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Institute of Global Affairs public lecture

Rich People Poor Countries: the rise of emerging market tycoons and their mega-firms

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Former Chief Economist for the Middle East and North Africa, World Bank

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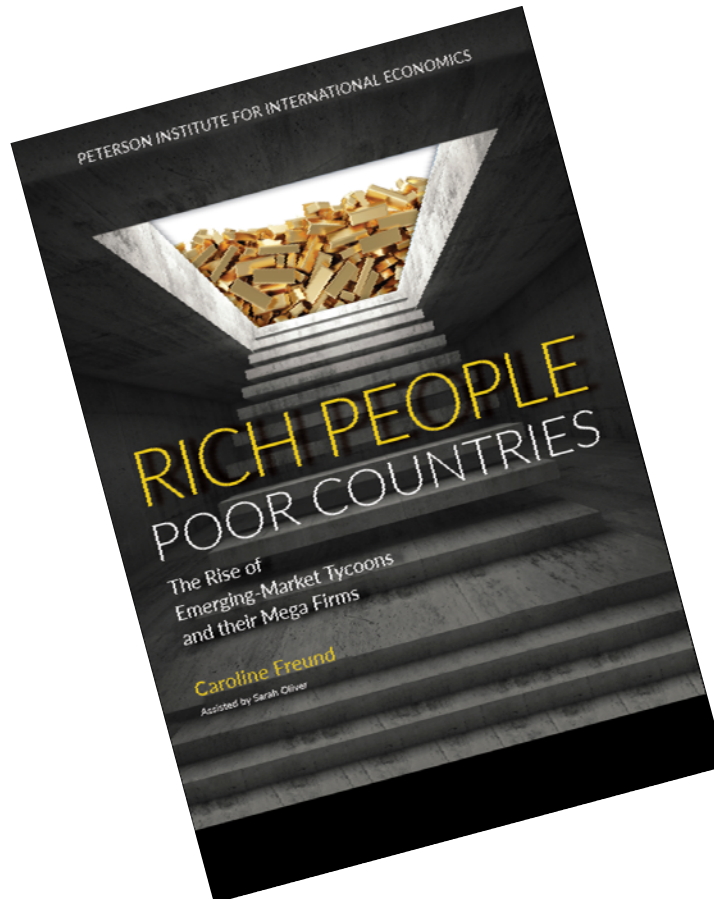
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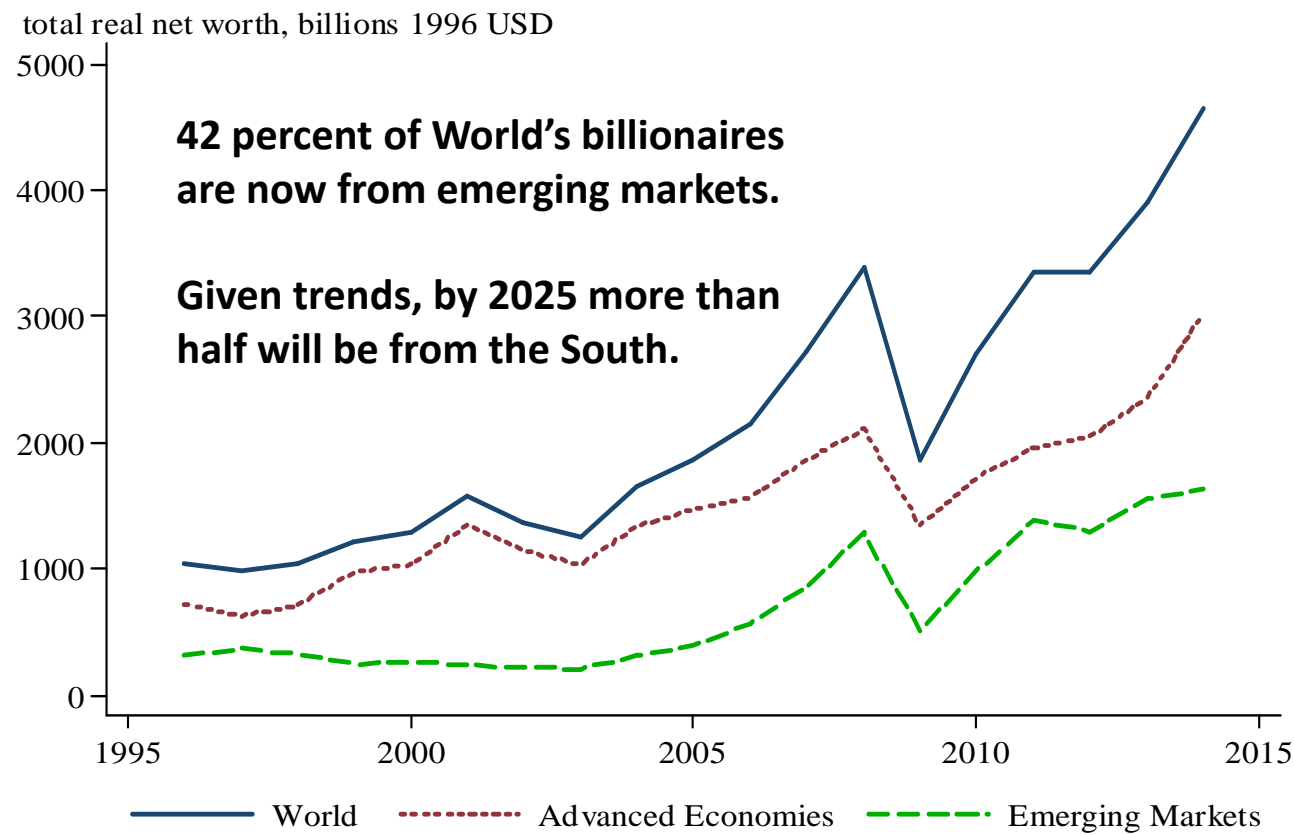


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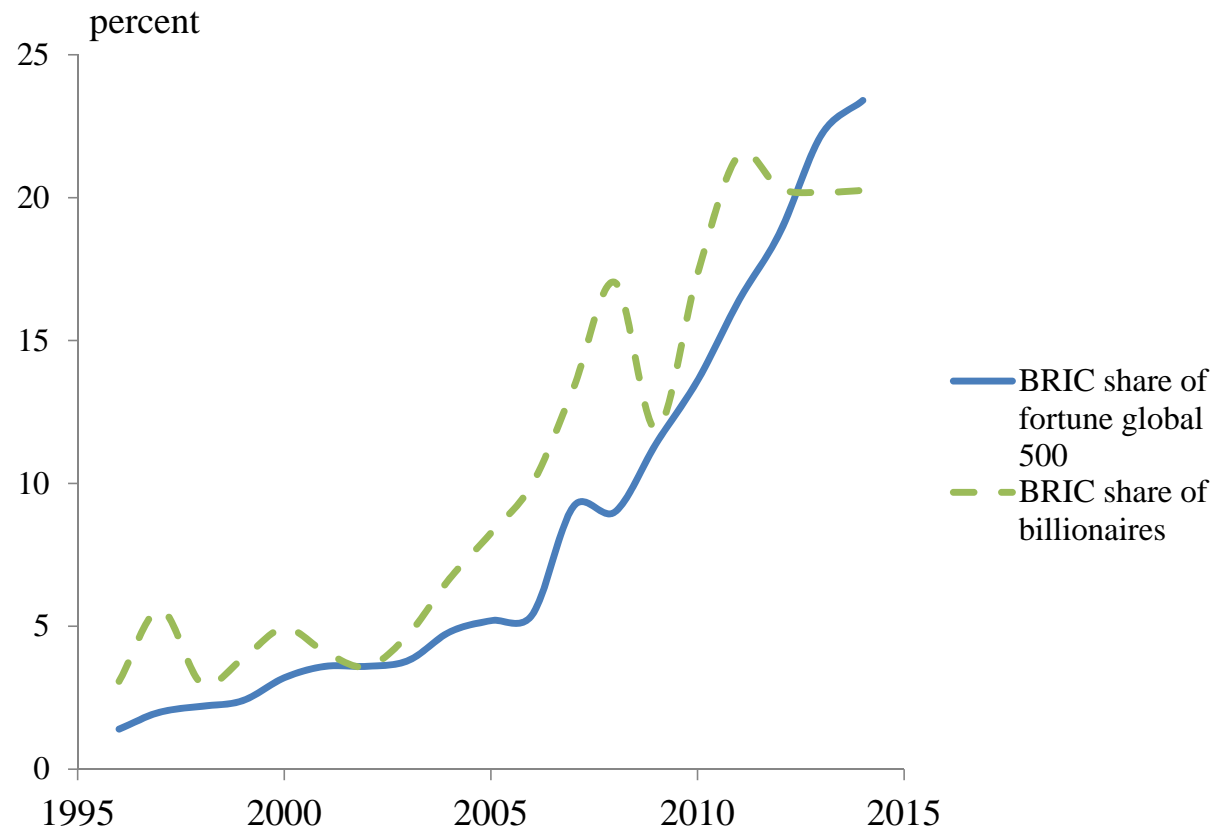
Growth in Extreme Wealth



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

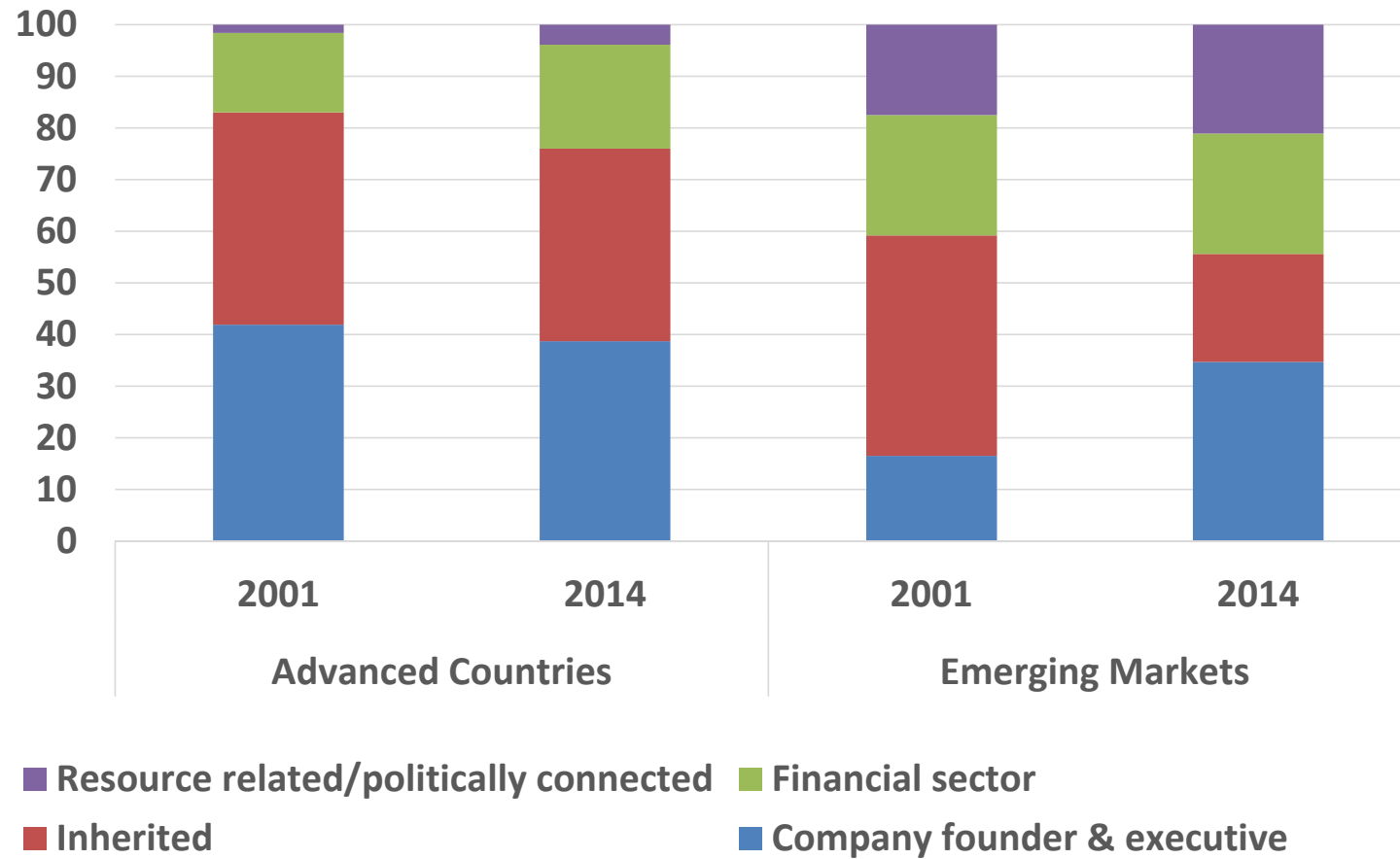


Founders

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



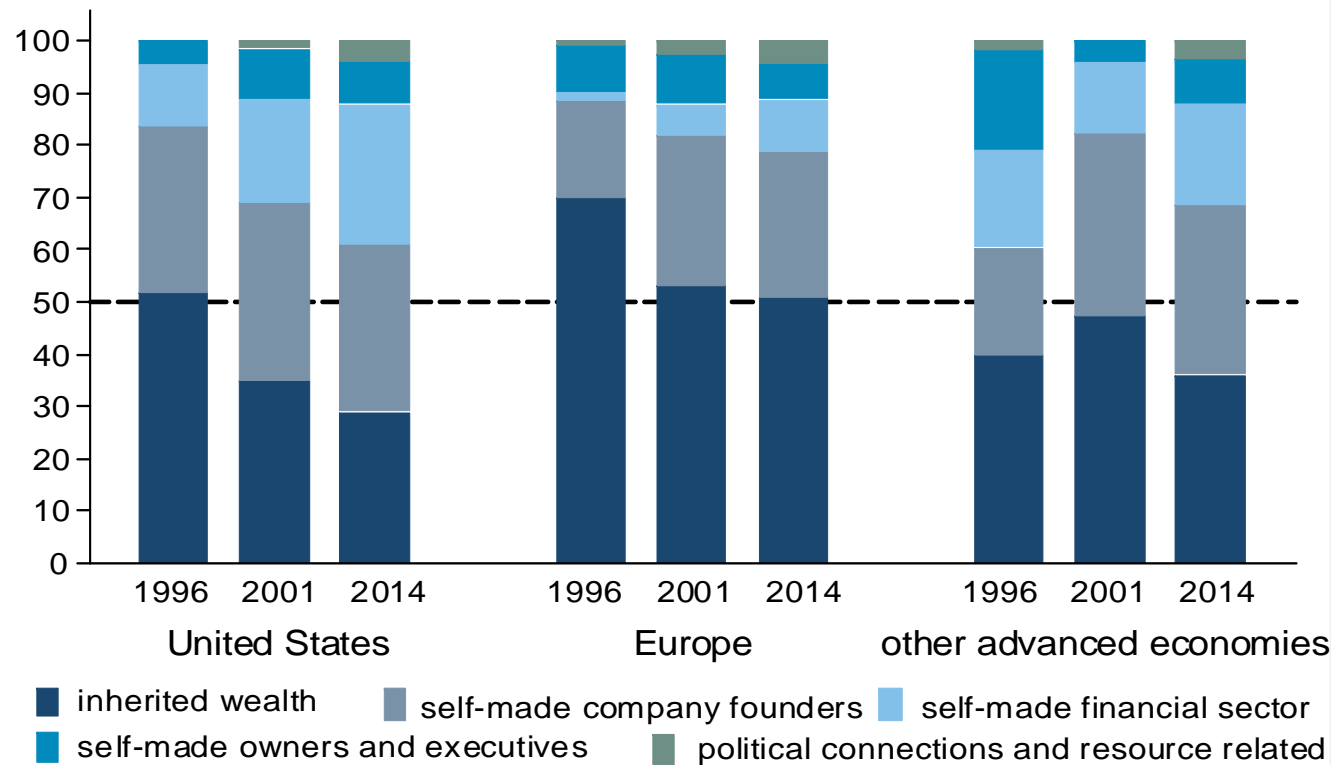
Sources of Wealth





A Note on the Advanced Countries

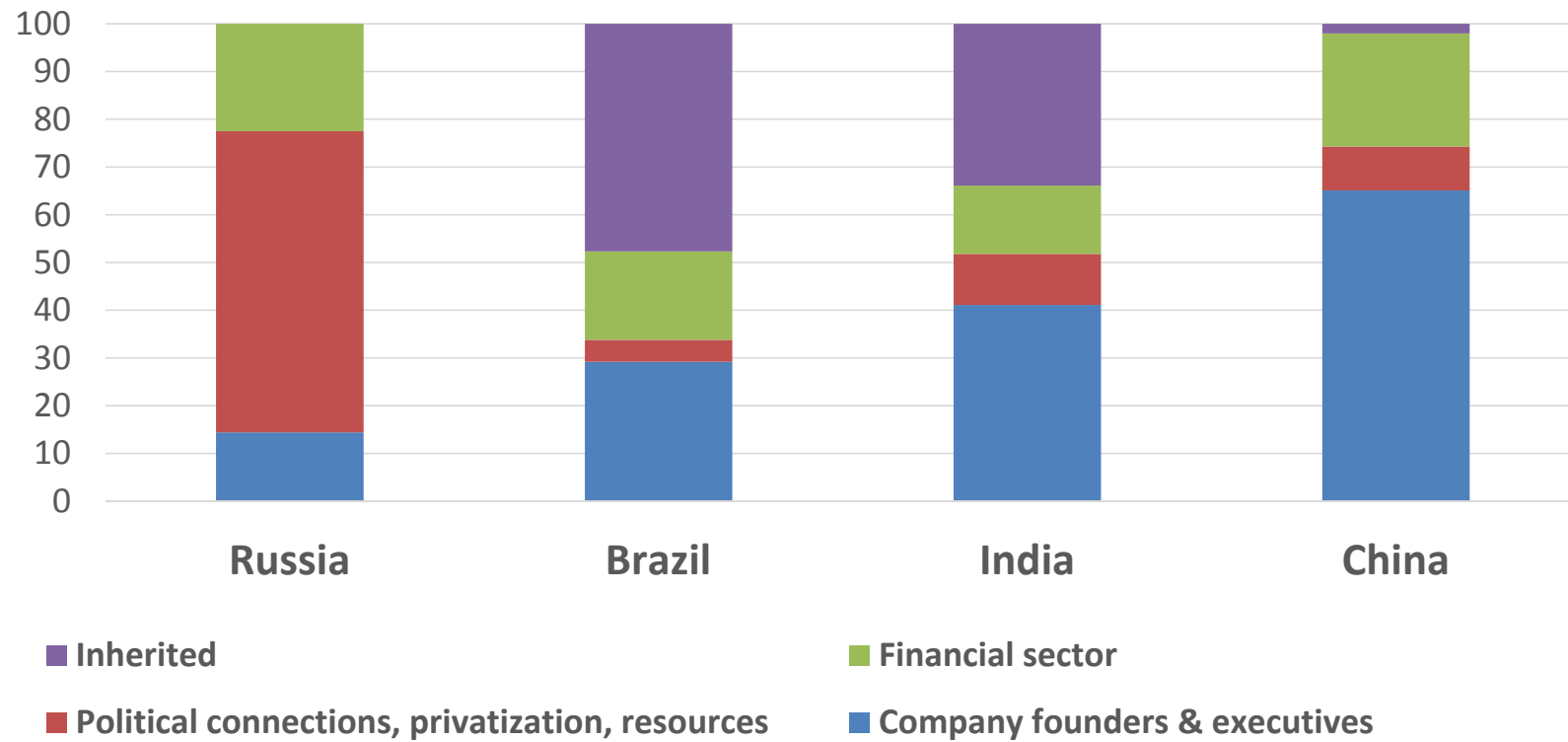
share of billionaires





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

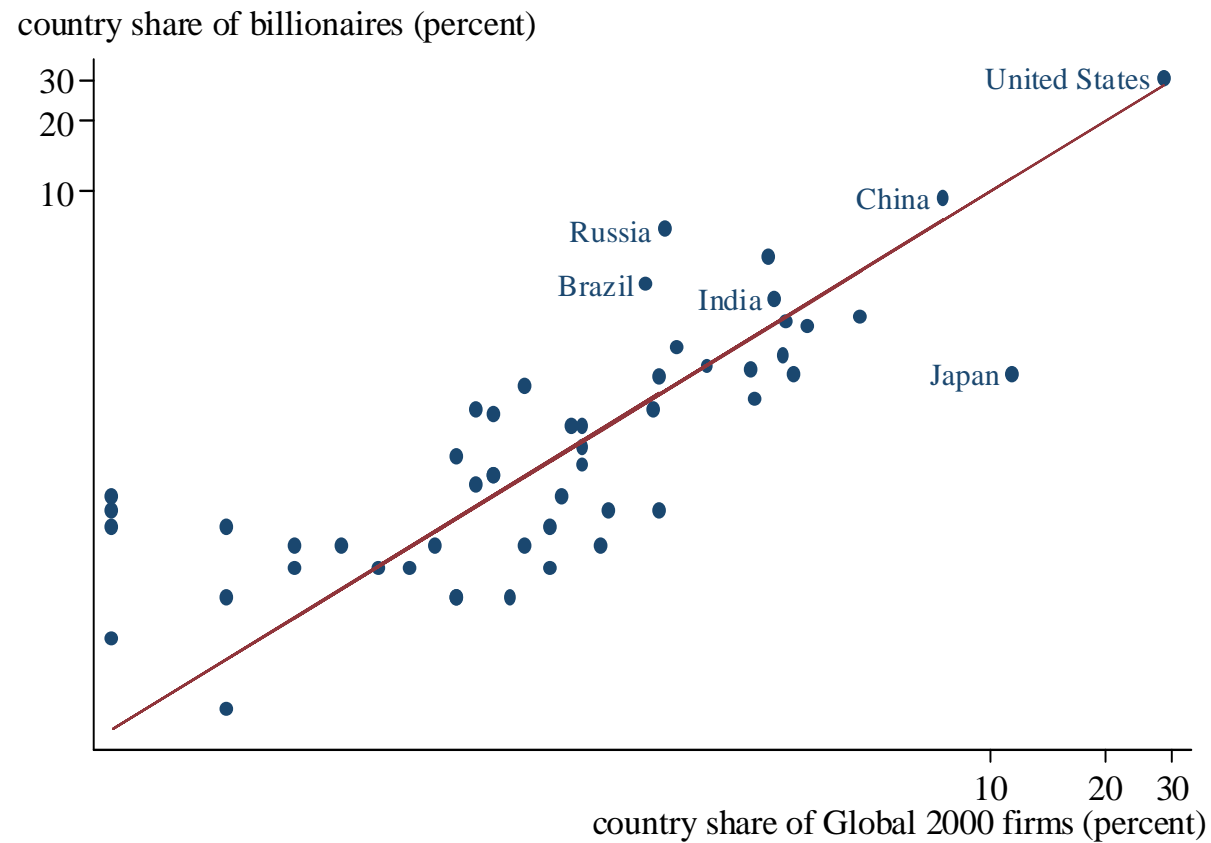
- Business environment encouraged large *outward* looking firms in Chile.
- Ben Ali clan bought state companies and lured foreign investors in Tunisia.



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



Sources: Forbes World's Billionaires and Global 2000.

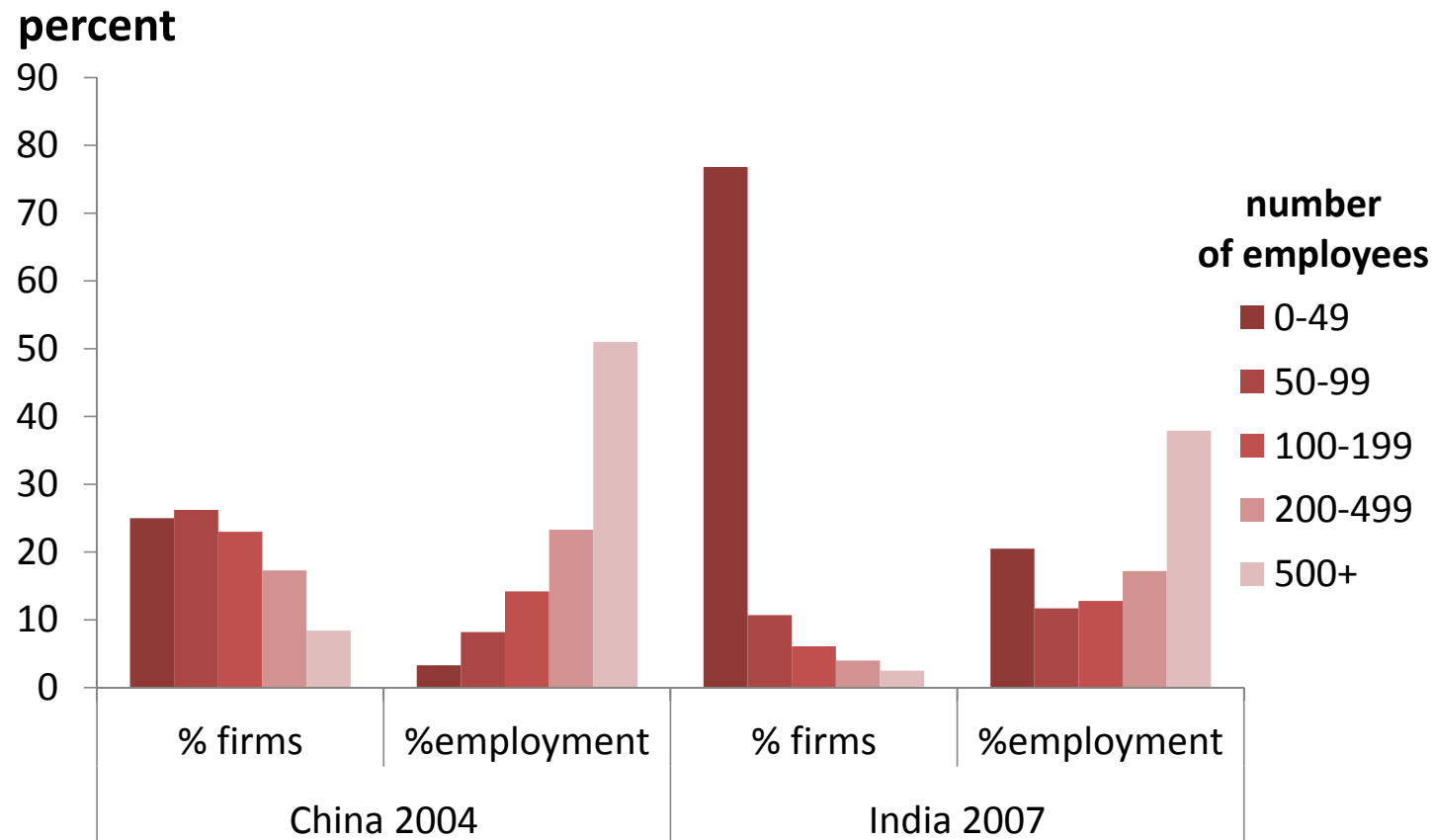


Large Firms Promote Modernization

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



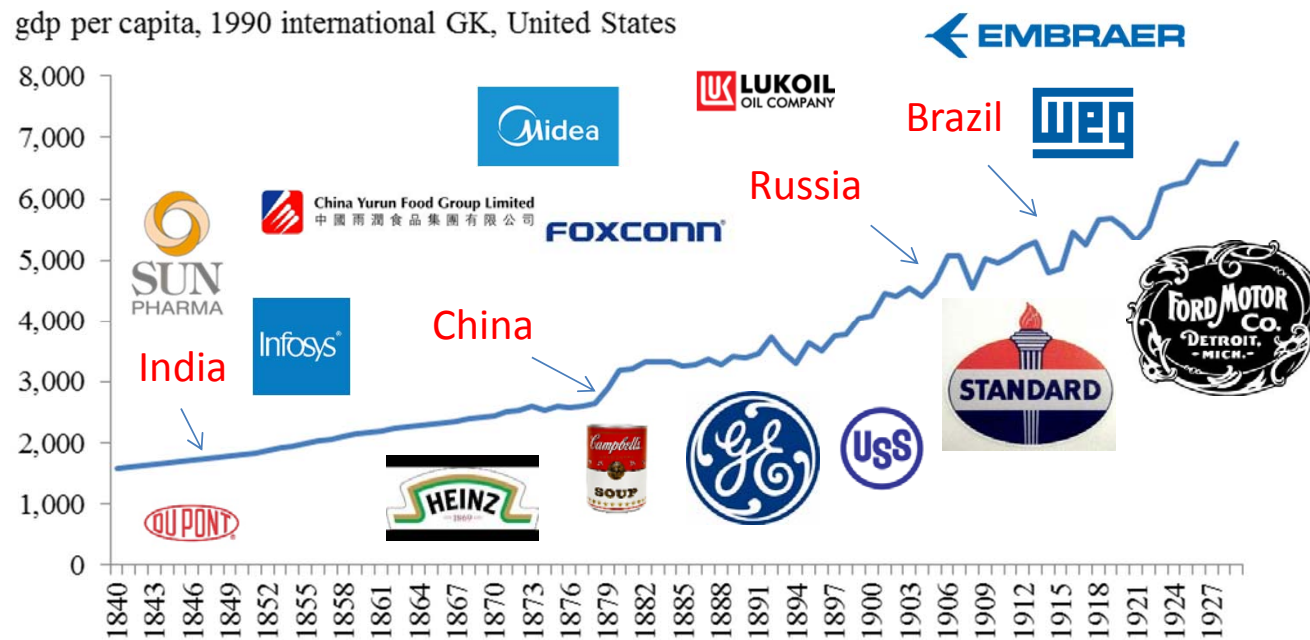
Large Firms & Manufacturing Employment



Source: van Ark et al. 2010



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



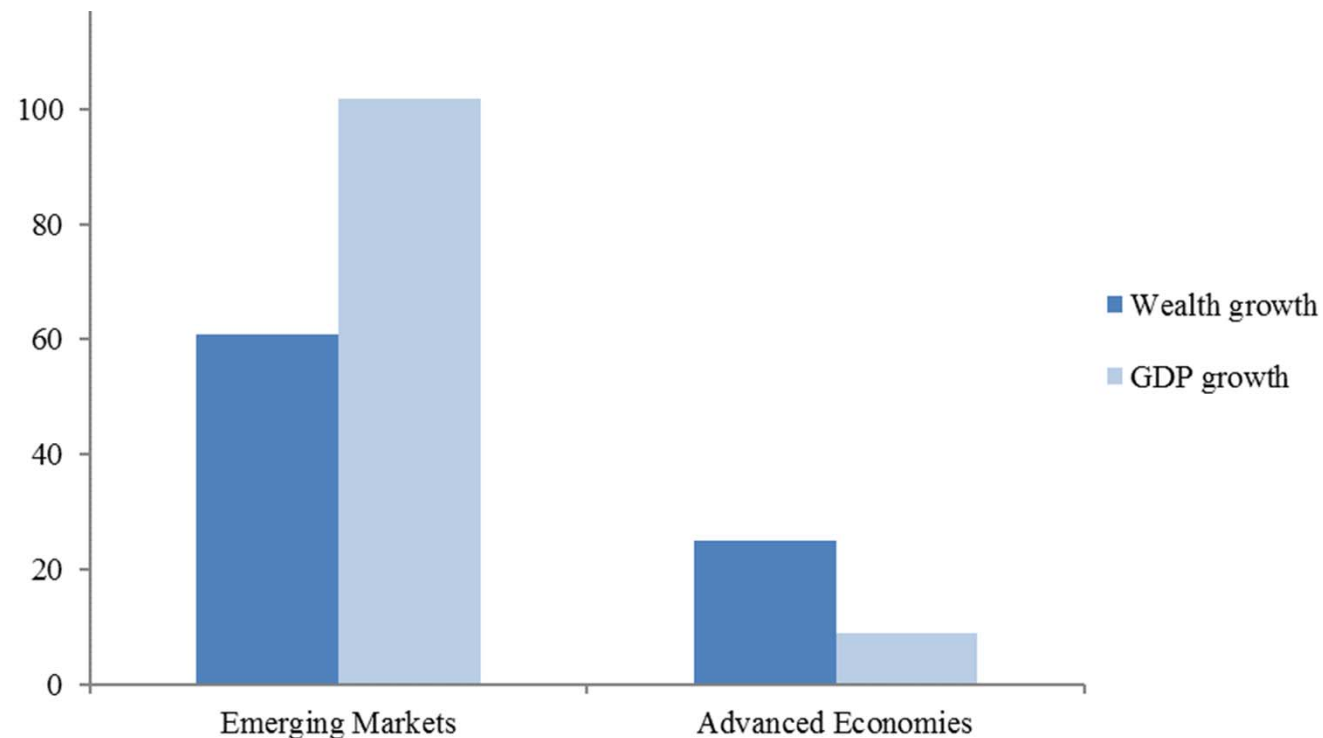
Source: Maddison Project 2013.

A Note on Extreme Wealth & Inequality

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

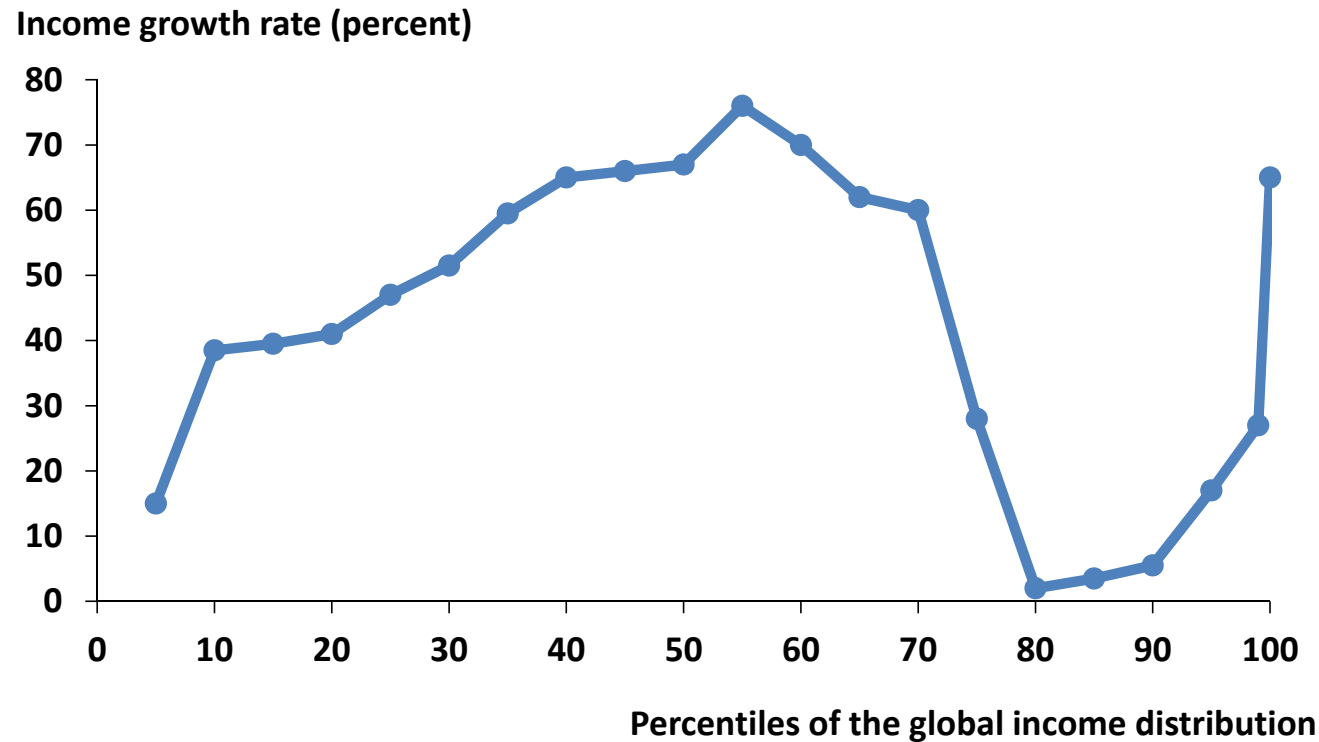


Growth in wealth of the 5 richest and GDP growth 2006-2012



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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