



By: [Michael R. Strain](#)

Populists wrong to call for targeted taxes on the ultra-wealthy



“There’s a certain level of wealth and accumulation that is unearned. You can’t earn a billion dollars. You just can’t earn that.”

So claimed Representative **Alexandria Ocasio-Cortez**, the progressive superstar from New York who is attracting **presidential buzz**.

Her fellow New York progressive, Mayor **Zohran Mamdani**, would agree. He seems to think that billionaires with second homes in New York City aren’t pulling their weight.

Meanwhile, a proposed **wealth tax** in California seems to be motivated by a similar mindset.

How to explain this sense that billionaires are taking from society rather than contributing to it?

Part of the reason is a lack of imagination. **Michael Jordan** (net worth: \$4.3 billion), LeBron James (\$1.4 billion), Taylor Swift (\$2 billion), Steven Spielberg (\$7.1 billion), J.K. Rowling (\$1.2 billion), and Jerry Seinfeld (\$1.1 billion) are very wealthy, but you don’t hear many complaints about it.

Is that simply because the value they add to society is relatively easy to see?

Perhaps. But the value-added from successful entrepreneurs isn’t much more opaque.

Bill Gates (\$102.8 billion) is very wealthy, but he has also made hundreds of millions of workers more productive by creating ever-better software.

And because they are more productive, their wages are higher than they would have been without access to Microsoft software.

On the consumer side of the ledger, Larry Page (\$314.9 billion) and Sergey Brin (\$290.4 billion) revolutionized internet search, mapping technology, and email—giving away services that hundreds of millions of Americans and others value at much more than the \$0 cost to them.

A zero-sum game

Ocasio-Cortez isn’t having it. “You can get market power, you can break rules ... you can abuse labor laws, you can pay people less than what they’re worth, but you can’t earn that” kind of wealth, she insists.

But she is merely clarifying the failure of imagination at play. The primary issue seems not to be that some social contributions are more obscure than those of, say, George Lucas (\$5.2 billion).

Rather, Ocasio-Cortez seems to assume that the economy is a zero-sum game, in which the only way for your income to rise is for mine to fall.

Wealthy people are wealthy not because they have taken from others, but because they have generated new wealth

But this assumption is patently false. Wealthy people are wealthy not because they have taken from others, but because they have generated new wealth and kept a small slice for themselves.

When the Nobel laureate economist **William D. Nordhaus** studied the returns to innovation, he concluded that innovators capture “only a miniscule fraction”—2.2%—of the benefits they create.

Using this estimate, Jeff Bezos’s \$273 billion net worth implies that he has created \$12.7 trillion of value for the rest of society.

We got a great deal. Because of Bezos’s innovation, I no longer have to lug around a half dozen books on long trips; I can just take my Kindle.

Like millions of Americans, my wife and I spend far less time driving to physical stores than we used to.

And because the goods we buy on Amazon are

less expensive than those in physical stores, the purchasing power of our household income has risen.

Hedge-fund managers create value that accrues to all of society

Mamdani, for his part, recently singled out the hedge-fund billionaire Ken Griffin when gleefully announcing his proposed tax on pied-à-terre properties valued above \$5 million.

“As mayor, I believe everyone has a role to play in contributing to our city,” Mamdani said. “And some, a little bit more than others.”

Well. Griffin and his firm, Citadel, contribute much more to New York than the average citizen, though perhaps in ways that are less obvious than the creators of Amazon and Google Maps.

According to a memo by Citadel’s chief operating officer, the firm’s New York employees paid **\$2.3 billion** in city and state taxes over the past five years.

A proposed \$6 billion Park Avenue office project for Citadel would require 6,000 construction jobs. (And Griffin himself has donated \$650 million to philanthropic causes in New York.)

Like tech entrepreneurs, hedge-fund managers create value that accrues to all of society

Moreover, like tech entrepreneurs, hedge-fund managers create value that accrues to all of society.

Apart from building projects and tax revenue, firms like Citadel help to ensure that capital is allocated efficiently throughout the economy, which ultimately makes workers throughout the entire economy more productive, increasing their wages and living standards.

By contrast, Ocasio-Cortez and Mamdani’s ideas could harm the workers they claim to care about.

After all, Griffin is expanding his operations in Florida in part because he is concerned that New York’s desire to target the affluent will escalate, and several prominent tech executives from California have recently **staked claims** in Florida as well.

More billionaires, not fewer

Of course, if New York and California lose their competitive edge, that will be bad for New Yorkers and Californians, though not necessarily for the country as a whole.

But prominent national leaders in both parties have also grown more hostile to the wealthy.



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On the populist-nationalist right, **Steve Bannon** has called for a “massive tax increase on billionaires,” while on the populist-progressive left, Massachusetts Senator **Elizabeth Warren** proposes a tax on “the ultra-rich.”

Such proposals always come with arguments about the economic game being rigged against typical workers and households, with the rich taking from the middle class and the poor.

This is dangerous nonsense. The game is not rigged. In the US economy, people receive their just rewards. Compensation is primarily

determined by productivity—effort, risk-taking, skills, and choices.

Billionaires have outsize wealth primarily because the market value of their economic contributions to society warrants it.

We should celebrate their success as a message to young people. We should want more billionaires, not fewer—certain in the knowledge that they give much more to society than they take from it.

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