

THE ROLE OF BILLIONAIRES IN THE ECONOMIC SYSTEM OF THE 21ST CENTURY

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ABSTRACT

This paper is a summary of the keynote speech presented at the Conference. Its purpose is to analyse the importance of billionaires in the economy of the 21st century. The paper analyses three basic questions about the billionaires namely, their number, the cause of their existence and the consequences of that existence. The methodology of the paper is basically search of data and information online coupled with reasoning about the topic. We conclude that billionaires are few in number but their importance is rising. They are explained by many factors, most important of all the intangible assets which govern the economy of the current times; and their social, economic and political importance cannot be underestimated. So, as a general conclusion we find that billionaires are a distinctive feature of the economy of the 21st century, and that they are here to stay, and, within a ever more interdependent world, they will survive as long as they will be considered a force of economic well being, .

KEYWORDS: *intangibles, 21st century, billionaires, economic system, managers*

JEL CLASSIFICATION: *M29*

1. INTRODUCTION

In the last ten years the world has been overflowed with information about very rich people. They may be company owners like Bill Gates (Forbes, 2017) footballers like Neymar (The Guardian, 2017), banks workers (The Guardian, 2009), or even Russian oligarchs (Sinelschilova, 2017). And, if we had any doubt about the importance of this sort of people, the recent election of Mr Donald Trump, himself a billionaire, to become President of the United States, must have put the question beyond discussion (Forbes, 2017b).

In this context the paper addresses three questions, namely:

- a) Who are and what do billionaires do?
- b) What are the causes of existence of billionaires?
- c) What are the consequences of the existence of billionaires?

In order to answer these questions the paper is divided in five more sections: 2. Context. 3. Statistics 4. Causes 5 Consequences 6. Discussion 7. Conclusions.

2. CONTEXT

The economy of 2017 may be defined by some very specific characteristics: its economic base is the services sector; its basic production factor is knowledge; countries in presence are 200: economic major players are the USA, the EU, Japan, the BRICS and the MENA countries. Trade is tendentially free but there is also more and more free movement of people, capital, services and Intellectual Property. Finally energy, and cars, are becoming electric and automatic.

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3. STATISTICS

A millionaire is somebody whose net worth is over 1 million dollars. A billionaire somebody whose net worth is over one thousand million dollars.

According to recent data: 14.6 million (1 in 500 in the world) people were millionaires in 2014 (Capgemini 2014); 4.3 million (1 in 80) were millionaires from the USA; 140 persons were billionaires in 1987 and the number rose more than tenfold to 2043 in 2017; in 1987 billionaires hold 295 millions in wealth and 7.7 trillion dollars in 2017 (Forbes 2017). Oxfam calculated that the 62 persons (53 men and 9 women) had as much wealth as the bottom half of the population in 2015: 1.76 trillion (Oxfam 2016). Lately Oxfam claimed that 8 men own much wealth as half of the world (Oxfam, 2017). Those 8 men are the following: Bill Gates owner of Microsoft, Amancio Ortega, owner of Inditex, Zara, Warren Buffet owner of Kmart, Carlos Slim owner of Helu Grupo Carso. Jeff Bezos owner of Amazon, Mark Zuckerberg owner of Facebook, Larry Ellison owner of Oracle and Michael Bloomberg owner of Bloomberg.

4. CAUSES

4.1 History of Economic Thought

The existence of very rich people was explained by the various schools of thought that highlighted the course of the Economic Science:

- a) The classical authors, from the liberal school (Smith, 1777, Mill, 1848 Marshall, 1890), explained the existence of enormously wealthy people by the possession of lucrative assets.
- b) The Marxist analysis of the Capitalist world (Marx, 2008), in which the company would appropriate the profit surplus from the labor force, was in itself a way of explaining the existence of the very rich.
- c) The Liberal Classical and the Marxist analysis were two contrasting theories about wealth. They were somehow softened and intersected by the Catholic Church (Pope Leo XIII, 1891) and Bismarck (1884), which defined the basis for the conservative social model. For those thinkers, a certain level of austerity and parsimony was needed in the upper classes of the society, in order to maintain the social peace and to ensure the political stability. Also, to these authors, the society would only last if an agreement was reached between the State, the workers and the employers (a proxy of the billionaires) to fund important aspects like the social security of workers.
- d) Finally Keynesianism economics generated a progressive form of income and company taxes, which by redistributing wealth massively, effectively diminished considerably the wealth of the very rich (Keynes, 1936), and put them contributing to the society.

4.2 Microeconomic considerations

Microeconomic theory also provides a considerable number of explanations on what generates a billionaire, namely the market structure and the tax system:

- a) Monopolies, monopsonies oligopolies and oligopsonies tend to generate more very rich people than the free market (Frank, 2005). The reason is that owners of companies in those markets tend to use their privileged position to raise price above marginal costs, increasing the profit margin and in the end increasing its owner wealth. There is also a tendency for the number of firms to be small and their dimension large; in a globalized economy that fact tends to make the owners of those organizations (which become naturally multinationals) very rich and ultimately billionaires.
- b) Some tax systems are more progressive than others and in some of them rich people may have to pay 90 percent of their income. The discussion about the pros and cons of a tax over big fortunes is still ongoing (Thorndike, 2014).

Some systems are more permissive than others, and the way some people know how to profit from the legal loopholes to increase their wealth may be decisive to those people. In 2016 news broke about worldwide evasion like the Panama Papers (ICIJ, 2016). Google and Ireland (The Guardian, 2016), and known football stars (The Guardian, 2017b) all this was well documented in the press worldwide.

4.3 Societal aspects

Other causes of very high wealth are the political power, crime, perceived uniqueness linked to brands and marketing, technology, globalization and luck. We are going to analyze each one of these factors now:

- a) The political power is important because many fortunes are made through monopolies which are obtained with the support of the state" (BBC, 2011);
- b) Crime is also a factor of big wealth: crime barons tend to evade taxes; the big wealth is also a factor of power and intimidation (Barry, 2007). From the mafia to the drug chiefs, arm dealers and prostitution ring leaders, all the big criminals of the world tend to be very rich (Carlyle, 2012; corruption is another form of obtaining wealth (Husted, 1999).
- c) Very rich people benefit from the fact that they, or the good or service they rely on to become rich is unique or at least that it is distinguishable from the others. It is not only by a joke the José Mourinho says he is the "Special One"(Youtube 2004). There is only one champion in every sport per year. And highly hierarchical fields (sport) tend to generate more millionaires than less hierarchical fields (for example the teaching profession).

Moreover those "unique" persons are dependent on a brand and on marketing strategies. It may happen that those persons are considered as a brand by themselves (like sports persons as Ronaldo, Messi or Herman Maier), or it may only be the case that those persons own organizations that are represented by successful brands (like Bill Gates or Yves Saint Laurent). In any case, those brands are commercialized through marketing techniques, which are themselves essential to the existence of the very rich people;

- d) Technology also facilitates deeply the existence of billionaires and millionaires (Rosen 1981), because it increases the number of persons that may have access to the good or service, and because it increases the possibility of production of the good or service. In particular the Information technology (IT) was responsible for the exponential increase in the possibility of existence of very rich people because it made possible that the product was reached a global audience. The internet is the ultimate of those tools of creation of the very rich. As soon as a product is online, it may generate a fortune, depending on the other factors;

- e) The globalization process also is a major factor of wealth for the very rich. Lowering the trade barriers facilitated the selling of the products made by the companies owned by these people. Globalization facilitated the movements of production factors for those companies, and the transformation of those companies in multinational conglomerates. The free movement of capital increased the possibility of gains in the capital markets. The benefits from the tax heavens are accrued in a global world;

- f) Finally, luck may be a source of very high wealth. With the emergence of globalization and IT technologies betting become a global phenomenon. Millions of pounds may be own from official betting in sport (William Hill and other not so legal betting schemes), or by national or European lotteries (el Gordo in Spain and euro millions in Europe (El Gordo, 2017).

4.4 Intangibles

4.4.1 Intellectual Capital

IC is a very recent concept in the history of economic thought (Edvinson and Malone, 1997). The three main components of IC are Human Capital, Structural Capital and Social Capital. These

components are value drivers in companies, IC being responsible for the difference between the market value and the book value (Edvinsson and Malone, 1997).

Furthermore, in modern theories the value of the wealth of billionaires depends crucially on the market value of the companies they own (Edvinsson and Malone, 1997). Quite crucially, theoretically, the stock market value should reflect the value of the tangible assets, but also of the intangible assets of companies. That market value is defined by the number of shares times the value of each share. Billionaires own companies whose number of shares is in the millions and whose value per share is also very high. Therefore the value of the companies' market share is of billions and that value increases the wealth of the owners. A decrease in the value of the company stock may originate a fall in the wealth of the person of millions of dollars, but the reverse is also possible. The increase in the number of billionaires is decisively related with the increase in the success of the stock market worldwide.

Given that knowledge workers and companies possess more intangible assets than non-knowledge workers and companies, we may say that knowledge companies tend to have a higher value of intangible assets, and therefore tend to have a higher market value. The higher the market value the higher the possibility of the company owner being a billionaire. Therefore, by directly influencing the stock value market and the market value of companies, IC is a cause of the existence of billionaires.

Also given that IC encompasses competences, routines and brands, and given that those three elements may accrue to the value of a company, it becomes clear that IC may also increase the wealth of the companies' owner. In simple words – billionaires are partial or total owners of multinational companies, and the market value of those companies depends crucially on their human resources, their routines and their brand image.

4.4.2 Human Resource Development (HRD)

HRD deals with competences, talent and skills (Mc Guire, 2014). Basically all those studies tell that competences, skills and talent have very beneficial impacts in organizations. And, quite crucially many of these studies have been done in large companies, corporations and multinationals (Mc Graw, 2014, Fardale and Paauwe 2005). Therefore the companies billionaires own are themselves the definitive example and sometimes the case study which proves that companies and organizations as a whole benefit from human resources.

4.4.3 Knowledge Management

Knowledge Management (Nonaka and Takeuchi, 1995) concerns the cycle of knowledge, knowledge creation, and also tacit and explicit knowledge. It all comes down to the need of organizations to create, use and profit from knowledge in order to become better and more prosperous and profitable and to have a positive impact in societies (Bratianu, 2015). Quite significantly a big share of the explicit implementation and the detailed study of KM practices has been done in multinationals (Michailova and Nielsen, 2006, O'Sullivan, 2007, Kumar and al, 2014). These multinationals are the ones which are owned by millionaires or billionaires or that pay to the megastars the money they own. Therefore KM is directly linked to the phenomenon of millionaires and billionaires. Without KM millionaires would be fewer and billionaires might not even exist.

So, KM is, with IC and HRD the economic basis of the wealth of billionaires. And, as a final word we may say that behind every big project of managing intangibles lies a big corporation and ultimately a member of the small club of the billionaires.

5. CONSEQUENCES

Billionaires are quite important in economic terms: they own the major companies in the world, those which produce the basic good – social media, computers, cars, oil or delivery of basic consumption goods. In consequence billionaires became extremely important in the world of

finance, because they have the power to invest and to influence the stock market and sometimes the currency, has George Soros did in 1992 when he managed to throw the pound away from the European Monetary System (EMS). Furthermore, the social importance of billionaires is extremely important because they produce essential goods, they control essential assets and companies and they are among the biggest employers in the world.

All this leads us to the question of power: billionaires are extremely powerful in societal terms. This happens because they may influence governments to implement policies, they may fight governments over taxes, or they may even go to the political arena. In fact in the last years, billionaires have been active in Hungary (George Soros being a major figure in Hungarian politics), the Czech Republic (Andrej Babis founder of the Ano Party that won the recent elections) and most of all, Donald Trump being elected President of the United States just one year ago

6. DISCUSSION

Despite all what was said in the previous section, billionaires face many constraints, First, they depend on the mass of employers they hire, on their skills, and their knowledge. Also, billionaires depend in good routines in companies, which implement good strategies. And finally, billionaires depend on the reputation of their companies, which depend on the billionaires' own work, but also on the work of thousands of workers and the expenditures millions consumers. Therefore, following Tomé 2005 and Tomé 2017 we believe that intangibles have the essence to make the world more balanced and to control the power of billionaires.

For the future, we believe that billionaires will continue to exist, and their number will even grow, because possibilities to become billionaires will increase as the world will get richer and even more connected. But also, as people will become more and more educated, and informed, they will tend to be more able to control the power of billionaires, in all areas. So, as rather surprisingly, the 21st century will probably see the emergence of a more unequal society but one in which there will be much less poverty, much more knowledge and the power will be much more balanced. In that society billionaires will be a major feature because they will be a product of the society but also because they will depend on that society to survive and prosper. In the end, billionaires will only succeed to survive if they become a source of prosperity and a force of good.

7. CONCLUSIONS

The data that exist and are available about millionaires and above all millionaires are mindboggling. Millionaires are 1 in 500, billionaires 1 in 3500 000 and the top 8, or 62, are richer than half of the humanity put together. The phenomena of very rich people was explained by all the major economists and ideologies, from Smith to Keynes. More recently the tax system and the market structures explain a lot about the existence of billionaires. Other causes of the existence of billionaires are political power, crime, perceived uniqueness linked to brands and marketing, technology, globalization and luck. Finally, last but not the least we believe and demonstrated that the basis of the billionaires' wealth are intangible assets, namely Human Resources, Intellectual Capital and Knowledge Management. All this leads to the idea that billionaires have massive importance in economic, financial, social and political terms. But, and decisively, we believe that intangibles will put a decisive break in the societal power of billionaires.

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