Preface

Policymakers, academics, and the media increasingly view the rising wealth of the top 0.00001 percent of individuals as a problem irrespective of how wealth is accrued. The statistics on the growing number of billionaires in the world and their share of global wealth are indeed stunning: Billionaire wealth has grown over 500 percent in the last 18 years (1996–2014), while global income has risen only by 148 percent. This raises concerns about a future where the superrich get richer while the poor and middle classes see their wealth (if any) stagnate.

Caroline Freund reminds us that extreme wealth is also in many cases a reward for major innovation, and as a result the growth in extreme wealth can be a sign that things are going very well, depending on who exactly is getting rich. She examines how the richest men and women in the world made their fortunes to understand whether the new superrich are rising innovators or whether their wealth stems from bequests or political connections.

The results are striking. Extreme wealth in emerging markets is growing more rapidly than in advanced countries but unlike advanced countries, where the relative shares of inheritors and self-made billionaires are fairly flat, extreme wealth in emerging markets is dominated by self-made men (and a handful of women). Importantly, within this group of the self-made rich in emerging markets, the fastest growing group is that of the innovators, people building large companies that are intricately linked with global markets. The large-scale entrepreneurs and their businesses are helping to modernize these economies by pulling workers out of rural agriculture and into the urban workforce. In contrast, the advanced countries appear more stagnant in their sources of wealth accumulation, and this parallels growth developments, with the Anglo countries in particular revealing some worrying trends.

Freund presents compelling evidence that the presence of these large global firms founded by innovators is important for everyone's economic growth and modernization. She brings together a wealth of recent empirical evidence using firm-level data that show case after case that resource allocation between specific business firms matters for growth. Productivity growth is the result not just of better technologies but also to a great extent of improved resource allocation between firms. Richer countries have a larger share of their workforce in large firms, economic growth is associated with an expansion of large firms, and exports come almost entirely from the largest firms in a country. When the most productive firms employ more capital and labor output expands, there are more jobs, and those jobs pay higher wages.

The important role played by large firms in spurring economic growth goes against the commonly held view that small and medium-sized enterprises are the key to innovation and must be supported by government policies. Similarly, her findings suggest that concerns about the "missing middle" in the firm size distribution in developing countries are unfounded. In fact, what developing economies need are export-superstar large firms. The argument made in this book is that productivity growth requires that resources flow seamlessly to the most productive firms allowing these firms to grow large. This does not mean that governments should favor large firms—ease of firm entry is important, so new firms can enter and grow rapidly if they are competitive—just that there must not be constraints limiting the growth of the most productive firms. Openness to trade is also critical because it guides resources to their most productive uses and offers a market large enough for competitive firms to grow into. An improved business climate and openness to trade have facilitated the rise of big business (and its accompanying group of wealthy entrepreneurs) in all of the successful industrializations of the past and is seen in the growth success stories (and emerging-market billionaires) of today. Freund's exciting empirical analysis derived from corporate performance today evokes comparisons to economic development of the US Gilded Age of the late 19th century, suggesting that emerging economies need tycoons in order to rise.

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