Approaches to Banning or Limiting Billionaires and Subsequent Effects on Innovation

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July, 2024

Abstract

This paper delves into the controversial topic of billionaires, examining the mechanisms that enable their wealth accumulation and the potential impacts of policies aimed at limiting their wealth on innovation and economic growth. It argues that the existence of billionaires is largely a product of favorable tax laws and political lobbying, and explores various strategies for addressing wealth inequality, including wealth and inheritance taxes, antitrust laws, and restrictions on political lobbying. The paper also challenges the common belief that reducing the wealth of billionaires would hinder innovation, drawing on empirical studies that suggest innovation is not solely dependent on monetary incentives.

1 Introduction

The issue of wealth inequality is considered a problem that needs to be expeditiously addressed. At the apex of the wealth pyramid are an estimated 2,781 billionaires, their net worth totaling up to $14.2 trillion, averaging $5 billion each.[1] Some argue that the mere existence of a class of people who possess this much wealth is a policy failure. At the same time, others believe that billionaires are a shining example of success in our hyper-capitalist societies.

This paper seeks to achieve three goals: offer insights into how and why billionaires exist, describe policy actions that could be taken to eliminate or lessen their wealth clout, and, finally, address an issue that always emerges in these debates: would removing the potential to become a billionaire, or billionaires themselves, cripple innovation and economic growth? By doing so, a

compelling discussion emerges that reveals how billionaires have shaped and benefited from our current economic rules in a way that amplifies their wealth potential.

The hypothesis of this paper posits that while banning billionaires would cause inherent reduction in incentives resulting from imposing a cap on profit accumulation, it cannot be ascertained that it would diminish innovation. Subsequently, this paper argues that each approach that policy makers can take should individually evaluated on their consequences on innovation. Ultimately, the practical implementation of redistributing or safeguarding the excess wealth collected from billionaires presents significant challenges, rendering it an unresolved predicament.

The rest of this paper is organized as follows. First, an overview of the problem of extreme accumulation of wealth is given. Secondly, probable approaches to banning or limiting billionaires and their possibly unethical routes to wealth are given. Finally, the consequence of the methods, specifically focusing on innovation, are analyzed.

2 The Drivers of Extreme Wealth

To gain an understanding of this group, it is crucial to understand the contributors to their substantial wealth accretion. Central to this success is favorable tax status — a manifestation of the tax code allowing the ultra-wealthy to receive advantages because much of their wealth lies in assets.

Using the top 400 billionaires as a point of reference, it is evident that most, if not all, of their wealth is derived from investments, which are taxed at a lower rate. For example, Jeff Bezos, currently the third wealthiest billionaire[2] , receives a wage of less than $100k[3], despite his estimated yearly earning in 2019 being $78.5 billion[4]. The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the top federal tax rate on individual dividend income in the United States from 38.6 percent to 15 percent[5]. Since 2013, the long-term capital gains rate has been 20%, about half the top rate on ordinary income, which was 37% in 2018[6] . Effectively, billionaires' tax rates are lowered.

Nevertheless, income tax is only part of the story. Most workers pay more in payroll taxes, such as Social Security and Medicare than income taxes[7]. The rich, meanwhile, tend to pay

proportionally little of these types of taxes because they are imposed on wages, which billionaires have little connection to. Therefore, payroll taxes hit low and middle-income workers disproportionately; subsequently, it is common for wage earners to pay higher personal federal taxes than the most affluent Americans[8].

Another widely used tax avoidance strategy is the “Buy, Borrow, and Die.” Here, billionaires avoid paying the capital gain tax on their assets and pass their wealth to their offspring. Billionaires buy and hold assets, which then appreciate tax-free. Due to the nature of capital gains taxes, there are no taxes on these investments until they are sold[9]. This technique is magnified by using assets as leverage to borrow and debt — rather than equity, which could be invested in assets to help further accumulate wealth[10]. Thereafter, neither they nor their heirs ever pay tax on these unrealized capital gains, and the Buy, Borrow, Die cycle repeats in the next generation[11].

These tax avoidance strategies lead to an extreme concentration of economic power and seem unjust and immoral. It begs the question: why do voters allow such high levels of inequality when even billionaires like Bill Gates have publicly supported an increase in the tax rate? [12]

The answer to this appalling state of affairs lies in political lobbying. Many wealthiest US billionaires resemble Charles and David Koch, known mega-donors to ultra-conservative causes who oppose taxes, especially estate taxes – which apply only to the wealthiest Americans. Concurrently, billionaires are unenthusiastic about government programs to help with jobs, healthcare, or retirement pensions – programs most Americans support. [13]

This practice is hardly atypical. Many of the wealthiest US billionaires have made substantial financial contributions — amounting to hundreds of thousands of reported dollars annually, in addition to any undisclosed “dark money” contributions — to conservative Republican candidates and officials who favor the very unpopular step of cutting rather than expanding social security benefits. [14]

Additionally, it is evident that firms, and subsequently billionaires, take advantage of the fact that most cases of lobbying are winner-take-all outcomes, with some proponents getting what they want while others get nothing. Breaking down lobbying success by the type of lobbyist, it is clear that industries and businesses — with the goals of dampening competition — win; 89% of corporations and 53% of trade associations succeed, in stark contrast to 60% of citizen groups and

63% of foundations that fail in their lobbying goals. [15]

3 Banning or Limiting Billionaires

This brings us to the question: How can we take action to limit this gross wealth inequality? Banning or limiting billionaires needs to either center around negating the contributory factors that help them maintain their wealth level or the appropriation of current assets.

One of the most popular and simplest ideas is the wealth tax, which would shift the tax burden onto the most affluent households. In theory, taxing assets over a billion dollars at 100% could be one of the most efficient and progressive methods for banning billionaires. However, a more probable approach would be to utilize wealth tax more subtly or in tandem with another policy.

The focus could also be placed on inheritances. Inheritance taxes govern the transfer of assets to family heirs following the passing of a family member, including individual taxation of beneficiaries and estate tax. Both of these taxes are generally paired with some gift tax, so they cannot be avoided by simply transferring the property prior to death[16]. Simply put, markedly increasing inheritance taxes would preemptively counter the accumulation of billionaires' wealth by prohibiting practices such as "Borrow, Buy, Die".

Another method could be the aggressive use of antitrust laws, restricting business practices that unreasonably deprive consumers of the benefits of competition, subsequently incentivizing businesses to operate efficiently and lower their prices. Additionally, possible returns from monopolistic behaviors such as fixing prices, dividing markets, or rigging bids would be diminished[17]. By interpreting antitrust laws in a way that focuses them on the anti-competitive conduct of the companies many billionaires manage, these laws could be used to reduce billionaires' financial clout.

Of course, such policies are only feasible in the circumstance in which either they are implemented globally, or billionaires are grounded. For the wealthiest, it would be more attractive to relocate their assets than to leave them vulnerable. Take France, for example, which saw an exodus of its most affluent after the implementation of wealth tax, costing France extensive tax revenues. [18]

Finally, to achieve any semblance of restricting billionaires and their wealth accumulation, lobbying should be limited in order to impede billionaires' grasp of politics. It would be nearly impossible to enact the aforementioned policies without billionaires lobbying to reject such changes.

4 Consequences on Innovation

It is essential to consider the consequences of curtailing the vast wealth of the mega- wealthy. Specifically, economic growth, strongly correlated with the productivity gains from innovation, should be the focus of policymakers. [19]

Whether through taxation, anti-trust laws, or limitation of lobbying, banning billionaires will decrease monetary incentives for innovation. Billionaires, owing to their considerable wealth, frequently function as drivers of innovation through their investments in research and development, provision of support to startups, and funding of high-risk ventures. Individuals with limited disposable income lack the same financial cushioning, which consequently diminishes their willingness to undertake risks that have the potential to push technological boundaries. [20] Thus it that innovation is more likely to come from high concentration of wealth.

However, it cannot be ascertained to what extent reduction in concentration of wealth will affect innovation and subsequently economic performance nor how it would compare to much increased government spending and reduced barrier to entry from prohibition of billionaires. Another lens could be evaluated in terms of taxation. In their study "Taxation and Innovation in the 20th Century," Ufuk Akcigit et al (2023). assert that all types of income tax, personal or corporate, negatively affected the quantity and quality of innovation both at the individual and firm level based on their empirical analysis of taxation and its effects on patents of the 20th century. [21] Similarly, the paper "The Effects of Estate and Inheritance Taxes on Entrepreneurship" postulates that a significant rise in estate and inheritance tax would decrease entrepreneurship. [22] Ultimately, heavy taxation on billionaires, or super billionaire taxes, would take a heavy toll on the economy in the form of diminished innovation.

In stark contrast to taxation, anti-trust laws are effective in promoting innovation while hindering wealth concentration. According to the paper "The Problem of Bigness: From Standard Oil

to Google," during the early 20th century, under FTC's strict antitrust regulations, firms learned to compete by means other than price-cutting, ultimately inducing innovation. [23] For example, corporations enhanced their internal operations by vertically integrating into raw material production and distribution while continuously investing in in-house research and development to remain at the forefront of technology.[24] The firms that mastered these lessons dominated their industries for decades. Following this trend, stricter antitrust laws will likely force firms to innovate to maintain their market shares. [25]

Additionally, empirical evidence supports that lobbying activities could also hamper innovation and economic efficiency. For example, Akcigit et al (2023). postulated that political connections and vested interests block innovation. Proposing that industries with politically connected firms exhibit lower business churning and lower productivity growth and that the more politically connected the company, the less innovative it is. [21] Some attest this relation to the fact that politically connected firms have already secured the market and, therefore, have no incentives to innovate. [26] Consequently, regulating monetary incentives in politics to a minimum would induce competition and ultimately higher innovation.

5 Conclusion

Based on the prior discussion, policymakers could pursue several approaches to eliminate the economic heft of billionaires. However, focusing purely on taxes and imposing a super billionaire tax would adversely affect innovation. Rather, subtle use of taxation, anti-trust laws, and limitation of lobbying would much more likely limit or outright ban billionaires without diminished innovation. Nevertheless, while the prohibition of billionaires may yield adverse repercussions on certain societal aspects, it fails to provide a comprehensive solution to the underlying issue of social inequality.

Ultimately, there are policy decisions to be made by politicians, and these need to be evaluated against the reality of a system that seems more than tilted in favor of the accumulation of vast wealth through capital instead of labor. Hence, the endeavor to address social inequalities necessitates a holistic and enduring approach through comprehensive policy interventions. These

interventions encompass, but are not limited to, wealth redistribution, the promotion of social mobility, and the eradication of structural obstacles. Striving to strike a balance between wealth distribution and incentives for innovation, while upholding principles of fairness and social justice, is a paramount objective for both the government and society in their quest to foster a more equitable and prosperous society.

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