



Episode 1,398: Tyler Cowen on Big Business: A Love Letter to an American Anti-Hero

Guest: Tyler Cowen

WOODS: Tremendous fan of this book, absolutely love it. And it couldn't have been timed better, because a lot of people complain that right-wingers scapegoat immigrants all the time, that they blame immigrants for America's problems. But for heaven's sake, the people making that claim themselves have a scape goat, and nine times out of ten, that's business. And a lot of times, their complaints are founded in, when you look very closely, not a whole lot. And what you're doing is showing not only that a lot of these criticisms are misplaced, but that there's a positive case, not just a negative one, but a positive case to be made for the contributions of business to American society.

And it actually put me in mind of, after the smoke cleared on 9/11, obviously, everybody knew that the people involved in the rescue effort were indeed true heroes. But some of my favorite stuff was done by free market people who started to point out: let's not forget the heroic work that the people who worked in those buildings day in and day out did to bring the world together in really extraordinary ways that no one gives them credit for, because no one knows what they were really doing, and they probably think there's something weird and underhanded about it. Or even – I'm sorry, I'm prefacing this way too much. But even sometimes you'll see movies about Wall Street, and the characters themselves don't even seem to understand what their role is. They'll just say, *Yeah, I move money around, and I make a lot of money, and it doesn't make any sense, and I'm probably evil, but* – they don't even get what it is that they're doing. So you're performing a really – this fills a very important gap. So number one, I assume the timing of this book is not a coincidence, that you look around and you just say there's no one, including, frankly, businessmen themselves, standing up for the business sector.

COWEN: That's correct. I started planning this book about three years ago. I was seeing a shift toward big business being more and more villainized. But even then, I hadn't imagined how bad it would get by the time the book came out, so that people now embrace the word socialism. Without any evidence, they call for splitting up all the countries. They say, oh, every billionaire is a policy failure. I felt someone needed to set the record straight. Big business mostly is great. It makes things that innovates. It gives us jobs. It's normal and predictable. It's the backbone of our society.

WOODS: I have a friend, Alex Epstein, who wrote a book called *The Moral Case for Fossil Fuels*, and he was testifying before some Senate committee, and Barbara Boxer was lecturing him. And what he more or less wanted to say to her was: look, without fossil fuels and the society that it has given rise to, you'd probably be dead. So many of us would be dead. Now, the fossil fuel-climate change question is a separate matter, but the general point stands,

that very rarely do we stop and imagine what our lives would be like without big business, or, frankly, do we take the time to do what that fellow did a number of years ago, he did a TED talk on it, where he tried to build a toaster entirely from scratch, entirely on his own, apart from the international division of labor. It consumed his life for nine months, and even then, the toaster worked for five seconds and melted. Whereas you can get a toaster at Walmart for \$10. That's an advance.

COWEN: Absolutely. I would also add, I'm seeing many parts of the populist right turn against big business.

WOODS: Yes.

COWEN: Or a lot of calls to say split up the tech companies or fear that somehow our economy has grown too monopolistic. But the evidence doesn't actually bear that out, as I show in the book.

WOODS: Yeah, I definitely want to get to the question of business concentration, but I was struck by a point you made – it's not a central point in your chapters, but it's a very intriguing point that I had not thought of. You have an explanation for the inequality issue, what's driving inequality that I'd never heard before.

COWEN: Well, some of it is just we have more global markets, right? So about half the earnings of the S&P 500 come from overseas. So if you're selling to the whole world – say China is buying iPhones – the top 1% are going to be much wealthier than they used to be. I'm not sure if that's the point you're referring to, but that's one of the points I stress.

WOODS: Yeah, absolutely. I mean, you were basically saying that it's a question of really, really successful companies versus companies that aren't so successful. And those really successful companies have become really, really successful.

COWEN: That's right.

WOODS: That that's really the driving – and everybody in that company, down to the janitors, are more successful.

COWEN: And the pay margin between, say, the top managers and the janitors in particular kinds of companies hasn't changed. What's changed is that we have more of what I call super firms: highly successful companies, typically they export a lot. And as you mentioned, everyone is paid more in those. So my view is, well, let's have more of these super firms. But no one else is coming out and saying that, not these days.

WOODS: Right. Well, you made the point about comparing upper management to the average guy sweeping the floor or something, and that is the kind of statistic that we hear a lot in connection with CEO pay. They say that the way we can see that CEO pay is out of whack – and you make the argument that it's not really out of whack, because it seems to move in tandem with the valuations of the companies. But putting that aside, these folks will say – the relevant statistic, they think is, you compare what the CEO earns to what the janitor earns. And it's now way, way more – I mean, the factor of difference is so much greater. So why is that not a problem on some level?

COWEN: Well, I think what the problem is, is a lot of janitors are not being paid enough, because in some parts of our economy, productivity gains have been slow, and I absolutely think we should address that problem. But the problem of the janitors is not that the CEO is out there. If there were many more highly talented CEOs building super firms, it's the janitors who would be much better off. But I'm not saying ignore the janitors; I'm saying don't focus on the inequality.

WOODS: So when people hear – they will hear it in this presidential election cycle. You can guarantee they will hear a lot of moralizing about CEO pay. So you've got a chapter devoted to that subject. The thing is, it's one of these questions where when you hear the numbers, to the untrained ear, they do sound preposterous. They sound utterly disconnected from anything anybody has any experience with on a day-to-day basis, the kinds of money these people earn. But yet you have an interesting point. Now, obviously, it's highly unscientific, but there was an interesting survey done of people, I guess at the upper levels of various firms, on average, believed that there were four or fewer people in the entire world who could do the job their current CEO is doing.

COWEN: That's right. And being a CEO, it's much more demanding than it used to be. You need to deal much more with government. You need to do public relations. You might need to be on social media in some way or another. You need to understand much, much more about the global economy. So CEO pay going up is a matter of supply and demand. And again, it's basically gone up at the rate that company valuations have gone up. And that's a testament to the success of American business. I don't view that as a social problem.

WOODS: Yet the scope, the scale of these salaries seems so outsized to most people, that even when you try to use conventional supply-and-demand analysis, it just doesn't seem to me like a Bernie Sanders supporter is going to say, *Ah, I didn't realize. It really is tough to find a CEO*, because I think there's an emotional aspect to the argument.

COWEN: Well, I would stress also a point from a different direction. I think our intellectuals, our media resent very high CEO pay, but I actually don't think most Americans do. Most envy is what I call local; that is, you may resent or envy your colleagues, your friends, your brother-in-law, the people you went to high school with. But it's not that we have many millions of Americans out there hating Bill Gates or Steve Jobs or whoever is the CEO that's supposed to have earned too much. So it's really a contest or battle between rival elites, and the intellectual class is upset that their status isn't higher, and they take it out on people who are earning more money.

WOODS: *The New York Times* just ran an article, where they picked out a guy who earns 18 grand a year, and they said, but he's sick of the fact that Amazon pays zero. And I thought, as you're suggesting, you probably had to fish around to find somebody who looked at his situation and thought, *I'm going to blame Amazon, of all possible* – not the people who are taxing me. And it seems very unlikely to me that he's being taxed very heavily if he's earning 18 grand a year.

COWEN: Yeah, probably zero.

WOODS: Yeah, probably zero. I guess part of the complaint comes when people see firms that are not doing well, firms that are really tanking, and yet the CEO earns this giant salary. And the problem with that kind of criticism, of course, is that, given the unbelievable burden –

and it is a huge burden of being a CEO – you're not going to be able to hire one, if you say, well, the terms are, if the firm does well, you earn 200 million, but if it does very badly, you earn 200 grand. Well, the kind of candidates you would want would never accept an arrangement like that.

COWEN: That's right, and I make an analogy with sports athletes. Like the very, very best athletes, they're worth so much to a team, like a LeBron James or a Michael Jordan, but you don't always know in advance who will be the people at the very, very top, and there's not that many of them. So you bid up the wages of a lot of players hoping to find the next Michael Jordan. And in a lot of cases, you are disappointed, because most players don't end up to be Michael Jordan. So if you look at the history of American business, most of the gains in our stock market come from actually a pretty small percentage of highly winning firms, and that does mean in the bidding game, you'll end up overpaying in a lot of cases for the companies that stagnate.

WOODS: I was very intrigued by, early on in the book, how you handled the objection that a lot of people have, whereby they just have this gut feeling that business is just dishonest on some level, that you're dealing with enterprises that thrive on lies and misrepresentation. And you are very frank that, sure – and you give examples like apparently there was a study done that there's a very substantial amount of fish that's mislabeled about what the origin of it is and the kind of fish that it is. And the interesting thing is, of course, if this were just a random type of error, then you'd expect the error to run both ways, but instead, you don't get farmed salmon being passed off to you as salmon just poached from the wild or something, let's say. So it only seems to go in one sort of direction. So it's not to say that there aren't misrepresentations that you see businessmen making. But your response to this, I didn't anticipate at all. Can you talk about that?

COWEN: Well, I think if you look at the aggregate data you find it's commercial societies that have higher levels of honesty and trust. But most of all, it's comparative. Like say you want to buy some sushi. Would you rather buy sushi from a for-profit restaurant or like, say, some kind of charity event run by a nonprofit? You actually on net probably would feel better eating the sushi from for-profit restaurants, and that's where it's served. Or go to Match.com. Now, maybe the company exaggerates about how happy you'll be in the romances you'll find there, and you could say, that's a kind of mistruth. But compare that to the rate at which the individuals lie in their online profiles, and the company actually is far more honest with you. Workers are more likely to misrepresent themselves when they apply for jobs than companies are to misrepresent the job, and so on.

WOODS: Right, so what you're really dealing with is the more fundamental problem of human beings, right [laughing]? Human beings are not always honest.

COWEN: And sometimes corporations magnify their dishonesty. But on net, it seems corporations make people a bit more honest, not always, not in every case, but it's human nature here, and successful companies do work very hard to keep their good reputations. McDonalds has never lied to me, is one way to put it. I don't actually enjoy their product, but they will, in fact, deliver me what I pay for if I go there.

WOODS: That's right. And you point out that in the world of social media – and there are problems with social media, but it means information can get out quickly, and if you have a

national brand, you've got to do damage control, so you want to minimize cases where you would be on the defensive.

COWEN: Yes, so I think companies are more careful than ever before. With the internet, your ability to find restaurants that deliver the best food or the cleanest food or the best service, it's unparalleled compared even to 15 years ago. So the advances have been remarkable, and companies have never been so closely monitored as today.

WOODS: Now let's turn to the subject of business concentration, because these days there is a bit of a revival of outright Marxism. I mean, the right wing will sometimes accuse anybody of being a Marxist, but I mean genuine Marxism. Richard Wolff has a fairly popular podcast and people follow him and he's a Marxist. And they will say that one of the things that Marxist analysis would predict is increasing concentration, and they'll say, yet again, we've been vindicated. All you need to do is look at American society, and you will see this concentration everywhere. What's the real story?

COWEN: Well, the biggest monopoly in our society is K-12 education, and it's funny how no one complains about that. But in most American sectors, your ability to choose what you buy, diversity of product, from whom you buy, where you buy it from, mostly because of the internet, has never ever been greater than it is right now, again, even compared to just 20 years ago. There are a few areas that are exceptions to that. I think health care; our health care institutions are quite screwed up, and you can't buy open-heart surgery over the internet. But for the most part, the American economy has brought lower prices and much greater choice and competition in most areas.

WOODS: Describe for folks what the model of so-called predatory pricing was all about, because that just seems like something from another world. It seems so not applicable to the world we live in now.

COWEN: Well, when a company like Amazon started, everyone said, oh, these low prices are great, but you know what will happen? They'll drive everyone else out of business, and then ten years from now, the prices will be like so outrageously high. And Amazon's been around for a while, and they still have in most areas either the lowest or very low prices. And their strategy is to build a platform where they just sell a lot of things and to have low prices forever. And in areas of retail other than books, it's hard to find an area of retail where Amazon is even 15% of the market. Even in online retail, they're only about half. Walmart is a strong competitor to Amazon. So the idea that, oh, right around the corner, like all the prices are going to go up a lot, it's just turned out not to be true.

WOODS: If I were a bookseller and I had my own small used bookshop, I would have to rely on the foot traffic in my local community. But another thing that Amazon has done, in addition to lowering prices for consumers, is give opportunities for merchants like that to have a platform that potentially not simply reaches beyond the foot traffic is a local community, but reaches potentially to the entire world.

COWEN: That's correct, and also the number of independent bookstores is making a big comeback. So Amazon has beaten down Barnes & Noble to some extent, and the indies are returning. So when people want a sense of community or a bookseller who will give you recommendations, we're getting much more of that again.

WOODS: All right, now, let's say something about — actually, you know what? I want to ask you something that's not directly from the book, but I'm curious to know what your response to it is, because I see this being circulated on social media, again by, if not outright Marxists, then people who are close to that. Because anytime you hear the expression, "the contradictions of capitalism," well, that that is an expression you hear Marxists use. And they'll say something like: you see, capitalists blame socialism for all the deaths that occur under socialism, and that's just not fair, because we should blame capitalism for things like the homeless problem, because we have all these millions of vacant homes and maybe fewer than a million homeless people. That's a contradiction of capitalism. Or we have undernourishment of some people. It's not a major problem here, but we have some degree, and yet we have all this food on the shelves, and that's a problem with capitalism. Why don't we blame capitalism for that? What would your response be to that?

COWEN: Again, it depends on the topic, but look at housing. Capitalism would love to build many more cheap homes and apartments for us, but basically, the law won't let it. The forces of NIMBY, not in my backyard, won't let it. Typically it's the most left-wing cities which restrict building the most. I'm not saying that would solve the entire homeless problem, but it would help. Another part of the homeless problem is that we as a nation do not do mental health very well. I think that's an issue we do need to address. I don't mainly at all blame business for that. When you look at food, obesity is now by far a much bigger problem than want of food. There's plenty of evidence that this idea of food deserts is a myth. Food in this country has never been better or more affordable. So, you know, business is not perfect, and I think we should recognize imperfections when they're there. I'm not a fan of junk food. I don't eat it at all myself. I wish we had better societal norms to discourage it, and I do partly blame business for that. But overall, lodging and food are two areas where business has performed quite superbly.

WOODS: All right, let's turn to the kind of criticism that we hear especially libertarians make, because a lot of times, especially these days, and I think it's really intensified in recent years, if I make a blanket statement — knowing that all blanket statements are subject to caveats — but if I make a blanket statement, and I say business contributes more to our lives than we even realize on a daily basis, I'll get complaints that I'm forgetting about the problem of crony capitalism, and some of these firms have unfair advantages and this and that, and their success relies in part upon benefits coming from the state. And I have to insert that caveat every single time, and I have some libertarians who think that the market is just overwhelmed by cronyism to the point where you almost can't even sing the praises of commerce in America anymore because cronyism is so bad. You are here to strike that down gently.

COWEN: That's right. Libertarians I think are exaggerating on that point. I'm very much opposed to all crony capitalism. I don't think Amazon should have been offered subsidies by local governments. I don't think we should have tariffs. I don't think we should have an export-import bank. But when you add up all the crony capitalism, it's actually pretty small compared to the benefits business brings. And even like the subsidies to Amazon in New York, very small, compared to how much Amazon would have helped New York City. So I think libertarians are right to criticize it, but when they portray the American economy as just some totally corrupt set of instances of businesses getting their way with government, that's not really true. And in fact, a lot of crony capitalism is somewhat defensive. Businesses are afraid they'll get screwed over by the government, so preemptively they try to get something in advance to make up for the fact that government will break its end of the bargain.

WOODS: Related to that, especially since the financial crisis of just over ten years ago, one of the outcomes of that was there was a shift in the way people looked at the financial sector. Before, they didn't look at the financial sector, generally. I mean, maybe they were interested in how their 401K was doing, but they weren't really thinking philosophically about what is the role of these people play in our society, and is it benign or sinister. But after that crisis, they sure as heck did, and now you have people who say this is a parasitic sector that doesn't do anything except enrich people and move money around arbitrarily. There are people who believe that. I guarantee there are people who believe that. There are millions of them.

COWEN: Sure.

WOODS: So what can be said in defense of the financial sector, in terms of what it is supposed to do? Yes, of course, there's plenty – and I've said a lot of things against particular actors in the financial sector. But this really is a case of not throwing out the baby with the bathwater.

COWEN: Well, first, I would agree the financial sector had a big role in the crash and crisis and should justly be criticized for that. But I think you also need to look at the larger picture. America has the best and most efficient financial system in the world. It allocates capital to new and growing areas very quickly. So we have had a tech revolution and many new products because we've been able to, through venture capital and private equity and stock markets and IPOs, reallocate capital to what people want. And that's the bigger picture, and our nation actually does that pretty well. And most of the time, the financial sector is not out of control. And a lot of the financial sector was not at all to blame for the 2008 crash. So those are some of the points I tried to make in response.

WOODS: What are some of the policy proposals that are being made – maybe additional taxes on the financial sector – that are intended to punish the financial sector, and what would the effects of those be?

COWEN: Well, split up the big banks is the one you hear from Elizabeth Warren, Bernie Sanders. But you know, in the 1920s, we had rules that, basically, banks had to be small, and those banks failed at enormous rates when we had our Great Depression of 1929. They were less diversified; they had less capital. That was actually a disastrous decision. So overall, it's better to have a fair number of large, well-capitalized banks. And I think splitting them up both would harm their productivity, but it also would make another crisis more likely next time around.

WOODS: Given that your book is a testament to the importance of business – in fact, I'm starting to see, Arthur Brooks has a new documentary that they did with John Papola, making a moral case for the market economy. So you're doing all that. Of course, it raises the question, if business is so good – and you expressly posed this question – how did it ever get a reputation like this, such that the businessman is always the villain in the movie, he's always the scapegoat for the social problems? How did we get to that point?

COWEN: Well, I think it's a complex picture. So media and movies, they love the negative. Bad news sells better than good news, and you can't make a movie about everything going fine. *Oh, another day of normal production.* Who would go see such a movie, right? So you need a plot; you need tension; you need a villain. And not always, but sometimes that's the

CEO. And then media gets clicks by publishing articles about everything going wrong and the world getting worse, not another day of positive economic growth. I don't think ordinary Americans hate big business. I think they love its products. When you say, "Get into an Uber and take a ride," it's not that you trust the individual driver, whom you've probably never met before; it's that you trust the ability of Uber to monitor its drivers and send you safe ones. So I think there's a disconnect between how most of us actually live and the messages we're hearing from our intellectual and media classes.

WOODS: Let me ask you a question outside the book again, just because I'm curious about your answer and whether American business can help solve this problem. You actually make an interesting point, that we've in some cases turned to business to solve a lot of the problems that we don't know how to solve with government or civil society, so we just put it on the backs of business. Well, here's another one that may be put on their backs. We hear a lot about the alleged or perhaps real problems with automation, at least some day, and the strongest version of the argument speaks about people – you know, I know there are problems with IQ, but just as a shorthand, people who are, let's say, at the lower end of the IQ spectrum, who can nevertheless integrate themselves into the division of labor now because there's plenty of simple things they can do for at least decent pay. But if all those things are automated, it's easy to say, well, there will be new jobs for people to do. But will there necessarily be jobs that people who just are barely competent at the simplest jobs will be able to do? Or are we not going to be faced with a huge number of economically redundant people? And if so, can business absorb them somehow and find something for them to do, or is this just a massive social problem we're going to have to cope with?

COWEN: I think there's a real problem there, and I once wrote another book to discuss it. I think the problem really is our education system. You don't have to be a genius, but people who have reasonable education are able to find good jobs in this new world. But at least the bottom third of America, maybe more, does not qualify for that description. And to some extent, we're trying to remediate that, often through for-profit businesses, like online training, computer science classes, different ways of having people pay to learn those skills. But ideally, our mostly monopolistic, mostly government-run K-12 education system should be doing a far better job. And at the top, our best K-12 schools are pretty good, but the bottom half is pretty mediocre, sometimes awful. And I think we really do need to make that a priority moving forward.

WOODS: We might also say that what they're teaching might need to be reexamined, because it might be important for people to learn in this day and age how to how to set up an effective YouTube channel.

COWEN: Sure, of course.

WOODS: You know, how to use these tools that do exist. Instead, they're just being thrown out there: *Well, now it's time for you to go to college.* So in other words, you've had me for 12 years plus kindergarten, and you still can't really tell me what I'm supposed to go do? It just seems odd that there's so little preparation for the real world.

COWEN: And I think there should be school throughout almost all of the summer, no grade inflation, real discipline, teach more technical skills, get parents more involved, experiment more with school choice. There's plenty of ways we could make our systems better.

WOODS: Well, the book is *Big Business: A Love Letter to an American Anti-Hero*. I'm linking to it at TomWoods.com/1398, our show notes page for today, where I will also link to *Conversations With Tyler*, Tyler Cowen's podcast. We'll have a whole smorgasbord of Tyler Cowen for you over on that page. Tyler, best of luck with this very important book, and thanks for your time.

COWEN: My pleasure. Thank you.