The Billionaire Guide to World Growth

Rankings of the wealthy are fun to read, but how the rich prospered can tell us much about country’s health.

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Hardly a week goes by without some titillating new report devoted to tracking billionaires. There’s the Bloomberg Billionaires Index, the Billionaire Census, and others like the Hurun report out of China and RBC Wealth Management’s World Wealth Report. The lists are rising in prominence in tandem with the number of billionaires, which has doubled in eight years to 1,645, according to Forbes, the granddaddy of this cottage industry.

Beyond providing vicarious thrills, some of this billionaire data is drifting into serious economic discussion. Author, venture capitalist and, as it happens, billionaire Peter Thiel in a recent debate cited the high number of “familiar faces” among the leading American tech billionaires as a sign of the stagnant state of innovation. Former Treasury Secretary Larry Summers has pointed to the long-term turnover among American billionaires—very few names on the 1982 list made the 2012 list—as evidence against the power of inherited wealth in the U.S. When read carefully, billionaire lists can indeed offer a quick pulse check on the health of a nation’s wealth.

First, not all billionaires are created equal. It is natural for a growing economy to generate billionaires, so long as they do not control an outsized share of the nation’s wealth, are not congealing into a stagnant elite, and are emerging from innovative industries rather than cashing in on political connections. To figure out which nations are creating wealth in a balanced way, we can use the Forbes 2014 list to calculate billionaire wealth as a share of the economy, the number of new vs. old billionaires, and the number of good billionaires in productive industries like tech and manufacturing vs. the number in often corruption-prone industries such as natural resources and real estate.
The U.S. fares reasonably well. For some time, billionaire wealth has averaged about 10% of world-wide GDP, and the share of billionaire wealth in the U.S. has been roughly in line with the global average. Today, new tycoons in innovative industries such as tech are on the rise. These balances shift with the market, so tech billionaires outnumbered resource tycoons three-to-one at the height of the dot-com boom in 2000, fell over the next decade, then came back after 2011, as prices for resources like oil started to fall and tech-company stock prices soared. By 2013 there were 63 U.S. tech billionaires vs. 33 energy billionaires.

It is true, as Mr. Thiel complains, that the names at the top of the list—megabillionaires like Microsoft’s Bill Gates and Oracle founder Larry Ellison—are familiar faces. But that’s natural, as it takes time to amass such a large fortune. Among the rest of the American tech billionaires, many connected to hot companies of the 1990s such as Yahoo co-founder Jerry Yang and Netscape co-founder Jim Clark are falling in rank. Many connected to hot new mobile Internet apps—Twitter creator Jack Dorsey and WhatsApp co-founder Jan Koum, for instance—appear for the first time.

There has been a parallel rise of good billionaires world-wide, perhaps most dramatically in China. Even three years ago, the world’s second-largest economy had a record of jailing tycoons whose wealth approached $10 billion, apparently aiming to prevent the rise of magnates powerful enough to challenge Communist Party supremacy. Now six tycoons have surpassed $10 billion, and three have surpassed $15 billion. Led by e-commerce kingpin Jack Ma of Alibaba, the top three are in Internet companies. It appears that Beijing’s interest in developing its tech sector, also a leading creator of jobs, now trumps the Communist Party’s controlling instincts.

This transformation has spread even to more stagnant economies. Indians last decade were fretting about the growing strength of politically connected provincial tycoons, but those figures seem to be ceding ground to the new and the good. Of the 55 Indian billionaires on the 2014 list, 17 are newcomers since 2010, and 14 of the newcomers come from productive industries like pharmaceuticals, education and consumer goods.

Even in Brazil, despite a slumping resource-based economy and a government prone to meddling, entrepreneurs have built large fortunes. New billionaires account for 57% of the names on the 2013 list, and good billionaires in industries like consumer goods and media account for more than 90% of billionaire wealth, the highest share in the emerging world outside South Korea (97%).

For every nation where the news is good, however, there is another nurturing an entrenched elite. In Russia and Malaysia, billionaire fortunes amount to nearly 20% of GDP, twice the global average. More than 80% of billionaire wealth in Russia comes from Kremlin-controlled industries like oil and gas, by far the largest share in any large economy.

It is typically a sign of health when the scale of billionaire fortunes is at or below
the global average, but in a country like Japan, where the share of GDP held by billionaires is unusually low—less than 2%—one wonders if this is a symptom of the economy’s chronic incapacity to create significant wealth.

Yet the global picture is never monochromatic, or simple to read. One might assume that families in developed economies would be wealthier, as they’ve had more time to rack up a fortune, but no such pattern emerges. Many young economies are fat with old-family money. In the developed world, tycoons who largely inherited their fortunes account for as little as 12% of total billionaire wealth in Japan, or as much as 76% in Germany, according to my analysis. In the U.S. they account for 33%. In the emerging world, the inherited share ranges from near zero in Russia and China to 84% in South Korea.

It is not clear, however, that inherited wealth is bad for the economies of Germany and South Korea, where billionaire families control some of the world’s most productive companies. Nor is the absence of inherited wealth necessarily a plus for Russia, as the country has replaced family fortunes with well-connected oligarchs.

Billionaire watching may seem like voyeuristic fun, but it can provide some insight into whether an economy is creating the productive wealth—and wealthy class—that will help it grow in the future. Right now, those trends are turning for the worse in countries like Russia, Malaysia and Japan and for the better in Brazil, India and the U.S.