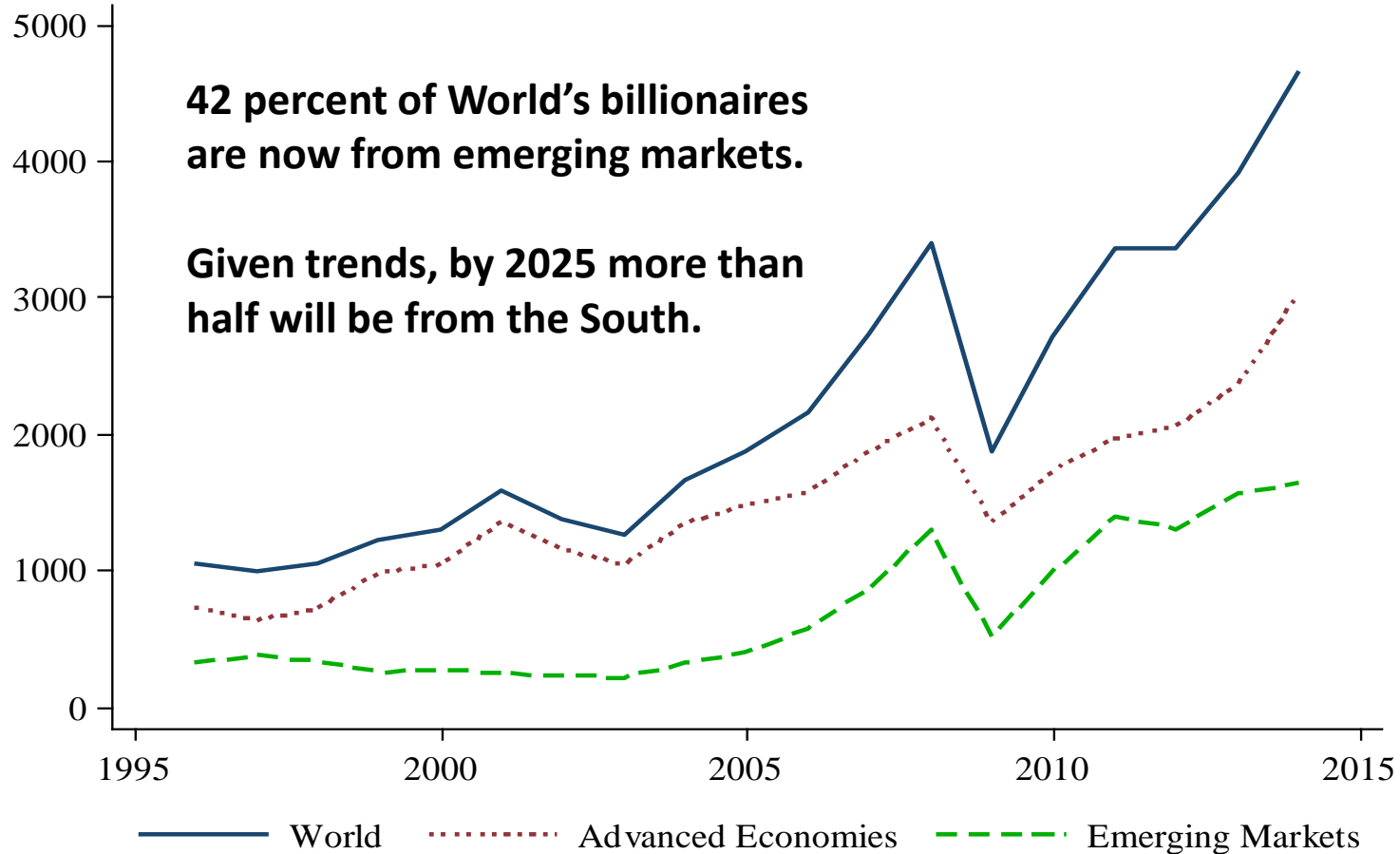


Caroline Freund
Peterson Institute for
International Economics

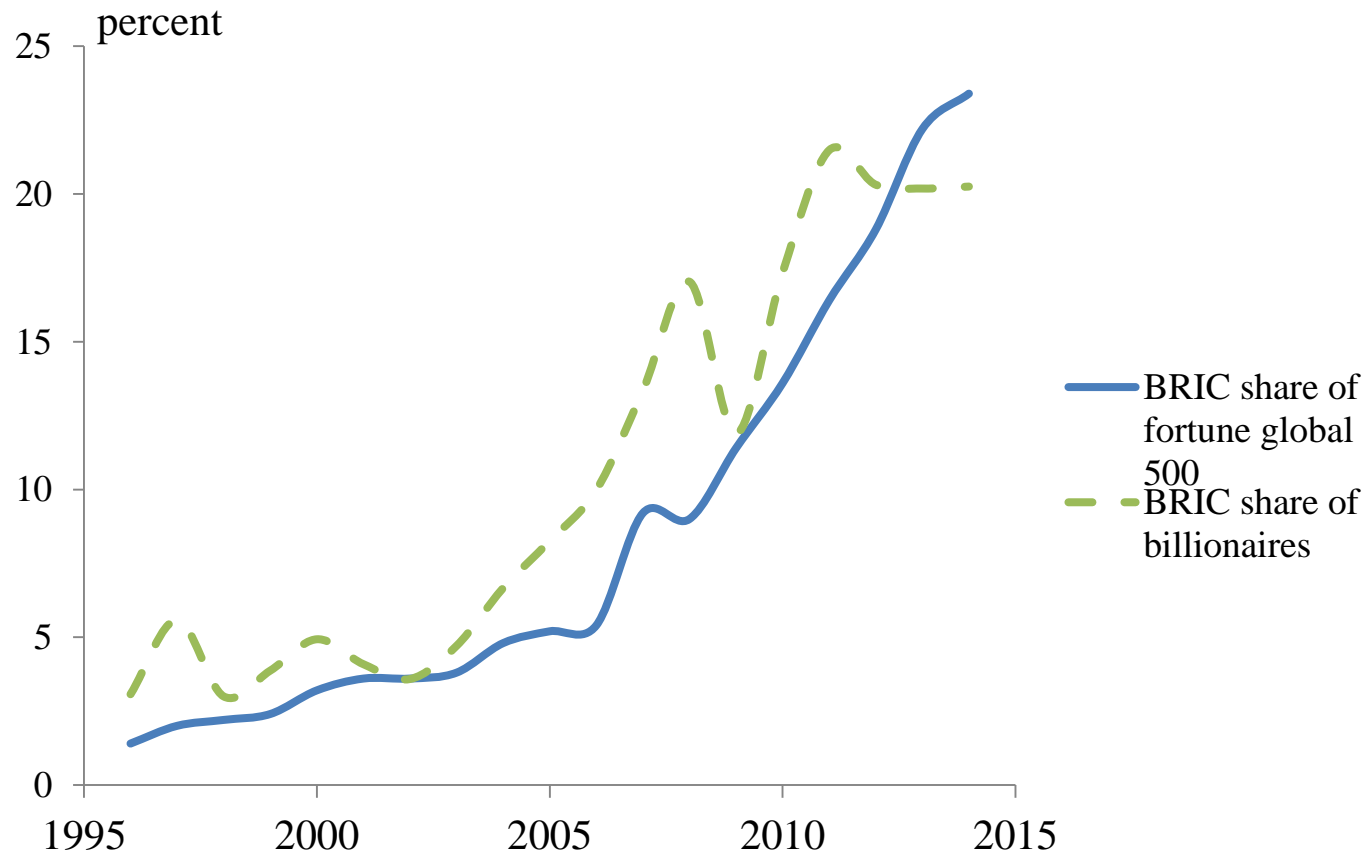
February 11, 2016

Growth in Extreme Wealth

total real net worth, billions 1996 USD



Extreme Wealth & Mega Firms



BRIC countries include Brazil, Russia, China and India

Data

- Forbes Billionaires List 1996-2014
 - Based on shareholder information and ownership information on large private firms
- New characteristics data (based on web searches) 2001, 2014
 - Inherited or self-made wealth
 - Main source of wealth—company, founding date, and industry
 - Political Connections—based on biographic information
- Firms: FT EM 500, Fortune 500, Global 2000, Bloomberg.

Who are the Superrich?

- Inheritors
- Self-made
 - Company founders
 - Executives
 - Politically connected/resource based
 - Finance/real estate

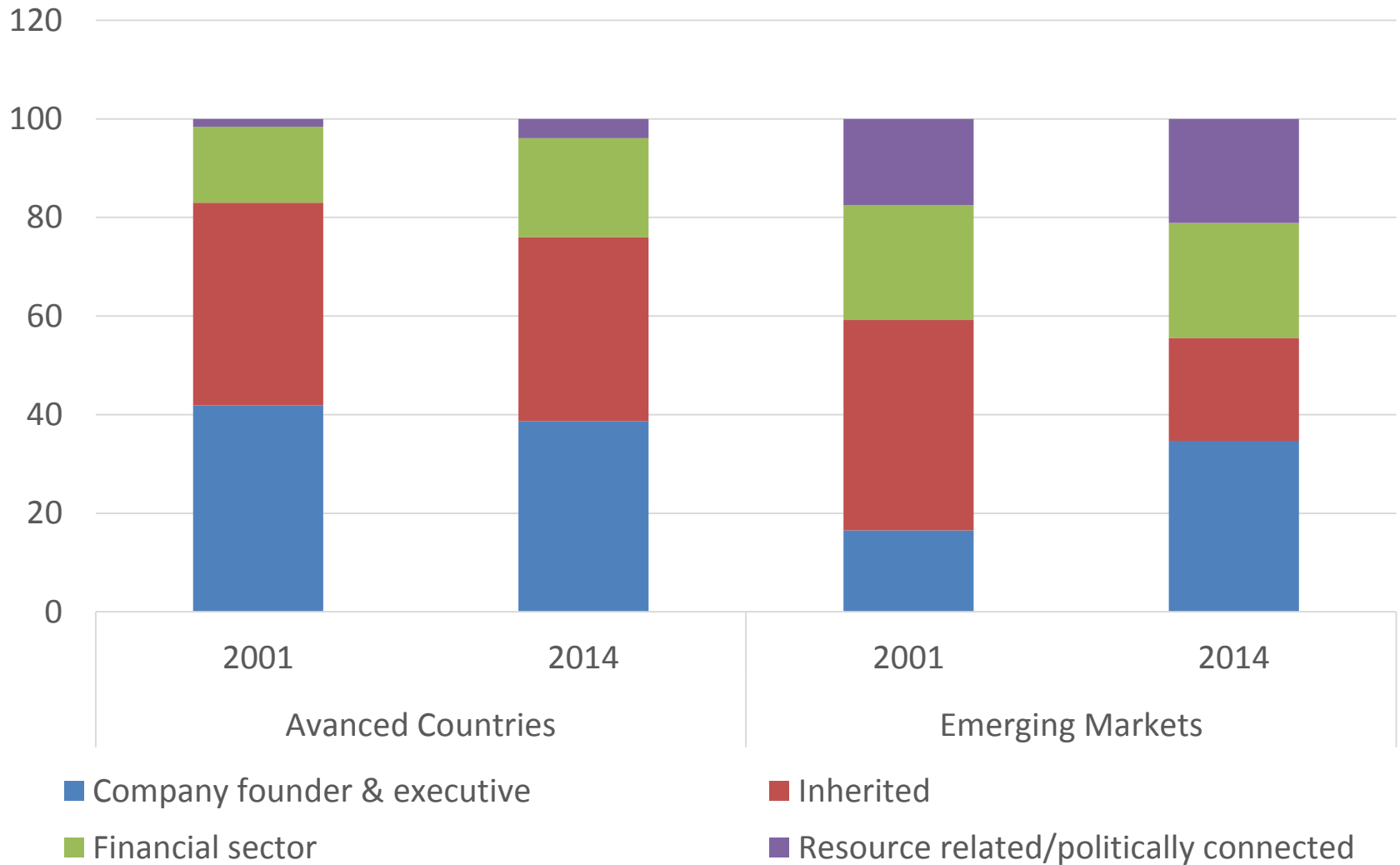


Founders

- Founded a company
- Non-resource
- Non-privatization
- Non-finance/real estate
- Non-license
- No family in gov't or corruption charge

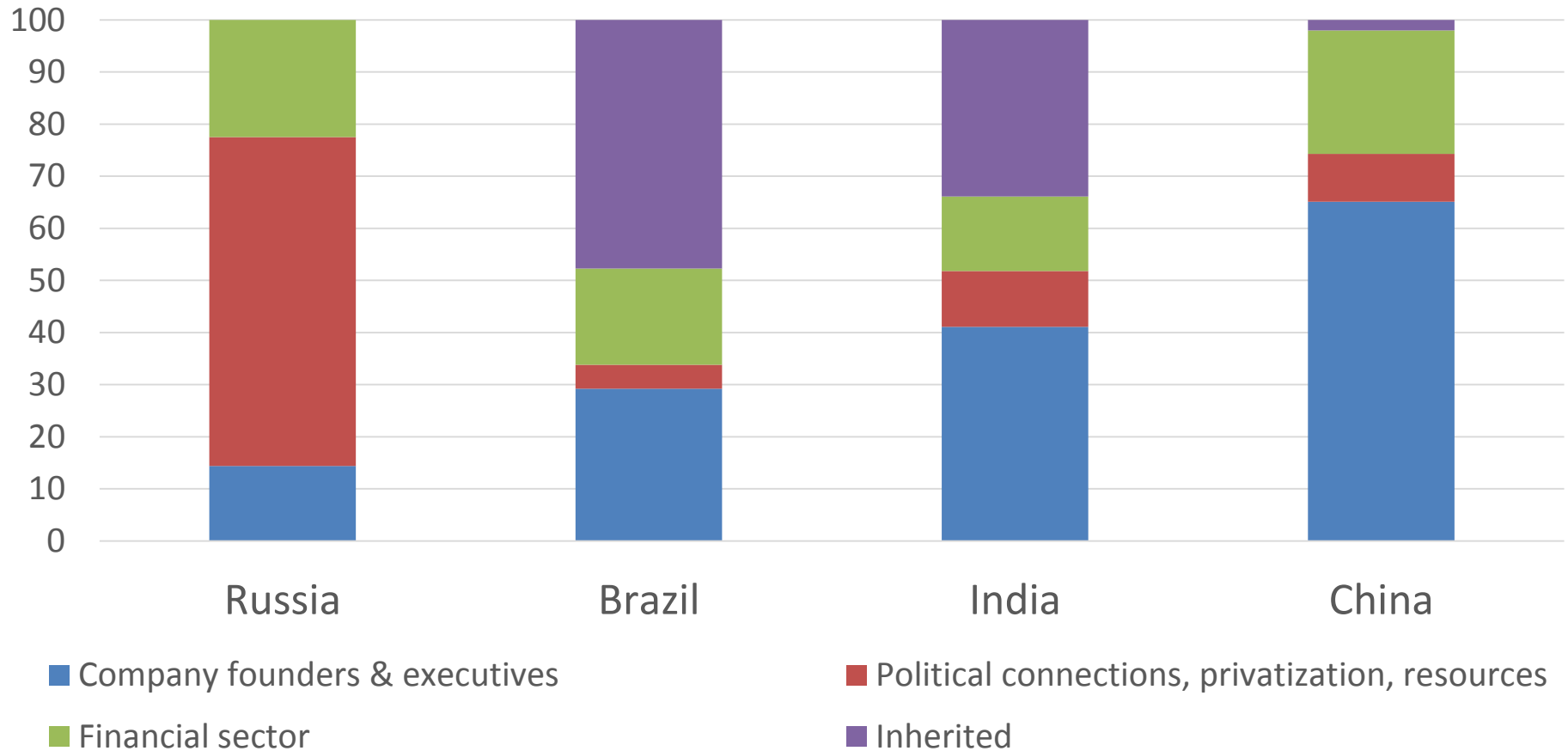


Sources of Wealth



BRIC Source of Wealth

Distribution of billionaires, by source of wealth, 2014



Who are the Richest? Chile v. Tunisia

- 1985 same level of development, 2014 Chile is three times richer
- Chile has 12 billionaires in 2014, Tunisia 0



Horst Paulman
Founder: Cencosud
First hypermarket in 1976
645 stores in Latin America



Marouen Mabrouk
Owner: French chain Casino (and Orange)
Married to former President Ben Ali's daughter

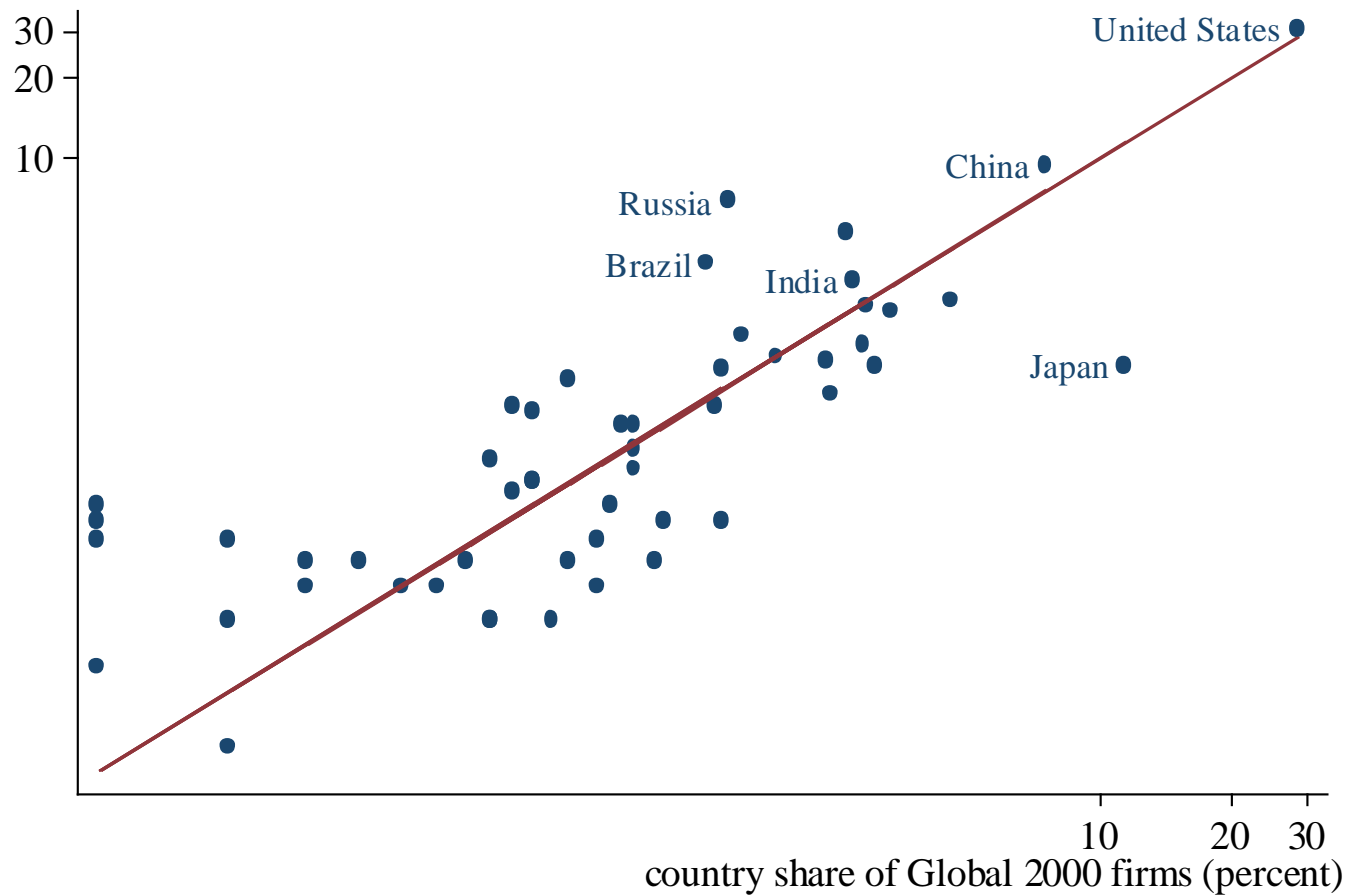
- Business environment encouraged large *outward* looking firms in Chile.
- Ben Ali clan bought state companies and lured foreign investors in Tunisia.

Individuals Matter

- Case studies: eg. Samsung's success & innovations by Lee Kun-Hee of Samsung.
- Large literature showing CEOs explain a significant share of firm policies and performance, controlling for other determinants. Exogenous variation in leadership – (unexpected) death of CEO.
- CEOs with more decision making power matter more.

Wealth and Large Firms Go Together

country share of billionaires (percent)



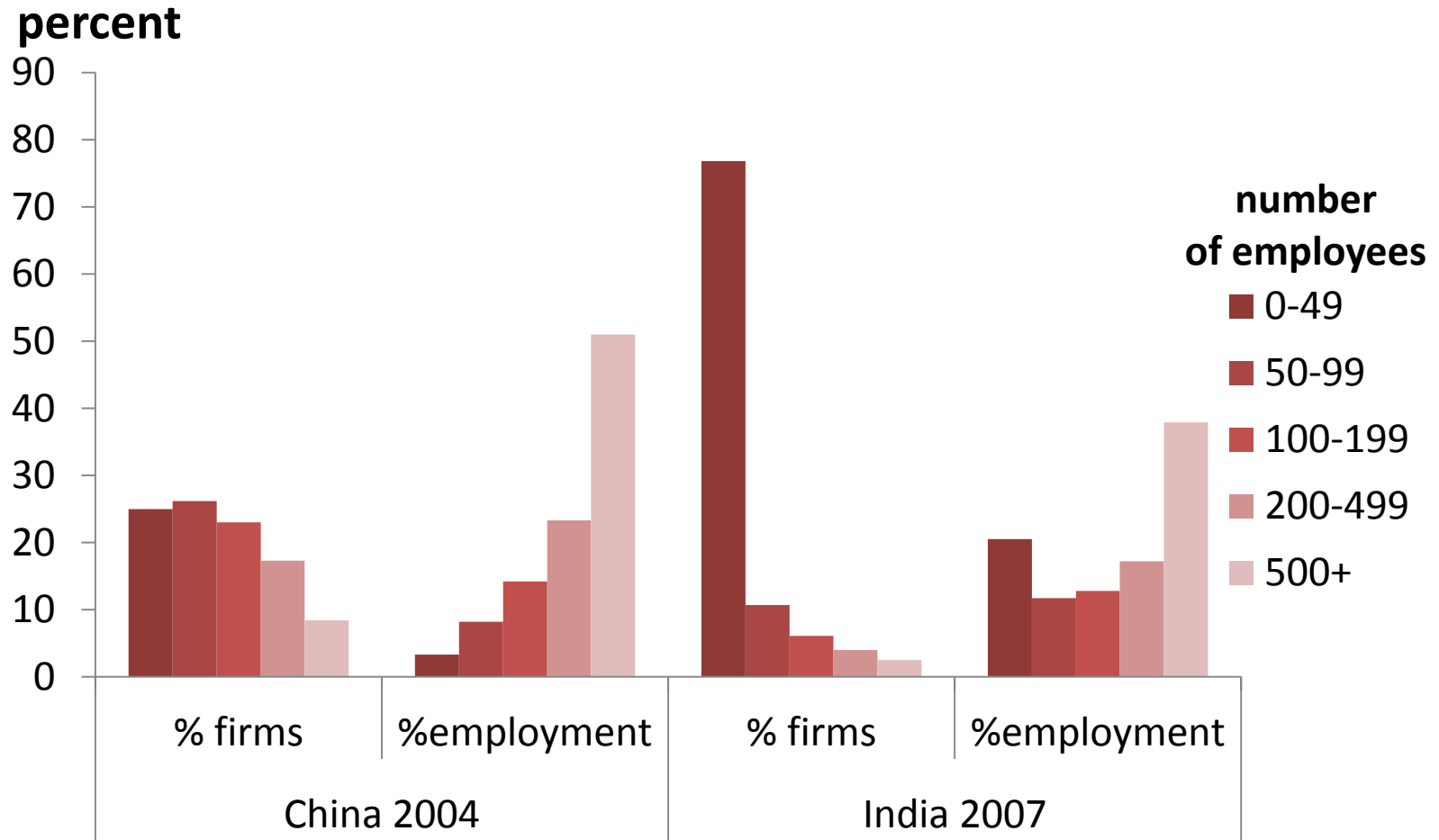
Large Firms Promote Modernization

- Alfred Chandler's view – Scale, R&D, and management.
- Allocative efficiency – Firm heterogeneity and resources flow to most productive uses.
- Individual firms matter.

Table 4.2 Number of top 500 largest firms, by country, 1962, 1993, and 2014

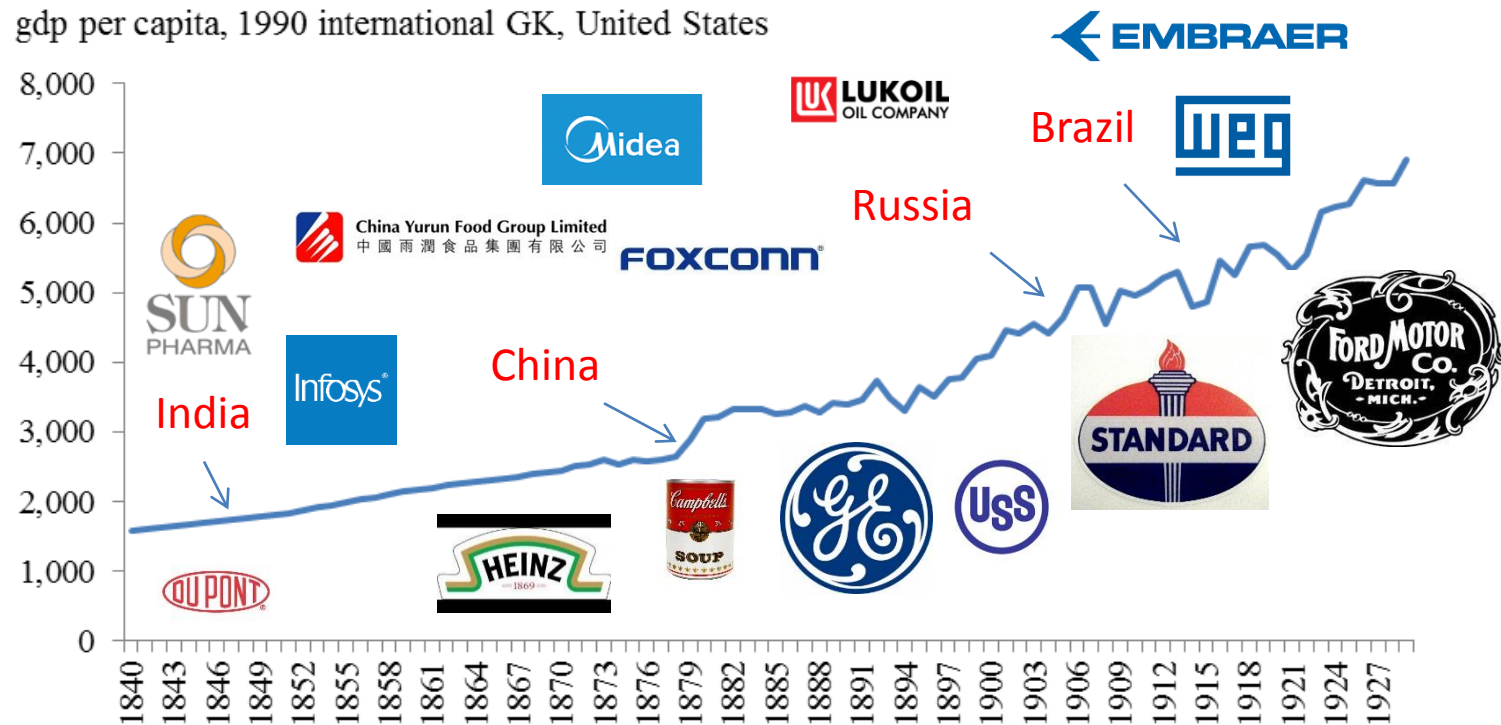
Economy	1962	1993	2014	Economy	1962	1993	2014
Advanced economies				Emerging markets			
United States	298	160	128	China	0	2	95
Japan	31	135	57	India	1	5	8

Large Firms & Manufacturing Employment



Source: van Ark et al. 2010

Branding Development: US at the turn of last century and the BRICS this century

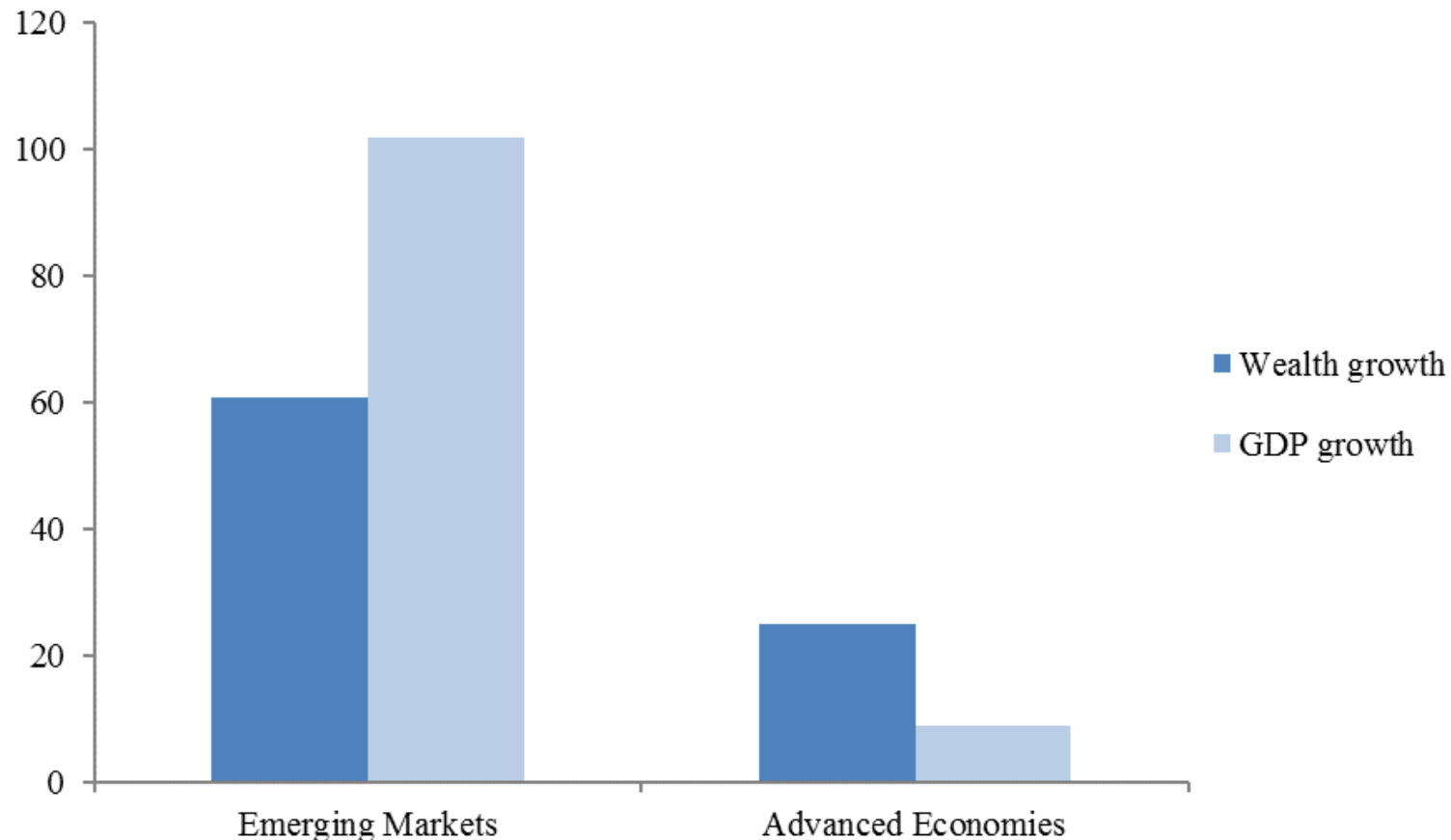


Source: Maddison Project 2013.

A Note on Extreme Wealth & Inequality

Wealth is growing faster than income in the North, but not in the South

Growth in wealth of the 5 richest and GDP growth



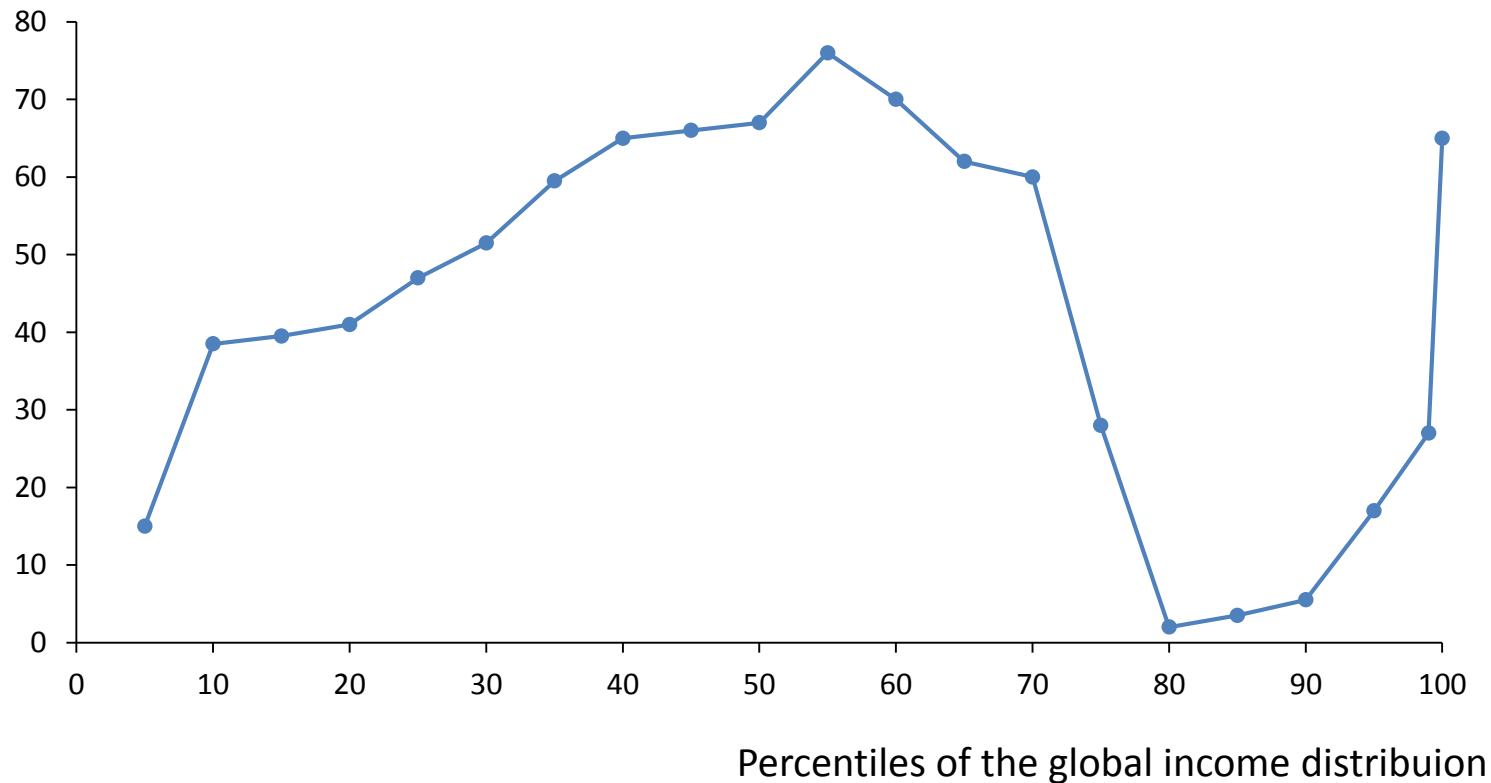
Source: Author's calculations using data from Forbes World's Billionaires and World Bank WDI.

Policy Implications

- Promote entrepreneurship
 - Property rights, free entry and openness to trade
- Limit cronyism
 - Transparent privatization & government procurement
- Tax more heavily less productive sources of wealth
 - Inheritance & (some) finance

Global inequality has declined: Growth Incidence Curve, 1988-2008

Cumulative income growth rate (percent)



Source: Lakner and Milanovic (2013)