Dynasties

The enduring power of families in business and politics should trouble believers in meritocracy

As a democracy the United States ought presumably to be able to dispense with dynastic families," wrote Arthur Schlesinger junior, one of America's best-known historians, in 1947. Yet almost 70 years on, next year's presidential election could well become a family affair. A Clinton or a Bush has been on the ticket in seven of the past nine races. Hillary v Jeb may offend against equal opportunity, but not the laws of statistics.

How, people wonder, can this happen in a country that went to war to rid itself of a king's hereditary authority? That is the wrong question. Around the world, in politics and business, power is still concentrated in the family. Power families and dynasties are here to stay. The question is how to ensure that they are a force for good.

**Double helix, double standards**

In politics the Clintons and the Bushes hardly count as exceptions. The leaders of Japan, South Korea, the Philippines and Bangladesh are all related to former political chiefs. The "Stans" of Central Asia are family fiefs. The Gandhis are struggling in India, as are the Bhuttos in Pakistan, but the Kenyattas are kings in Kenya, a Fujimori is once again leading the polls in Peru and a Trudeau has a fighting chance in Canada. Meanwhile the lengthy catalogue of China's "princelings", the children of Communist Party grandees, starts right at the top with the president, Xi Jinping.

In Europe family power is one reason why politics seems like a closed shop. Fifty-seven of the 650 members of the recently dissolved British Parliament are related to current or former MPs. François Hollande, France's president, has four children with Ségolène Royal, who ran for the presidency in 2007. Three generations of Le Pens are squabbling over their insurgent party, the Front National (see page 26). Belgium's prime minister is the son of a former foreign minister and European commissioner. The names Papandreou and Karamanlis still count for something in Greece.

In business, too, family companies continue to thrive, as our special report in this issue explains. More than 90% of the world's businesses are family-managed or -controlled, including some of the biggest, such as News Corp and Volkswagen, a carmaker in the throes of a boardroom battle between its two main family owners. The Boston Consulting Group calculates that families own or control 33% of American companies and 40% of French and German ones with revenues of more than $1 billion a year. In the emerging world the preponderance of family control is greater still.

The importance of power families would have surprised the founders of modern economic and political theory. Political dynasties were supposed to fade as ordinary people got the vote. Family businesses were supposed to lose ground as public companies raised money from millions of small investors.

This never happened—partly because many advantages of kinship proved surprisingly enduring. Political dynasties have a powerful mixture of brand names and personal connections. Family companies can be more flexible and far-seeing than public companies. Family owners typically want their firms to last for generations, and they can make long-term investments without worrying about shareholders hunting for immediate profits.

Power families have also prospered from big, and welcome, social and economic shifts. Their prominence reflects the increasing prosperity of Asia, where families traditionally play a large role. The emancipation of women is doubling the talent pool. In an earlier age political chauvinism would have excluded Park Geun-hye, Keiko Fujimori—and Mrs Clinton. Likewise, women have successfully taken the reins at Spain's Santander bank, Australia's Hancock Prospecting, and even Saudi Arabia's Olayan Financing Company.

However, family power poses problems. Liberals, such as this newspaper, believe in the importance of protecting private property and allowing entrepreneurs to enjoy the fruits of their talents. But at the same time they believe that people should be judged on their individual merits rather than their family connections or their brand name. The New York Times reckons that the son of a governor is 6,000 times more likely than the average American male baby-boomer to become a governor himself, and the son of a senator is 8,500 times more likely to become a senator. The concentration of power and wealth in a small elite raises questions about legitimacy.

Family power also has its dark side—especially where business and politics are entwined in an exclusive nexus of money and influence (see page 45). The Clintons are a worrying example: all sorts of people, including foreign governments, have given millions to the Clinton family foundation, perhaps in part because they think it will give them influence over a future president. Lazy incumbents have an incentive to use political connections to protect themselves from competition. This can lead to corruption. A study found that in 2003 firms representing almost 8% of the world's market capitalisation were run by relatives of their country's political leaders. Even without political connections, business families can exercise an unhealthy influence over the wider economy. Pyramid ownership structures enable a small chunk of capital to exert a large degree of control. Another study found that the richest ten families controlled 34% of market capitalisation in Portugal and 29% in both France and Switzerland.

**Family values, public goods**

The secret to healthy family power is competition. In an open system of free markets, governed by the rule of law and held to account by a free press, nepotism matters less. America's vastly expensive elections favour political machines: another reason to re-examine campaign finance. Pyramid structures lock up capital markets. America limited them in the 1930s. Britain followed suit in the late 1960s and Israel is doing the same. So should other countries. Inheritance taxes in places such as Britain favour the family company: it should survive on its merits. Family power, like any other sort, needs watching over. If it cannot be contested, it should not be welcome.