Homo Trillionarius - When Wealth Rises Like a Rocket

“5, 4, 3, 2, 1, ignition and liftoff!! These words are usually spoken in the moments when the blazing exhaust plume intensifies and a cloud of exhaust gases rapidly spreads. As we watch that cloud engulf the launch pad and its surroundings, we marvel at the extraordinary sight of a rocket launch as it ascends high into the sky. These days, however, that image also serves as a fitting metaphor for another unprecedented event - the rise of one person's wealth beyond the one-trillion-dollar mark.

By now, we've all heard the news - Elon Musk has become the world's first trillionaire. Such an enormous figure is too big for any of us to truly comprehend it. Unsurprisingly, reactions to this milestone have been mixed, ranging from admiration to calls for greater justice and a more equitable society. While some see it as a celebration of human ingenuity and entrepreneurial success, others view it as further proof of the saying that the rich keep getting richer while the poor keep getting poorer.

For us, this event presents an opportunity to explore several broader issues surrounding modern capitalist economies. There are many fascinating topics that we will set aside today, such as the distinction between wealth and liquid assets, or the uncertainty surrounding the value of assets, particularly those traded on the stock market.

Instead, this event invites us to ask a more fundamental question - Where is the justice in all of this?

More precisely, I am not that interested in whether this particular case is just or unjust, because answering that question would require far more information than is publicly available. What interests me is the capitalist system itself - the system that made such an accumulation of wealth possible. Can a system that allows one individual to amass such extraordinary wealth while so many people around the world still go hungry truly be considered just? Where do we draw the line between an amount of wealth that we consider fair and one that we regard as excessive or even grotesque?

Before we try to get to the heart of the matter, let me make one thing clear - I am not a fan of Elon Musk. As someone who develops high-tech products, I certainly admire his ability to identify important problems and build systems that address them. His track record in that regard is exceptional. Not only has he and his teams succeeded in solving difficult technological challenges, but they have also achieved something equally admirable - turning those innovations into commercial successes.

That said, his chaotic private life, fathering children with multiple partners, his idolization of work, and open promotion of transhumanism are the reasons I do not consider myself a fan. I mention this only because Musk has become an increasingly polarizing figure in recent years, and I do not want anyone to assume that the views I express in this essay are in any way tied to my opinion of him personally. After all, as I already mentioned, I am less interested in this particular event than in using it as a starting point for reflecting on the capitalist system as a whole.

Let us return to the question of whether a system that allows a single individual to accumulate such immense wealth can be considered just. The answer to that question depends primarily on how we understand the mechanisms behind wealth creation in a modern capitalist economy based on free trade. Broadly speaking, there are two competing views of market transactions. One sees them as a zero-sum game, arguing that every exchange between two people necessarily means that one person gains only because the other loses an equivalent amount. The other views voluntary exchange as a positive-sum game, maintaining that both parties benefit from the transaction. Otherwise, they would not have agreed to it in the first place. By adding up these individual gains, new wealth is created.

But how is it possible for both parties to come out ahead? And where does this additional wealth - the surplus that benefits both sides - actually come from? The answer lies in the concept of subjective utility, formally articulated at the end of the sixteenth century by the Spanish Scholastic and Jesuit theologian Luis de Molina. This concept holds that the value of something is not an objective property of the thing itself, but rather depends on the subjective preferences of the person making the evaluation.

At first glance, this may sound counterintuitive, but a few examples make the concept of subjective utility both intuitive and easy to understand. Imagine a glass of water. Its usefulness is not always the same, but depends entirely on how thirsty the person drinking it is. That same glass of water would be far more valuable and useful to me after wandering through the desert for three days without anything to drink than it would be after enjoying a cup of tea on a cold winter morning. And you can be sure that I would be willing to pay many times more for that same glass of water in the first situation than in the second.

The same person, the same object, but two different circumstances result in two different levels of utility - and therefore two different prices the buyer is willing to pay. If it is easy to see how the same person can value the same object differently depending on the situation, then it is equally easy to understand that different people, facing different circumstances, will assign different values to the same object. And if they value it differently, it is entirely possible for both parties to emerge from a voluntary exchange better off than they were before. In other words, each person values what they receive more highly than what they give up.

It should now be clear how these competing views of trade lead to very different conclusions about the fairness of market transactions. If the assumptions of the zero-sum perspective were true, who in their right mind would consider wealth accumulated through countless exploitative exchanges to be just? Fortunately for all of us, those assumptions are false, along with the conclusions about justice that are built upon them.

That said, we should also be careful not to declare every voluntary transaction morally good simply because two people freely agreed to it. That view of morality, although popular in many free-market circles today, is mistaken, and it is important to say so clearly. If the object of trade is something immoral, whether goods or services, then the transaction itself is immoral and therefore unjust. But when people exchange goods or services that are morally good or morally neutral, which likely describes the vast majority of market transactions, then the transaction itself is likewise morally good or morally neutral.

Why do I go into such depth and try to explain the mechanics of a simple exchange of goods? Because I believe that the question of justice is ultimately resolved at that level. If we can see that a single exchange can be just, then the same must also be true when we are dealing with hundreds, thousands, or millions of transactions. The sheer number of transactions cannot, by itself, determine whether something is just or unjust.

The fact that someone has become extraordinarily wealthy within this system does not necessarily mean that they achieved it through unjust means. It is entirely possible that, through a vast number of transactions, they created value for a great many people who were willing to part with some of their money in exchange for that value.

The point of this section is not to argue that every wealthy individual acquired their fortune justly (since it is certainly possible for wealth to be accumulated through fraud or immoral business practices), nor even that Elon Musk's particular fortune was earned justly (because I do not know enough about the details to make that judgment). My point is simply that wealth and justice are not mutually exclusive, just as poverty and injustice are not mutually exclusive. Put simply, the justice of a person's wealth does not depend on the size of their fortune, but on how that fortune was acquired.

I realize this is hardly a profound insight, yet for some reason many people seem to forget this principle when discussing the ultra-wealthy. Instead, they immediately assume that such fortunes must have been built at the expense of others, especially the poor.

As I have already said, that is certainly a possibility. But I believe that intellectual honesty requires us not to make such an assumption without good reason or without regard for the truth. Otherwise, I would argue that these criticisms, often presented under the banner of fighting for a more just society, are driven either, at their worst, by envy, or, more charitably, by ignorance. Moreover, they often seek to stir up envy in others in order to gain broad public support.

Besides the question of justice, let us also consider the benefits that society derives from the innovations that sometimes make individuals extraordinarily wealthy. As we have already discussed, subjective value is real, and the same is true of innovation. This means that when an innovation is involved in a market transaction, new wealth is created. Part of that newly created wealth goes to the innovator, while the rest is distributed among everyone else.

This brings us to a crucial question - Of all the new wealth created by an innovation, what share do you think it is fair for the innovator to receive as a reward for creating it?

Whenever I ask this question in conversation, most people answer somewhere between one-quarter and one-third of the newly created wealth. A few say they think it is fair for the innovator to keep half, but almost no one puts the figure below 10%. So what happens in the real world? How much of the newly created wealth actually remains with the innovators? Who truly benefits from innovation?

An answer is provided by an analysis by William Nordhaus, one of today's leading economists and the recipient of the 2018 Nobel Prize in Economic Sciences. According to his analysis, which examined the period from 1948 to 2001, the individuals responsible for innovations that created new wealth retained, on average, only about 2.2% of the total wealth generated. Just 2.2%.

That is far below the share that most people intuitively consider a fair reward for innovation. So where does the remaining almost 98% go? It is distributed throughout the rest of society in the form of more efficient processes, better services, and products that create value in entirely new ways - making all of us, in one way or another, a little wealthier. These figures make it clear why it is in all of our interest to have as many innovative people as possible, people capable of creating new wealth by bringing valuable innovations to market.

In addition to what has already been mentioned, the case of SpaceX going public is also interesting because of another element - on that day, 4,400 SpaceX employees became millionaires. This example helps illustrate the difference between the roles of entrepreneurs and employees, as well as how modern capitalist systems create hybrid roles.

In principle, the difference between an entrepreneur and an employee comes down to different trade-offs between security and risk inherent in each role. The downside of the entrepreneurial approach is that one assumes the risk of failure, and there is no guarantee of earning anything at all. The upside, however, is a theoretically unlimited potential gain. The employee, on the other hand, has the mirror image - the advantage is a guaranteed compensation for their work (a salary), while the downside is that this salary is capped at a predetermined level that is difficult to significantly exceed. Each of us has the right to choose our own role based on our vision, knowledge, skills, as well as our preference for security and tolerance for risk.

In modern capitalist systems, hybrid roles are increasingly emerging. One increasingly popular model, especially in technology companies, is the ESOP (Employee Stock Ownership Plan), in which workers receive ownership shares in the company they work for. In some cases, equity is granted to employees as compensation for accepting lower salaries, allowing the company to retain more cash for operations. In other cases, companies offer employees the right to purchase shares, often at preferential prices. In both cases, employees become co-owners of the company.

Although typically minority shareholders, they thereby assume entrepreneurial risk and tie their financial outcomes to the success of the firm. Nothing guarantees that they will eventually be able to cash in that risk. Nevertheless, some are willing to accept it because they believe in the value their company brings to the market.

For many SpaceX employees, such decisions proved financially rewarding. However, it should be noted that for every successful example, there are many more unsuccessful ones (the failure rate of startups exceeds 90%). For this reason, it is understandable that many SpaceX employees chose not to acquire equity or accept compensation in the form of shares, but instead preferred the security of a slightly higher salary.

This example shows that there is a real difference between the trade-offs that characterize the entrepreneurial role and the employee role, and that the decision of who takes on which role should rest with each individual. That is why I am not a fan of those who advocate models that forcibly turn employees into co-owners, usually under the guise of protecting workers and their rights.

There are many more lessons that could be drawn from this unusual event, but we will have to leave them for another day, perhaps when a person's wealth crosses the threshold of a quadrillion dollars. Given that the value of modern currencies is deliberately eroded year after year through the actions of central banks, it is only a matter of time before that happens. Who knows, perhaps by then each of us will have our own rocket for personal use. One thing will remain the same - the justice of accumulating a trillion dollars of wealth will not depend on the number or speed of wealth accumulation, but on the way in which that wealth was acquired.

picture - https://unsplash.com/photos/gray-spacecraft-taking-off-during-daytime-OHOU-5UVIYQ

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