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Why Be a Billionaire?

Deconstructing *Forbes*' annual list.

By Michael Kinsley

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Forbes magazine has published its annual list of the world's billionaires. On the Web site, there are convenient links to sermonettes in *Forbes* over the years about how the population explosion at the tippy-top of the wealth scale demonstrates the power of human gumption and the glory of the capitalist system. Twenty years ago, according to *Forbes*' lists, there were 140 billionaires. Three years ago there were 476. This year there are 793; each has an average net worth of $3.3 billion.

Nevertheless, billionaires remain a mystery. And it's a mystery at the heart of our economic system. There isn't six times as much gumption in the world as there was two decades ago. Free enterprise, or something like it, has spread to Third World and former Communist countries, and this is reflected in the appearance of Russians, Chinese, and Indians on the *Forbes* list. But that cannot explain the large increase in American billionaires.

A more likely explanation would include various factors. Death, a malady for which money is only a partially effective therapy, has broken some humongous fortunes into multiple huge ones. Second, despite two decades of relatively low inflation, a billion dollars today equals $600 million in 1986 dollars. Third, real general economic growth has pushed some individuals fairly effortlessly over the magic billion line. And fourth, the increase in billionaires is part of the larger trend of growing income inequality. Economic growth used to shrink the top and bottom while expanding the middle. Now, for reasons that are also partly mysterious, it does the opposite.

Some people automatically associate great wealth with evil, and they deserve the ridicule they get in *Forbes* and country-club bars everywhere. But the automatic association of great wealth with virtue is equally fatuous. It's probably true that most billionaires have acquired their wealth in ways that make life better for the rest of us. Among American billionaires, the top of the list is dominated by computers, Wal-Mart, and Mars bars: all mixed blessings, perhaps, but blessings nevertheless.

But the *Forbes* list includes plenty whose only contribution toward their own wealth was choosing rich parents. While there are only a few outright crooks or sociopaths on the list, there are many whose accumulation of vast wealth, however gumptuous in method, does not fit the Adam Smith model of individual drive and greed being channeled into activities that benefit all. The rising value of exclusive franchises that the government originally gave away cheaply or free, such as railroad right-of-ways in the 19th century or cable-TV and cell-phone licenses in the 20th, continues to create billionaires without generating any general social payoff. Real estate investors are some of the savviest and hardest-working billionaires around, but even their most strenuous efforts have not created a square inch of new land.

Meanwhile science undermines the notion that people deserve moral credit for their smarts, daring, vision, dedication, and similar virtues, even when these are applied in socially beneficial ways. Intelligence was the first to go: Whether nature or nurture, how smart you are is beyond your control. Why should you get the credit if your brains help to make you a billionaire? Increasingly, neuroscience and evolutionary psychology are showing that the same logic applies to other admirable qualities.

The question of how and why people become billionaires ought to be especially interesting to those, like Forbes, who tout billionaires as crucial to the world's prosperity.

But the billionaire touts tend to be satisfied with the Adam Smith invisible-hand theory in its most primitive form.

This makes no sense. Even in its most primitive form, the invisible hand is a brilliant explanation of what motivates most of us, and how our efforts serve the common good. We work to produce things that can be traded for things we want. That trade makes us better off than we would be if we made everything we consume ourselves. The first exchange of one caveman's dinosaur meat for another's rather attractive decorative rock started a process that, after millions of years, leads to DVD players at Wal-Mart that cost less than DVDs. Or something like that.

But billionaires are generally long past the point where the desire for more goods and services can be a motivation. Just look at *Forbes*' consumer-porn sidebars about the billionaire lifestyle. These might inspire the world's most thing-oriented individual to go for a few hundred million. But not $3.3 billion: The billionaire's lifestyle just doesn't cost that much.

Add it up. According to *Forbes*, yachts can cost up to $300 million to buy plus 10 percent annually to run, and a Russian on the list has three. If you buy three of the biggest and each one lasts only five years, that's $270 million a year. The most expensive car *Forbes* could find was something called a Bugatti Veyron, costing $1 million. Get a new one every year—heck, get three—throw in maintenance and a full-time driver, luxuriate in a visit to Jiffy Lube every month (instead of the three-month intervals urged upon the bourgeoisie), and you're still talking barely $4 million a year. *Forbes* reports that actually the top 10 billionaires drive much cheaper cars than this.

House? Prince Ahlwaleed bin Talal Alsaud has a 317-room (but who's counting?) palace in Riyadh that cost $130 million. Suppose you own five of these, and every 10 years you tear them all down and rebuild from scratch. Even if you add maintenance, air conditioning, and condo fees, you have to struggle to hit $100 million a year. Put one of them on your own private island. The most expensive island *Forbes* could find for sale was listed at $39.7 million. But when they see you coming they're going to up that to $40 mil, aren't they? So what! Buy a new one every year. Fly there in your private plane. *Forbes* strangely doesn't say how much a private plane costs, but says you can charter a plane to the Bahamas for $40,000. So, leave all your houses and your island and do that every weekend. It adds up to under $2.1 million. Check into a nice hotel. Use the minibar. Another million or so, depending on whether you go for the chips or the nuts.

Staff yourself silly. *Forbes* says that a personal assistant to schedule your travel and keep you stocked in razor blades and deodorant can cost up to $80,000 a year. Heck, pay yours $100,000. Hire five. And three for your spouse. With benefits (don't forget to pay their Social Security) that's still under a million. A security "adviser" is pricier: A top British firm charges $1,600 a day. Better get three, and one more for the spouse. That means you're spending $2.5 million to protect your $3.3 billion from harm. Oh, and your family too.

Total? Uh-oh, with a Starbucks latte every day (essential), you're over $400 million! At that rate, the average billionaire's stash could be gone in less than a decade. But about 90 percent of this is the boats and the houses. So, settle for either one yacht that is larger than anyone else's or three yachts that aren't. Make do with two Saudi-style palaces and a Las Vegas time share. Acquire one private island instead of one a year. *Voilà!* You have economized down to barely $100 million a year. At that rate, $3.3 billion is enough to live better than a Saudi prince and leave enough to your children so that they can do the same (provided that you don't have as many children as a Saudi prince).

The notion that billionaires are inspired to accumulate more billions by the prospect of a third gigantic yacht is shared by vulgar capitalists and vulgar anti-capitalists, but as a theory of billionaire behavior it doesn't even describe reality. Most billionaires spend far less than they could and don't even own that first yacht. Many of them give huge amounts to charity. But it's also hard to believe that the chance to give it away is a major motive for earning it in the first place. And if billionaires do earn it primarily in order to give it away, that itself would require a special economic theory just for them, different from the one that explains the rest of us.

The prevalent theory of billionaire behavior is that it's a matter of keeping score. Investor Carl Icahn, possibly the greediest of the top-level American billionaires, put it this way to Ken Auletta of *The New Yorker* in explaining his recent siege of Time Warner: "I enjoy winning and making money. I've always been an obsessive character. I don't see a psychiatrist, but, if you really analyzed it, people like me are out to win, and winning is money." Keynes meant something similar, though maybe more subtle, when he used the term "animal spirits" to describe the motivation of capitalists.

This raises the interesting question: If winning is what the money is all about, wouldn't, say, half as much money be just as much winning—as long as everybody else in the game had half as much money as well? If Icahn is right, a stiff tax on billionaires ought to have no negative effect at all, as long as it is applied to all billionaires equally. I'm not advocating such a tax. I am, though, suggesting that the exquisite sensitivity to the incentives of rich people that has been the dominant force in tax policy since 1980 may be overwrought.

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