

Should Each Businessman Own/Manage Multiple Firms?

Draft, Robert Myers, 11/2/00

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1. I was recently at meetings where Egyptians were bemoaning the fact that a few influential businessmen each owned/managed a large number of firms. As one said, "Here in Egypt each businessman might own/manage 20 or so firms." My impression is that they were not making a statement about economics, but about fairness. They seemed to be of the view that there are only a limited number of business opportunities in Egypt and that these are all being taken by a few influential businessmen who are favored by GOE and commercial bank officials. While I do not agree that there are a limited number of business opportunities here, I do agree that investor access to them is severely limited by GOE officials.
2. Following these meetings I found myself wondering what the economic literature would have to say about the welfare implications of this circumstance. That is, would the TFP (Total Factor Productivity) literature, for instance, say that it is better to have ten or 200 owner/managers for the 200 firms? The answer is clear and unequivocal. The TFP literature¹ would say that there is a very high probability that, all other things being equal, it is better to have an owner/manager for each firm rather than ten owner/managers for the 200 firms. That is, simply adding 190 more owner/managers would cause significant increases in the output, employment and wage bills of the 200 firms, while at the same time leading to lower output prices and per unit costs of production. A key reason for these gains would be that 10 owner/managers would collude, while 200 owner/managers would compete.
3. I'm struck by two questions. First, why in Egypt (and other developing countries) do so few owner/managers own so many firms? One important reason seems to be that GOE officials find it easier to deal with 10 rather than 200 owner/managers. It is easier to collect taxes and to control imports, etc. Another, also related to GOE interventions, is that an existing owner/manager has connections that make it possible for him start a new firm, whereas an aspiring new investor cannot. This is the fairness issue that I think was being raised at the meetings.
4. The second question concerns what policies might cause the number of owner/managers (investors) in Egypt to increase? I don't have all the answers, but I think it would take some "pull" and some "push." The pull would be to stimulate the development of asset markets so that owner/managers could sell, and aspiring new investors could buy existing firms. This improves freedom to exit (ownership transfer), which the literature finds to be important in increasing TFP. The push might be in the form of GOE jawboning and antitrust enforcement. Put simply, GOE should let it be known that owning/managing many companies has the appearance of monopoly behavior. Unless changed, it could lead to antitrust actions that would at a minimum be costly to defend against.

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¹ There are undoubtedly some specific references to this issue, but it is treated in a very engaging way in, Arnold C. Harberger, "A Vision of the Growth Process." AMERICAN ECONOMIC REVIEW; Vol. 88, No. 1: 1-30, March, 1998.