ISSN 2959-6130

The analysis of good and bad effects of business people's money-making and money-spending activities

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Abstract:

There is no doubt that the money-making and money-spending activities of successful business people have a positive impact on society. Firstly, the rich alleviate the wealth gap and promote income equity through wealth distribution mechanisms such as taxation and charitable donations. Secondly, the rich promote economic development by accelerating money circulation and boosting employment through investment and consumption. Besides, business operations and charitable consumption by the rich can increase the supply of public goods and improve social welfare. However, there are also some adverse effects, such as the Matthew effect widening the gap between rich and poor, the exploitation and oppression of workers by capitalists, and the negative externalities of business people's economic activities. This paper proposes some policy recommendations to address these challenges.

Keywords: business people; economic activity; benefit; adverse effect; policy recommendation.

1. Introduction

Economic development, science, technology, and education advancements have widened the wealth gap across various regions and groups. Statistics show that 1.1% of the world's population holds $19.16 billion, accounting for 45.8% of global wealth.[1] In China, Europe, and the United States, the top 1% of wealth holders increased their share from 28% in 1980 to 33% in 2019, while the bottom 75% remained around 10%.[2] At the same time, the discussion on the favorable economic activities of successful business people has gradually intensified, with the debate focusing on whether it is more favorable for successful business people to make money. Or is spending money more favorable? Based on this, this paper will conduct a study on this issue.

This essay argues that the rich positively impact the world by making and spending money. Various academic theories, including redistribution theory, money circulation theory, positive economic externalities, employment theory, and other studies, are used to support this argument. The paper examines how the wealthy's everyday spending circulates the economy and how their businesses positively affect the market. It also proposes economic policy recommendations to address issues arising from the current business activities of successful business people.

2. Analysis

Today, the income gap has been an unsolved global problem. According to the World Inequality Report 2022, released by the World Inequality Laboratory at the Paris School of Economics, more than 100 researchers from all continents analyzed data from 2018 to 2022. Their findings reveal that the poorest 50% of the world's population accounts for only 8.5% of global income, with a median income of $3,920 annually. In stark contrast, the wealthiest 10% account for 52% of global revenue, earning $122,100 per person annually.[3] Several factors cause the discrepancy between the rich and the poor, which the rich are responsible for mitigating.[4]

Firstly, the wealth distribution mechanism allows the rich to balance development and narrow the wealth gap by earning and spending money (such as taxes and charitable donations). On one hand, the taxes paid by the wealthy in making money will benefit society through a redistribution mechanism. Wealth redistribution is a policy tool that transfers resources from the rich to the poor[5], and the tax composition can quantify it.[6] For example, in the United States, the top 1% of taxpayers with income of $561,351 or more contributed 42.3% of total tax revenue in 2020, including $723 billion in income tax.[7] Therefore, this redistribution mechanism can significantly narrow the wealth gap. On the other hand, wealthy people spending money on charitable donations promotes wealth equity through a third distribution of wealth. The third wealth distribution refers to individuals voluntarily engaging in philanthropic contributions, social services, and other activities, which promotes economic mobility and narrows the wealth imbalance.[8] For instance, the Bill & Melinda Gates Foundation is the largest private organization of its kind in the world, with a cumulative total of $54.8 billion in endowment grants in 135 countries worldwide as of 2020, and donates billions of dollars annually to fund programs aimed at eradicating infectious diseases and reducing poverty.[9] In summary, while earning and spending money, business people can transfer resources to low-income groups through wealth distribution mechanisms, such as taxation and charitable donations, effectively promoting income equity and shared prosperity.

Secondly, the income and consumption activities of the wealthy play a significant role in accelerating currency circulation and promoting economic development. Currency circulation refers to the flow of money in the market, measured by the speed at which money changes hands over a certain period. The speed of currency circulation is essential for the economy because it can stimulate economic growth, prevent economic recession, and help reduce inequality.[10] According to the theories of Milton Friedman and Keynes, a higher velocity of currency circulation will promote economic activity. Fast currency circulation will increase expenditure, stimulate production, and promote economic activity.[11] Therefore, the speed of currency circulation is crucial for preventing economic stagnation. Accordingly, during economic crises, it is appropriate for the government to increase its speed to stimulate economic development through monetary policy.[12] The rich contribute significantly to money recycling through economic activities (Figure 1). They invest in production and services, purchase raw materials, and later sell goods, facilitating money flow in the market. Moreover, their investment behavior injects funds into the economy to generate returns, further accelerating the monetary cycle. For instance, Alibaba, an Internet tech company founded by Jack Ma, created a substantial annual free cash flow of $29.18 billion in 2023, marking a 29.57% increase from 2022, illustrating how successful business people and large-scale economic players contribute to monetary circulation and economic vitality through their financial activities.[13]

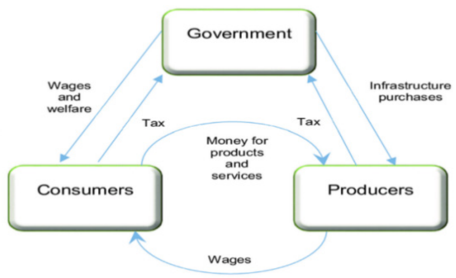

Figure 1. Money Circulation model[14]

Thirdly, both earning and spending by the rich contribute significantly to increasing the supply of public goods and enhancing societal well-being. Public goods are goods or services available to all members of society without reducing availability to others. Typically provided by the government and funded through taxation, [15] public goods promote economic equity by ensuring access to essential services regardless of income or social status.[16] The wealthy pay large amounts of taxes in the process of earning money as a way to help the government provide public goods to its people, including national defense, healthcare, and education. For example, initiatives like the millionaire's tax in the US state of Massachusetts are expected to generate significant revenue—$1 billion in the past year alone—which funds public education, infrastructure, and early childhood care programs.[17] At the same time, philanthropy is another avenue through which the wealthy enhance public goods provision.[18] For instance, to increase undergraduate financial aid to offset intergenerational poverty and promote student merit-based financial assistance, Michael Bloomberg donated $1.8 billion as an alum gift to Johns Hopkins University[19]. Additionally, businesses established by the rich often generate positive externalities, where the production or consumption of goods benefits society beyond the immediate transaction. This includes technological innovations, healthcare advancements, and job creation, which contribute positively to societal welfare.[20] In summary, the rich's business operations and charitable consumption greatly benefit the supply of public goods, improving wealth fairness and thus enhancing social welfare.

Fourthly, making and spending money for the wealthy can promote employment situation. Proposed by John Maynard Keynes, a British economist, the Keynesian economic theory demonstrates the role of investment in achieving economic growth since any change in investing activities can have a multiplier effect on personal income and social employment.[21] Therefore, commercial activities create profits while also decreasing the unemployment rate. For instance, Apple, one of the most prominent job creators in the US, has provided about 2 million employees in 50 states.[22] On the other hand, personal consumption by the rich is also conducive to job creation. Specifically, daily spending by the wealthy stimulates economic development and creates added value, including promoting employment in services, retail, and hotels. In conclusion, successful business people's earning and spending behaviors benefit national employment and income growth.

However, the activities of business people operating commercial capital to make money may have the following adverse effects. First, the continuous flow of capital often leads to the so-called "Matthew effect," further widening the wealth gap. The Matthew effect refers to a phenomenon that the rich get richer and the strong get stronger. [23] It means that the advantages generated by wealth continue accumulating, and the disadvantages brought by poverty continue to worsen, intensifying social inequality. [24] Secondly, widespread exploitation and oppression of laborers undermine the moral justice of business operations. Marx's "surplus value" theory demonstrates how capitalists extract value from workers' labor without giving deserved compensation, thus perpetuating inequality. [25] In addition, workers also suffer from other issues, including overwork, poor working conditions, and lack of protection of their rights. Finally, negative externalities of economic activity can lead to severe pressures on development. For example, the widespread and uncontrolled use of harmful pesticides to promote large-scale agricultural production can deteriorate environmental degradation and adversely affect human health. In summary, while there are many benefits in money making and spending of successful business people, the factors above also highlight the complex challenges facing business operations in the modern economy. Therefore, addressing these issues is essential to achieving more equitable and sustainable economic outcomes.

3. Conclusion and Policy Implications

This paper argues that the income and consumption of successful business people can beneficially impact others and society. Through the tax system and philanthropy, the rich can contribute to narrowing the wealth gap and promoting social equity. In addition, their extensive financial transactions stimulate market vitality, and their business operations generate positive externalities that are beneficial for enhancing public goods. However, challenges such as the Matthew effect, labor exploitation, tax evasion, and negative externalities weaken its benefits. Out of the need to address these challenges, this paper proposes the following policy recommendations:

First, the economic strategy with balanced development as the core will effectively promote social equity, and supportive policies for underdeveloped regions and vulnerable groups could effectively increase the investment and resource allocation towards vulnerable groups, thereby creating a more equitable social order. Second, strengthening supervision is necessary for reducing tax crimes. On the one hand, enhancing tax transparency and fairness is an essential means to deter tax evasion; on the other hand, a more scientific tax system can fully realize the advantages of a redistribution mechanism. Thirdly, legal coercion will effectively protect the rights and interests of workers. Stricter legal regulations and implementation supervision will support the improvement of the labor environment, and the establishment of trade union organizations can effectively improve the ability of workers' groups to defend their rights to achieve labor justice and fairness. Fourth, preferential policies for enterprises to fulfill their social responsibilities are essential for sustainable economic development. In addition, supporting and encouraging enterprises to fulfill their duties and obligations in environmental protection, employee welfare, and community development will effectively enhance their social reputation and public trust, as well as the sustainability of economic development.

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