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**THE FACTORS OF BILLIONAIRE GENERATING CAPACITY  
OF WORLD COUNTRIES**

*Although some researchers have recently focused on the factors which impact capital accumulation in countries, limited studies have emphasized the factors of billionaire generating capacity. This study aims to test the factors of billionaire generating capacity of countries by using the Least Square Method (LSM). According to the results of the econometric model, while income equality has no effect statistically; democratization level and property rights have negative and positive effects respectively on the billionaire generating capacity of these countries.*

*Keywords: democracy; property rights; wealth accumulation; billionaire generating capacity.  
JEL codes: O11, O34, P14, P48.*

**Харун Якишик, Мурат Мустафа Кутлутурк**  
**ЧИННИКИ ПОЯВИ МІЛЬЯРДЕРІВ У КРАЇНАХ СВІТУ**

*У статті продемонстровано, що дослідники процесів акумуляції капіталу акцентують увагу переважно на країнах, а питання появи у різних країнах світу мільярдерів досліджено недостатньо. За допомогою методу найменших квадратів вивчено чинники появи у різних країнах світу мільярдерів. Результати економетричної моделі виявили, що економічна рівність в окремій країні практично не впливає на процеси появи мільярдерів. Рівень демократизації суспільства впливає негативно, а захист прав власності – позитивно.*

*Ключові слова: демократія; права власності; акумулювання багатства; процеси появи мільярдерів у країні.*

*Форм. 2. Табл. 1. Літ. 48.*

**Харун Якышык, Мурат Мустафа Кутлутурк**  
**ФАКТОРЫ ПОЯВЛЕНИЯ МИЛЛИАРДЕРОВ В СТРАНАХ МИРА**

*В статье показано, что исследователи процессов аккумуляции капитала в основном акцентируют внимание на странах, а вопросы появления в различных странах миллиардеров исследованы недостаточно. При помощи метода наименьших квадратов изучены факторы появления в различных странах мира миллиардеров. Результаты эконометрической модели показали, что экономическое равенство в отдельно взятой стране практически не влияет на процессы появления миллиардеров, уровень демократизации общества влияет негативно, а защита прав собственности влияет положительно.*

*Ключевые слова: демократия; права собственности; аккумуляирование богатства; процессы появления миллиардеров в стране.*

### **1. Introduction**

The earliest assessment of the capital accumulation dynamics belongs to Adam Smith who claimed that self-interest, division of labor and specialization are the inspirations of the capitalism rise. A long period of positive growth during the industrialization process of the Western countries proved Adam Smith's approach. John Davison Rockefeller, who founded the Standard Oil Company in 1870, is known as the richest American industrialist in history (Biography.com, 2011). A. J. Schumpeter analyzed capitalism moves through business cycle volatility, but it makes growth in the long run. He defended his arguments through innovation and creative destruction

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which keep capitalism dynamic (Schumpeter, 1939). Due to the postindustrial advancement and decline of Fordism, capitalism has made slow growth rates after the 1970s. Meanwhile the processes of Western countries' industrialization, first billionaires in the history have been generated regardless economic and democratic credentials of the countries. These credentials include stability of political and economic environment, democratic standards, openness of international trade, protected property rights etc. Some empirical analysis tested that while the number of billionaires was increasing, income inequality has increased as well in Western countries (Subramanian and Kawachi, 2003).

As it has been analyzed by many authors, presented in the literature review below, capital and wealth accumulation have created income inequality at both national and global levels. Even if wealth has been accumulated in a few hands, there is no exact consensus about the factors which might be the causes for wealth accumulation, and the factors of billionaire generating capacity in the same pattern. The USA is known as the cradle of freedom and democracy, but the origin of democracy belongs to the French revolution that secured the rights of the poor against the elites (Acemoglu and Robinson, 2006). Given this information, it seems as a conflict that democracy and wealth accumulation in a few hands constitute a huge gap between poor and rich at the same time. The data indicates democracy levels support the above information that the countries with stronger democracies have slightly few billionaires as compared to others (eiu.com, 2011).

There are several inspirations of this research as they are summarized in the following section. The first one is the untouched causes of generating billionaires in transition economies. Another inspiration of the research is the causes of generating top number of billionaires in the USA, a democratic country. Behind this fact lie several reasons one of which is the elites' control of political power with close contact to some rich who do not let to transit to the full democratic level (Acemoglu and Robinson, 2006). The latest democracy indices indicate that the average democracy scores for 2011 are lower than 2010, especially in the North America, that generates more billionaires, has lower democracy indices while few billionaires generating highly developed countries like Norway, Sweden and Denmark have the highest democracy indices (eiu.com, 2011).

Many authors have been analyzing income inequality and its impact on economy since the 1950's. There are a few studies on the impact of democratization and property rights on wealth accumulation. Recently, wealth accumulation and income inequality have centered in the global debated agenda from the Davos meeting to election campaigns around the world. It has also been criticized that tax on wealth can lead to alleviate inequality and regain lost trust to capitalism by wealth redistribution. This is known as the "Buffett Rule" that included a key economic policy proposal imposing at minimum 30% of billionaires' wealth in the recent presidential election campaign by the Democrats to recover lost economic reliability (The Economist, 2012). And the other recent hot debated agenda has been the huge amount of wealth which has flown to offshore tax heavens to be untaxed and not to be investigated for the origin of wealth. The hidden financial assets in those "holes" are estimated as at least 21 trln USD and the global tax losses therefore are approximately 280 bln USD (bbc.co.uk, 2012).

Our hypothesis is that individuals in more democratized countries are less able to accumulate extraordinary wealth, or vice versa. The findings are correlated to the previous theories in order to test if there is a negative relationship between the wealth accumulation ratio to GDP (an indicator of generating billionaires capacity) and democracy level in the country.

## 2. Literature review

In literature the main approaches on the origin of wealth accumulation can be summarized as follows: it began with the famous work "Wealth of Nations" by Adam Smith (1776). The 1930s introduced us to the famous theories "innovation theory" and "creative destruction" by J. Schumpeter. And the 1950s were affected by Kuznets' U-shaped analysis which indicates income inequality and economic growth (Gallup, 2012).

But some recent approaches (listed below) shifted from the causes of nations' wealth to wealth of persons. And the recent literature has also focused on the variety of reasons which shape the factors generating billionaires and super billionaires. Some reasons for generating billionaires mentioned in recent studies are as follows: Income inequality, globalization, inheritance and self-made, political economy, different skills, democracy and property rights.

George (1992) found a weak relationship between wealth accumulation and the country's democracy level. Olson (1974) asserts the democracy as the way of preventing wealth and some advantages of economic groups from expropriation under autocracy. In contrast, Alesina and Rodrik (1991) and Persson and Tabellini (1990, 1994) argue that wealth inequality cannot create capital accumulation instead diminishes economic growth, so that income and wealth accumulation inequality are inversely related. In the second half of the 20th century, huge industrialization and democratization generated wealth accumulation and high economic growth in Western countries while Eastern countries had scored less economic growth and wealth accumulation during the same period (Rosenstein-Rodan, 1943; Mahalanobis, 1963). Alesina and Rodrik (1991) find that both democracies and non-democracies have almost same effects on wealth accumulation. More recently, Berg and Sachs (1988), Haggard and Webb (1993), and Birdsall et. al (1995) have asserted that unequal income distributions contribute to social and political polarization and empirically show that inequality undermines the consensus on policy reforms. Bollen and Jackman (1985) argued that there has been a robust attitude to democracy which can reduce inequality in wealth accumulation. Acemoglu and Robinson (2001) argue that democratization is a reasonable process for poor and middle class in societies. But in contrast, Boix (2003) suggests that democratization is reasonable if inequality is low in a society. Lipset (1959) and Lenski (1966) both argue that an income-equal society depends more on political equality. Deininger and Squire (1998) find initial inequality to affect future growth of undemocratic countries only.

Among some studies on income inequality and wealth accumulation, Kuznets (1955) propounded that income distribution becoming more unequal at early stages of economic growth. However, after the initial stages of economic growth, income equality improves as per capita income increases. Paukert (1973) showed that this hypothesis supports the case of industrialized countries, while Lecallion et. al (1984) showed that high negative correlation between income inequality and capital is relatively smaller in

less industrialized countries. Deep inequalities in wealth accumulation weaken democratic political structures (Dahl, 1971). Furthermore, inequality has been elaborated as necessary for wealth accumulation, and also it is supposed that inequality boosts individual motivation to increase wealth (Adelman and Robinson, 1989).

Developed Western countries have encountered income inequality and poverty as well. Maddison (2001) found the clues of economic disparities as divergence in economic performance across regions and countries emerge over time. But Bourguignon and Morrisson (1999) related the total income inequalities to inequalities between countries. Milanovic (2002a) and Li et al. (1998) found that inequalities were mostly explained by income differences between countries and less explained within countries. Ravallion and Chen (1999) and Ravallion and Datt (2000) related the world income inequality to faster growth of Indian and Chinese economies.

Concerning the intellectual property rights (IPRs) and wealth accumulation, it is mentioned that rights are very important for both consumers and producers in economic decisions (Hajiran, 1992). Knack and Keefer (1997) show that countries in which individuals exhibit higher levels of "trust" also exhibit greater security of property and contractual rights. The huge gap between rich and poor might damage the positive attitude to property rights (Svensson, 1998). According to the similar explanation in Keefer and Knack (2002), social polarization might damage ethnicity and dissolve harmony of society, but secured property rights enhance reliability of social classes to government. If there is unsecure property and contract rights in society, firms might change their investment strategies to diminish risks. Firms might reduce their economic activities altogether, and eventually this process affects growth and wealth accumulation (Knack and Keefer, 1995). Acemoglu et al. (2001) argue that if there is a remarkable differentiation in initial inequalities in wealth and human capital between the elite and the working class, this situation will encourage government bodies to support private property for elites and provide them economic rents.

Concerning the globalization, trade openness and wealth accumulation, some researchers have wondered the relationship between globalization and inequality and found a positive relationship between the variables (Richardson, 1995; Wood, 1995). Williamson has demonstrated a similar relation between inequality and the period of globalization during the last century (Williamson, 1999). Acemoglu and Robinson (2000) in their analysis of the development and dispersion of the world income show that the increased openness to international trade and specialization leads to the stable world income distribution. However, Milanovic (2002b) argued by using the data on \$ incomes from 90 countries around 1988 and 1993 that the effect of openness on a country's income distribution depends on the country's initial income level. Openness makes income distribution worse before making it better. Dollar and Kraay (2001) elaborated that globalization brings economic development and eventually poverty reduction via integration of economies and societies. And they also argue that globalization and economic integration not only have positive effects, but they also have a negative effect on the economy. These negative effects can be summarized as: inequality, polarization, shifting power, cultural dominance and uniformity.

### **3. Inspirations of the research**

The number of super rich has increased in Eastern countries while wealth accumulation has increased with the almost the same billionaires in Western countries.

Despite economic turbulences in the world and economic policy changes in transition economies, jump in the number of billionaires in a very short time, specifically in transition economies, have attracted the attention of researchers.

Despite the recent political and economic shock and uncertainties, surprisingly countries continue to generate billionaires. That is why the causation between democratization and wealth accumulation is the cornerstone of this study. Under democratic regimes, property rights have been protected for further economic and political liberties. With the mentioned experiences, democracy and property rights are taken into this analysis to test the impact of democracy and property rights on generating billionaires.

The overall inspirations of this study are as follows:

– When the total wealth of each country estimated to the country's GDP, the share is around 10–15%. But several countries deviated from this trend, especially Russia and Germany (forbes.com, 2011). Today the number of the US billionaires has reached 403 with the wealth of 1515,6 trln USD. By the IMF (2011), the US GDP is about 15,094,025 trln USD. By the Forbes list data, US billionaires' wealth is about 1515,6 trln USD, approximately about 10% of the US GDP. The US billionaires' wealth share is approximately 22% of the world GDP of 69659,626 trln USD (IMF, 2012). Might this trend have any ties to politics in a country?

– The number of billionaires and their wealth were created just after the collapse of the centralized economic system in transition economies, specifically in Russia, and they made this wealth within a very short time (forbes.com, 2011). How they made this wealth in such a short time, what the causes might be?

– Some European countries started the industrialization process a century ago, but they have generated a few billionaires, almost none. They have very famous internationally well-known trademarks, top democratization index and with the same billionaires have been running for a long time. South Korea, Taiwan, and Japan also have billionaires, but their sector billionaires are in ICT, electronics, and software engineering while others are in finance, mines and diversified. Democratization and property rights might have affected the mentioned trends (forbes.com, 2011).

– Turkey has experienced a different trend in the billionaires' sector. It has been recorded that wealth holders depend on political changes. In some billionaires-generating countries, it has been seen that new comers are recorded mainly in the ICT and manufacturing. But in Turkey, while old billionaires have been disappearing, newcomers are in the sectors supported by politics. What factors have affected the transformation of this trend, increased democratization level or weakening democratization level? (forbes.com, 2006–2011).

– Surprisingly, in the USA, Western European countries and in Japan, the average age of the billionaires is over 60, but in China and Russia billionaires' average age is between 40 and 50. What is the relation between the democratization level and younger billionaires? (forbes.com, 2011).

– The Economist Intelligence Unit's Democracy study classifies the countries as "full democracies", "flawed democracies", and "hybrid regimes". But Forbes data show that in each group there are billionaires. It indicates how democratization affects the capacity to generate billionaires (eiu.com, 2011).

– Recent international and national demonstration, political movements, political strikes against capitalism and wealth accumulation and inequality trends prove that billionaires and their wealth accumulation have to be centered in academic researches and in the agenda of policy makers.

#### 4. Methodology

Effects of intellectual property rights (IPRs), democracy and income distribution of capacity of a nation to generate billionaires are estimated using the ordinary least squares (OLS). Data sets were tendered from different sources. The number of billionaires and their total value of wealth in each country in 2011 were collected from Forbes List. Income distribution indicator namely GINI Index has been collected from The World Bank databases<sup>3</sup>. Index numbers for each country were not available, thus limiting the number of countries taken to this research. Additionally, as this index does not change dramatically for years, all years' figures were not reported and the latest figures only were used. The democracy index was taken from Economist Intelligence Unit<sup>4</sup>. GDP data were taken from The World Economic Outlook (WEO) database<sup>5</sup>. IPRs index data has been received from the Heritage Foundation<sup>6</sup>.

#### Model

We assume that the variables namely GINI as a measurement for income distribution, democratization as a measure of the democracy level, and intellectual property rights as a measure of knowledge protection have some effect on the country's billionaires creation capacity.

$$BILGDP_i = \alpha + \beta_1 GINI_i + \beta_2 PROPERTY_i + \beta_3 DEMOC_i + \varepsilon_i \quad (1)$$

"i" indicates the group of countries that have billionaires,  $BILGDP_i$  billionaires' total amount of money over GDP that is used as an indicator of billionaires creation capacity,  $GINI$  indicates the level of income distribution,  $PROPERTY$  is the index indicating how intellectual property rights are powerful in the related country, and finally  $DEMOC$  is the level of democracy in a country.

#### Findings

The model's hypothesis is that a country's capacity to generate billionaires depends on the inequality of income distribution, intellectual property rights protection and democratization. The sign of GINI index measuring equality of income distribution is expected to be negative. The other hypothesis is that intellectual property rights protection has a positive effect over independent variable. Lastly, the effect of democratization level has a negative effect over independent variable.

$$BILGDP_i = 13,19 + 0,19GINI_i + 0,25PROPERTY_i - 3,94DEMOC_i \quad (2)$$

(t – statistics) (1,305) (1,186) (3,008) (-3,142)

The above result indicates that even though we expect some contribution to explain a country's capacity to generate billionaires, income distribution has no effect for the group of countries that have billionaires. If a country's wealth is being accumulated in some hands it might be considered as inequality of income distribution. So the sign is expected to be negative, but the results indicate that even though this

<sup>3</sup> <http://www.data.worldbank.org/indicator/SI.POV.GINI>.

<sup>4</sup> [https://www.eiu.com/public/topical\\_report.aspx?campaignid=DemocracyIndex2011](https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex2011).

<sup>5</sup> <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>, World Economic Outlook Database, September 2011.

<sup>6</sup> <http://www.heritage.org/index/explore>, June 2012.

variation is statistically insignificant to explain the independent variable, its effect is positive. This finding also supports the study by Adelman and Robinson (1989) who argue that inequality can be a necessity for wealth accumulation, and also it is supposed that inequality boost individual motivation to increase wealth.

Intellectual property rights influence over dependent variable is positive and statistically significant. IPRs that have some components like trade mark, copyrights, geographic signs etc., provide a safe zone for those who make investments over technologically more value added products and services that require investment over research and development departments. Firms or people who wish to protect their goods and services will prefer to continue their economic activities in such countries.

The most striking result is about the democratization index. Its effect over independent variable has been found negative and statistically significant. As a country's democratization level increases, billionaire production capacity decreases. Less democratic countries have more capacity to generate super rich people. Through the former socialist countries' transition period, they have generated super rich people who take their places in the list. Unlike many countries where wealth accumulation takes a very long time, transition economies have generated billionaires within almost two decades. Our findings strongly support the analysis by Bollen and Jackman (1985) who argue that high democratization level in a country decreases wealth accumulation in a few hands. Our findings also support Keefer and Knack (2002) who argue that if there is a secured property right in a country, this increases individual trust in investment and confidence in government policies.

### **5. Conclusion**

Since Adam Smith's approach to classical economics which emphasized the wealth of nations based on the division of labor and specialization, the causes for nations' wealth have been investigated by many authors. Especially after the industrial revolution, studies have concentrated on wealth accumulation and income inequality. The main conclusion of this study is that the democracy level of the countries works inversely and protected property rights works positively in generating billionaires and wealth.

This study has tested the effect of democratization, property rights and income inequality on the generation of billionaires. We find strong additional proof for Adelman and Robinson (1989), Bollen and Jackman (1985) and Keefer and Knack (2002) who have stressed the relationship between wealth accumulation and democracy, property rights and income inequality.

One of the most important results of the paper is that billionaires are available both in democratic/undemocratic and rich/poor countries. But fast increase in the number of billionaires has been seen in emerging economies (e.g., BRIC) mostly in Russia and in China, even though both countries have centralized economic systems which do not allow accumulating individual wealth. It can be elaborated that these countries' democracy levels are rather low.

Our results also show that generating billionaires for the fame of international business of the countries seems as economic growth, but for local and global economies it creates income inequality. The results also suggest that inauspicious capitalism will continue damaging income inequality inside and between countries, without rethinking, remodeling and rebuilding of the income distribution system of capitalism.

Finally, democracy has to work for all societies, not just for the elites who have historical ties with the industrialization process or strong ties with the current political bodies. The free market system can improve democratic regimes and protect free entrepreneurs' rights. The historical trends have shown that without remodeling income distribution, capitalism cannot generate wealth of nations. An increase in the number of billionaires and their wealth has not led to nations wealth, but has generated super wealth of particular persons.

**Table 1. The total number of billionaires and their total amount of wealth for each country in the study**

COUNTRIES	TOTAL AMOUNT BILW (\$)	NOB	COUNTRIES	TOTAL AMOUNT BILW (\$)	NOB
Argentina	10,30	2	Malaysia	42,90	8
Australia	50,40	18	Mexico	125,10	11
Austria	17,50	5	Netherlands	16,30	5
Belgium	7,80	3	New Zealand	10,70	3
Brazil	134,00	31	Nigeria	15,80	2
Canada	87,20	25	Norway	12,00	4
Chile	44,90	5	Philippines	11,40	4
China	231,60	119	Poland	6,50	3
Colombia	18,90	2	Portugal	8,90	3
Czech Republic	12,30	3	Romania	3,30	2
Denmark	10,10	3	Russia	429,50	99
Egypt	21,60	9	Singapore	12,10	5
Finland	1,90	1	South Africa	16,70	4
France	116,20	14	South Korea	35,90	14
Germany	247,80	53	Spain	63,00	15
Greece	7,30	2	Sweden	73,90	10
Hong Kong	155,50	36	Switzerland	36,30	9
India	249,50	57	Thailand	15,80	3
Indonesia	34,70	15	Turkey	63,70	38
Ireland	16,50	4	Ukraine	32,70	9
Israel	46,70	16	United Kingdom	97,20	33
Italy	60,40	13	United States	1.515,60	403
Japan	72,20	25	Venezuela	7,60	2
Kazakhstan	12,00	5			

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