their investments into the equation, billionaires emit nearly a million times as many greenhouse gases as an average person. [35]

Carbon emissions will likely reduce if being a billionaire is made illegal, even as the number of millionaires increases. One study on millionaire spending and carbon emission goals found that even though the cumulative carbon emissions produced by millionaires are likely to rise as the number of millionaires increases, their individual emissions are likely to fall by 2050.[36] There may also be less lobbying against carbon tax-based policies as a result. As indicated by research done in Europe [37] and a document published by the US Congressional Budget Office [38], carbon taxes can be effective if implemented very carefully but the challenge of balancing economic growth alongside successful implementation is a major one for policymakers.

However, poorer countries may still remain worse off in dealing with climate change if billionaires are banned and economic growth declines - empirical work done by the International Institute for Environment and Development showed an inverse relationship between GDP Per Capita and the tendency to suffer from the effects of climate change.[39] It is like researcher Ritu Bhardwaj says: “While countries with developed economies have the means to reduce their risk, those with the smallest economies do not.” [40]At the same time, though, the reduced emissions from banning billionaires may also reduce the need for them to combat climate change. This is significant, considering climate change could cost the global GDP up to $178 trillion by 2070 at the current rate.[41]

Overall, whilst empirical evidence and economic theory may lean towards a fall in economic growth, the significance of climate change and other such dynamic factors could lead to a completely different outcome. It is difficult to synthesise a clear conclusion on what would happen if we banned billionaires since the consequences will be largely dependent on the policy that is used to ban them. The results also are likely to differ from country to country- a nation with no billionaires, for instance, will largely remain unaffected by the ban in comparison to the USA which houses 724 of them. [42] A nation going through a major recession, such as Germany,[43] may struggle a lot more than a neighbouring country going through a boom. However, as inequality continues to rise [44] and the rich continue to get richer, this essay’s implications may surface into reality sooner rather than later.

Endnotes

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