

The Billionaire Syndrome: How Individuals Become Excessively Wealthy

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“A billion dollars is wildly more than anyone needs, even accounting for life’s most excessive lavishes. It’s far more than anyone might reasonably claim to deserve, however much he believes he has contributed to society”(Tom Scocca(1))

Most people who are successful like to believe that their success is due to either intelligence or hard work. However, there are many case studies showing that success for individuals involves many other factors. The economy is rigged to help those who already have wealth(2); those who are born into the right families; those who go to the right schools and universities; those with the right political connections. The billionaire investor, Warren Buffett, has famously said:

“If I had been a female, my life would have been entirely different...I had two sisters that have every bit the intelligence that I had, have every bit the drive, but they didn’t have the same opportunities.”

Many of the most successful people had opportunities laid out on a plate in front of them. Taking those opportunities involves a combination of luck, gambling, ruthlessness, cheating, talent and hard work.

Inheritance and Family Wealth

In the past, a huge proportion of wealth was inherited. This decreased for a while during the 20th century, when tax rates were very high, but it is now on the rise again because of more complex ways of hiding wealth and avoiding tax. A recent study indicated that one-third of billionaire wealth came from inheritance.(3) There has always been a question about whether it is fair for some people to inherit large fortunes, but there is an additional argument for questioning inheritance. Historically, powerful people and big companies have been ruthless in their pursuit of wealth. This is particularly true with land. Originally, most land was common land, shared by everyone. In Britain, over a period of a few hundred years, the most ruthless landowners took more and more land from everyone else.(4) Much of the wealth that is inherited today was accumulated by previous generations using unethical or criminal means.

All over the world, families form dynasties with significant control over major businesses.

The US Walton family, who control Wal-Mart, are perhaps the most famous, with wealth totalling an estimated \$215 billion(5) yet the Wal-Mart organisation is notorious for exploiting its employees.

Recent Evidence

Most people mistakenly believe that excessively wealthy people are usually entrepreneurs, but in a recent study of the richest 0.1% of the population, it was found that only 4% were entrepreneurs.(6) On the 2014 UK list of 100 richest people, only 2 of them were entrepreneurs. Approximately one-third of people with excessive wealth work in finance, and another third were corporate professionals in other fields. In a study of billionaires from all over the world, it was found that many of them gained their wealth from industries that rely heavily on support from the government, or from businesses that dominate an industry (monopoly).(7)

Free Lunches for Individuals – Ownership of Stockmarket Investments

We have seen in earlier posts that big companies extract excess wealth from the economy (known as 'rent' or a 'free lunch') because they are dominant in their industry, or by using a range of criminal or unethical techniques such as fraud, exploitation and offloading costs onto others. The richest people own a large proportion of shares in those big companies and therefore receive large amounts of unearned income. The increase in value of these shares over time also plays a big part in helping the rich become richer. An economist called Thomas Piketty wrote a landmark book in 2013 called '*Capital in the 21st Century*' explaining that returns to finance outstrip growth, which means that people who already have wealth are able to increase it more quickly than the rest of society. Often their wealth is taken from the rest of society.



Warren Buffett, mentioned above, had a number of different investment strategies, but a key one was to invest in companies that were so dominant in their industries that they could make monopoly profits for a long time. This would include companies such as Coca-cola and McDonalds, IBM and Microsoft in the past, and Apple more recently.

In 2008 there was a global financial crisis. The causes of this are discussed in a later post. It was widely noted that the 1,000 richest people in Britain doubled their wealth in the five years after the crisis, despite the fact that the economy was doing badly and many people were suffering.(8) The policy known as 'quantitative easing', where governments gave money to banks to stop them going bust, turned out to create hugely increased wealth for the richest people, because the value of the things they already owned increased. We then had the remarkable situation where the British government claimed it had to decrease social spending (known as austerity), whilst at the same time it was offering tax breaks to the rich.(9)

Ownership of Land and Property

Studies looking at land and property investments show they can provide huge returns, because investors receive both capital gains (where something increases in value) and income.(10) Land and property tend to increase in value substantially in the long term because there is usually a shortage of it, particularly in the most desirable locations.

Factors that affect land and property prices include government spending on public infrastructure such as railways, and banks providing bigger mortgages. The former Prime Minister, Winston Churchill, once said:

“Land is by far the greatest of monopolies...the land monopolist only has to sit still and watch complacently his property multiplying in value, sometimes many fold, without either effort or contribution on his part.”(11)

The same is true of housing.

If you own a £100,000 house and it doubles in value, you receive £100,000 unearned wealth. If you own a £10,000,000 house and it doubles in value, you receive £10,000,000 unearned wealth. If you rent someone else's house, you get nothing, but your rent is likely to go up, and it has become harder for you to buy a property in future. The rise in value of property actually makes the poor poorer. It is a huge transfer of wealth from poor to rich. The richer you are, the more the system is loaded in your favour.

Unlimited Executive Pay

In 1965, chief executives at big companies in the US were paid approximately 20 times as much as the average worker. By 2007 this had jumped to 400 times as much.(12) There appears to be no upper limit to how much chief executives can demand.(13) Yet recruitment consultants have pointed out that there is nothing special about the people who run most big companies – for every successful applicant there are 100 other people who could do the job just as well, possibly better. Their astronomical pay is not about talent, intellect or hard work. It is simply because the system is rigged for their benefit. Even in years when a business makes a loss, many executives receive large payments. Most notably, finance-industry executives paid themselves huge amounts even when their companies collapsed during the 2008 financial crisis.

Outright criminal activity such as drugs, money-laundering and fraud

In Russia they have a saying – “never ask a rich man how he made his first million.”(14) It is estimated that 2-5% of global economic activity is criminal(15) – that's \$3-7 trillion per year.

Stealing From The Company

Individuals can also make personal fortunes by stealing from their companies in various ways,(16) including from company pension funds.(17) The system is such that people are able to buy a company, then use the company to borrow money to pay themselves back. They load the company up with debt, then extract wealth from it to make themselves rich.(18) If the company goes bust, the law allows these people to keep the money they have extracted, without having to pay back all of the company's debts.

Money

The rigged nature of the world's financial system is so important that it will be discussed in multiple posts later on.

The Role of Society in Creating Wealth – A Pyramid of Knowledge

It has been suggested that most wealth is due to the inheritance of knowledge from the past, accumulated over thousands of years⁽¹⁹⁾ which means that there really is no such thing as a self-made person.⁽²⁰⁾ We have a pyramid of knowledge, going right back to the invention of writing and mathematics. All that any one individual or company does is to add a single stone to the top of this pyramid. The developments that take place tend to be a natural evolution of the technology that exists at that moment in time. For example, lots of companies were writing internet search engines at the same time as Google, but Google became dominant (for a variety of reasons, including the support of the US government⁽²¹⁾). If the Google search engine had never been created, a different one (or a small group of them) would probably have become dominant. These people have not done anything exceptional, and do not deserve immense wealth.

“The personal contribution to society of extremely wealthy people is not as important as meets the eye, in the sense that, if they did not exist, other talented, hard-working, and risk-taking people would fill their shoes.”⁽²²⁾

It is also important to recognise the role that state schools and universities; financial and legal systems; transport, communications and information networks; healthcare; and more general infrastructure play in creating a system that enables people and businesses to succeed. All companies in advanced nations have access to large numbers of well-educated, healthy people with specialist skills to work in their companies. They use modern equipment, which has been developed over many generations. They have networks of experts and other businesses to call upon for purchases, sales and all manner of additional knowledge and skills. Warren Buffett noted that if he had been born into a tribe, his talents would not have been very useful, and he could not have become rich. The creation of immense human wealth has been a joint activity, involving millions of people.

Even the mainstream magazine, *The Economist*, has recognised that the ‘knowledge economy’ is largely based upon knowledge that is inherited.⁽²³⁾

Personal and Political connections matter

With some businesses in certain industries, such as newspapers and technology, the company is almost the same as the individual. Bill Gates was synonymous with Microsoft. Rupert Murdoch controlled a huge media empire. Russian billionaires control energy companies, which they obtained because they had the right political connections when Russia privatised much of its economy (known as crony capitalism). These individuals are able to lobby the government in exactly the same way that companies lobby governments to change laws and regulations to suit them.

Some billionaires own private islands where they can entertain political decision-makers.⁽²⁴⁾ The heads of various banks and weapons companies have direct access to policymakers. People used to joke that the head of British Aerospace had a key to the Prime Minister's office.⁽²⁵⁾ In the US at the highest levels, senior personnel from finance actually

are the government.

A case study of Bill Gates(26) provides an excellent example for questioning why anyone deserves excessive wealth. His success was partly down to being born in the right family, and involved a great deal of luck. He went to a private school that was one of the first in the world to have a computer for its students to use. At the time computers were rare and expensive. Paul Allen, another co-founder of Microsoft, had also been at the same school. The software that Gates wrote, which became the main operating system for IBM and then for many other computers, was no better than other systems available at the time. His mother had personal connections to the chairman of IBM, and this helped him get the contract that led to the dominance of Microsoft.(27)

The US government had invested immense amounts of money into developing the technology industries as an extension of its military, and then encouraging private firms to develop on the back of this. Gates was in the right place at the right time, as miniaturisation of computer technology was rapidly spreading around the world.

Economics textbooks don't discuss how the economy is rigged to help the rich

As we have seen, much individual wealth has nothing to do with merit, and where merit plays a part, such as creating a new product, the rewards are excessive, for what is often a very small contribution to human society. In earlier posts I discussed the idea of Bloodsucker Capitalism, where the most powerful companies are able to extract wealth in a variety of criminal or unethical ways.(28) Many excessively wealthy individuals benefit from this. Economics textbooks don't discuss how the economy is rigged to help the rich get richer, often at the expense of everyone else.

Abolish Billionaires

The mainstream press occasionally discuss one or two of these issues, but until recently did not get anywhere close to discussing the full extent of the problem, and tended to present rich people in positive terms. However, in the last couple of years there have been a small number of articles explaining that the presence of excessively wealthy people is an obvious sign of an economic system that is not working properly, with the recommendation that we abolish billionaires.(29)

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