

Big Business: Recasting the Anti-Hero

Tyler Cowen's previous book, *Stubborn Attachments*, is right in general, but wrong on particulars. His latest book, in contrast, is largely right on both. The world needed a new book to be pro-market and pro-business at the same time, and Tyler's *Big Business* delivers the package. I'm almost tempted to quote Keynes:

In my opinion it is a grand book ... Morally and philosophically I find myself in agreement with virtually the whole of it: and not only in agreement with it, but in deeply moved agreement.

Highlights include:

1. A popularization of Bloom and van Reenen's work on the power of management:

We must take a moment to appreciate the particular character of American business. By global standards, its overall performance is remarkably impressive. Stanford economist Nicholas Bloom and a group of co-authors studied and compared management practices in some of the major economies, including the United States. Their survey assessed how well a workplace uses incentives, the quality of performance measures and reviews, whether top management aims at long-term goals, whether top creators are well rewarded, and whether the firm attracts and retains quality employees, among other relevant metrics...

So at the end of all of these measurements of management quality, which country comes out on top? The United States is a clear first...

Management really matters. Let's say we take two American plants producing comparable wares, but one of those plants is in the 90th percentile in terms of productivity, while the other is in the 10th percentile. The former plant will have a productivity level four times higher than the latter plant, due to superior management practices. It

has been estimated that Chinese firms could increase their productivity by 30–50 percent and Indian firms could do so by 40–60 percent merely by improving their management practices up to an American level of quality.

2. Business practices and promotes good manners and civility. Despite modern political hysteria...

the world of American business has never been more productive, more tolerant, and more cooperative. It is not just a source of GDP and prosperity; it is a ray of normalcy and predictability in its steady focus on producing what can be profitably sold to customers. Successful businesses grow dynamically, but they also try to create oases of stability and tolerance in which they can perfect their production methods and which help to attract and retain talent...

American big business in particular has led the way toward making America more socially inclusive. McDonald's, General Electric, Procter & Gamble, and many of the major tech companies, among many others, were defining health and other legal benefits for same-sex partners before the Supreme Court legalized gay marriage... This push for tolerance shouldn't come as any surprise. Big business has lots of customers and relies on the value of brand names. It doesn't want any group of those customers to feel put out or discriminated against or to have cause for complaint...

3. Some deliberate (?) understatement on fraud:

Most of all, business is criticized for being fraudulent and ripping us off. While there is plenty of fraud in business, the commercial sector isn't any more fraudulent than individuals in other capacities, and it may even be somewhat less fraudulent.

I'd say there's no "may even be somewhat less fraudulent" about it! Who *wouldn't* trust Amazon or Uber or Airbnb over a random American who promised to provide the same product?

4. Business thinks long-term, usually:

It can be very difficult to distinguish between short-termism and an inability to see into the future. The failed Netflix competitors were mainly not venal rip-off artists; rather, most of them genuinely did not see that providing massive amounts of streaming content would prove to be a winning strategy. If half of the time businesses think too short-term and the other half of the

time too long-term, there will be thousands of valid examples and anecdotes about excessive short-term thinking and planning, and they aren't necessarily related to CEO dishonesty.

And:

Of course, markets also think long-term when it comes to successes, and that long-term mentality is encouraged through CEO pay structures. Consider Amazon, which has a stratospherically high share price, even though the quarterly earnings reports usually fail to show a sizable profit. Whether you think that valuation has been justified or not, it is a clear example of how markets can consider the broader, longer-term picture. Circa 2018, Jeff Bezos ended up as the richest man in the world, and he achieved that status by sticking with some long-run goals.

5. Employment may not be fun, but it's meaningful and prevents misery:

Another way to think about the non-pay-related benefits of having a job is to consider the well-known and indeed sky-high personal costs of unemployment. Not having a job when you want to be working

damages happiness and health well beyond what the lost income alone would account for. For instance, the unemployed are more likely to have mental health problems, are more likely to commit suicide, and are significantly less happy. Sometimes there is a causality problem behind any inference—for instance, do people kill themselves because they are unemployed, or are they unemployed because possible suicidal tendencies make them less well suited to do well in a job interview? Still, as best we can tell, unemployment makes a lot of individual lives much, much worse. In the well-known study by economists Andrew E. Clark and Andrew J. Oswald, involuntary unemployment is worse for individual happiness than is marital divorce or separation.

6. Even much-maligned low-skilled jobs have unsung psychological benefits:

In contemporary American society, poorer individuals are more likely to have problems with divorce, spousal abuse, drug addiction in the family, children dropping out of school, and a variety of other fairly common social problems. These problems plague rich and poor alike, but they are more frequent in poorer families and, furthermore, very often wreak greater devastation on poorer families, which have fewer resources to cope with them. The workplace, however, is a partial equalizer here. At least in this sample, the poorer individuals found relatively greater solace in the workplace than did the richer individuals.

7. Employers' alleged mistreatment of individual workers is often for the greater good of their whole team:

Along these lines, I hear so many criticisms that companies do not give workers enough personal or intellectual freedom. For instance, many critics have noted that companies have the right to fire workers

for their Facebook or other social media postings. Surely that sounds like an unjustified infringement on freedom of speech. But on closer inspection, the stance of the companies is often quite defensible. Unfortunately, a lot of workers put racist, sexist, or otherwise discomfoting comments and photos on their Facebook pages, on Twitter, or elsewhere. When employers fire them, very often it is to protect the freedom of the other workers—namely, the ability of those other workers to enjoy the workplace environment free of harassment and threats. It's not always or even usually a question of the employer versus the workers, or the old story of a struggle between worker and boss struggle. Rather, the boss is trying, sometimes in vain, to adjudicate conflicting notions of workplace freedom among the workers. In other words, the firings are in part an employer attempt to take the overall preferences of the workers into account.

8. Big business is often the cure for monopoly rather than the disease:

[Y]ou can think of Amazon and Walmart as two big reasons a lot of collusive and price-fixing schemes don't work anymore or don't have a major impact on consumers. Amazon and Walmart are the two biggest retailers in America, and both compete by keeping prices low—permanently, it seems. Their goal is to become dominant platforms for a wide variety of goods and to use low prices to boost their reputation and their focal status as the place to go shopping. By now both companies are old news, and it is increasingly difficult to argue that their strategies are eventual market domination and then someday super-high monopoly prices. Instead, their strategies seem to be perpetually low prices, followed by taking in insanely large amounts of business and using data collection to outcompete their rivals on the basis of cost and quality service.

My main criticism: Tyler is so pro-business that he often forgets (at least rhetorically) to be

pro-market. He spends minimal time calling for moderate deregulation – and even less calling for radical deregulation. So while he effectively calls attention to everything business *does* for us, he barely shows readers how much business *could* do for us if government got out of the way. Above all, Tyler mentions the following only in passing – or not at all:

1. *The evils of housing regulation.* Business is ready, willing, and able to build mega-cities worth of affordable housing in the most desirable places in the country – the moment land-use regulations permit.
2. *The evils of immigration restriction.* Perhaps to broaden his audience, Tyler fails to mention the eagerness of business to provide international workers with the opportunity to use their talents for the enrichment of mankind. If I were him, I would have highlighted (a) how much business has done to increase immigration, and (b) how much business has engaged in righteous civil disobedience by hiring workers despite our unjust immigration laws.
3. *The evils of labor market regulation.* Tyler barely mentions the many awful side effects of much-loved labor market regulations. This was a mighty missed opportunity to lambast the horrors of European labor market regulation. *Big Business* was also a great opportunity to explain why discrimination is usually *bad* for profitability, making anti-discrimination regulations superfluous at best. Indeed, Tyler could have used the ubiquitous employment of illegal immigrants to illustrate these truths.

Fortunately, it's not too late for Tyler to correct his unfortunate omissions on his blog. Big business has been miscast as an anti-hero, but populist regulation is a Thanos-level supervillain.

P.S. Exercise for the reader: Name a better book cover than Tyler's!