

The Role of Billionaires in the Economic Paradigm of the 21st Century

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Abstract. *The purpose of this paper is to analyse the importance of billionaires in the economy of the 21st century. We assume that rich people and organizations existed since civilization exists, but billionaires are a different phenomenon and they appear within a very specific context. This paper analyses the cause of the existence of billionaires and also discusses some consequences of that existence. The methodology of the paper is basically a search of data and information online coupled with reasoning about the topic. We conclude that, quite crucially, billionaires are a distinctive feature of the economy of the 21st century, both by the facts which cause them and the consequences that derive from the billionaires' existence. Moreover, all those causes and consequences thrive and are related to the knowledge economy. The study is original because even if the top 1% persons have been studied recently, no systematic analysis of causes and effects of billionaires nor the relation with the knowledge economy has been done. The conclusions of the paper matter for politicians, analysts, the billionaires themselves, and all those that live in the knowledge economy. The paper is a limited effort but it defines decisive questions for the world's future.*

Keywords. *billionaires, knowledge economy.*

Introduction

Being rich is not a sin. We do not have anything against rich people. Since long ago we found and read a very interesting paper on them (Rosen, 1986). But we have to confess that in the last ten years we become more and more interested in the phenomena of billionaires. Media frenzy and availability of information helped. Ordinary people like us are every day bombarded with news about the incredible wealth of company owners like Bill Gates (Forbes, 2017a) or the astronomic wage of footballers like Neymar (The Guardian, 2017a), or the amazing bonuses paid by banks (The Guardian, 2009). After the fall of communism in Russia, we witnessed the arrival at power position of a new class of oligarchs with very close relations to the power (Sinelschilova, 2017). And, in more recent years, the word was taken by surprise when Mr. Donald Trump, himself a billionaire, become President of the United States, the most important nation in the world (Forbes, 2017b).

All these movement, that we perceived instinctively as a raise of the importance of very rich people (let us called them millionaires) or extremely rich people (let us

call them billionaires) occurred in the context of the transformation of the world from a situation (which reached its peak in the seventies of the last century, already almost 50 years ago, time passes fast) and was industry based, with around 100 countries, bipolar (the USA versus the USSR), with some free trade but not that much, dominated almost exclusively by oil and gasoil consumers automobiles (Fourastié, 1979), to a situation (which is the current status but it is also ongoing), which is knowledge driven and service based, with around 200 countries, multipolar (with ten major players, namely, the USA, Japan, the EU, the BRICS, and the MENA region) with a big tendency to globalization, and in which clean non-oil energies be them nuclear, electric or sun energy have a much bigger influence. Also, the technology and the communication evolved from telex to internet and from phones to digital age. The two situations are shown in Table 1.

Table 1. 1970s versus 2020

Topic	Around 1970s	Nowadays and near future
Economic base	Industry	Services
Human factor	Skills	Knowledge
Number of countries	100s	200s
Leaders	USA and USSR	USA, Japan, EU, BRICS, MENA
Trade	WTO based	Free movement Free movement of people, capital, goods, and services. Also Intellectual Property
Cars	Oil	Becoming electric
Energy	Oil	Electric, nuclear, sun

It is within this changed environment that the billionaires emerged as a social, economic, financial and political power. Therefore, and in this context, we explore three main questions:

- What is the role of billionaires in the economy of the 21st century?
- What are the causes of the existence of billionaires?
- What are the consequences of the existence of billionaires?

All the work to answer these questions will be done in the scope of the management field and within the idea about the role of management in the economic paradigm of the 21st century; in this paper, we will analyse the case of billionaires who, it happens are a type of managers.

In order to answer questions a) b) and c) just mentioned this paper will be divided into four following sections. In the first section, we present some basic data on billionaires to answer the first research question. In the second section, a literature review of the main concepts and the main theories that apply to billionaires is presented, in order to answer the second research question. In the third section, we discuss the influence of billionaires to answer the third question. In the fourth

section, we present the paper's conclusions and indicate ideas for future research following the paper.

Basic data – Who are and what to billionaires do?

Concepts: billionaires and millionaires

A millionaire is someone whose net wealth is of more than 1 million dollars in a moment of time (Sunday Times, 2016). A billionaire is someone who has a net wealth of more than one thousand million dollars in a given moment of time (Forbes, 2016).

Wealth is not income; wealth is a stock. Income is a flux income as other fluxes increases or decreases wealth (Frank, 2005). Wealth is defined as Human or Non-Human (Frank, 2005). Human Wealth (HW) is generated by work; Intangible assets are becoming increasingly more important in this context as we will see during the analysis. Non-Human Wealth (NHW) derives from the ownership of tangible assets like cars, houses, paintings, bonds or gold.

What is the role of billionaires in the economy of the 21st century?

In the old days of the mid-20th century, being a millionaire was a synonym of affluence. But today, the scale of wealth is steeper, and the real wealthy persons are billionaires. In fact, the average per capita income in Power Purchase Parities (PPP) in the world in 2016 was of 16136 dollars (World Bank, 2016), and more than four fifths of the Humanity lives with less than that.

In consequence, only a small percentage of people can have a wealth over 1 million dollars. Estimates consider that only 14.6 million people were actually millionaires in 2014 (Capgemini, 2014) meaning that 1 in 500 people are millionaires. Of those 4.3 million are from the USA, so 1 in 80 in the country.

The group of billionaires is much smaller, being composed by only 2043 individuals in 2017 (Forbes, 2017a); the combined wealth of those individuals is of 7.7 trillion dollars, which compares with the world GDP in 2016 of 75.3 trillion as calculated by the World Bank (World Bank, 2016). In 1987 the number was only 140, and their combined wealth 295 billion (Forbes, 2017a).

Oxfam famously 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 it was claimed that 8 men own much wealth as half of the world (Oxfam, 2017). A description of the eight people is made in Table 2.

Table 2. The world richest billionaires 2016
(Oxfam, 2017; World Bank, 2016)

Name	Company	Country	Net worth
Bill Gates	Microsoft	USA	75
Amancio Ortega	Inditex, Zara	Spain	67
Warren Buffet	Kmart	USA	61
Carlos Slim Helu	Grupo Carso	Mexico	50
Jeff Bezos	Amazon	USA	45
Mark Zuckerberg	Facebook	USA	45
Larry Ellison	Oracle	USA	44
Michael Bloomberg	Bloomberg	USA	40
			Sum: 427 million

How can we explain those figures? Most of the wealth of billionaires derives from the ownership of assets, and those assets relate to the ownership of companies. Those companies are multinationals. The wealth of millionaires may derive from several factors: ownership of relatively small companies, ownership of financial assets or property, brand image or even luck.

We will explain the ideas related to their causes more in detail in the next section.

Literature review. What causes billionaires?

In this subsection, we will analyze the phenomena of billionaires and millionaires with the lens of the History of Economic Thought, Microeconomics, Societal facts, and finally Intangibles as specifically, Intellectual Capital, Human Resources and Knowledge Management.

History of economic thought

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

a) The classical authors, from the liberal school (Marshall, 1890; Mill, 1848; Smith, 1977), explained the existence of enormously wealthy people by the possession of lucrative assets. Therefore, landlords and company owners would be very affluent if the land and the company they would possess was very productive. The basis of the affluence was basically tangible – land, tools, machines.

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. The difference between Marx and the other Classical economists was that Marx doubted that the Capitalist would pay the workers what was fair, particularly if they were very productive; therefore, for Marx the rich were the product of capitalism, the epitome of the ruling class; quite crucially Marx predicted that the very rich would be defeated by the labor class, by the means of the Socialist Revolution made by the Communist Party. Therefore, Marx, maybe more than other classical authors, was very concerned with the ancestors of the billionaires and would probably be very interested in the phenomena of “billionarism” if he were to be alive today.

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; moreover, 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) After the Great Recession, 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.

Microeconomic aspects

The microeconomic theory also provides a considerable number of explanations on what generates a billionaire. Namely the market structure and the tax system:

a) The first of those explanations is linked with the form of the market (Frank, 2005). In fact, monopolies, monopsonies oligopolies, and oligopsonies tend to generate more very rich people than the free market. 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. The situation is more frequent and profitable in monopolies and monopsonies than in oligopolies and oligopsonies, due to the number of the company in action. In all these cases 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) The second explanation relates to the tax system. Some tax systems are more progressive than others and in some of them, rich people may have to pay 90 percent of their income. Known stories exist about very rich people that change or changed their location to pay fewer taxes (Tom Jones, Alain Prost) while some others did not have that luck (Bjorn Borg and the Abba group members) at least for some time. Also, the existence of a tax over big fortunes has been debated and implemented, namely in France (Thorndike, 2014). Proponents say that tax is socially understandable and would bring benefits to the society. Opponents note however that the tax would increase the outflow of capital from the country and would likely decrease investment. The French experience on that type of tax did not last long and nowadays only the far left parties defend that tax.

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 this context, in a globalized world in which capital flows are the rule the existence of tax heavens (like Monaco) and off shores (like the Cayman Islands, the Virgin Islands, Madera in Portugal) is in itself a cause of very high wealth and very rich people. Billionaires and the companies they own are known to use complex and elaborated financial vehicles to evade the tax and pay less

(Nicholson, 2016). 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.

Macro or societal facts

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; furthermore, the history of the dictatorships in the last 100 years is accompanied by a list of ruling families, which assumed the political power while amassing very considerable fortunes, before being toppled down; the last known cases relate to this Springs “Arab uprising” (BBC, 2011);

b) Crime is also a factor of big wealth; the organized crime is oligopolistic or monopolistic by nature, and the 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, arms 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/ 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 (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 the 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 for the 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. First of all, the lowering of the trade barriers has facilitated the selling of the products made by the companies owned by these people. Second, globalization has facilitated the movements of production factors for those companies and the transformation of those companies in multinational conglomerates. Third, the free movement of capital increased the possibility of gains in the capital markets. Finally, 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 and euro millions), National lotteries in particular claim that they “create eccentrics every week” (El Gordo, 2017).

Intangibles: Intellectual Capital (IC) and Human Resources and Knowledge Management (KM)

IC is a very recent concept in the history of economic thought (Edvinson & 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 (Edvinson & Malone, 1997). As economic reality is always changing IC is seen as a strategic element for its possessors whose dynamic is decisive to manage (Sveiby, 1997). Many methods have been used to assess investments in IC (Sveiby, 2010). The concept was defined as a sum of intangible assets of companies (Bornermann & Alwert, 2007), but also on regions (Bonfour & Edvinson, 2005) and more recently on individuals (Mura & Longo, 2013).

Since the 60s of the last century, analysis had been done about the disadvantaged (Atkinson, 1983), and it was well established that investing in Human Capital (which is one of the components of IC) was a way of eliminating poverty. But as described in the following Table 3, the analysis of Intellectual Capital and of inequalities followed separated routes (Tomé & Khazieva, 2015).

Table 3. Intellectual Capital and Inequalities (Tomé & Khazieva, 2015)

	Intellectual Capital	Inequalities
Beginnings	Nineties	Sixties
Dominant subject of analysis	Companies	Individuals
Dominant problem or research questions	Market value minus book value	Reduction of inequality, elimination of poverty and exclusion
Dominant focus	Strategic	Social
Dominant methodology	Balance Scorecard, Tobin q	Gini and Theil indexes
Main authors	Edvinson, Kaplan, and Norton	Atkinson. Sen, Berghman
3Known studies	Bonnerman (Incas study)	Luxembourg income studies

Having said that, and quite surprisingly, the economic studies of the very rich were very few; some analysis on the dimension of their wealth may be found in Atkinson (1983), and the seminal study about the rich people behavior made more than 100 years ago remained for many years (Veblen, 1899). Very recently, Piketty (2013),

who worked with Atkinson, in its very well-known book on Capital, debated the possibility of the world becoming more oligarchic due to the imbalance in wealth distribution (Piketty, 2013) and also the possibility of the existence of “super-cadres” that would become rich (Piketty, 2013).

Furthermore, in modern theories, the value of the wealth of billionaires depends crucially on the market value of the companies they own (Edvinsson & Malone, 1997). 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.

Quite crucially, theoretically, the stock market value should reflect the value of the tangible assets, but also of the intangible assets of companies. 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.

Moreover, two types of studies have been done over companies that emphasize the importance of intangibles as a source of billionaires’ wealth.

a) The first type is related to Human Resource Development, which deals with competences, talent and skills (McGuire, 2014). Basically all the studies done in this area show 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 (Farndale & Paauwe, 2005; McGraw, 2014). 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.

b) The second type of analysis relate with Knowledge Management (Nonaka & Takeuchi, 1995). The analysis 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 (Kumar, Vidyapith, & Gupta, 2014; Michailova & Nielsen, 2006; O'Sullivan, 2007) 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.

Impacts: what are the consequences of the existence of billionaires?

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, as 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: and here we believe two ideas are decisive and must be taken into consideration. In one hand, 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.

However, on the other hand, we believe billionaires depend on the mass of employers they hire, on their skills, and their knowledge. Also, billionaires depend on 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.

Conclusion

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 were 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 least, we believe and have 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.

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 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.

Acknowledgment. *The author would like to thank the organizers of the 11th International Management Conference – The role of management in the economic paradigm of the 21st century, held in Bucharest, Romania, from 2nd to 4th November 2017 at Bucharest University of Economic Studies to give me the chance to present the keynote speech in which this paper is based.*

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Received: October 12, 2017
Accepted: November 28, 2017