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Do the Poor Make the Rich Richer?

Adam Leipzig · Wednesday, May 27th, 2015

Physically removed from us in their multi-billion dollar lairs, the rich take on the aspect of gods. In Alex Garland's film *Ex Machina*, Caleb (Domhnall Gleeson) is helicoptered across wilderness and glaciers to the estate of Nathan (Oscar Isaac), who is wealthy beyond imagination because he has invented the world's most-used search engine. "When do we reach his property?" Caleb asks the helicopter pilot. "You've been flying over it for two hours," the pilot replies.

Nathan has much and Caleb, who works for him, has little — no family, no friends, just a small apartment and a few possessions. It's a metaphor for the distribution of wealth, and how we conflate money and power. The film turns on Nathan's latest invention, a humanoid robot named Ava (Alicia Vikander) with potentially perfect artificial intelligence. Nathan has been conscripted to test Ava. "If you succeed, you'd be like a god," says Caleb. Nathan hears the remark his own way and repeats it back: "You said I am a god."

Such are the differing perceptions of reality between the rich and the poor. The poor say what they can; the rich hear what they will.

Warren Buffett recently spoke out in the Wall St. Journal about the growing income gap between rich and the poor. Buffett is progressive for a multi-billionaire, and he's concerned. Education, he wrote, can't fix the problem quickly enough, and raising the minimum wage may lead to greater unemployment. Instead, Buffett advocates an expansion of the Earned Income Tax Credit, the Federal program that gives financial incentives to low-income workers.

In making his case, Buffett made the most quotable statement in his article:

> No conspiracy lies behind this depressing fact: The poor are most definitely not poor because the rich are rich. Nor are the rich undeserving. Most of them have contributed brilliant innovations or managerial expertise to America's well-being. We all live far better because of Henry Ford, Steve Jobs, Sam Walton and the like. Instead, this widening gap is an inevitable consequence of an advanced market-based economy.

"The poor are most definitely not poor because the rich are rich." In large part, he is correct. The rich do not make the poor poor. To believe otherwise would be to believe that the amount of wealth in the world is fixed, and if you have more I must have less. That is not reality. The amount

of wealth in the world increases every year; the size of the pie is not finite. According to Credit Suisse Research Institute, global wealth today is now approaching $250 trillion, a number that has more than doubled since 2000.

The poor are not poor because the rich are rich. However, the reverse is not true. The rich *are* richer because the poor are poor.

Labor is the greatest cost of any enterprise. Therefore, if labor costs are low, a business can make more margin, hence more profit. In *Ex Machina,* for example, Nathan labors for a pittance. When there is a poor workforce, they will be more willing to take jobs at lower wages. That increases a business's profits; the fact that there is a large body of poor people allows businesses to keep wages low, and does, in fact, make the rich richer.

While low-paying fast-food jobs have become America's emblem of this disparity, the most extreme example occurs in the creative industries, when creative artists are paid nothing and companies make money off their work. That happens with piracy sites (I won't give them publicity by mentioning their names here). Indeed, one of the most pirated movies in recent weeks has been *Ex Machina,* according to TorrentFreak. It's impossible to know how many times *Ex Machina* has been downloaded illegally (pirate sites don't share that info), but based on comparable films where data has been collected, I estimate it is north of 1 million. That's an $8 million hit to the film's box office revenue, and a nice boost for the pirate sites' advertising income. A report from Digital Citizens Alliance, conducted by MediaLink LLC, found that in 2014 nearly 600 pirate sites generated an estimated $209 million in advertising revenue by streaming stolen creative content.

The Wall St. Journal reported on this study. Not only are the pirate sites making money, but major brands advertise on the pirate sites, so these brands are further profiting — by increasing exposure and sales — by keeping creative artists poor. These brands included Lexus, Sprint, Verizon, Banana Republic, PayPal, Zappos, Amazon, Adobe, and Office Depot.

In the creative industries, like the rest of the world, the poorly-paid seem to get poorer and the rich richer. And it's important to see the causal connection: wealth increases at the top because there is a lack of wealth at the bottom.

Beyond Warren Buffett's plan, what's the solution? In the economics of creative industries, we know that most people will pay for content if it is easy to access. We also need to enforce policies against supporting intellectual property theft with big-brand ad dollars. Oh, and artists should stop giving it away for free, because that only encourages the pirate culture.

In the macroeconomic world in which we all live, the solution to income inequality comes with the realization that wealth trickles up from the poorer and lower-paid, and that's what makes the rich richer. Like Nathan at the end of *Ex Machina,* we are left to wonder if it is a trap from which there is no escape.

Top image: Nathan (Oscar Isaac) in front of a painting by Jackson Pollock in the film Ex Machina.

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