

Two Tactical Reasons to Show Business Some Love

Most economists admit that business serves socially valuable functions. When I express *earnest appreciation* for business, however, my peers usually respond by mocking Ayn Rand. The sarcasm sings: “Oh, those *heroic* entrepreneurs!” When people selflessly toil for below-market pay, most economists eagerly endorse approbation. If you don’t earn your marginal product in dollars, applause can nudge the world in the direction of optimality. But why on Earth should we supplement businesses’ pecuniary rewards with our smiles and applause?

Rather than reiterate my controversial case for business, let me share two arguments with broader appeal. Why should we fawn over businesspeople who already earn their marginal product? Because in the real world, they usually *don’t* earn their marginal product!

First, almost all businesses pay taxes.* At the margin, then, they produce more value than they earn. So why not mitigate this disincentive with some gratitude? Imagine a world where the government annually thanked its biggest corporate taxpayers at a gala dinner. Is it possible that this would attract more talent – and less materialistic talent – into the business world? In the long-run, moreover, it doesn’t matter if the taxes are marginal or fixed; marginal taxes discourage marginal production, while fixed taxes discourage entry.

Second, almost all businesses are imperfectly competitive: monopoly, oligopoly, monopolistic competition... take your pick. At the margin, these imperfectly competitive firms produce more value than they earn; tax wedges and monopoly wedges both yield deadweight costs. And once again, public approval for business helps mitigate this waste. The more a firm produces, the more we should cheer. And even if this doesn’t make individual firms produce more, it spurs entry.

Are my proposed elasticities big enough to worry about? I think so. I meet lots of talented people. Almost all of them care about more than money. Some consciously crave social approval. Others seek personal meaning; but this, too, partly depends on the life choices their society chooses to lionize. If no one respects business, business has to rely solely on the efforts of the rare humans who do not crave respect. As long as we have taxes and imperfect competition, then, we have pragmatic reasons to show business – and hence *businesspeople* – some love.

P.S. Did I mention that gratitude also feels good for the giver, making it an almost magically cheap way to reward others for their service?

* The leading exception is non-profits, which most of us hold in far *higher* regard than conventional profit-seeking business.