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The extraordinary rising number of the super-rich has reignited the debate about whether wealth inequality facilitates or hinders economic growth. The question is unresolved in part because theories relate to the distribution of wealth, while data relate to the distribution of income. Using a measure of wealth inequality based on Forbes magazine's annual world-wide listing of billionaires for 1987-2007, Sutirtha Bagchi and I find that the effect of politically connected billionaire wealth on growth is strongly negative, whereas the effect of politically unconnected billionaire wealth is indistinguishable from zero.[1]

Our result suggests that one needs to pay attention to political connectedness (cronyism) as a possible cause of slower economic growth. In fact, overall indicators may be misleading. Indonesia and the United Kingdom for instance have a similar value of the most widely used overall indicator of income inequality (Gini), but they differ markedly on dimensions such as the role that political connections play in achieving economic success and distribution of income and wealth. Yet, virtually all empirical studies ignore this distinction and miss important dimensions of the issue. For instance, ignoring political connectedness and applying standard as well as new analytical techniques to our data suggests that a greater concentration of a country's wealth in the hands of billionaires reduces the country's economic growth. In other words, controlling for other relevant factors, the data suggest that countries could grow faster if they had fewer resources controlled by the uber-rich. Yet, the more nuanced analysis indicates that the negative effect on growth is driven by the politically connected.

Constructing variables that capture political connectedness is of course challenging. In constructing these variables we used many sources of information and we were careful to assign the politically connected category only to the most clear-cut cases, such as the Yeltsin-related oligarchs or Suharto-related nouveaus riches. Nevertheless, like Transparency International's Corruption Perceptions Index or University of

[1] See cgeg.sipa.columbia.edu/research/working-papers

Maryland's International Country Risk Guide, our classification of political connectedness of billionaire wealth is to some extent based on subjective rather than on strictly objective data and further research naturally needs to be done.

The findings we have to date indicate that one needs to pay attention to the sources and nature of wealth inequality, and particularly to political connectedness as a possible cause of slower economic growth. They suggest that economies could be more efficient if fewer resources at the top of the pyramid were controlled by individuals who reached that position through political connections. The findings support the intuitive sense that inventors and innovators who become billionaires tend to stimulate economic growth, while individuals who obtain wealth and often also monopoly power through political connections tend to hinder competition and hurt economic growth. An interesting question for future research is whether inventors and innovators help economic growth while they accumulate wealth, but tend to hurt it later on when they pursue interests of their (by then) large companies.

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