

# What would happen if we banned billionaires?

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**Abstract.** Billionaires, individuals of immense wealth, amass their fortunes through various means, including market activities, illicit actions or inheritance. We analyzed what would be the implications if government banned billionaires. We talked about who possesses the authority to enforce such a ban and what becomes of their wealth post-ban. We find that billionaires shouldn't be banned, as the disadvantages outweigh the advantages.

**Keywords:** Billionaires; Fiscal Regulation; Stakeholders.

## 1. Introduction

What would be the implications if we banned billionaires? Billionaires, individuals of immense wealth, amass their fortunes through various means, including market activities, illicit actions or inheritance. The proposition of banning billionaires raises two pivotal questions. Firstly, who possesses the authority to enforce such a ban? Secondly, what becomes of their wealth post-ban?

The government, who has the legal jurisdiction is the entity capable of implementing such prohibitions. As for the fate of the billionaires' wealth, it could potentially be directed towards three main areas: the market, the government or back into society (including their family and friends). It is crucial to consider three related economic principles to analyze this issue.

## 2. Government fiscal regulation

To begin with, if the governments seize the wealth of billionaires, its function is for governments' expenditures (Mayer, 2017). These expenditures fulfill three roles. The initial role is the optimization of resource allocation like guide the flow of resources, provide public goods and improve the efficiency of resource allocation for the whole society (Lockwood et al., 2010). The second role is the equity of income distribution through the adjustment of the primary distribution of national income (Pei et al., 2020). The third role is the stabilization of economic growth like the regulation of the total supply and demand of society.

Secondly, if the government utilizes the wealth obtained from the billionaires for the bureaucrat's private interests, it could lead to rent-seeking behaviors. Rent-seeking refers to a non-productive profit-seeking activity for the purpose of monopolizing social resources or maintaining a monopoly position in order to obtain monopoly profits (i.e. economic rent) without engaging in production (Del Rosal, 2011).

The government employs its administrative power to intervene and control the economic activities of enterprises and individuals, which hinders the role of market competition, thus creating opportunities for a few privileged people to obtain excess income (Tian & Ma, 2009). According to the discussion of American economists J. Buchanan and A. Krueger, this excess income is called "rent". The activity of seeking this power to obtain rent is called "rent-seeking activity".

In the aforementioned figure, S curve is the supply line of the market, and D is the demand line. When the price is freely determined by the market, the equilibrium price is P1, and the quantity supplied by the market is exactly equal to the quantity demanded by the market. Suppose the government intervenes in the market and caps prices at P2, a level below the equilibrium market price. The manufacturer is willing to supply at this price. The production is Q2, and the demand is Q3, resulting in an artificial shortage Q3-Q2. If the product is available, only a few people will be good fortune to purchase it. Concurrently, with only Q2 in the market, the price the buyer is willing to pay

is actually as high as  $P_3$ . If those who have bought the goods at the official price are allowed to resell the shortages to others, they can buy the high price of  $P_3$  and get the benefit of the shaded area, the "artificial surplus". In an open supply situation, people will spend their time and energy waiting in line to find out where the activity is until the time spent is close to the artificial expectation of the remaining period. If the commodity is distributed by officials instead of being freely supplied, people will rush to bribe the officials in power, and this artificial surplus will be transferred to the officials in the form of bribes and dissipated further in the competition for positions (Levy, 2007).

Thirdly, by which means should governments ban billionaire to compulsorily levy fortune? The most common approach is taxation. Taxation is the main income of the government. The functions of taxation are to regulate economic operation, to adjust income distribution, and to supervise economic activities. In addition, tax jurisdiction is an integral part of national sovereignty and an important embodiment of national rights and interests (Holderness, 2019). Therefore, taxation also plays an important role in safeguarding national rights and interests in foreign exchanges.

Furthermore, Laffer Curve can be utilized to illustrate the relationship between the government's tax revenue and tax rate, which was proposed by Arthur Betz Laffer (Laffer, 2004). When the tax rate is below a certain limit, increasing the tax rate can increase the tax revenue of the government. When it is above the limit, increasing the tax rate will lead to the decrease of the tax revenue of the government (as the figure below).

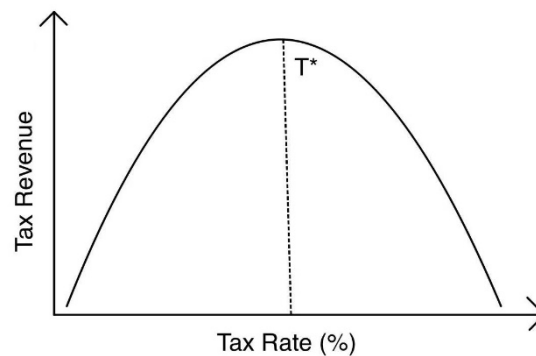


Fig.1 Laffer curve (math.)

### 3. Potential Change of the Related Stakeholders

Next, we turn our attention to be potential change of the related stakeholders before and after the ban.

First, let's consider the billionaire themselves. Before the ban, where did they amass their wealth? We thought there are three main sources. Primarily, it is from the market by doing legal businesses like owning enterprises. Additionally, it is from illegal income. Lastly it is inherited the wealth from their family and friends or social donation.

But then where would the wealth go after the ban? Similar to the source of wealth before the ban, we propose there are three main sources after the ban. The first destination is the market. Wealth that was originally accumulated through the market could be returned to it.

Billionaires could disperse equity among the shareholders equally. They could also combine two or more companies into one by a legal agreement known as merger. Alternatively, they could engage in enterprise acquisition, when one enterprise purchases all or part of the assets and shares in another enterprise.

Secondly the illegal income could be confiscated by the government. The government could reclaim the money back by fines and taxes and redistribute the wealth. For example, they could use it for donation and public welfare; they could also use it for themselves, and state owned enterprise could use it for investment, international trade, and purchase of financial services.

Lastly, the money inherited could be returned to the family members and friends or use them for charity and social donation, which make the wealth go back to the society.

The second group of stakeholders is the governments, which possesses the authority to enforce the ban on billionaires. Now here's the question why would government ban billionaires? We can see this from each sides of the coin: 'good' government or 'bad' government?

A "good" government's goals are to decrease the income gap and create a fair society, but that may also has side-effect which decrease the motivation for working hard. While the "bad" government may grab billionaire's assets to their pockets.

Here comes the key question, if the banning did happen, what consequences would it cause? We can see it from various perspectives: the billionaires, the government, the poor, economic growth, the income gap, international competitiveness, population movement, productivity and technological progress.

(1) For the billionaires, they would not be satisfied with it as they earned the money by themselves. It will affect household expenditure and lower living quality, because they've got used to a lavish lifestyle. If their wealth become shortened, their demand curve will become sharper. We can see this problem from the Lorenz curve (Gastwirth 1971) as below:

The entire Lorenz curve is a square, with the bottom of the square (the horizontal axis) representing the percentage of income recipients in the total population, and the left of the square (the vertical axis) showing the percentage of income received by each percentage of the population. The diagonal line from the origin of the coordinate to the corresponding vertex of the square is the equality line. The real income distribution curve, the Lorenz curve, is on the lower right side of the equality line. Generally speaking, it reflects the degree of inequality in the distribution of income. The greater the curvature, the more unequal the distribution of income, and vice versa.

(2) For the governments it would create two possible outcomes. Firstly, they might enlarge the provision of public service and charity work by expanding expenditure to improve the social income gap.

Secondly, they might get too powerful and get lots of money for themselves. For example, based on Wagner's law, the basic principle of Wagner's law is that with the expansion of state functions and economic development, it is required to ensure the continuous increase of fiscal expenditure to exercise these state functions, that is, the relative scale of fiscal expenditure increases correspondingly with the increase of per capita income (Lamartina & Zaghini, 2011). When national income rises, fiscal spending rises by a larger proportion. With the increase of per capita income level, the proportion of government expenditure in GDP will increase. This is the relative growth of fiscal expenditure, which is summarized by later generations as Wagner's law, also known as the law of expansion of government activities. Another perspective is Parkinson's law. Based on Parkinson's law, the administrative agencies will grow like a pyramid; the administrative staff will swell; but the organization will become less and less efficient (Parkinson, 1957).

(3) For the poor they will get benefit from this because some wealth would be shared to them. We could use the Robin Hood effect to explain it. The Robin Hood effect is an economic term for reducing the wealth gap by redistributing income (Poddar et al., 2012). The capital of the country must increase with the development of the country, and the owners of the capital will also have more wealth and income, thus introducing the gap between the rich and the poor (Buch-Hansen & Koch, 2019). However, many redistribution mechanisms, such as the trickle-down effect and social welfare programs, eventually lead to the Robin Hood effect, which redistribute wealth to the poor (Wang, Ellis, & Rogers, 2018). As a result, the gap between rich and poor will narrow again in more developed countries. Therefore they would support banning billionaires because of this effect.

(4) For the economic growth and international trade, it would decrease both aggregate demand and supply. Demand decreases because of the decrease in consumer demand and businesses firms. Supply decreases because of the decrease in the attractiveness of export.

(5) For the population movement, there would be an decrease in population because the billionaire would 'vote by foot' (Singleton, 2015) after the banning of their wealth. If their local governments

have such policy to ban their wealth, billionaires would migrate to other regions where their wealth is legally well-protected. Such kind of banning would finally hurt the local economic vitality.

(6) In terms of productivity and technological progress, the ban would dampen people's work enthusiasm, the productivity and technological progress would slow down with few technology progress.

If the wealth that individuals accumulated would be taken away anyways they won't work that hard, which will cause the decrease the efficiency of social productivity. This can be illustrated by the figure below: the narrowing of income gap by banning billionaire from  $x_1$  to 0 will decrease the efficiency if the society pursue absolute equalitarianism.

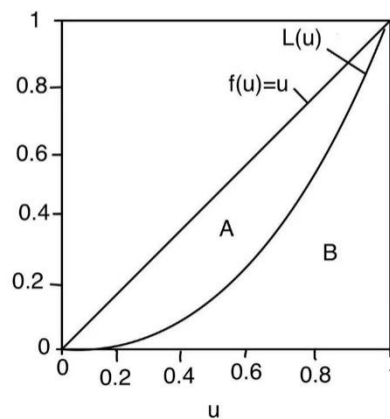


Fig.2 illustrative

#### 4. Conclusion

To conclude, billionaires shouldn't be banned, as the disadvantages outweigh the advantages:

First, such banning will cause a decrease in social productivity. If the wealth that the billionaires earned were taken away, later anyways it would wet their working productivity, because they don't get benefit from working hard. Second, such banning will generate free-riding behavior. It means the wealth would be spread to other people, whom would benefit from resources, goods, or services without contributing to the costs. Third, such banning will generate free-riding behavior. It means the wealth would be spread to other people, whom would benefit from resources, goods, or services without contributing to the costs. Last such banning do harm to the overall welfare of the society. It would decrease the overall welfare of the local society because the billionaires would vote by foot and move to other regions that does not have this banning. We should let the free market have the final say about the distribution of social wealth.

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