

THE CASE FOR A BILLIONAIRE TAX



Pupils in a school in Mukuru informal settlement, Nairobi, 2014. Improving the facilities at schools in Mukuru has meant a significant increase in attendance, particularly for girls. Photo: Sam Tarling

Ending extreme inequality to end poverty has no lack of policy options: from corporate tax reform to investment in health and education, and from raising the minimum wage to ending gender discrimination. This discussion paper aims to put one of these solutions on the agenda: the billionaire tax.

A global tax of 1.5% on individual net wealth in excess of \$1 billion and spent on basic education and health services in poor countries is politically feasible, sufficient to fund universal access to basic education and healthcare, good for economic growth, ethically justified, and could be a catalyst for change.

Oxfam Discussion Papers

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INTRODUCTION

As Oxfam reported in 2016, the 62 richest individuals in the world own as much wealth as half of humanity.¹ Most people have the gut feeling that such extreme inequality is wrong. But what can be done about it?

There is no lack of policy options to end extreme inequality: from corporate tax reform to investment in health and education, and from raising the minimum wage to ending gender discrimination.² This discussion paper aims to put one of these solutions on the agenda: the billionaire tax.

In 'Capital in the Twenty-First Century', a book that captured the zeitgeist, Thomas Piketty made the case for wealth taxes.³ Oxfam floated the idea of a global billionaire tax in 2014,⁴ echoing a similar suggestion by the United Nations in 2012.⁵ The consensus, however, is that global wealth taxes are politically unfeasible.

Or are they? This paper argues that a tax of 1.5% on all individual net wealth in excess of \$1 billion and spent on basic education and health services in poor countries is

- politically feasible,
- sufficient to fund universal access to basic education and healthcare,
- good for economic growth,
- ethically justified, and
- a catalyst for change.

A BILLIONAIRE TAX IS POLITICALLY FEASIBLE

A three-step strategy could make a billionaire tax a reality. The first two steps – UN resolution and corporate social responsibility – would establish the norm that the world's billionaires are expected to contribute to international development. The third step – national legislation – would make that contribution mandatory, making it a true tax. Each step builds on the previous one, but they could also be pursued in parallel.

No international body has the legal authority to levy taxes. States will oppose any attempt to give them such enforcement authority, as taxation is a symbol of sovereignty. Nevertheless, the United Nations carries moral authority and the resolutions of its General Assembly constitute 'soft law' – norms that member states are expected to follow.

As the first step, with a single majority vote, the UN General Assembly could call on individuals to contribute each year 1.5% of their net wealth above one billion dollars to international development, and call on member states to enforce such contributions. Low-income and lower-middle-income countries have half of the votes in that assembly and a clear interest in passing such a resolution.

Even without enforcement, some billionaires will be willing to heed the world's call and pay their contribution. Billionaires are famous people, whom you can check on Forbes' '**The World's Billionaires**'. Not paying the tax would be known, and would tarnish their reputations. Although some billionaires could hide their wealth to protect their reputations, most of the information that Forbes uses comes from public records. Billionaires typically own shares in publicly-traded companies or private companies that publish some degree of information.⁶ Transparency is an increasingly accepted norm, and more governments now require all kinds of disclosures. This trend is likely to continue.

The second step of the strategy would be to bolster that reputational effect by integrating the billionaire tax into the corporate social responsibility agenda. Billionaires are associated with specific companies that they own. Their companies have a variety of stakeholders, including investors, consumers, and employees. These corporate stakeholders could pressure the billionaire-shareholder to pay the billionaire tax. Although the company and the billionaire-shareholder are different legal persons, and the latter does not have to follow the instructions of the former, their brands are often intimately connected and the billionaire would suffer if his or her company lost consumers or investors.

Ensuring that companies' owners pay the billionaire tax could become a corporate social responsibility norm, like ensuring that labour standards are respected throughout a company's supply chain. We already see that brands enjoying a good reputation are coming under increasing pressure to 'pay their fair share of taxes' and refrain from using tax avoidance schemes. Similar pressure could be built in the future for them to 'share the wealth' or 'give back to society'.

The more legitimacy a corporate social responsibility norm acquires, the more costly it is for companies to ignore it. A resolution of the UN General Assembly, which is the intergovernmental body enjoying the most legitimacy, is not necessary in order to pursue the corporate social responsibility route, but it would greatly support it.

The third step of the strategy would be for governments to pass national legislation making the billionaire tax mandatory for all billionaires owning assets on their territory, regardless of their residence or citizenship. By translating the international 'soft law' into 'hard' national law, the billionaire tax would become a true tax, legally enforceable.

Only a minority of governments would adopt such legislation at first. Even in the long term, some governments are likely to hold out in order to lure wealth to their territories. Nevertheless, a handful of leading countries could sway many billionaires to pay the tax, because national laws would reinforce the global reputational cost of non-compliance and because the inability to operate in the countries mandating the tax would constitute a real commercial handicap.

For instance, ten of the twenty-eight member states of the European Union, including France, Germany, Italy and Spain, are working to adopt a financial transaction tax. A similar coalition would represent a critical mass and provide real teeth to a billionaire tax. The financial transaction tax has been campaigned for by a large coalition of organizations including Oxfam, and the success of the campaign is partly due to the blow to the reputation of the financial industry after the 2008 financial crisis. Likewise, the general public is concerned about extreme inequality; the success of any billionaire tax will ultimately depend on public mobilization.

A billionaire tax is a highly campaignable issue. It is a simple and compelling idea building on the strong feelings people have about inequality. The three-step strategy allows for incremental victories. Last but not least, its potential impact on poverty reduction is huge.

A BILLIONAIRE TAX IS SUFFICIENT TO PAY FOR UNIVERSAL BASIC EDUCATION AND HEALTHCARE

Based on Forbes' data of March 2016, a 1.5% tax on wealth in excess of \$1bn would raise \$70bn a year if all billionaires paid it.⁷ That is a staggering amount despite the small number of taxpayers, reflecting how extreme wealth inequality has become. It corresponds to half the total overseas development assistance from OECD countries to developing countries (\$132bn in 2015).⁸

Such revenues would be sufficient to secure an education for all the 124 million children not going to school in low- and lower-middle-income countries (\$39bn a year according to UNESCO)⁹ and to strengthen the health systems of 74 developing countries and save 6 million lives a year (\$32bn a year according to WHO).¹⁰ Alternatively, it would be sufficient to end 'a dollar a day' extreme poverty.¹¹

While the tax proceeds will vary year to year reflecting the volatility of stock markets, the long-term trajectory is clearly ascending: total billionaire wealth has been growing at 16% a year between 2002 and 2014 despite the 2008–9 financial crisis, according to Forbes data (mainly because of the rapid rise in the number of extremely rich people crossing the billion-dollar threshold). While the tax may slow down that growth, it would not kill the golden goose; indeed, it could even accelerate economic growth.

A BILLIONAIRE TAX MAY BOOST ECONOMIC GROWTH

Extreme poverty is a huge waste of resources. The proceeds of a billionaire tax could grow the human capital and unleash the economic potential of tens of millions of people who currently lack access to basic healthcare and education. That in turn would boost economic growth and decrease poverty.

While the quality of education and healthcare services and good governance of public spending also matter, lack of funding for these social services remains an important barrier to development. One study covering 120 developing countries in the period 1975 to 2000 estimates that increasing spending on education by one percentage point of GDP is associated with three more years of schooling and an increase in economic growth of 1.4 percentage points in 15 years. Similarly, an increase in healthcare spending of one percentage point of GDP is associated with an increase of 0.6 percentage points in the under-five child survival rate and a rise of 0.5 percentage points in annual per capita GDP growth.¹² Spending an extra \$39bn and \$32bn a year on basic education and healthcare would represent investments of respectively 0.6% and 0.5% in low- and lower-middle-income countries' GDP. Such investments might therefore accelerate growth in real per capita GDP of these countries by 1.1 percentage points (from a base of 3.9% in 2015) and global growth by 0.1 percentage points.

To assess the impact of a billionaire tax on economic growth, that positive impact of spending it on essential services must of course be balanced with the negative impact of raising it. Economic theory predicts that wealth taxes reduce economic growth because they discourage saving and risk-taking and encourage capital flight.

Caroline Freund argues that billionaires are necessary to sustain growth in emerging countries,¹³ an argument that is likely to carry weight with G77 leaders whose votes are essential to pass a UN resolution. However, her real point is that large companies are necessary for growth in emerging markets, which is true as they generate economies of scale. Large companies generate billionaires, but the latter are not themselves necessary

for growth.¹⁴ Wealth taxes could reduce extreme wealth without breaking up large companies.

Theoretically, mainstream economists believe that wealth taxes are less harmful to economic growth than other types of taxes.¹⁵ Empirically, evidence on the impact of wealth taxes on economic growth is scarce, as relatively few countries levy them. One study of 20 OECD countries over the 1980s and 1990s finds that increasing the rate of wealth taxes by 1.5 percentage point knocks down the annual GDP growth rate by 0.05 percentage points.¹⁶ However, this estimate is based on the experience of a handful of OECD countries that apply wealth taxes to a broad tax base: in Zurich, people owning as little as €45,900 owe the tax. The billionaire tax would exempt 97.3% of the world's wealth and pretty much 100% of its people, since billionaires account for 2.7% of the world's wealth and 0.00002% of the world's population. The negative impact of the billionaire tax on global economic growth should therefore be in orders of magnitude lower than 0.05 percentage points.

There are two further reasons to believe that the negative impact of the billionaire tax on global economic growth would be lower still.

First, one way in which wealth taxes harm economic growth is in the ability of taxpayers to move their wealth offshore, legally or not. A global wealth tax would be less susceptible to that problem. As long as the tax was not enforced by national governments, billionaires unwilling to pay it would simply not pay. That would result in lower revenues for international development, but it would not be associated with all the economic inefficiencies that aggressive tax planning entails. Once the tax was backed up by national legislation of a critical mass of economically significant countries, options for capital flight would dwindle. Billionaires would be dissuaded from dodging the tax to avoid losing access to lucrative markets.

Second, self-made billionaires are exceptional individuals. They have demonstrated an unusual propensity to save, an insatiable appetite for risk, and an outstanding work ethic. Hence they may react to wealth taxes differently from average individuals. Indeed, there are reasons to believe that a billionaire tax would not affect their economic decisions very much, and might even increase their drive to get richer, contrary to what standard economic theory predicts. We do not have survey data on billionaires, only some biographies,¹⁷ so what follows is speculative.

Economists generally consider that the purpose of wealth is to consume later. One way in which wealth taxes theoretically harm economic growth is by encouraging consumption at the expense of saving, and hence investment. Yet billionaires' fortunes are so large that they cannot be consumed in a lifetime. Their consumption and saving decisions must be pretty insensitive to the value of their net worth. Some billionaires do not consume extravagantly, and a few of them have actually preserved middle-class lifestyles. Meanwhile, a majority of billionaires continue to work to accumulate even more wealth. Many of them continue to take on risky ventures that could ruin them – and every year a significant proportion of them see their fortune plummet, and drop from Forbes' list. Such behaviour cannot be explained rationally by the desire to consume later. Life stories of billionaires strongly suggest that money is a proxy for other human aspirations than consumption.¹⁸

Excellence, competition, fame, power, and legacy are universal aspirations, among others, that may motivate billionaires to continue exercising effort, talent and risk-taking, and will continue to do so with or without a billionaire tax. Understanding these motivations may help tailor the tax to minimize its disincentive effects.

The drive for **excellence** is a powerful motivator. Studies show that professionals are more creative when they are provided with autonomy, a sense of purpose, and opportunities to

acquire mastery of their field.¹⁹ Many people are driven mainly by such inner desire for excellence. They want to exercise their unique talents to make the best contribution to humanity that they can. They work long hours because their work is their passion, their purpose in life. They postpone retirement because it would bore them. Billionaires are great at making deals, and that is what many of them want to spend their life doing, not so much for what money can buy, but because that is what they are good at.

'I'm going to do what I do best; I'm going to make [money]. You guys will have to figure out after I am dead what to do with it.'

John D. MacArthur, founder of the John D. and Catherine T. MacArthur Foundation, a donor to Oxfam.²⁰

Competition is another motivator. 'What is the definition of poverty?' goes the old joke, 'earning \$10,000-a-year less than your brother-in-law'. Even billionaires may feel less rich when they see their peers' wealth growing faster than their own. If all billionaires were subject to the tax, their relative wealth would not change, and their drive to overtake their competitors would remain intact as well. Indeed, the billionaire tax might even incentivize harder work, more saving, and more risk-taking, because it would advantage new billionaires over incumbents, who would need continuous effort to stay on top. A billionaire tax could thereby actually accelerate economic growth.

Fame is another motivator. Some billionaires cooperate with Forbes' data collection effort to make sure that their name appears on its list. Making the list is indeed a source of great pride. To minimize attempts to conceal wealth and avoid the tax, the United Nations should seek to turn the tax paradigm on its head: the billionaire tax should become the first tax that people would want to pay, because it is rightly a testament to extraordinary achievement. While campaigning groups might chase the tax cheats, the United Nations – which will not have enforcement powers anyway – should celebrate those who do pay.

Another motivator to accumulate wealth is **power**. Borrowing the motto 'no taxation without representation', the United Nations' mandate for the billionaire tax could empower taxpayers by giving them a say in the oversight of the spending of the tax proceeds. Another consideration is that most billionaires hold the bulk of their wealth in the form of stocks of their own companies. They would only be able to pay the tax in the form of stocks. That could have bad unintended consequences: dispersion of stockholding might break up the company or weaken its leadership. Billionaires are likely to greatly resist a tax that would force them to relinquish control over their company, their lifetime achievement. The solution would be for taxpayers to pay the tax in the form of non-voting shares. Several billionaires have already given away a large portion of their wealth without relinquishing control of their company.

Last but not least, **legacy** is another motivator for billionaires to continue accumulating wealth. Some billionaires will be tempted to avoid the tax by transferring their wealth to their descendants. The United Nations could not do much about that, but such transfers would be subject to the estate and gift taxes that many national governments impose. However, some billionaires believe in meritocracy and prefer to bequeath most of their wealth to charities rather than to their heirs. Bill Gates and Warren Buffett, both donors to Oxfam through The Bill and Melinda Gates Foundation, have launched a challenge to billionaires to give away at least half of their wealth to charity either during their lifetime or in their will.²¹ As of December 2016, 100 billionaires (including 81 Americans), or 6% of all billionaires, have accepted the challenge. (Another 56 people have taken the pledge but are not billionaires according to Forbes, perhaps as a result of their philanthropy.)

'I had one idea that never changed in my mind – that you should use your wealth to help people. I try to live a normal life, the way I grew up. I set out to work hard, not to get rich.'

Chuck Feeney, founder of The Atlantic Philanthropies foundation, a donor to Oxfam.²²

One might argue that a billionaire tax is not necessary precisely because billionaires are giving away their wealth anyway. However, only a small minority of billionaires have taken up the giving pledge. In continental Western Europe, only two billionaires have; and none in Latin America.

Hall of Fame: The world’s top ten philanthropists (2014)

Name	Lifetime giving	Net worth	Wealth source
Bill & Melinda Gates	\$31,500,000,000	\$76,000,000,000	IT
Warren Buffett	\$22,700,000,000	\$58,200,000,000	Investments
George Soros	\$11,400,000,000	\$23,000,000,000	Finance
Chuck Feeney	\$7,000,000,000	n.a. ¹	Retail
Walton family	\$5,300,000,000	\$139,900,000,000	Retail
Gordon & Betty Moore	\$5,000,000,000	\$4,900,000,000	IT
Eli & Edythe Broad	\$4,100,000,000	\$6,900,000,000	Construction, insurance
Carlos Slim Helú ²	\$4,000,000,000	\$72,000,000,000	Telecom
Michael Bloomberg	\$3,700,000,000	\$33,000,000,000	Media
Azim Premji ²	\$2,100,000,000	\$15,300,000,000	IT

¹ Chuck Feeney gave away nearly all his wealth. ² Lifetime giving data for 2012, using different methodology.

Sources: <http://www.forbes.com/top-givers/> for Americans. For foreigners: E. Durgy. (November 5, 2012).

'Billion Dollar Givers: 23 Who Have Given Away \$1 Billion Or More'. Forbes.

<http://www.forbes.com/sites/edwindurgy/2012/11/05/billion-dollar-givers-23-who-have-given-away-1-billion-or-more/>

Another argument supporting philanthropy as an alternative to tax is that philanthropist entrepreneurs are more effective at spending their money on social causes than governments do with taxpayer money. As a recipient of donations from several foundations founded by billionaires as well as from the general public, national governments, and international institutions, Oxfam sees it differently. The source of funding does not influence the quality of our programs, but different donors do have comparative advantages for different kinds of projects. Private foundations are great to spot promising interventions and fund pilot projects or take them to a certain scale. However, no one beats official donors to give very large grants to reach very large scale. Lack of public funds remains an important barrier to achieving universal coverage of basic healthcare and education services. Few foundations are ready to spend very large amounts of money on tried and tested interventions like teachers’ salaries, year after year.

The billionaire tax and philanthropy need not be exclusive choices anyway. Just as most countries allow taxpayers to deduct their charitable gifts from their tax base, so could the United Nations do when it mandates the billionaire tax. A tax credit could be tailored to both boost philanthropy and raise tax revenues from the billions that are not given away.

Like every human being, each billionaire is driven by their own unique motivations when they decide to consume or save, retire or continue spending effort and taking risks to accumulate more wealth. The billionaire tax will induce some billionaires to retire earlier or take fewer risks, and that would represent an economic inefficiency that would harm global economic growth. The extent of that loss would only be known when the tax was actually introduced. Speculation on the motivations of billionaires suggests that this loss is likely to be very small.

In any event, this loss must be compared with the gains in human capital that the tax proceeds could fund. Empirical studies of both the negative impact of wealth taxes and

the positive impact of public investment in essential services on economic growth are scarce. Nevertheless, the figures quoted in this paper, while very tentative, suggest that the increased growth resulting from the public investment may be orders of magnitude greater than the reduced growth resulting from the tax. This conclusion is consistent with the intuition that unleashing the human capital of tens of millions of people is likely to be more powerful than taxing 1,810 individuals who are driven for success anyway.

More importantly, economic efficiency is not sacrosanct. It is morally neutral. A society with a lower but more equally distributed GDP may be a better society.

A BILLIONAIRE TAX IS ETHICAL

While the impact of the billionaire tax on economic growth is uncertain though probably positive, its redistributive impact is clearer: it would transfer about \$70bn a year from the world's 1,810 richest individuals to tens of millions of the world's poorest individuals in the form of basic education and health services. Most people are likely to find such transfer fair.

In the end, though, it depends on your values. A forthcoming paper discusses how philosophers have for centuries pondered the question of what is the right distribution of wealth.²³ Three theories of social justice – or value systems – call for much deeper redistribution than the billionaire tax proposed here:

- **Marxism** calls for the nationalization of capital to avoid the exploitation of labour. Since all billionaires are capitalists, it means there should not be any billionaires at all.
- **Utilitarianism** calls for 'the most pleasure (and least pain) for the most people'. It is safe to assume that a poor person derives much more pleasure from a dollar than a billionaire, so surely hundreds of millions of poor people would derive more pleasure from \$70bn than 1,810 billionaires would.
- **Egalitarian liberalism** (Rawl's theory of justice) calls for redistribution up to the point where further redistribution would make the poorest people worse off (because taxation rates would be so high as to kill off economic activity). As discussed, the net effect of the billionaire tax and its spending may not harm economic growth at all, such that there would be room for much deeper redistribution.

Counterintuitively, even meritocracy, a fourth school of social justice, is compatible with some degree of redistribution of billionaire wealth.²⁴ Meritocracy means compensating people in proportion to their contribution to society; or alternatively in proportion to their talent, effort, and risk-taking. About one-third of billionaire wealth is inherited, so not meritocratic. Another third is tainted with rents that do not reflect productive activities, from natural resources to the 'network externalities' that boost the profits of information technology companies.

Even the last third could be taxed from a meritocratic perspective. For any given contribution to society, billionaires' wealth grows as society (or the global economy) grows. That growth happens independently from individual billionaires' actions, so they don't merit it. Billionaires have the option to invest all their wealth in risk-free financial assets. The average interest rate of 10-year US Treasury bonds between 1990 and 2010 was 1.7% after inflation (or 4.9% before inflation). Such return does not compensate any talent, effort, or risk-taking. So it is not merited. Hence meritocracy could countenance a 1.5% tax on billionaire wealth. Interest income alone would pay for the tax, and billionaires would preserve the purchasing power of their wealth. Billionaires who choose riskier investments might either make losses or profits beyond 1.5% and would keep the difference, which would be their compensation for risk-taking.

Although Oxfam does not have an official position on which of these philosophical schools of thought it supports, Oxfam consistently advocates for a society that has the interests of the poorest and the most marginalized at its heart, which would suggest a preference for egalitarian liberalism. The proposal of a 1.5% rate for the billionaire tax should not be construed as an implicit embrace of meritocracy, but rather as a judgment of what policy option might be politically feasible in a ten to twenty-year timeframe.

A BILLIONAIRE TAX MAY CATALYZE A MOVEMENT TO END EXTREME INEQUALITY

Back to politics, we should reverse the conventional wisdom that wealth taxes are among the least politically feasible policy options for fighting extreme inequality. There are many ways in which rich people extract 'rents', that is, wealth they did not produce.²⁵ One approach to addressing extreme inequality is to correct these many 'market failures' one by one with adequate legislation: reform corporate tax law, anti-trust law, campaign finance law, intellectual property rights, increase capital gains and estate taxes, remove tax rebates for executive pay and private equity funds, and so on. That would reduce rents, and customers would gain through lower prices, including perhaps some very poor people in developing countries.

Such reforms, accompanied with policies targeting poor people, such as increasing the minimum wage and fighting discrimination in access to education or jobs, would address the root causes of extreme inequality. They are useful and should be pursued.

However, these reforms are many, and none of them is easy by any stretch. Most piecemeal reforms are very technical and vested interests can easily lobby to block them, even in the face of popular support.

The billionaire tax has the potential to become a symbolic cause. Campaigning on this issue could galvanize the growing movement against inequality in a way that campaigning on technical reforms cannot. The billionaire tax has the advantage of going straight to the heart of the inequality debate: what is the just distribution of wealth? Hence it has the potential to change people's attitudes about inequality at a deeper level than, say, the upcoming debate on 'carried interests' in the United States.

Such change in attitudes could in turn transform the political environment in a favourable way. Progress on the billionaire tax could be a game changer by opening political space for the necessary other reforms: if a global wealth tax ceases to be utopia, then everything becomes possible.

NOTES

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- 6 At a later stage, the tax could apply to wealth at lower thresholds (say, over \$100m). However, it is easier to accumulate wealth at such lower levels under the radar screens of public records. That would make collection more difficult and undermine the legitimacy of the tax if a large number of extremely rich people managed to avoid it without public awareness.
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