

Reach the world and benefit the world at the same time -- based on the business people's trickle-down theory

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Abstract. This paper uses economic models and trickle-down theory to show that successful business people benefit others when they make and spend money. It is manifested in four aspects: 1. Businessmen promote material production and the economic cycle. On the one hand, business people provide jobs for workers to obtain labor remuneration; on the other hand, they can produce goods and services that consumers need so that employees can use their wages to buy necessities to meet their needs in life. 2. Tax paid by business people is redistributed to low-income groups through transfer payments and investment in infrastructure construction, which is conducive to improving social welfare and economic growth. 3. Businessmen generate positive externalities by investing in technological innovation to stimulate progress in various fields. 4. Some wealthy people also realize personal value by giving to help others financially. In other words, successful businesspeople benefit others when they make and spend money. It is important to acknowledge that while successful business people help others, there are potential downsides, such as market forces, tax evasion, and consumption of bad goods. Therefore, it is necessary to establish a well-regulated and fair tax system that applies the "nudge" theory to encourage socially responsible behavior by successful businessmen to maximize their contribution to society while reducing potential harm.

Keywords: Trickle-down Theory; Social Welfare Enhancement; Technological Innovation Investment; Good Cycle of Commodity Economy; Well-regulated and Fair Tax System.

1. Introduction

Confucius, an esteemed Chinese sage, once said, "Riches and honors acquired by unrighteousness are to me as a floating cloud" (Confucius, 2024). Since ancient times, people have advocated using their wealth to help others as much as possible, which is a kind of idealism. However, the need for high personal ethics poses a challenge. Another phrase is more widely recognized: "wealthy but uncharitable" (Allézy, 2024). In the long history of China, there was a prominent class hierarchy, including governors/scholars (tier 1), farmers (tier 2), artisans (tier 3), and business people/merchants (tier 4), which meant that business people, no matter how successful they were, had the lowest status in the social division of labor. People tend to believe that business people will do something harmful to society for profit, but we should put aside prejudices to evaluate their behavior objectively. The wealth of the rich can meet their own needs and benefit others to a certain extent. In this essay, economic models and relevant theories will be used to discuss whether successful business people benefit others when spending or making money. Some specific cases will be introduced in this essay to make it more coherent.

2. Whether Successful Business People Benefit Others When Making Money

Everyone has a different definition of success, but for business people, their success depends on the added value they create. In other words, the business's success is essential in judging whether a business person is successful. Even the initial incentive of those business people is to earn profit. However, as Adam Smith once contended in *The Wealth of Nations*, "the butcher, brewer, and baker provide us with dinner, not out of benevolence but out of self-interest. They act not out of humanity but out of self-love and seek their own advantage" (Sider Jost, 2021). In a free market mechanism, both parties to a transaction, whether households or businesses, act out of self-interest. Suppose we want to discuss whether successful business people are good for society. In that case, the question

should be included in the whole system for the introduction from this perspective with a more sophisticated analysis of the circular flow.

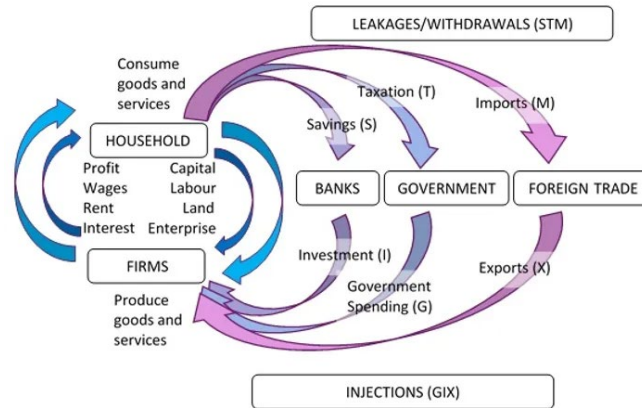
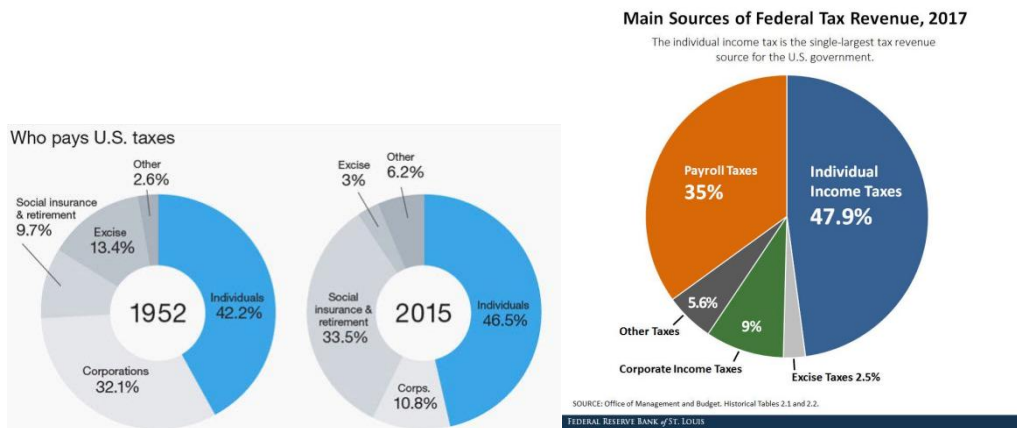


Fig.1

A circular flow diagram is a simplified model that can be introduced to facilitate the illustration of how business people benefit others when making money. As shown in Figure 1, firms produce goods and services that consumers (households) demand. On the left part of this model, when making money, any successful businessman must first purchase or hire factors of production such as land, labor, or capital from the factor market. For the factor, when goods and services are produced and sold, they benefit from receiving rents, wages, and interests. Take labor, for instance; once hired by a business, employees can use their wages to purchase essential products or take a vacation to satisfy their wants. In this scenario, other companies offer value-added final products, like bakeries or travel agents, which brings a new circular flow.

In the product market, successful business people benefit others when they make money. Through relentless innovation, Steve Jobs' Apple revolutionized personal computing, smartphones and digital entertainment. Visionary entrepreneurs like Thomas Edison and Henry Ford have left an indelible mark on society through their contributions to science and technology. Addison's inventions, such as the light bulb and the phonograph, improved everyday life, while Ford's innovations in automobile manufacturing transformed transportation and industrial practices.

Taking China, for instance, there is a prominent description of the vital role of private firms, which is "56789". It refers to private enterprises creating 50% of tax revenue, 60% of GDP, 70% of technological innovation, 80% of employment, and 90% of enterprises (Zhang, 2023). Undoubtedly, many resource owners can be better off due to successful businesses.



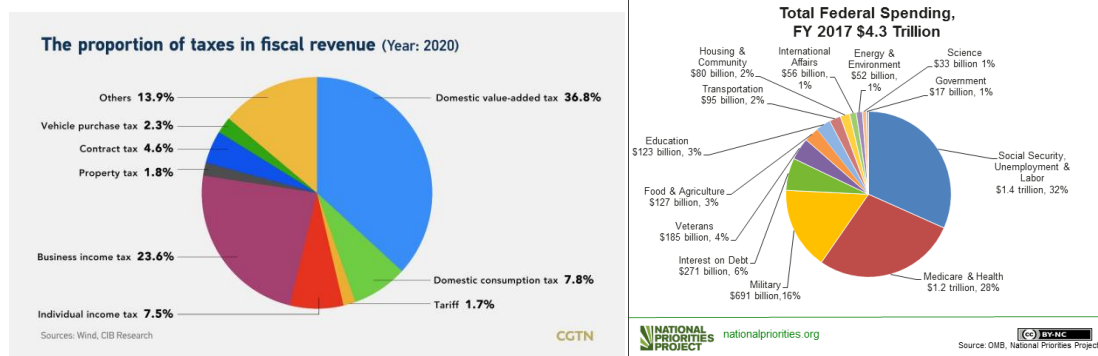


Fig. 2

Based on the CFD model, on the right side of the cycle, taxes (in particular, the cooperation tax, which is the US corporate tax contribution determined by profits earned by the business) paid by businesses allow governments to spend on public services and basic infrastructure. In addition, governments can distribute taxes paid by successful business people to lower-income groups through transfer payments such as education subsidies. When entrepreneurs pay taxes properly, they have already made contributions to society, and the government will benefit society through the progressive tax system. So, recognizing the rationality of successful business people to make money is also conducive to economic growth and the improvement of dynamic efficiency.

However, when we praise the benefits of successful businesspeople to other participants, the question of how to define 'benefit' cannot be ignored. Successful entrepreneurs are not motivated solely by the interests of others. On the other hand, the wages received by the employees must be less than the value of their labor. Suppose a person who works overtime every day gets the compensation he deserves or even far less than his contribution (according to traditional labor demand theory, wages are almost equal to his marginal revenue product, i.e., $W \cong MRP$). In that case, it is difficult to say that successful business people are giving benefits to factor providers such as employees.

In addition, some successful business people, especially those in the financial sector, will use information asymmetry to make money. For example, the widespread moral hazards in the financial industry indirectly trigger the subprime mortgage crisis or credit crunch. Many successful business people paid themselves huge salaries before the crisis and fled (as described in the movie *Marginal Call*). It was also a vital trigger for the Occupy Wall Street movement. Thousands of angry people attacked Wall Street, representing the gathering of the world's most successful business elites, to vent their hostility (Conover et al., 2013).

3. Whether Successful business people Benefit Others When Spending Money

3.1 Capital Expenditure

Based on the CFD model, on the right side of the cycle, there is an "injection item", namely investment, which means that firms buy capital goods.

Successful businesspeople have a natural incentive to continuously reinvest the money earned into capital accumulation and technological innovation, especially when such capital expenditures are used for research and development, which will bring further social gains. R&D serves as a cornerstone for innovation and progress. Successful business leaders understand such significance and invest heavily in R&D activities. For instance, Elon Musk's ventures, such as SpaceX and Tesla, allocate significant resources to R&D, leading to breakthroughs in space exploration, renewable energy, and transportation (Rimmer, 2018). Pharmaceutical companies spend about \$12.4 billion to \$13.4 billion annually on developing new drugs at significant risk of failure (Schlander et al., 2021). Although they face the risk of making no money due to possible failure at any time, they leave a lasting legacy of progress and prosperity for society as a whole.

Their spending on R&D also generates positive externalities by spurring advancements in various fields. According to the diagram below, the positive production externality is attached to the

tremendous expenditure by those firms on R&D. Undoubtedly, we should encourage this spending behavior and reduce deadweight loss to achieve Q_0 (optimum quantity).

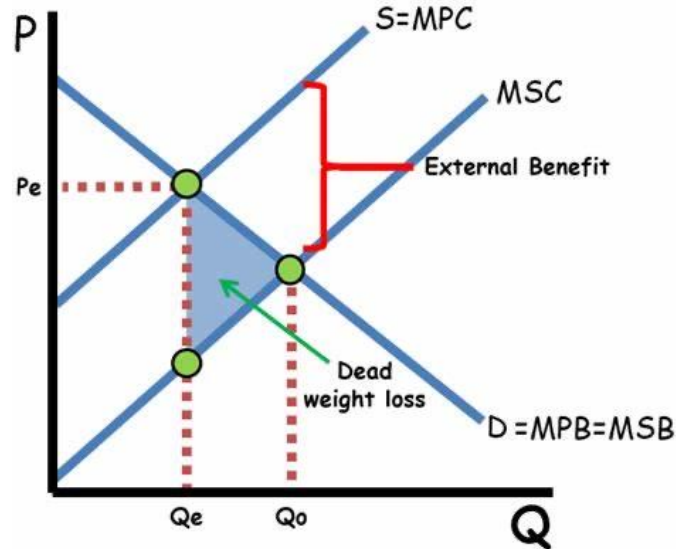


Fig. 3

During the COVID-19 pandemic, these companies spearheaded the development and production of vaccines, offering hope in the fight against the virus. For example, Pfizer partnered with BioNTech to develop an mRNA vaccine that is widely used and recognized worldwide (Pfizer, 2020). Their efforts have saved lives, mitigated the impact of the pandemic, and demonstrated the power of science and innovation. Following their intensive expenditure, specific criticisms also come from the fact that once their patents are confirmed, monopoly power can be created, thus lifting the price of their products.

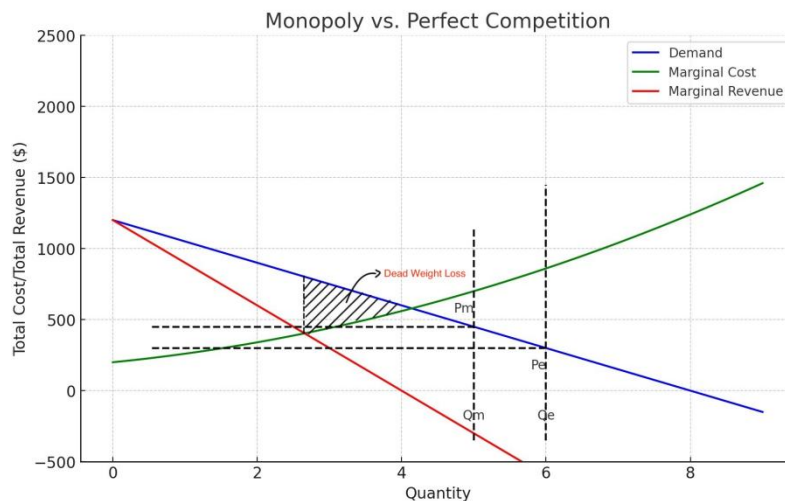


Fig. 4

3.2 Trickle-Down Effect

Trickle-down economics is a term used to describe the belief that if top earners get a raise, the benefits will trickle down to everyone in the economy as incomes and wealth rise, filtering down to all levels of society (Pettinger, 2022).

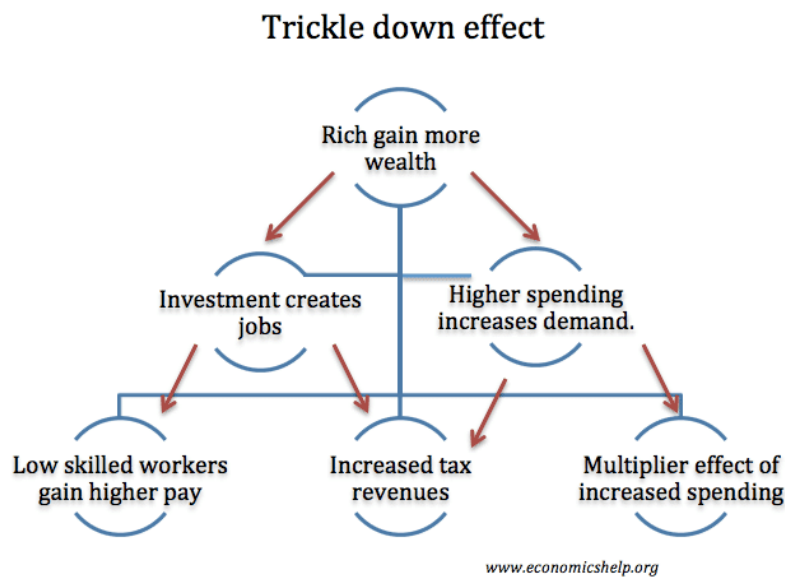


Fig. 5

According to Figure 5, when the rich have enough wealth, they are more inclined to spend and spread their wealth by investing or consuming. The money used to invest creates profits for the rich and generates demand for more jobs. When more workers get jobs, the standard of living for workers can be improved. When the spending power of a rich man increases, he not only satisfies his needs but also increases spending for society through the multiplier effect. In addition, whether the rich invest or consume, they increase essentially to create incentives for tax revenue. Under these conditions, the rich benefit others through the trickle-down effect. For example, when wealthy people buy luxury cars, this not only supports the automakers, but also leads to job and income growth in the associated supply chain. According to research, the contribution of consumption and investment by the rich to economic growth is significant. This consumption behavior contributes to the economic vitality of the whole society. Research shows that the consumption and investment activities of the rich promote economic growth through various channels (Yi & Xu, 2021).

Nevertheless, the trickle-down effect has its drawbacks. When a few wealthy people benefit, the consequences can be disastrous if they do not invest much to promote economic growth. Kansas is a case in point. According to the International Monetary Fund (IMF), "increasing the income share of the poor and middle class increases growth, while a rise in the income share of the top 20% causes growth to fall—that is, welfare does not fall as the rich get richer." The IMF's fight against income inequality revolves around spending in low- and middle-income sectors being the economy's driver. Even if the wealth of the lower 20% increased by just 1%, gross domestic product (GDP) increased by 0.38%. On the other hand, increasing the income of the top 20% of earners leads to a 0.08% decline in GDP (Tsounta, 2016).

3.3 Altruism

Alternatively, the rich can fight back by donating, which is also linked to altruism. In psychology, altruism is defined as helping others at some cost. Often, people act altruistically when they see others in challenging circumstances and feel empathy with a desire to help (*Altruism (Stanford Encyclopedia of Philosophy)*, 2020)

Humans are creatures of habit, including when it comes to giving. In addition, people who have donated before are more likely to donate, especially if they've had a positive experience (James & Sharpe, 2007). Some wealthy people are willing to donate because of a psychological need. The feeling of providing for others satisfies their social and personal values. As mentioned in Maslow's hierarchy of needs, the highest psychological need is self-actualization, and the rich realize this personal value by helping others financially through donations (Pereira et al., 2012).

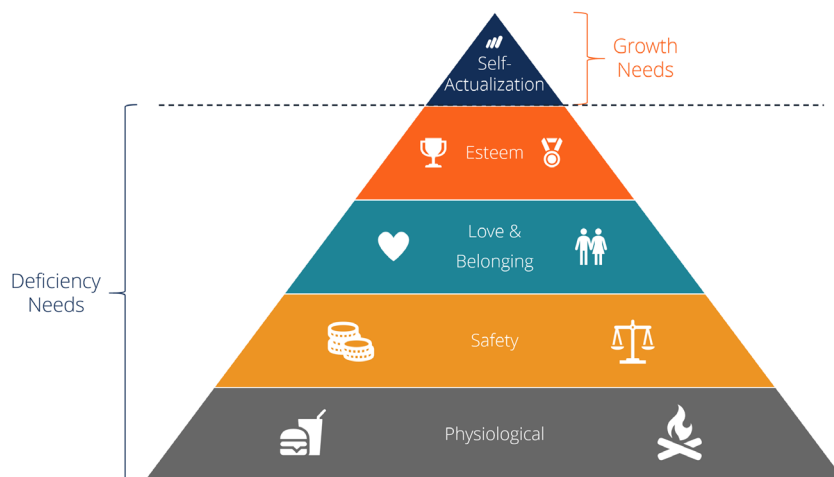


Fig. 6

However, while many donors do so for altruistic reasons, some are interested in charitable giving because of the tax benefits. The benefit of donating to an organization is that it can be deducted from the donor's annual taxes. This benefit may be insignificant, depending on the donation amount and their overall tax situation. One way to attract more donors interested in these tax benefits is to accept donations of stocks and cryptocurrencies. These gifts have additional tax benefits, allowing the donor to avoid paying capital gains taxes (Akins et al., 2015).

Whatever the motives of the rich, they do contribute to society. Their contributions, which can be used to build infrastructure and upgrade healthcare systems, benefit others.

4. Evaluation

In conclusion, successful business people benefit others when they make and spend money. It is essential to acknowledge that while successful business people help others, there are potential negative impacts such as market power, tax evasion, and the consumption of demerit goods. Thus, there is a need for a well-regulated and fair tax system, along with frameworks such as Pigovian taxes and cap and trade, to address these issues. Additionally, technologies such as blockchain and AI can be utilized to investigate and address tax evasion.

Ultimately, understanding successful businesspeople's positive and negative impacts on society is crucial to formulating effective policies and regulations to ensure their contributions to society are maximized while mitigating potential harm. Applying the "nudge" theory to encourage socially responsible behavior among successful businesspeople also plays a significant role in achieving this balance.

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