

## John Locke Essay

### *What would happen if we banned billionaires?*

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The 1<sup>st</sup> thing that comes to our mind when we hear the term billionaires is rich people. As of 2023, the world has 2640 billionaires, a decline when compared to 2668 in 2022. (*“Forbes Billionaires 2023: The Richest People in the World”*) When Forbes publishes the yearly billionaire list, there were 140 people & a decade ago in 2013 we had 1426 billionaires (*“Forbes Billionaires 2023: The Richest People in the World”*). This indicates that more people are getting wealthier showing that the world has seen an improvement in the standard of living. As an IB student, I can relate this to two key macroeconomic aims, a steady increase in the world’s GDP and more people getting jobs which will reduce unemployment.

However, while more people have become billionaires, the same improvement in the standard of living has not been seen across the world. The gap between the rich and the poor, which was already widening given the growth of multinational companies, has resulted in a very small percentage of the workforce getting an extremely high salary and share of profits and a large section of the workforce not being compensated properly. As per a Forbes article, the average CEO-to-median worker pay ratio as of 2020 was 235:1 (*Field*). This indicates that a CEO of a company, assuming an MNC has the resources to provide such a high compensation to its management. This gap widens as we compare pay gaps between different sectors. Service sector industries such as restaurants, and healthcare have a ratio of 340:1, whereas banking & computer services have a ratio of 160:1 (*Field*).

India, which has an average income per person of around 2000 USD earned every year has very surprising statistics. An Indian CEO’s salary as of the year ended March 2021 was 184 times the average employee salary compared to 179 times in FY 2019 (*Field*), having equity in income distribution is one of the key macroeconomic aims, there is a case why the government should not ban billionaires.

While higher income has improved standards of living, we see an increase in generosity too. As per news articles in the US, the top 25 richest Americans donated 27 billion dollars to charitable causes in 2022 (*Block*). By the end of 2022, the lifetime donations of the richest billionaires were 196 billion dollars. In terms of donations by the richest in India, the total donations have doubled to 56.66 billion INR in 2022 compared to 23 billion in the year ended March 2018, an increase of over 100%. These donations are used for educating the poor, and meals offered by charitable houses highlight why the richest are necessary for any country.

At the same time, most of the countries in the world have a progressive tax rate. A progressive tax rate is when an increase in income results in an increase in taxes paid resulting in a lower disposable income for households which reduces the gap between the rich and the poor. People in India pay only 5% of tax if their income is between 0.25-0.5 million, 20% tax if the income is between 0.5-1 million and 30% if the income is above 10 million (*Surana*). Similarly, the United States also has a progressive tax rate between 10% and 37% based on the income earned. In 2022, a group of 100 super-rich people had written an open letter asking for permanent wealth taxes on the richest which will help in reducing the income gap in the world (*Neate*).

Governments are able to benefit from an increase in the number of billionaires in the world. The higher income taxpayers pay a significant amount of tax revenue which is used to provide goods that are important to the society such as healthcare and education. Also, governments use tax revenue earned to build the country’s infrastructure which helps future generations.

While more people who are becoming rich indicate a better standard of living the widening gap between rich and poor makes people question what if the government decides to ban billionaires. This brings us to the very important concept which conflicts with equity, i.e. efficiency. Efficiency is related to the incentive for people to work and the income they can earn from it.

A government if it decides to ban billionaires would reduce the incentive for people to work. When people are aware that if they work hard and they will be paid more than the average pay will be motivated to work hard.

What if the governments in the world decide to ban billionaires and start taking most of the economic decisions by themselves? We all have seen the situation of a planned economy, where most of the decisions were taken by the government with very little or no private sector intervention and how such economies fail. If governments decide that there will be no more rich people and everyone must be paid equally, there is no reward for hard work and subsequently, economic activity would suffer. A very good example of this is the fall of the Berlin wall in 1989 given the increasing income gap between East and West Germany. It is important to note that East Germany was under Soviet rule which believe in most of the decisions being taken by the government. While it has been over 3 decades since Germany has been united but the economic disparity persists although it has narrowed. In 2018, average unemployment was 6.9% in 6 states of former East Germany compared with 4.8% in former West Germany (*“East Germany Has Narrowed Economic Gap with West Germany since Fall of Communism, but Still Lags”*). Also today except for a country or two which has a dictatorship or a military-dominated government, most of the countries have both private & public sectors.

Another problem for the government could arise if it decides to significantly raise both income tax and corporate taxes to reduce the income for billionaires. While raising income taxes reduces an individual's income, when corporate taxes are raised they reduce firms' profits. These profits are distributed among rich shareholders in the form of dividends which is an additional income. This could result in brain drain as people would emigrate to those countries where taxes are much lower. For example, more and more people from India have emigrated to other countries with 1.6 million renouncing their citizenship since 2021 (*Huang and Huang*). However, raising taxes could harm the country. Lower income will reduce household spending which in turn could lead to the loss of jobs causing widespread unemployment. A fall in spending could also impact the output produced leading to a fall in economic growth. Higher taxes on firm's profits will discourage new firms from entering the country and existing firms may also move to other countries where taxes are lower.

Also, if we assume that the government decides to ban the billionaires. What will it do with the existing ones? Will it ask them to return the billions of money, they have earned? While one can think of many advantages such as using the money for the welfare of the poor such as building houses, constructing hospitals, schools etc this can lead to severe political consequences and make the govt unpopular and disincentive people from entrepreneurship. Banning billionaires can also lead to wealthy individuals moving out of the country. It can also lead to efficient people moving to other countries causing a brain drain. Such steps can also lead to law and order issues in a country.

So from the above two paragraphs, there is always a challenge for the government to the extent to which they can intervene. If the government plans to reduce the gap between the rich and the poor there are certain other policies it can choose rather than banning billionaires.

1. The government can introduce laws which would cap the amount of earnings by the top-level management in corporates. For example, a CEO/CFO of a company cannot earn more than 100x of a salary compared to an entry-level staff. While this can vary from firm to firm, a certain gap between top-level management and an entry-level employee is inevitable to reward for the experience and risk-taking skills of people. This will ensure parity in terms of

how corporates pay their employees. It will also increase productivity as workers will be encouraged to work hard and will reduce labour turnover in organizations.

2. Another strategy which governments can follow across the world is to implement a model similar to the Nordic model rather than banning billionaires or imposing high taxes on the working population with a significant amount of money seen in developing countries being spent not on the desired purpose (*admin\_ips*).
3. The Nordic countries include Norway, Sweden, Finland and Denmark are countries which are known to have a highly fair distribution of income. One of the reasons attributed is affordable healthcare and education, relating this to the market failure topics of externalities. Given both these goods are merit goods and have positive externalities of consumption if left to the market forces these will remain underproduced and underconsumed.
4. Most of the Scandinavian countries spend a very high proportion of their total government expenditure on merit goods. The focus remains on providing primary education with the local governments focusing on pre-school and secondary education (*Jha*). Providing basic amenities is crucial as it helps to break the vicious circle of poverty. In many developing countries given the very high population, governments are unable to provide basic amenities. Coming from a city in Mumbai where on one side we have the best of the IB schools where parents spend a million INR in school fees and go for further education abroad and on the other side we have many people for whom education and healthcare remain out of reach.
5. Today it is not only about high GDP per capita which is output per person. People also want to be happy. Can people be happy if government ban billionaires? Probably not. We can see that the Scandinavian region has 57 billionaires as per a 2021 news article of which 31 are in Norway and 12 are in Sweden (*Tor Kjølborg*). These countries top the list of the world happiness report 2023 with Finland, Denmark and Iceland, the top 3 countries (*“World Happiness, Trust and Social Connections in Times of Crisis”*).
6. Taxation – Higher taxes can disincentivize people from working hard. As per 2019 data, the highest income tax bracket in Denmark was 56%, Norway was 38%, Sweden is 57% and the USA had 44% (*“World Happiness, Trust and Social Connections in Times of Crisis”*). It is important how the government uses the tax collected from people. These statistics indicate that people are willing to pay taxes as long as they are assured of governments using them in the right manner. If the government spends it on improving healthcare and education, infrastructure, people end up living a better quality of life.
7. Corruption – As per the latest corruption perception index, Denmark is the least corrupt country followed by Finland, Newzealand, Norway, Singapore and Sweden. Instead of banning billionaires, governments can enhance transparency in their function by being more efficient, eliminating corrupt practices, ensure the environment is conducive to development (*“World Happiness, Trust and Social Connections in Times of Crisis”*).

From the above points, it is clear that a planned economic system or greater government involvement in decision-making may not be successful in today's world. Instead of banning hard-working billionaires governments should focus on fair distribution of income. While progressive tax rates will result in richer paying more tax which is justified given they have the ability, the methods in which that tax revenue is spent should be more transparent. Equity as a macroeconomic goal needs consistent efforts and whether it can be achieved is debatable. However, governments can try to find the right balance between equity and efficiency.