
Wealth of Nations or Wealth of Persons: World Billionaires and Sector Concentration *

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Abstract

Despite the recent global financial crisis, the number of billionaires in USA, Russia, China and Turkey has increased in the last five years, while it has remained at a constant scale in most developed European countries. The aim of the study is to explore whether wealth accumulation is closely related to the sector concentration in billionaire-generating countries. Unlike the previous studies on billionaires, this study examines the relationship between sectors and wealth accumulation of billionaires in some selected billionaire generating countries through secondary data from the Forbes list for the years from 2006 to 2011.

Keywords: Billionaires, Sector, Sector Concentration, Wealth, Wealth Accumulation

JEL Classification: E01, E24

Ülkelerin ya da Kişilerin Zenginliği: Dünya Milyarderleri Ve Sektör Yoğunluğu

Özet

Son dönemde gerçekleşen küresel mali krize rağmen, son beş yıl içerisinde birçok gelişmiş Avrupa ülkesinde milyarder sayıları sabit kalırken, Amerika Birleşik Devletleri'nde, Rusya'da, Çin'de ve Türkiye'de milyarder sayılarının arttığı görülmüştür. Bu çalışmanın amacı, milyarder çıkaran ülkelerde servet birikimiyle sektör yoğunlaşması arasında yakın bir ilişkinin olup olmadığını incelemektir. Milyarderler hakkında yapılan diğer çalışmalardan farklı olarak bu çalışma, 2006-2011 yılları arasında Forbes dergisinin milyarder listesi ikincil verileriyle seçilmiş milyarder çıkaran bazı ülkelerde servet birikimiyle sektörler arasında ilişkiyi araştırmaktadır.

Anahtar Kelimeler: Milyarderler, Sektör, Sektör Yoğunluğu, Servet, Servet Birikimi.

JEL Sınıflaması: E01, E24

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1. Introduction: Wealth of Nations or Wealth of Persons

The initial root of the wealth of nations is generally accepted in Adam Smith's "Wealth of Nations" (1776). Smith conceived his assumptions on the basis of self-interests, labor specialization and less government intervention into the economy in order to reach full employment in a country. His assumptions were also based on the long run attainments. Unlike his articulation, the global free economic system has instead generated super wealth of persons.

This study investigates the number of world billionaires and their relation to sector concentration between the years 2006-2011. In literature there are some approaches on the cause of billionaires and previous findings reveal that many factors play dominant role in generating billionaires. Several questions might be raised for the billionaires and sector concentration in certain countries such as; why some countries have rich and some have super-rich, how economic, interventionist and biased government policies and the sectors affect in generating billionaires and wealth accumulation.

Answering all mentioned questions seem impossible with limited data and statistics. It is well known that major previous studies used the data of global Forbes list of billionaires. This study also uses the data of Forbes list billionaires between the years 2006-2011 and explores the major billionaire-generating countries and the billionaires' sectors. Figure 1 indicates the trends of world billionaires' numbers and their wealth between the years 2006-2011 as listed in Forbes (2006, 2007, 2008, 2009, 2010 and 2011).

Despite the fact that the financial crises initially occurred in the USA and spread all over the world, both the number of billionaires and their corresponding level of wealth slightly increased just after the crises. By the help of the technological advances and the speedy increasing in deregulation in financial sector, this huge increase in the number of billionaires and wealth had never been created during the last decades. After the industrial revolution, parallel to the industrialization process, world billionaires emerged in early industrialized countries namely John D. Rockefeller (1839-1937) who was an oil investor with 1.53% wealth of the U.S. economy in history, Cornelia Vanderbilt (1794-1877) who created his wealth in the steamboat and railroad industry with 1.15% wealth of the U.S. economy, John Jacob Astor (1763-1848) who created his wealth in the fur trade and real estate with 0.93% wealth of the U.S. economy. The others like Stephen Girard (1750-1831) who created his wealth in shipping and in the First Bank of the United States with 0.67% wealth of the U.S. economy and Andrew Carnegie (1835-1919) who created his wealth by the iron and steel industry with 0.60% wealth of the U.S. economy could also be mentioned. These billionaires have acquired their wealth since they owned the physical and the stock of the physical capital. As Morck, Strangeland, and Yeung (1998) explored that economic growth and capital accumulation depend on the capacity of physical capital.

It is clearly seen from the Forbes list data in Figure 2, US billionaires have reached up to 403 with wealth of 1.515,6 trillion U.S dollars. According to IMF data (2011), the U.S GDP is about 15,094,025 trillion U.S dollars and according to the Forbes list data, U.S billionaires' wealth is about 1.515, 6 U.S trillion dollars which is approximately about 10% of the U.S GDP. The U.S billionaires' wealth shares approximately 22% of the world GDP of 69.659,626 trillion U.S dollars IMF (2012).¹

In light of the current dramatic increase in the number of billionaires in the USA, Russia, China and Turkey, we examine the sector effect on generating billionaires in mentioned countries to address this research hypothesis. Against the financial influence present in each country, this study examines how they could achieve the success of generating billionaires. Since the most billionaires are in financial sectors, they may easily transfer their wealth to tax heavens. Billionaires began to escape due to some advantages of the financial sectors to some offshore tax havens, and as a result, the super-rich began to escape to those huge black holes. The hidden financial assets are estimated to be totally \$32 trillion and global tax loss of about \$280 billion BBC (2012). Taxing billionaires' wealth will cool the poor, and it will help them to redistribute the wealth considering their conditions.

Although the recent financial crisis originated in the USA, a majority of financial sector billionaires present in the USA as well. While both Russia and China recently gained freedom of free enterprise, they have many young billionaires in the mining and real estate sector, respectively. Turkey has doubled the number of billionaires during the last decade in a diverse sector, with new billionaires who have gained close ties to the ruling government.

2. Literature Review

Surprisingly, there are only a few studies on world billionaires and their origins in literature. Not only are there few studies on the causes of wealth accumulation, but also there are few studies on the correlation between billionaires and their sectors. The fundamental studies could be cited as follows: (Siegfried and Roberts, 1991, pp.19-32) explored billionaires in UK, (Blitz and Siegfried, 1992, pp.5-26) and (Kennickell, 2003) analyzed billionaires in US, (Siegfried and Round, 1994, pp.191-204) analyzed billionaires in Australia, and (Hazledine and Siegfried, 1998, pp.35-47) analyzed billionaires in New Zealand, (Goldman: 1998) focused on the analysis of the power of Russian billionaires in the country, (Kennickell and Arthur, 2003) tested the role of billionaires on income distribution in the USA, (Levin, Mark and Satarov, 2000, pp.113-132) analyzed the deep impact of corruption and some institutions in Russia, (Morck, Strangeland, and Yeung, 1998) analyzed Canadian billionaires and their economic power, (Siegfried, John and Roberts, 1991, pp.19-32.) found the causes of

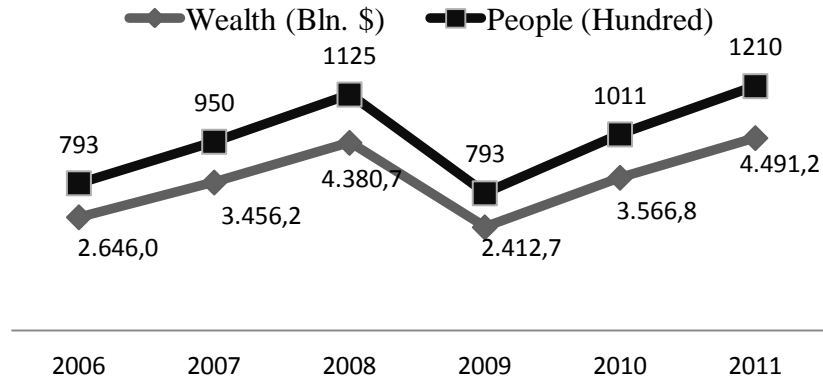
¹Nominal GDP

becoming super billionaires in Great Britain, (Torgler and Piatti, 2010) tested the impact of globalization and corruption on becoming super-rich. As seen above, the previous studies have analyzed a variety of reasons which might be the cause of the generation of billionaires. According to the findings of previous studies, the causes of generating billionaires are inheritance, self-made, economic and political supports by ruling elites, globalization and corruption. Unlike the previous studies, this study focuses on the sectoral reasons on generation billionaires. Ultimately, sectors have been very effective in generating billionaires recently. For further research and policy makers, this study might be a cornerstone of the future perspectives considering the ties between dominant sectors and ruling elites in the process of reforming financial and banking sectors. Additionally, it might be helpful to capture the inside of the recent financial crisis and social turbulences which have been caused mainly by poor and minorities in the countries. Finally, this study also might be informative for the policy makers in developing countries to demonstrate where to invest initially, inspiring from S. Korea and Taiwan that gained the high share of the global ICT sector and billionaires as well.

3. Findings Overview of World Billionaires

One significant feature of the recent trend of billionaires is that billionaires increased their wealth just after the crisis. Before the recent financial crisis which originated in the USA, both the number of billionaires and their wealth accumulation increased dramatically. Between the years 2006 and 2007, Figure 1 below highlights that the number of billionaires increased to 157 people, and between the years 2007 and 2008 increased to 175 people. During the same years, billionaires' wealth increased to 810,2 US billion dollars and 924,5 US billion dollars respectively. During the global financial crises, the number of billionaires decreased to 332 people and their wealth shrank to 968 US billion dollars. Within the first two years after the crisis (2009-2011), the number of billionaires increased to 417 people, and their wealth accumulation increased to 2.078,5 US billion dollars. It shows that the world billionaires and their wealth accumulation are not free from the world's economic trends. This paper argues that billionaires are closely related to the world economic policies, which affect the billionaires' decisions. And also it firmly clarifies that wealth, which is created from the financial sector, is under the severe pressure of the world economic trends.

Figure 1
World Billionaires



Source: Forbes list data, 2006-2011

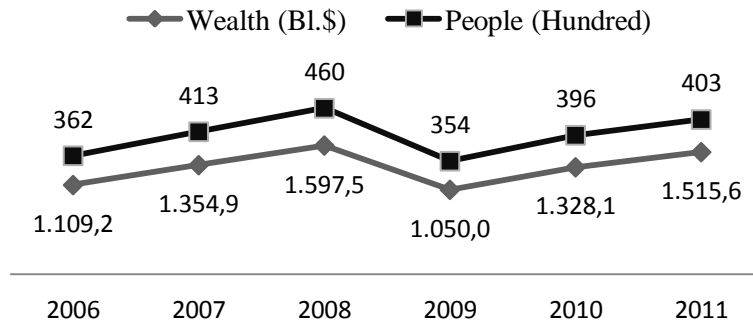
4. Recent Trends of Selected Countries' Billionaires

In this section the billionaires in selected countries and their wealth which has been generated in a certain sector will be analyzed based on the broad data provided by Forbes list. The selected countries are listed according to the number of billionaires from highest to the lowest as mentioned in the Forbes list.

4.1. American Billionaires

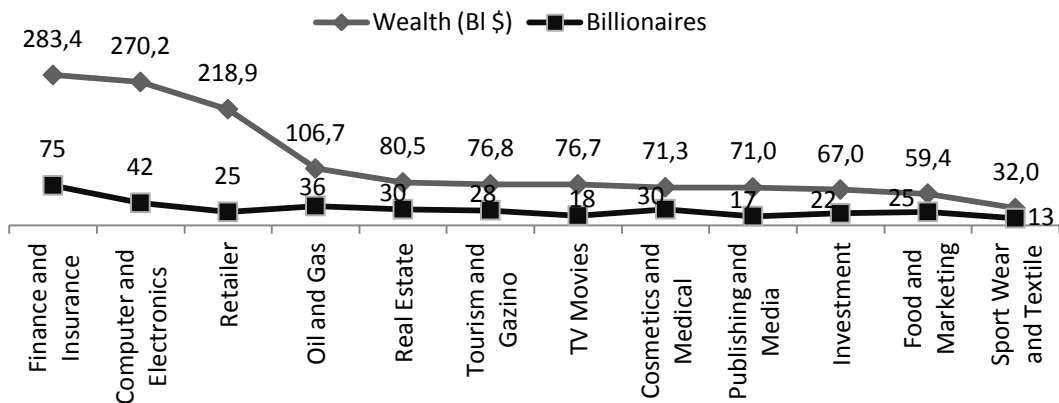
The effects of the world financial crises on the world's billionaires were also evident on the US billionaires simultaneously. The US billionaires' trends shown in Figure 2 indicate that, the number of US billionaires and their wealth increased significantly before the financial crises. This trend followed by the increase of the number of world billionaires at the same time. However the number of US billionaires fell behind the world increasing. Crises originated in the USA and its effects severely hit the US billionaires, but some countries have largely reached their pre-crisis levels.

Figure 2
American Billionaires and Their Wealth



Source: Forbes list data, 2006-2011

Figure 3
Billionaires' Sectors in The USA

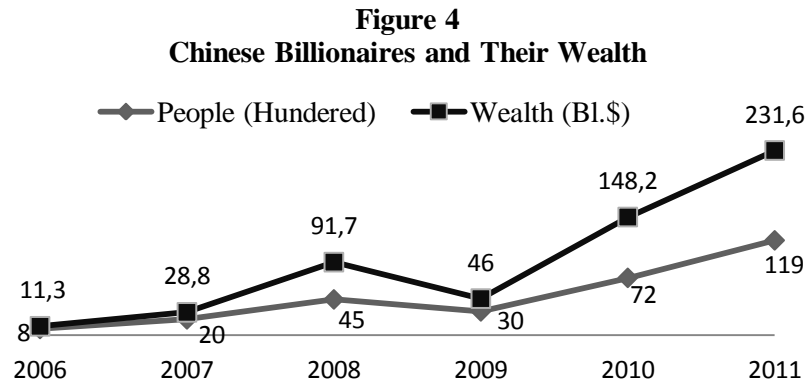


Source: Forbes list data, 2006-2011

When we look through the US billionaires' sector, Figure 3 indicates that the billionaires generating sector has been shared by financial and insurance, computer and electronics and retail sector respectively. Figure 3 demonstrates that the dominant billionaires generating sector has been the financial and insurance sector. It also brings a question whether billionaires caused the financial crises or financial crises caused shrinking of the billionaires' wealth. Recent economic and political experiences in the USA and internal and external debt crises in European countries have proved that billionaires have been considered as the dominant factor of the recent financial crises. In addition, "Occupy Wall Street" and "Occupy Davos" have been marked as new terms in financial markets Bloomberg (2012).

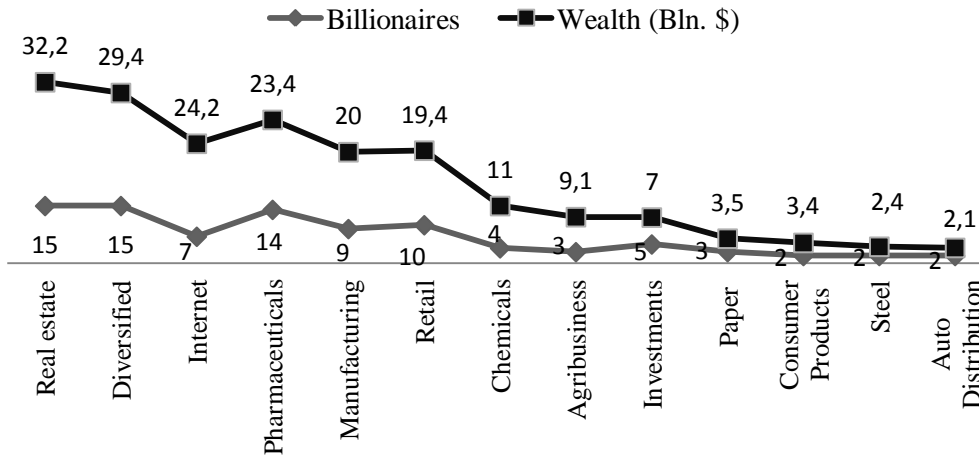
4.2. Chinese Billionaires

China is known as one of the fastest growing countries with its average of 10% annual growth over the last three decades. It is also marked as one of the BRICs countries, which are able to manufacture their own weapons Economist (2012). However, recent improvements in salaries and working conditions in China have influenced companies to hire fewer workers. It is expected that an increase in the wage rate and improvements in the working conditions in manufacturing sector might lessen investment in the long run. Even if China has one of the largest employment in the manufacturing sector, the fact is that most billionaires and high wealth exist in the real estate sector. As mentioned above, the early American billionaires were in the industrial sector, while current billionaires are in the financial sector. It is seen in Figure 4 above that China has been recorded as one of the fastest billionaires generating country, the number of billionaires has increased % 1387,5 within 6 years, and most billionaires have been running in real estate sector, seen in Figure 5 below.



Source: Forbes list data, 2006-2011

Figure 5
Billionaires' Sectors in China



Source: Forbes list data, 2006-2011

4.3. Russian Billionaires

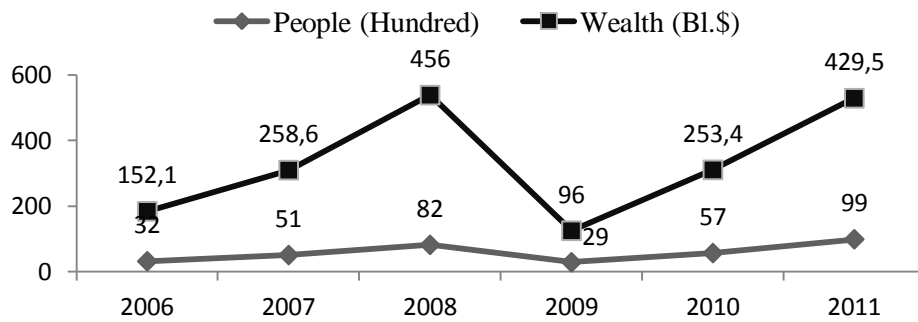
Goldman (1998) and Levin and Satarov (2000) have explored the causes of the Russian billionaires and their great fortunes on the bases of corruption and various oligarchs respectively. Rose and Ackerman (1999) found exceptional evidence of the sharing a nation's wealth at the expense of ordinary people. The most attractive challenges have been met by the middle class during the President Putin's term in Russia. The middle class has appeared and their conditions have improved as well. Work force consists of approximately 40% of middle class, this proportion were taken from 25% of work force during Putin's period. The following expenditures of middle class have been increased Economist (2012);

- Spending on luxury (Branded items) goods: Clothes, leather goods, shoes, jewelers and cosmetics,
- Registrations on private luxury cars
- Square meters of private luxury houses
- Tourist travel abroad
- Internet users
- IKEA stores Economist (2012)

These improvements can be considered as self-gains according to the per capita income growth, but increasing number of billionaires and their wealth bring several questions to be fully answered. Before collapse of the centralized economic system, no individual had the freedom of establishing enterprises and gaining wealth accumulation as well. Between 1991 and 2011, as indicated in Figure 6, the number of billionaires has reached up to 99 people with 429,5 US

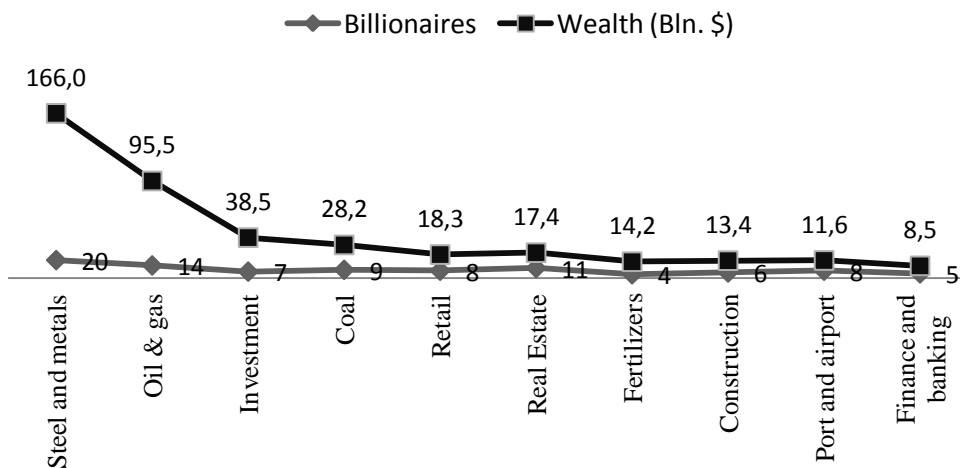
billion dollars wealth. It is debated by many authors that this success is neither self-made nor from inheritance. It is also clear that before 1991; the system did not allow anyone to gain private advantages. Figure 6 demonstrates that 34 billionaires have generated their wealth in steal, metals, and oil and gas sectors. The centralized economic system didn't allow any individual the following freedoms: property rights and establishing free enterprises, international trade. In despite of this, young Russian billionaires, between 40 and 50 years old, have gained huge wealth. Goldman (1998) concludes that the younger Russian Billionaires and their wealth were based on the requisition of former state property. In brief, it might be elaborated that great fortunes were created from changing the owners of the state properties, not from productive sectors.

Figure 6
Russian Billionaires



Source: Forbes list data, 2006-2011

Figure 7
Billionaires' Sector in Russia



Source: Forbes list data, 2006-2011

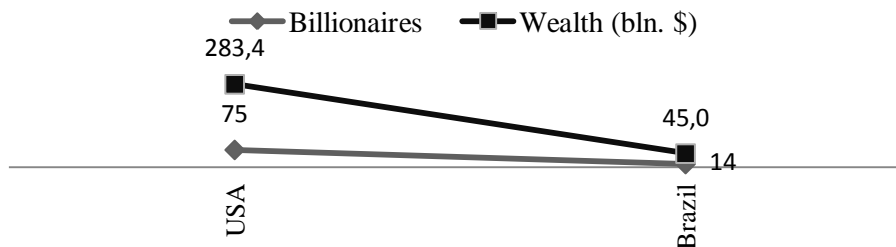
5. Selected Sectors' Billionaires

The billionaires list and their wealth clearly demonstrate that some countries have specialized in certain sectors in generating billionaires and wealth. The number of billionaires and generated wealth in a certain sector indicates a country's economic power and sector concentration level of billionaires. This section covers the list of billionaires and their wealth according to the sectors.

5.1. Billionaires in Insurance and Banking Sector

It is clearly seen that the USA and Brazil are the countries that have ranked in generating most billionaires in the insurance and banking sectors. As it seen in figure 7 that USA has 75 billionaires with 283,4 US billion dollars wealth in insurance and banking sector. Both USA and Brazil have a total of 89 billionaires in insurance and banking sector with 328,4 US billion dollars. During the last financial crisis in the USA, Federal Reserve Bank injected huge amount of dollars to the financial market in order to support actors of financial sector. It clarifies that financial sector is supported for the potential risks by state guarantee Guardian (2009).

Figure 8
Billionaires of Insurance and Banking



Source: Forbes list data, 2006-2011

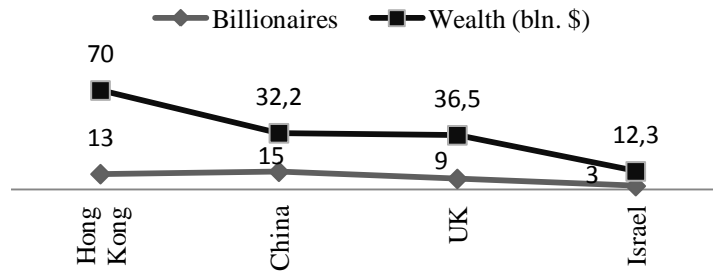
5.2. Billionaires in Real Estate Sector

George (1881) argued that availability of cheap land and land rentals create both wealth accumulation and income inequality. Another explanation is matched to the real estate billionaires that current real estates' wealth differs from early real estate wealth in case of the value of real estate is being mortgaged. Currently, real estate is not being indexed fairly Steckel (1989).

According to the Forbes list, in Figure 7 it is pictured those most real estate billionaires in Hong Kong, China, UK and Israel. Four countries have a total of 40 billionaires with 151 US billion dollars wealth in real estate sector. Recently, the richest real estate billionaires in Hong Kong have been charged with corruption

related manipulations BBC (2012). It prompts the question of whether real estate investors have close connections and if any unfair support exists from the state bodies. Especially nonproductive sector billionaires' case (mainly mining and real estate) will continue to remain as an unsolved question.

Figure 9
Billionaires of Real Estate

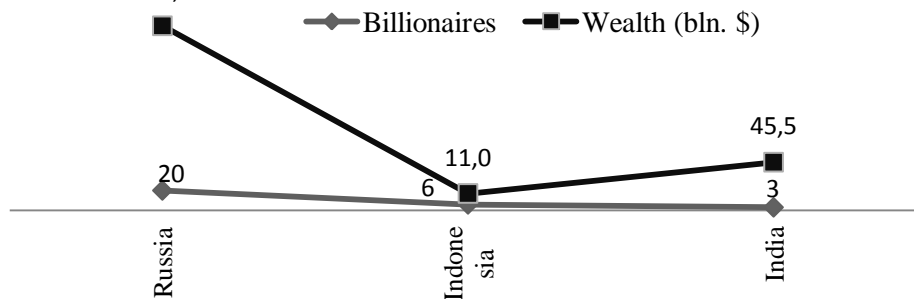


Source: Forbes list data, 2006-2011

5.3. Billionaires in Metals and Mining Sector

In metals and mining sector, Russia, Indonesia and India have a total of 29 billionaires with 222,5 US billion dollars wealth. It gives us the clues in generating billionaires and privatization process in mentioned countries. Figure 8 shows the structure of mentioned countries' billionaires in the same sector, and government policies and approaches in mentioned sector according to the billionaires needs. Russia has almost one-sixth of its billionaires in the mining sector (metals, gas and oil). But as their wealth, almost 80% of the Russian billionaires' wealth comes from non-productive sectors, in which political ties always remains as an untouched issue (comparing Figure 6 and Figure 8).

Figure 10
Billionaires of Metals and Mining



Source: Forbes list data, 2006-2011

5.4. Billionaires in Electronics Sector

As it is seen in Figure 9, most billionaires in electronics are in South Korea and Taiwan. Both S. Korea and Taiwan are well known to have huge investment in technology and Research and Development (R&D). These policies have been reflected in export data in both countries Young (1995). Consequently investment in technology and R&D has most generated billionaires in electronics in S. Korea and Taiwan. According to the Forbes list 2011, 5 billionaires have generated 15.5 US billion dollars in S. Korea and 3 billionaires 5.5 US billion dollars in Taiwan while other countries have generated billionaires in financial sector, metals and mining, real estate and software. It is clear that both countries' investment in technology has led providing advantages in electronic devises exporting and billionaires in electronics. In South Korea and in Taiwan, there is a strong connection between sector support policies and billionaires in electronics. In S. Korea, industry diversification was planned by S. Korean Government during the 1960s and the 1970s Amsden (1989). The South Korean government supported and protected chaebols² Powers (2010) in all areas to use them as locomotives for rapid economic development. South Korean Economy fully liberalized in both financial system and property rights³ in order boost technological investment by State Deyo (1992) and Kim (1997). Reverse-engineering can be also indicated as one of the source of technological advancement in S. Korea Kim & Kim (1985).

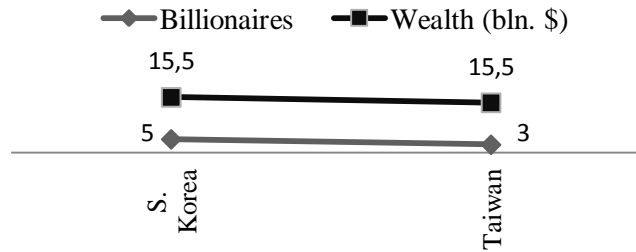
Taiwan is one of the other good examples of the connection between billionaires and sector support policies in productive sector. Technology and export support policies began in 1950s and continued until the 1970s. In 1980s, once again government introduced a new phase of high technology and modernization process in Taiwan Hsu and Chiang (2001). Eventually, Taiwan has generated billionaires in very productive sector through the sector support policies.

² Korean term which indicates clustering of many companies around one parent company. The companies usually hold shares in each other and are often run by one family (Similar to the keiretsu in Japan). Read more: <http://www.investorwords.com/820/chaebol.html>-24/09/2012

“The government planners made two decisions that greatly influenced future Corporate and financial structure in Korea. First, the government decided it would choose which markets should be developed by Korean firms and allow entry to only a select number of firms. These firms were chosen from a relatively small group of companies cultivated by the government to be used as tools for Korea's state-run development. Financial incentives offered by the government, such as low-interest loans, tax breaks, and other benefits, made it easy to recruit businesses willing to cooperate. The second significant economic decision made by the government's planners was to focus market development through export-oriented industrialization. Export-oriented industrialization is a method of industrialization that focuses on the production of goods in which a country has a comparative advantage”. Read more: www.stanford.edu

³ Restrictions on foreign licensing were eased.

Figure 11
Billionaires of Electronics



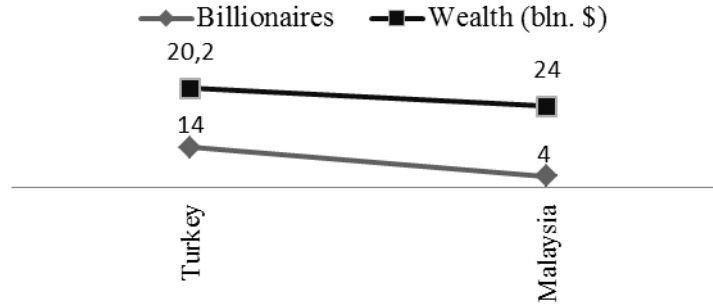
Source: Forbes list data, 2006-2011

5.5. Billionaires in Diversified Sector

Billionaires and their wealth generally reflect countries' economic structures. For example, in the USA billionaires are in finance, insurance and software, in Russia metals and mining, in Hong Kong, China, UK and Israel in real estate, in South Korea and Taiwan in electronics, and in Turkey and Malaysia in diversified sectors. Especially in Turkey, billionaires are in diversified sectors such oil and gas imports, banks, textile, media, GSM operators and energy sector. Turkish policy makers have been trying to create Turkish trade mark in technology during recent decades. In Figure 10 it is clearly seen that 14 billionaires manage 20,2 US billion dollars in diversified sector in Turkey. Malaysia is in the second rank with 4 billionaires managing 24 US billion dollars. Turkish billionaires and their wealth reflect the weakness of billionaires in creating worldwide trademarks. It also indicates that the concentration of Turkish billionaires on diversified sectors. Turkish rich elites mainly control major sectors and direct future investment corridor Petras (2011). It is also assumed that there are exceptional ties between state investment policies and rich elites in Turkey. Quick changes in the names of Turkish billionaires and their sectors prove the reasons generating billionaires in diversified sectors⁴ and difficulties generating trademarks, while billionaires in developed countries have not changed for ages. Neumayer (2004) indicated that the accumulation of huge wealth in a few hands creates envy and concerns in mostly poor people.

⁴ Turkish conglomerates are diversified, operating in almost all markets from retailing to electronics, automobiles, textiles and households products. The last five years new billionaires have generated wealth from real estate and energy sectors. Foreign direct investment in banking sector, high increasing in real estate price over the last five years and high demand increasing in energy and constructing sectors have played a major role in generating new billionaires last 10 years in Turkey. Read more: "Wealth" <http://www.forbes.com/2007/04/13/turkey>

Figure 12
Billionaires of Diversified Sector



Source: Forbes list data, 2006-2011

6. Conclusion

This study has demonstrated that current billionaires are easily affected by the sectors as well as by political and economic decisions. While early billionaires were in a position to affect the policy maker's decisions, currently the situation is reverse. And also this study has asserted that the proportion of the billionaires' shares from the economic pie, locally and globally, reflects the power of billionaires and power behind the billionaires as well. The latest improvements have also clarified that new policies on taxing billionaires' wealth and income distribution have to be taken into consideration by policy makers.

Recent financial crises have given rise to government policies on billionaires and wealth. Political changes in some European countries after severe political and economic turbulences, cause policy makers broaden the agenda with the necessity of taxing billionaires' wealth. Furthermore it might be said that current economic policies cannot be isolated from the billionaires and their wealth. Both developed or developing countries have generated billionaires which control or direct the country's income distribution. This study's main conclusion is that there are almost close connections between the proportion of billionaires' wealth and the country's GDP level and this proportion has remained almost at the same level. This level also affects the income distribution and creates economic stagnation in the country. It can be concluded that billionaires should not be prospered via enlightening political connections. Billionaires should face local and international fair competition and they also emerge from productive sectors as seen in S. Korea and Taiwan, not from patronage as seen in Russia and in Turkey.

The final conclusion of this study is that billionaires generating sectors reflect that each billionaire generating country has a different concentrated billionaires sector. These sectors seem under the control of the government policies and direct the way of the public expenditures. And this study also concludes that future policy

makers have to reconsider income distribution according to the billionaires' sectors. Income transfer, taxing, employment policies and property rights policies will help the redistribution of income and considering the poor population's conditions. Due to the fact that people in the poorest countries face deprivations and hardships relative to rich countries' people, policy makers have to take into account balancing between poor and rich. This is also important to decrease the tension of the recent turbulences between protesters and the ruling class in societies.

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