Where Do India's Billionaires Get Their Wealth?

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Out of India's 46 billionaires in 2012, 20 had drawn their primary source of wealth (at least originally) from sectors that can be classified as "rent-thick" (real estate, construction, infrastructure or ports sectors, media, cement, and mining). The remaining 26 billionaires had drawn their primary source of wealth from "other" sectors (IT/software, pharmaceuticals and biotech, finance, liquor and automotives, etc). Overall, 43% of the total number of billionaires, accounting for 60% of billionaire wealth in India, had their primary sources of wealth from rent-thick sectors. Indian capitalism seems to have two faces. Does international experience provide a guide?

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One of the most striking features of India's growth since the 1990s has been the sharp rise in extreme wealth. Since the early 1990s, the number and wealth of India's billionaires has risen dramatically, in relation to India's own growth and in relation to other countries. India is now an outlier with respect to the size of billionaire wealth relative to the size of her economy, especially for a relatively poor country.

We present here some of the facts on India's billionaire wealth, over time and in the international context. We also look at the primary sources of the wealth of billionaires. A tentative categorisation suggests this is often from sectors in which there is significant connectivity with the state and potentially thick with "economic rents".

The extent of wealth raises questions for India's economy and polity. It might be a sign of the dynamism of India's corporate sector. Or it could be problematic to have such extreme wealth amidst both continued poverty and a clearly corruptible state. Indeed, it has become increasingly common to compare India today with the United States' "Gilded Age" of the late 19th century Robber Barons.

Data

We have used data from the annual billionaires list compiled by *Forbes*, publicly available on forbes.com, and based on research by *Forbes* staff. It aims to include all sources of individual or family wealth. There are many caveats: it only includes disclosed wealth, and wealthy individuals may well under-report. However, it seeks to apply a consistent methodology across countries and over time, and we believe it is of value in making comparisons.

The database includes information on whether billionaires are self-made or inherited, their nationality and country of residence and main sectoral source of wealth. We have classified billionaires by their country of residence, excluding Indian billionaires not resident in India, such as Lakshmi Mittal.

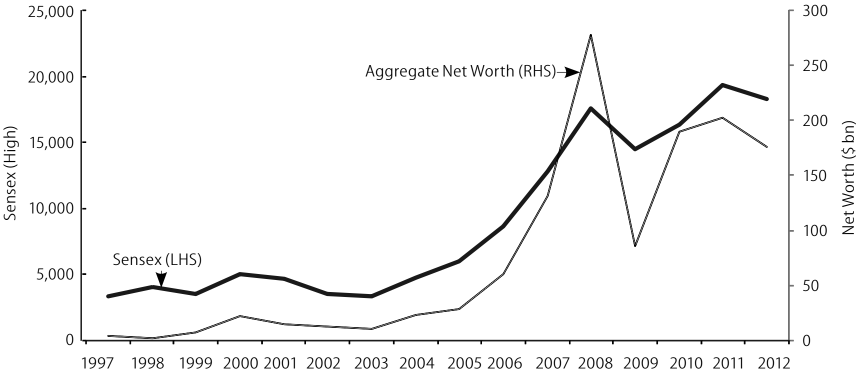
There were two billionaires in India in the mid-1990s, worth a combined total of $3.2 billion. By 2012, there were 46, with a total net worth of $176.3 billion. Mukesh Ambani (Reliance Industries) with a net worth of $22.3 billion was the richest individual in India for the sixth year in a row. Two billionaires, Azim Premji (Wipro) and Savitri Jindal and family (Jindal Steel) had wealth over $10 billion, eight had wealth between $5 billion and $10 billion and the rest had less than $5 billion.

The fortunes of billionaires move closely with economic growth and the stock market, which accounts for a large part of their wealth. Billionaire wealth soared with the stock market boom of the mid-2000s, and then dropped sharply (by almost 70%) when the stock market crashed (by some 60%) in the wake of the international financial crisis. By 2011, total net worth was way above 2007 levels, if still below the 2008 high, then fell below 2010 levels in 2012 as stock market valuations and the overall economy weakened (Figure 1, p 11).

How does growth of extreme wealth compare with India's overall growth? Total billionaire wealth to gross domestic product (GDP) provides a proxy (Figure 2, p 11).[1] This ratio rose from around 1% in the mid-1990s to 22% at the peak of the boom in 2008, and was still 10% of GDP in 2012, reflecting both new entrants and increased wealth of existing billionaires.

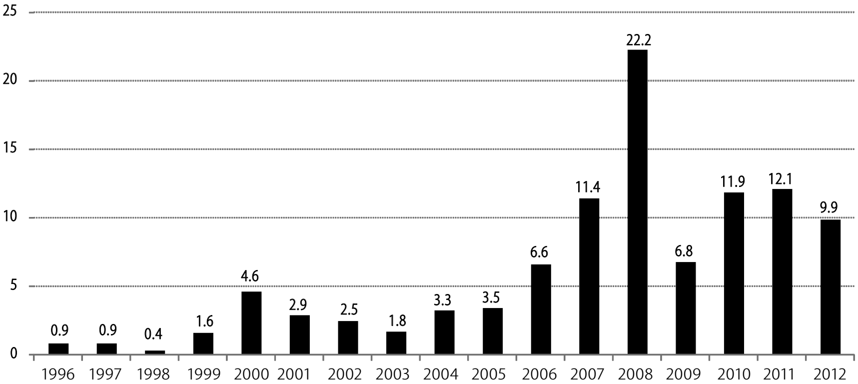
Figure 3 (p 11) then shows India's billionaire wealth to GDP ratio in the international context for 1996 and 2012. In 1996, China and India had very low ratios. Among the rich countries, the United States (US) and the United Kingdom (UK) had ratios in the range of 4% to 6% of GDP; Japan was significantly lower. Oil-rich Kuwait and Saudi Arabia had higher ratios. Indonesia, Korea, Malaysia, Singapore and Thailand had mostly higher ratios than Brazil, Chile, Colombia and Mexico,

Figure 1: Net Worth of Billionaires and the Stock Market



Source: BSE database and Forbes.com

Figure 2: The Ratio of Billionaire Wealth to GDP, 1996-2012 (%)

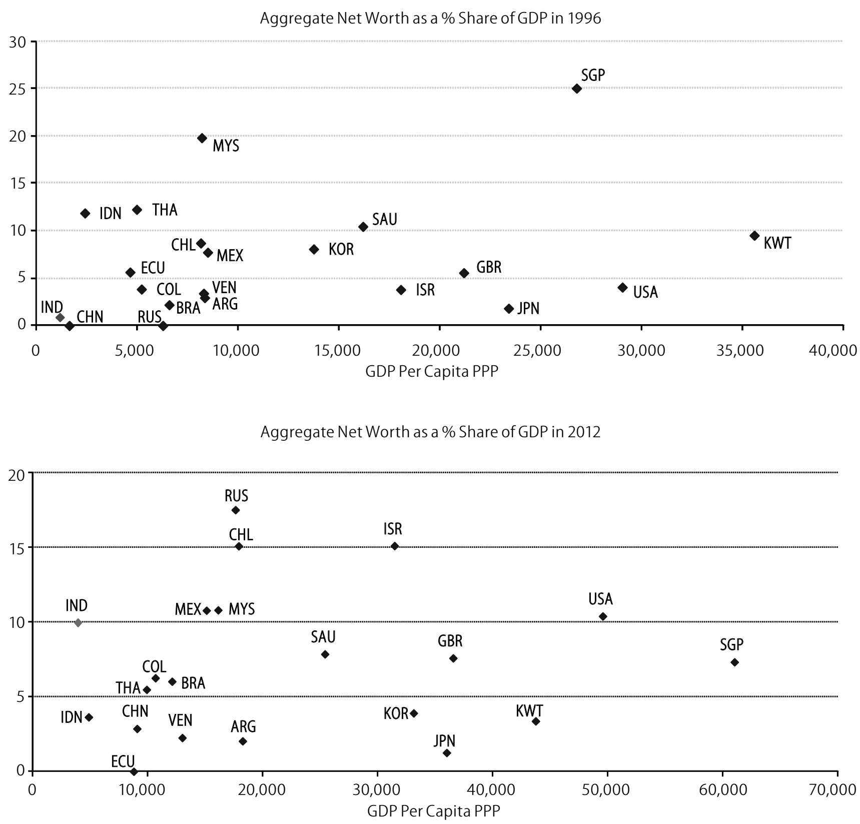


Source: Forbes.com and *World Economic Outlook*, IMF.

countries notorious for their extreme levels of inequality.[2] East Asian countries have often been characterised as paragons of "shared growth" (World Bank 1993). There were indeed sharp reductions in poverty incidence, but there was also accumulation of extreme wealth by business families in their growth process.

The picture changed dramatically by the 2000s. Billionaire wealth as a proportion of GDP had fallen sharply in Indonesia, Korea and Thailand in the wake of the 1997-98 east Asian crisis – amidst a newly discovered concern with "crony capitalism". By contrast, wealth in Chile, Mexico and Russia rose substantially; Saudi Arabia and Kuwait experienced some decline. Chile has a small number of very rich families in a relatively small country that has experienced rapid growth. Mexico is renowned for its billionaires, many of whom were created in the era of privatisations in the early 1990s; this in particular helped the business career of the world's richest man Carlos Slim Helú. India is in interesting company. The ratio also rose in China, but much less than in India.

Figure 3: Billionaire Wealth as a Proportion of GDP across Economies, Over Time



Source: Forbes.com and *World Economic Outlook*, IMF.

Sources of Wealth

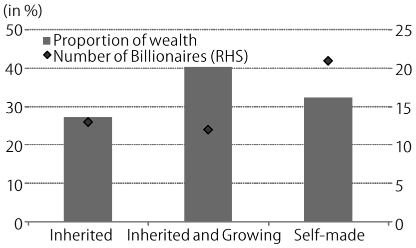
We turn now to the sources of wealth of India's billionaires from two perspectives: inheritance and sector of origin.

Inherited and Self-made Wealth: Morck, Wolfenzon and Yeung (2005) note an interesting pattern across countries: they find a positive association between growth and self-made billionaire wealth, but a negative one with inherited wealth. While no causality can be inferred, this is aligned with the view that self-made wealth is more likely to be associated with aggregate economic dynamism.

In addition to self-made and inherited, *Forbes* also has a category of "inherited and growing", for billionaires who inherited their wealth but subsequently experienced substantial growth in wealth.[3] Figure 4 (p 12) shows that while the largest number of Indian billionaires (21) is "self-made", some 40% of total billionaire wealth is in the "inherited and growing" category, including, for example, Mukesh and Anil Ambani.

Caste origins are also of interest for India. Damodaran (2008) has documented the importance of the route from India's merchant castes to modern business wealth, but also found increasing entry into business activity from other groups: from brahmin and other upper castes

Figure 4: The Distribution of the Number and Wealth of Billionaires in Terms of 'Inherited', 'Inherited and Growing' and 'Self-made'



Source: Author's estimates from Forbes.com

(from "Office to Factory") and from Other Backward Classes (from "Field to Factory"). This is evident in the billionaire list: 28 of the 46 billionaires in 2012 are from traditional merchant classes – Banias (including Marwaris), Parsis and Sindhis. A number belong to upper caste communities, including brahmins (Mallya, Murthy) and Khatris (Thapar, Munjal, Mahindra). A smaller group comes from other backward and lower castes such as Nadar, Jat and Reddy. There is one Muslim and no dalit.

Sectoral Sources of Wealth and 'Economic Rents': All of India's billionaires are linked to corporate activity. There is an array of sectoral sources, including mining, energy, petrochemicals, pharmaceuticals, information technology, construction, real estate and finance. This allows us to explore whether wealth had its origins in domains with extensive "economic rents" and links with government.

By economic rent we mean a return to a factor of production in excess of what could be obtained from an alternative use in a fully competitive activity. Economic rents often flow from monopolistic economic power or from the need to get licences from government. Natural resources, land, and the spectrum have intrinsic economic rents, and typically high levels of state control, as do a range of activities involving government contracts. There are also "Schumpeterian" economic rents associated with discovery and creation of new products. India's information technology revolution is often put in this category. The broader debate over whether India's capitalism is heading towards oligarchic or competitive structures is closely linked to what *kind* of economic rents are driving business activity.[4] In the rest of this article we use rents to refer to the former category, associated with market power, influence or preferential access to licensing.

As a highly tentative exploration of patterns, we draw a distinction between activities in "rent-thick" sectors and "others" – even if they involve some interaction with the state. The classification should be considered as a cautious first step. This draws on a survey of business views on corruption by KPGM (2011), anecdotal evidence on regulatory intensity, and reports of alleged scams.

'Rent-thick': Sectors such as real estate, infrastructure, construction, mining, telecom, cement and media have been classified as "rent-thick", because of the pervasive role of the state in giving licences, reputations of illegality, or information on monopolistic practices. The real estate sector is well known for the large number of "black" transactions, and the nexus between politicians and realtors has been documented in recent scams (e g, the Adarsh housing scam). According to the KPMG study, the real estate sector is perceived to be the most corrupt in India.[5]

Infrastructure projects, mining and spectrum licence allocations are typically granted through invitation of bids by the government. Decisions have often been disputed on grounds of transgressions, such as the award of tenders for building airports at Mumbai and Delhi[6] or the famous 2G telecom spectrum allocation, now the subject of trial over bribes.

Cement manufacturers have allegedly been involved in a cartel for almost two decades. In 2007 the Monopolies and Restrictive Trade Practices Commission initiated an investigation and a fine was eventually imposed in 2012.[7] Indian print media is deeply embroiled in the paid news scandal, and the Press Commission of India launched an investigation after the 2009 elections. It is alleged that the released version of the report omitted the names of the implicated companies.[8]

'Others': This category covers sectors where the interaction with the state is more limited, the regulator has a good reputation and there is little anecdotal evidence of scams. Sectors include IT/software, engineering sector firms, pharmaceuticals, finance and banking. Many corporations in this category do have some form of agreement with the government. For example, technology firms (Wipro, HCL and Infosys) have been involved in various state and central government projects under the National e-Governance Plan. Engineering firms often provide equipment to government departments or public sector units. Two firms, Torrent Group and RPG Group, have diversified business activities into power and have supply agreements with government. Another company, Serum Institute has a vaccine supply agreement with government (and is also involved in liquor). Yet the core business of these firms is not driven by government contracts.

Also included in "others" are pharmaceuticals, chemicals, light engineering and finance and banking firms. Pharmaceutical companies are often in legal battles with one another, but interactions with government are more infrequent. Despite cases of accounting or trading violations, the financial sector is generally thought to be tightly regulated by the Securities and Exchange Board of India (SEBI) or the Reserve Bank of India. Other manufacturing firms also now require fewer permissions from the state; we include in this category automobiles, the leading paints manufacturer Asian Paints and the conglomerate Spice group with operations in various sectors including mobile, retail, etc.

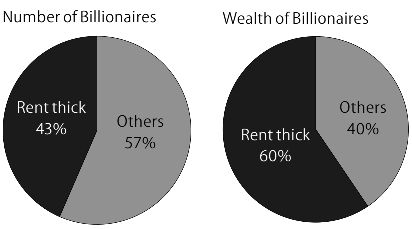
Patterns

The above, preliminary and tentative, categorisation generates the following pattern in 2012 (details available from the authors on request):

- Twenty billionaires had their primary source of wealth (at least originally) from sectors classified as "rent-thick": seven from the real estate, construction, infrastructure or ports sectors, three from media and the rest from cement and mining.
- Twenty-six billionaires had their primary source of wealth from "other" sectors: six from IT/software industry, eight from pharmaceuticals and biotech, two from finance or banking, one from liquor and nine from manufacturing (automotives, FMCG, mobiles, electronics, paints, etc).

Overall, 43% of the total number of billionaires, accounting for 60% of billionaire wealth, had their primary sources of wealth from rent-thick sectors (Figure 5).

Figure 5: Proportion of Billionaires and Total Billionaire Wealth by 'Rent-Thick' or Otherwise in 2012



Source: Forbes.com and author's calculations.

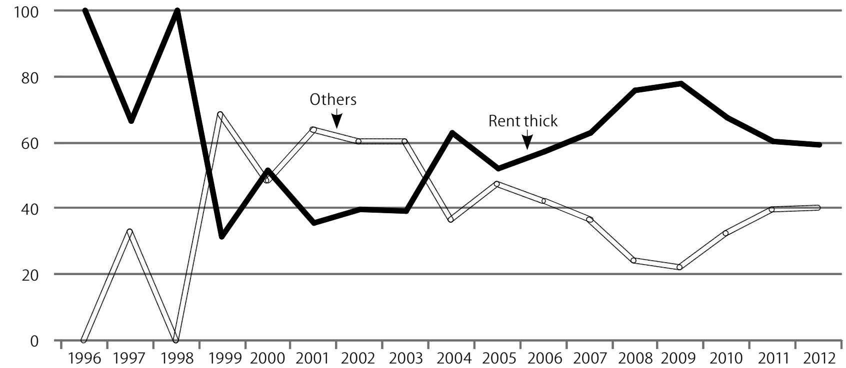
We also looked at changes over time: in the early 2000s, the proportion of wealth from the sectors classified as "others" rose, while wealth from billionaires in "rent-thick" sectors shifted back to dominance in the second half of the 2000s (Figure 6).

There are many caveats around this exercise, both in the allocation of sectors and of billionaires to sectors. Classification in a rent-thick sector does not necessarily mean that wealth was acquired through the (legal or illegal) exercise of influence. However, it is notable that impressive wealth creation occurred in sectors with substantial potential for rent-extraction and rent-sharing between private and government players.

Business Dynamism or Oligarchy?

Does the rise in the billionaire class herald enhanced business dynamism or a business oligarchy? Do these results have a larger significance? In particular, did the opening of the economy contribute to the entrenchment of incumbents in the Indian business sector or unleash dynamic, competitive forces? There is a case for both.

Figure 6: Distribution of Wealth of Billionaires by Sources of Wealth between 1996 and 2012



Source: Author's estimates from Forbes.com

The corporate sector has clearly played a critical role in India's economic growth. The share of investment in GDP rose from around 25% in 2000 to around 35% in 2010, with a substantial rise in the share of the private corporate sector. Mody, Nath and Walton (2011) provide empirical evidence to support the view that profit behaviour of listed firms in the corporate sector – including the large business houses – is more typical of competitive behaviour than of the exercise of market power.

On the other hand, the recent string of scams points to widespread existence of corruption, with anecdotal evidence suggesting that the links between the government and the business sector remain strong. Indian capitalism seems to have two faces. Does international experience provide a guide?

We saw above that east Asian miracle countries also experienced a combination of corporate dynamism, accusations of cronyism and concentrations of extreme wealth. This mix was viable for a while – though these countries did a much better job than India in channelling the gains from growth into broad-based service provision and employment growth. However, the cronyism was a rising source of distortion and contributed to the east Asian crisis.

Mexico, amongst Latin American countries, is a classic case of tight state-corporate links creating extreme business wealth. The Mexican business sector is much more oligopolistic than India's, but the influence of big business over the Mexican state is a salutary lesson. It, in particular, shows how high domestic rents and market power can be consistent with internationally competitive companies: Mexican firms in telecoms and cement are also efficient global players, pushing for competition abroad and resisting it at home.

The Robber Barons of the US gilded age were eventually brought under a degree of economic control via the anti-trust movement – though not before they had become enormously wealthy. This movement involved an effective alliance between a populist political movement and a strong executive, supported by action of the judiciary. India certainly has popular mobilisation against corruption, but it is not at all clear that the state has the capacity to manage the economic power of a rising corporate sector.

Conclusions

The interaction between the corporate sector and the state is an unavoidable feature of capitalism. In the past two to three decades this has bred both impressive business dynamism and even more impressive accumulation of extreme wealth in India. There is a real question as to whether an oligarchic business structure and a corruptible state will lead to the propagation of inequality and create distortions that hurt the growth process. This is not necessary, as illustrated by the US reform experience in the first part of the last century – though the more recent US experience with the financial crisis shows that the effective regulation of capitalism continues to be a major issue. The rise of India's businesses on the global stage can be consistent with a murky domestic scene. Which path India follows will have a powerful influence on growth, inequality and the nature of the state.

Notes

1 This is a ratio of a stock (of wealth) to a flow (of national income). Changes in this ratio will move with the underlying ratio of the share of billionaire to total Indian wealth, to the extent that aggregate income to wealth ratio remains constant, or changes slowly.

2 Measures of income or expenditure inequality from household surveys are generally higher in these Latin American countries than in the Asian counterparts.

3 The classification is taken from the latest available list. For example, if a billionaire featured in the 2008 list prior to the 2012 list, 2008 classification has been used. Classification for two billionaires was not available. The classification has been done subjectively based on trends.

4 See Walton (2012).

5 http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/KPMG_Bribery_Survey_Report_new.pdf

6 http://www.outlookindia.com/article.aspx?230152

7 http://www.outlookindia.com/article.aspx?235287

8 http://www.outlookindia.com/article.aspx?266542

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