Institute of Global Affairs public lecture
Rich People Poor Countries: the rise of emerging market tycoons and their mega-firms

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Growth in Extreme Wealth

42 percent of World’s billionaires are now from emerging markets.

Given trends, by 2025 more than half will be from the South.

Sources: Forbes World’s Billionaires and World Bank WDI.
Extreme Wealth & Mega Firms

BRIC countries include Brazil, Russia, China and India

Sources: Forbes World’s Billionaires and Fortune 500.
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

- Resource related/politically connected
- Financial sector
- Inherited
- Company founder & executive

Advanced Countries
- 2001
- 2014

Emerging Markets
- 2001
- 2014
A Note on the Advanced Countries

share of billionaires

- United States
- Europe
- Other advanced economies

- Inherited wealth
- Self-made company founders
- Self-made financial sector
- Self-made owners and executives
- Political connections and resource related
BRIC Source of Wealth

Distribution of billionaires, by source of wealth, 2014

- Russia
- Brazil
- India
- China

- Inherited
- Financial sector
- Political connections, privatization, resources
- Company founders & executives
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

- 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

Large Firms Promote Modernization

- Alfred Chandler – Scale, R&D, and management.
- Allocative efficiency – Firm heterogeneity and resources flow to most productive uses.
- Individual firms matter.
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 2006-2012

Source: Author’s calculations using data from Forbes World’s Billionaires and World Bank WDI.
Global inequality has declined:
Growth Incidence Curve, 1988-2008

Source: Lakner and Milanovic (2013)
Policy Implications

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