**Summary of Session I: Entry Barriers**

Chair: Luigi Zingales  
Presenters: Bernard Yeung, Philippe Aghion (cancelled), Luis Cabral  
Discussants: Heitor Almeida and Daniel Wolfenzon  
Note taker: Elif Sisli

Bernard Yeung presented the paper titled “Corporate Governance, Economic Entrenchment and Growth,” that focused on the concentrated control of corporations created through mechanisms such as vertical pyramidal chain of ownership, dual-class shares, and cross-shareholdings. He stressed that such concentrated control is very prevalent around the world and creates economy-wide misallocation problems by discouraging entrepreneurial efforts and investment in innovation. To support these claims, he showed some evidence that the presence of family control in dominant firms is linked to slower growth, more uneven income distribution, less developed and more restricted capital markets, high level of government activism, regulatory burdens and government rent-seeking. As a precautionary note, he warned about the causality issues.

The floor discussion about this paper centered around three topics: (i) endogeneity of group formation, (ii) dynamics of group formation, (iii) path dependence in group formation.

- The negative correlation between wealth and growth and positive correlation between new savings and growth could be interpreted within a life-cycle framework. If economic growth leads to higher saving rates, we would see a lower share of accumulated wealth and higher share of new savings in GDP.
- Sometimes, the collusion between wealthy families and government might help industrialization of an economy. Such collusion might enable a country to compete with already developed economies. At early stages of development, it is difficult to raise resources and it could be efficient to form business groups and some level of entrenchment to catch-up. However, as time passes, such a structure would become inefficient and block further development.
• The collusion between wealthy families and government might be an endogenous outcome of the political system and emerge as a necessity to protect the property rights after the investment is made. For example in Korea, business groups were formed as a response to lack of property rights as an endogenous outcome, but they were crucial for Korea’s economic growth.

• We are not ready to say that business groups and pyramids are harmful to social welfare from an empirical standpoint. It is possible that the firms and industries would not exist if there were no such structures.

• Business groups might be an endogenous outcome of economic development, and if they are endogenous, they might be good for growth. One way to investigate the endogeneity issue is to look for some natural experiments. For example, Bavarian and Mexican revolutions, after which business groups were formed back, could be used as natural experiments.

• In order to control for endogeneity, one might also look at the antitrust suits that caused business groups to break-down (e.g. as a result of such a lawsuit in 1954, DuPont and General Motors separated)

• How can the economies get out of the status quo? For example, in Ecuador, 10 families control 95% of the economy, they are particularly strong in the financial sector. As a result, all financial and human capital are in the hands of these families. Then the issue becomes how to get out of such an institutional environment.

• When talent and assets diverge, training and education becomes important. Do the business groups inject human capital to their workers?

• We need to distinguish between ownership and control. Family groups and business groups are not synonyms.

Next, Luis Cabral presented “Entry and Welfare: An Illustrated, Selective Survey” focusing on entry regulations. He started with analyzing competitive industries where
firms are price-takers and pointed out to large intra-industry variations in productivity, firm specific barriers to entry and mobility. He emphasized that what matters is not only the size of distortions, but also how the distortions vary across firms. Then he moved to industries with market power and stressed that two outcomes are possible in such market structures: (i) business stealing and excess entry from rent-seeking effects, and (ii) surplus generation and insufficient entry. He emphasized that first effect outweighs the second.

During the floor discussion the following questions were raised:

- When thinking about excess entry, we also need to think about entrants not being identical.

- What are the key determinants of excess entry? Cabral said there are two key determinants: (i) prices do not respond to entry, (ii) there exist no distinction between entrants and incumbents.

- What do we know in terms of cross-country evidence? What variables are important? Does there exist evidence for more turnover being associated with more productivity growth? (Yes) Is there evidence for level of entry barriers being associated with firm turnover? (No)