BIG IS BEAUTIFUL

DEBUNKING THE MYTH OF SMALL BUSINESS

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Preface

Small business is the basis of American prosperity. Small businesses are overwhelmingly responsible for job creation and innovation. In addition, small businesses are more productive than big companies. As they power the American economy, small business owners are the basis of democracy in America, whose health depends on the existence of a large and growing number of self-employed citizens. Yet Washington, controlled by big business and engaged in "crony capitalism," systemically discriminates against small businesses.

Every word in the previous paragraph is false or misleading. Small businesses create many jobs but they also destroy many jobs because most small businesses fail. Virtually all big firms are more productive than small ones—that is why they got big and that is why they pay their workers more. Only one particular kind of small firm contributes to technological innovation, the technology-based startup, and its success depends on scaling up, either on its own or in affiliation with large corporations, which are themselves extremely innovative because they can marshal the resources needed to invest in innovation.

Nor is it true that democracy and liberty in the United States depend on maximizing the number of Americans who are self-employed. In the United States as in other nations, economic development is marked by the replacement of self-employed farmers and peddlers and artisans by a majority of citizens who work for medium-sized to large firms. Civil rights and voting rights and freedom of expression are far safer in today's American economy with its many big corporations than they were in the agrarian America of the past, when a small-proprietor majority coexisted with slavery, segregation, and the denial of rights to women and sexual minorities.

All of this is demonstrably true—and we have written this book to demonstrate it. Why, then, is small business the most sacred of sacred cows in the United States, and other nations as well?

The cult of small business in America can be attributed to two schools of thought—producer republicanism and market fundamentalism. Producer republicanism, which holds that a republic must rest on a majority of self-employed small farmers and small business owners, is a relic of the Jeffersonian agrarian republicanism of the preindustrial era. Producer republicanism has been anachronistic for more than a century, although it enjoys periodic short-lived revivals and is enjoying one at present among progressives.

The small business cult is also reinforced by market fundamentalism. Market fundamentalism assumes that all markets are naturally competitive markets atomized among many small firms, in which competition, in the absence of government favoritism or business cheating, would soon whittle down any firm that temporarily got bigger than the rest. This is a good description of firms in technologically stagnant, labor-intensive sectors of the economy, such as local shoe repair companies. But it ignores the centrality in modern advanced economies of such sectors as manufacturing, transportation and infrastructure, and high-tech retail, which are characterized by economies of scope and scale. In these industries, the supposed "laws" that students learn in Econ 101 do not apply: monopoly can be efficient and rivalry among a few big oligopolistic firms can drive innovation.

These are the themes we develop in *Big Is Beautiful*. Following a discussion of the small-is-beautiful rhetoric in chapter 1, in chapters 2 through 7 we detail the advantages of scale that have led businesses in America to become big and continue to get even bigger.

In the second half of the book, chapters 8 through 13, we turn to the politics and policy of business. Political corruption is a genuine problem, but public policy is warped as much or more by small business pressure groups as by large firms. We argue that from the nineteenth century to the twenty-first, American antitrust or competition policy has been warped by a harmful bias against big firms as such. While using antitrust legislation to assault many firms guilty only of the crime of success, the US government, motivated by a confused mix of populist and free market ideology, has showered favors on small firms, the greatest beneficiaries of so-called crony capitalism.

We conclude by calling for size neutrality in government policies toward business—including in taxation, financing and subsidies, procurement, and regulation—combined with a focus on new high-growth business, not small business, that is, on dynamic startups that can transform the economy, not on small businesses whose owners do not engage in innovation and do not seek growth.

Our motive in writing *Big Is Beautiful* is not hostility toward small firms, some of which have vital functions to play in a dynamic economy that includes firms of all sizes as well as nonprofit research institutions and growth-promoting government agencies. Our intervention in this debate is motivated by our conviction that boosting America's economy-wide productivity makes all other public policies easier to achieve. The best way to boost productivity is to remove obstacles to the replacement of small-scale, labor-intensive, technologically stagnant mom-and-pop firms with dynamic, capital-intensive, technology-based businesses, which tend to be fewer and bigger. The current "small is beautiful" belief, held by both sides of the political aisle, represents a major barrier to that necessary and beneficial reallocation. But doing so will require debunking the small-is-beautiful myth while at the same time working to restore the reputation of large firms as engines of progress and prosperity.

The eighteenth-century writer Jonathan Swift said that "whoever could make two ears of corn, or two blades of grass, to grow upon a spot of ground where only one grew before, would deserve better of mankind, and do more essential service to his country, than the whole race of politicians put together." We should not let nostalgia for the village life and small-scale economies of an idealized past blind us to the benefits of the kinds of businesses that are most likely to make two ears of corn or blades of grass grow where only one grew before.

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I History and Present Trends

1 Belittled: How Small Became Beautiful

Small is beautiful. And big is bad. That is the consensus shared by Americans across the political spectrum, from the anticapitalist left to the libertarian right.

Support for small business is one thing all modern American presidents agree on. For Gerald Ford and Jimmy Carter, "Small business to each of us represents the very heart of economic opportunity in America and a linchpin of our social and economic cohesion."[1] For Ronald Reagan, "The good health and strength of America's small businesses are a vital key in the health and strength of our economy … indeed, small business is America."[2] George H. W. Bush had a plan "for what we can do for small business."[3] Bill Clinton agreed, asserting that "virtually all of the new jobs come from small business."[4] For George W. Bush, "It makes sense to have the small businesses at the cornerstone of a pro-growth economic policy."[5] President Obama declared that "small businesses are the backbone of our economy and the cornerstones of America's promise."[6] And for Donald J. Trump, "The American dream is back. We're going to create an environment for small business like we haven't had in many, many decades!"[7]

Politicians spend much of their time ritualistically praising small business. Between 2010 and 2012, the phrase "small businesses" showed up in the *Congressional Record* more than 10,000 times.[8] The pollster Frank Luntz told National Public Radio, "I've tested 'small-business owner,' 'job creator,' 'innovator,' 'entrepreneur' and nothing tests better than 'small-business owner' because it represents all of those."[9]

The embrace of small business is bipartisan. The 2016 Republican Party platform proclaimed:

A central reason why the 20th century came to be called the American Century was the ability of individuals to invent and create in a land of free markets. Back then they were called risk-takers, dreamers, and small business owners. Today they are the entrepreneurs, independent contractors, and small business men and women of our new economy.[10]

Not to be outdone, the 2016 Democratic Party platform stated, "Democrats also realize the critical importance of small businesses as engines of opportunity for women, people of color, tribes, and people in rural America, and will work to nurture entrepreneurship."[11]

As one book on small business notes, "Politicians love to love small business. The rhetoric is familiar: Small-business owners dare to dream, buck tradition, support their churches, defend freedom and possess faith, intellect, and daring. For politicians, praising small business is like kissing babies—and about as meaningful for those involved."[12] This celebration of small business is not confined to America. Political leaders around the world sing the praises of small business. For example, the prime minister of Australia, Malcolm Turnbull, has said that small business is "the backbone of our nation's economy."[13]

If small is beautiful, big is ugly. Indeed, if you want to demonize something today, simply put the word "big" in front of it. In a Democratic presidential debate in 2007, John Edwards denounced "big tobacco, big pharmaceutical companies, big insurance companies, big broadcasters and big oil companies."[14] "Big Pharma Is America's New Mafia," the *Daily Beast* headline screams, leading some to wonder, what exactly is "Small Pharma"?[15] An apothecary grinding powders in a shop? Also, we suspect that the critics of "Big Oil" have other goals in mind than defending the interests of small oil-and-gas companies.

But it seems that any industry can now be afflicted with what Louis Brandeis called "the curse of bigness." Wal-Mart is "Big Box."[16] Then there is the sinister "Big Beer." The *Los Angeles Times* tells us: "Venture offers craft breweries an alternative to 'selling out to Big Beer.'"[17] Democratic senator Ed Markey decries "Big Broadband."[18] "Big Tech," a collection of large Internet firms like Google, Facebook, and Microsoft, has, according to liberal scholar Robert Reich, become "way too powerful."[19]

The writer and activist Michael Pollan dismisses the benefits of low prices from "Big Food":

> The power of the food movement is the force of its ideas and the appeal of its aspirations—to build community, to reconnect us with nature and to nourish both our health and the health of the land. By comparison, what ideas does Big Food have? One, basically: If you leave us alone and pay no attention to how we do it, we can produce vast amounts of acceptable food incredibly cheaply.[20]

"This Is Why You Crave Beef: Inside Secrets of Big Meat's Billion-Dollar Ad and Lobbying Campaigns" is a headline from *Salon*.[21] Another magazine, *Vice*, denounces the "Big Chicken industry" (the companies are big, not the chickens).[22]

Even nonprofit institutions can have the adjective "big" thrown at them by their critics. Large environmental organizations are described and denounced as "Big Green" both by conservatives and some progressives.[23] "Big Science is broken," declares *The Week*.[24] *LA Progressive* magazine even demonizes "Big Religion."[25]

If big business is bad, its alliance with big government is even worse. The conservative journalist Jonah Goldberg warns: "The bigger the business, the more reliable the partner for government."[26] In 2012, Republican governor of Louisiana Bobby Jindal told Politico, "We've got to make sure that we are not the party of big business, big banks, big Wall Street bailouts, big corporate loopholes, big anything."[27]

Only about one in ten Americans are self-employed, a number that has been falling for more than a century, and only a fraction of that number employ other people. In other words, most Americans are wage earners who work for others, including the more than half the population that works for medium-sized and large corporations, government agencies, or nonprofits. And yet our political discourse stigmatizes the large and successful organizations that employ much of the American workforce and instead idealizes the self-employed small business owner. It is hardly surprising that a Gallup poll in 2005 showed that, given the choice, 57 percent of Americans would prefer starting their own business to working for others, compared to 40 percent who would prefer to be employed by others.[28] This is the case even though, as we discuss in chapter 4, the earnings and benefits of the self-employed and those working for small business lag those of workers who are employed by large corporations.

Why is the gap between the reality and the reputation of big business so large? And why, as we detail in chapter 12, do governments fall over themselves to bestow favors on small businesses? One reason is politics. Former

House Speaker Tip O'Neil once said that all politics is local, and when it comes to local politics, small business outweighs big business because there are many more small firms than large firms in any congressional district. One student of small business writes: "As one lobbyist put it, 'Even though they're small, they're big in their local communities.'"[29] If you are a member of Congress advocating a more level playing field between big and small, you can be sure that when you go back to your district you will be hearing from local car dealers, accountants, real estate agents, restaurant owners, and all the other types of small business: "Why are you opposed to the hard-working small business owner?" Responding with the abstract argument that higher productivity is likely to result if the government does not pick winners based on size would only provoke the following retort from your opponent in the next election: "Congressman X wants big business to come in and destroy your jobs."

A second reason for the mystique of small business is ideology. In chapter 2 we show that there is a long tradition in the United States of seeing small business as aligned with the core values and traditions of the republic. A nation founded by overthrowing an oppressive king was not about to substitute one kind of undemocratic monarchical rule for a rule by big business.

This historical American tradition notwithstanding, big businesses enjoyed at least somewhat favorable views from World War II to the 1970s. As a new economy emerged after World War II, so too did a new organizational system. This became the era of the large organization—big corporations, big government, and big labor—all of which were governed by a new ethos of management. Activities that in the prior factory era were associated largely with individual proprietors or small firms now became the province of large national corporations. In the 1960s, John Kenneth Galbraith captured the change:

> Seventy years ago the corporation was confined to those industries—railroading, steam boating, steel making, petroleum recovery and refining, some mining—where, it seemed production had to be on a large scale. Now it also sells groceries, mills grain, publishes newspapers and provides public entertainment, all activities that were once the province of the individual proprietor or the insignificant firm.[30]

The rise of corporate America after World War I also meant a change in the way Americans looked at businesses. Bigness was seen as the ultimate achievement, while small firms were seen as ones that failed to become big. As Galbraith argued, "Being in an earlier stage of development it [the entrepreneurial firm] did less planning. … It had less need for trained personnel that the state provided. Its technology being more primitive, it had less to gain from public underwriting of research and markets."[31] Small firms were looked down on as a second-class group characterized by lower wages, lower management quality, and higher insecurity. Again, Galbraith: "The entrepreneur as many see him, is a selfish type motivated by greed, and he is furthermore, unhappy."[32] This was the era of the manager, not the entrepreneur.

As large corporations came to dominate the economic landscape after the first part of the twentieth century, the control and management of business enterprises also changed in a fundamental way. In the factory economy, corporations were largely instruments of their entrepreneurial owners. Such men as Carnegie, Harriman, Ford, Eastman, DuPont, and, of course, Rockefeller were known as corporate titans. Yet as corporations grew and became ever more complex, with a vastly increased need for management and administration, they became controlled by a class of professional managers. Scholars argued that control was now separate from ownership. Adolph Berle of Columbia University, a leading member of Franklin Roosevelt's "Brains Trust," went so far as to conclude that the large corporation gave no rights to the owners of the enterprise, so it was up to a class of enlightened managers to guide the corporation. It wasn't just New Dealers who held this view; Republican senator Robert Taft, known as Mr. Conservative for his rock-ribbed midwestern conservatism, stated, "The social consciousness of great corporations is promoted by the glare of publicity in which they must operate, and by a management attitude now approaching that of trusteeship, not only for the stockholders, but for employees, customers, and the general public."[33]

As business professor Marina Whitman has noted, during the heyday of the corporate economy, between 1950 and 1973, America's large corporations became private institutions endowed with a public purpose.[34] They provided stable jobs, supported the arts, encouraged employees to become involved in their communities, and assumed leadership positions in civic organizations. There was a widely shared sense that the corporation was committed to the local community, that the corporation's goals, the worker's, and the community's were in sync. Because managers had almost unlimited discretion, with less pressure from financial markets and global competition than today, they could afford to view their role this way. As Michael Useem has observed, "Managerial capitalism tolerated a host of company objectives besides shareholder value."[35] The newfound legitimacy of postwar business was reflected in public opinion surveys. One poll from 1950 found that 60 percent of Americans had a favorable opinion of big business, with 86 percent of the public having a favorable view of General Electric and over 70 percent having a favorable view of General Motors.[36] In 1952 the eminent scholar of business Peter F. Drucker observed:

> We believe today, both inside and outside the business world, that the business enterprise, especially the large business enterprise, exists for the sake of the contribution that it makes to the welfare of society as a whole. Our economic-policy discussions are all about what this responsibility involves and how best it can be discharged. There is, in fact, no disagreement, except on the lunatic fringes of the Right and on the Left, that business enterprise is responsible for the optimum utilization of that part of society's always-limited productive resources that are under the control of the enterprise.[37]

But by 1975 polling by Gallup found that only 35 percent of respondents had a great deal of confidence in large companies, compared with 57 percent who said they had a great deal of confidence in small companies.[38] By 1984 a survey of journalists found that 80 percent rated the credibility of small business owners as good or excellent, but only 53 percent gave the same rating to corporate CEOs.[39] The write-up stated: "When asked whether small businesses should have less government regulation than larger businesses, 56 percent of a sample of adults agreed they should; unsurprisingly, so did a large majority of small business owners and managers. Likewise, the public believes that large corporations don't need any more help from government."[40]

Attitudes toward big business have become even worse in the last decade. In 2009, 59 percent of Americans surveyed believed that big business made too much profit, up from 52 percent in 1994.[41] Likewise, when asked if too much power was in the hands of big corporations, 70 percent said yes, up from 59 percent in 1994. Even 59 percent of Republican voters agreed. When asked whose ideas they trusted to create jobs, in 2011 79 percent of Americans trusted small business owners' ideas and only 45 percent trusted the ideas of CEOs of big corporations.[42]

In 2016, 86 percent of millennials thought small business had a positive effect on the way things were going in the country, while only 38 percent of them had the same view of large corporations. Baby boomers had an even lower opinion of large corporations, with just 27 percent of them having a positive view of them.[43] In 2016, Gallup found that while 68 percent of people had confidence in small business, only 18 percent felt that way about large business.[44]

Why are large firms so suspect today? One factor is the proliferation of high-profile corporate scandals, including Enron's accounting scandal, the Tyco executive stock fraud, Goldman Sachs's manipulation of derivative markets prior to the housing crisis of 2008, Barclays bank's manipulation of international LIBOR rates, Volkswagen's "dieselgate" and lying about auto emissions, Turing Pharmaceuticals' jacking up prices on an HIV drug 500 percent, and most recently Wells Fargo pressuring employees to manipulate customers into adding accounts. But in light of the 1.7 million C corporations (businesses whose income is taxed separately from their owners' income) in the United States, it would be a surprise if there were no scandals.[45] Larger firms are easier to single out for blame. Even though the mortgage collapse that led to the global recession of 2008–2009 was caused largely by fraudulent small, independent mortgage originators, the blame fell on large banks that manipulated the packaging of the loans.[46]

Big businesses also suffer from the fact that they are much more visible than small ones. When a large firm lays off 3 percent of its workers, it makes the national news. When a small firm goes out of business, it is barely noticed. When a small firm does something immoral, unethical, or dangerous, few people hear about it and even fewer remember it. As Richard Pierce writes, "Does anyone remember the name of the small firm that shipped partially full containers of oxygen generators fraudulently labeled empty on the Value Jet plane that crashed in the Everglades?"[47]

Another source of the animus against big business is that many of the industries that contemporary progressives do not like—including oil and gas, tobacco, agribusiness, and pharmaceuticals—are characterized by large firms because of scale economies of production and innovation. Even if these industries were characterized by small firms, many on the left would still rail against them.

Even more important is that globalization has corroded the reputation of big business through undermining the assumption of an alignment of interests between companies and the nation. In 1953, Charles "Engine Charlie" Wilson, then the president of General Motors, was asked during his confirmation hearing to become the US secretary of defense in the Eisenhower administration whether he would be able to make a decision adverse to the interests of GM. Wilson famously answered that he could—but also that he could not conceive of such a situation "because for years I thought what was good for the country was good for General Motors and vice versa." We have little doubt that Wilson, and most US CEOs of the time, believed this, as it was mostly true. However, as the US economy globalized and US corporations became, in the words of former IBM CEO Sam Palmisano, "globally integrated enterprises," such a statement would be seen as anachronistic by many Americans today.[48]

Note that Wilson did not say what was good for General Motors was good for Michigan, where GM is headquartered. By that time GM had already located some of its production in lower-wage southern states. GM had moved beyond its roots as a "Michigan company" to become an "American company." Hence, in a logic that would later play out again in the move toward globalization, what was good for GM in the 1950s was evidently not always good for its home state. And if GM had no complete loyalty to Michigan, neither did Michigan car buyers, who were indifferent to what state their car was made in.

US consumers and US corporations had moved from regional to national in their orientation. But even national firms went out of their way to demonstrate loyalty, or at least claim it, to the communities they produced in. In a local newspaper ad in the Syracuse, New York, paper titled "Shake, Syracuse," GM proclaimed: "So count on us, in our production of goods and services, to share in the prosperity you are so ably helping us attain with the people who live and work here as our neighbors."[49] They did the same in Muncie, Indiana, where the company ad read, "Our main concern is with the hope that folks here are also glad to have us as their neighbors."[50]

Today the situation is in one way no different. Instead of US companies "off-stating," they are offshoring. Instead of multistate, national companies, we have multinational, global companies. And instead of buying nationally, most American consumers buy globally, demonstrating almost no loyalty to buying American-made goods. Price and quality are king; origin and production location at best are afterthoughts. But having a warm or even a neutral feeling toward large multinational corporations is much tougher when they must satisfy the demands of global stakeholders, not just national. Being loyal to communities in a particular nation is very different from being a globally integrated corporation loyal to no place.

Even more damaging to the reputation of big business than globalization, perhaps, has been the rise of the shareholder value movement, which tolerates no other corporate purpose than producing short-term profits. Until the late 1970s, there was a general view held by corporations that their mission was not just to increase stock price but also to serve other constituencies, including the firms' workers, the communities in which the companies were located, and the nation. And before the 1980s, most US corporations made investment decisions on the basis of expectations of long-term returns.

But beginning in the 1908s, changes in the institutional system of US investing and management, under the rubric of the "shareholder value movement," changed all that. How investment funds were structured and their managers were rewarded meant that funds moved money around in search of the quickest return, regardless of where long-term value might be found. How managers were compensated—increasingly with stock options that were not always related to actual managerial performance—reflected this new view that a manager's job was to maximize value for the shareholders. And because managers themselves became key short-term stockholders (through the significant growth of stock options), they made even more effort to enhance the welfare of short-term stockholders, including by boosting dividends and through stock buybacks.

Now stock price was all that mattered, and the best way to get that price up was to engage in frenetic bidding wars to get the best CEO and top-level management team, which meant a massive increase in executive compensation. The rise of the shareholder value movement and its later evolution into corporate short-termism, or what some call quarterly capitalism, meant that CEOs were rewarded for downsizing firms, limiting investment in capital stock (in order to maximize return on net assets), and paying attention solely to the bottom line.

This focus on short-term returns was not rational in the sense of maximizing returns for society, or even for companies (if returns are defined as maximizing the net present value of all future profits). And it certainly was not rational in terms of maintaining good will on the part of citizens toward corporate America. The shareholder value revolution not only led to growing inequality and less job security for workers, it also hurt economic performance. Indeed, as companies began paying out more in dividends and engaging in stock buybacks as a way to boost stock prices for short-term investors, relatively less was available for investing in activities that would boost long-term innovation and productivity.

Giving intellectual legitimacy to this new short-termist orientation was the increasing dominance of neoclassical economics after the late 1970s. Neoclassical economics defined a well-functioning economy as one in which everyone pursued his or her self-interest in price-mediated markets and the principal role of government was to get out of the way.

With the rise of the shareholder value movement came a shift in the political role and orientation of the corporate community. Prior to the mid-1980s many CEOs, such as GM's Charlie Wilson, GE's Reginald Jones, Hewlett-Packard's John Young, DuPont's Irving Shapiro, and Loral's Bernard Schwartz, saw their role not just as CEO but as corporate statesman. But around that time the role of "business statesman" began to fade. Executives came under increasing pressure to focus ruthlessly on boosting profits and share prices. Those who didn't risked losing their jobs or seeing their companies swallowed up in hostile takeovers. This is not to say that some of today's CEOs don't try to play some broader role, but overall, US corporate leaders have abdicated their roles as statesmen for roles as CEOs alone. In his book, *The Fracturing of the Corporate Elite*, Mark Mizruchi observes:

> [After] World War II, American business leaders hewed to an ethic of civic responsibility and enlightened self-interest. … In the 1970s, however, faced with inflation, foreign competition, and growing public criticism, corporate leaders became increasingly confrontational with labor and government. As they succeeded in taming their opponents, business leaders paradoxically undermined their ability to act collectively.[51]

A survey by the corporate organization Committee for Economic Development supported this observation, finding that the three biggest barriers to business leaders taking a more active role in public issues were "concern about criticism others have experienced; shareholder pressure for short-term results; and belief that a CEO should focus on his/her company."[52] For the CEOs, it became a collective action problem. Why step up and fight for big business and the US economy generally when it only meant taking valuable time away from your company? As a thought experiment, try to name a current CEO who is seen as a leader for good policy for the American economy.

Finally, as both major US political parties have become more politically polarized, each for different reasons has developed an antipathy toward large business and support for small. In the 1950s and 1960s, one reason Republicans were willing to support small business policies, including by creating the Small Business Administration, was to deflect criticism that Republicans were "the party of big business."[53] Now, under the influence of the libertarian right, much of the GOP indulges in outright vilification of large business. Indeed, when the Republican Speaker of the House can publish an op-ed in the bible of big business, *Forbes* magazine, titled "Down with Big Business," it reflects a particular brand of free market, classical liberalism that hews more to Adam Smith's view of the world of small firms competing against each other, at odds with reality in the industrial and postindustrial world of large firms.[54] Speaker Ryan equated big business with a "pernicious threat to free enterprise." Big business not only generates "crony capitalism" but also leads to government nationalization of the economy. He wrote, "Big businesses' frenzied political dealings are not driven by party or ideology, but rather by zero-sum thinking in which their gain must come from a competitor's loss. Erecting barriers to competition is a key to maintaining advantage and market share." This is the same reason why the conservative magazine the *American Interest* proclaims, "Small business should be priority number one."[55]

Left-wing populists have made common cause with right-wing libertarians in their disdain for large business, co-opting the language of the market fundamentalist right to paint their antipathy to large business in the guise of support of markets. In a speech decrying big business and praising small, Senator Elizabeth Warren (D-MA) made her position clear: "I love markets! Strong, healthy markets are the key to a strong, healthy America."[56]

Conservatives and libertarians emphasize free markets and deregulation as liberating forces to break up the procrustean bed in which crony capitalists and big government bureaucrats sleep together. For its part, the localist left wants to use the hammer of antitrust policies to break up concentrations of economic power. Meanwhile, in the political center, a combination of investments in "human capital" and support for "entrepreneurs" was supposed to concoct the magic small business creation elixir for America's advanced industrial economy. In short, the libertarian right, the neoliberal center, and the liberal left tend to agree in their idealization of small business.

The decline in the reputation of big business has also been part of a broader cultural shift. Today's widespread megalophobia (fear of large things) can be dated back to the 1970s. Around the time that the British economist E. F. Schumacher's book *Small Is Beautiful* became an international bestseller in 1973, American culture underwent a transformation of values.[57] New Deal liberalism, which took pride in big hydropower dams, multilane highways, and powerful rockets, was dethroned by the left-wing counterculture, which opposed dams, loathed automobiles, and preferred the exploration of inner space. On the right, conservatives and libertarians extolled the virtues of unfettered free markets and criticized not only excessive government regulation but also complacent, sclerotic corporations seeking to pervert Adam Smith–style capitalism into crony capitalism. The new right was inspired by Ayn Rand to go Galt; the new left was inspired by Tolkien to go hobbit.

Can a consensus that is so broadly based be wrong? Yes—if it is based on lazily repeated clichés and inherited myths rather than on fact and analysis. What is called the “antimonopoly tradition” informs most of the criticism of big business in the United States and many other countries. The antimonopoly tradition has two somewhat incompatible strands. One is “producer republicanism”—the belief that a democratic republic can exist only in a society in which most citizens are self-employed family farmers or small business owners. The other strand is “market fundamentalism”—the belief that in all markets, absent private conspiracy or public intervention, competition would maintain a majority of small firms by quickly cutting down to size any large firms that happened temporarily to appear and gain significant market shares.

Our argument is that the antimonopoly tradition is intellectually flawed and the policy prescriptions inspired by it are worthless or in many cases dangerous. Both producer republicanism and market fundamentalism are intellectual relics of preindustrial agrarian society. Producer republicanism is irrelevant because the self-employed are a small minority in advanced industrial societies. At the same time, the neoclassical economics on which market fundamentalism is based, while useful in describing the interactions of small firms in truly competitive sectors, is worse than useless in understanding the dynamics of markets characterized by imperfect competition and dominated by innovative oligopolies in industries with increasing returns to scale, such as aerospace, information and communications technology, life sciences, agriculture, and energy. Trying to use the antimonopoly tradition to understand a modern economy based on high-tech, capital-intensive enterprises with transnational supply chains and networks is like trying to find your way through twenty-first-century Manhattan using a map from the eighteenth century, when few structures were more than one or two stories tall and much of the island was still farmland.

Our purpose in writing this book is to debunk the small-is-beautiful consensus. But we do not intend to replace it with an equally simple-minded big-is-beautiful orthodoxy. On the contrary, we believe that in a modern capitalist economy, businesses of every size, along with government agencies, research universities, and other nonprofit organizations, play essential roles. Still, it is important for any discussion of the economics of firm size to recognize, as we do in chapters 4, 5, and 6, that on virtually every meaningful indicator, including wages, productivity, environmental protection, exporting, innovation, employment diversity and tax compliance large firms as a group significantly outperform small firms, and not just in rich nations but in virtually all economies. Moreover, it turns out that small firms are not, as their defenders would have us believe, the font of new jobs. To be sure, they create lots of jobs, but they destroy almost as many when so many of them fail.

These truths should have simple but important implications for public policy. As we explain in chapter 12, economic policies, including taxation, regulation, and spending, are systemically biased in favor of small firms in most nations around the world, thanks to a mix of nostalgia, misconceptions, and political pressure. We propose that instead, policy makers should embrace firm size neutrality and abolish small business preferences, including government procurement preferences, regulatory exemptions, small business financing programs, and tax benefits that favor small firms.

Innovative, high-tech startups do not remain startups for long. Successful startups either grow into large firms themselves or are acquired by existing large firms that are capable of scaling up the startup's innovative technology or technique. This means that if government is to help any small firms, its focus should be on startups that have the desire and potential to get big, not on nurturing Ashley's and Justin's efforts to open a local pizza shop.

To be sure, public policy should not be blind to genuine problems caused by monopoly or oligopoly or abuses by particular firms. But that does not mean embracing a crude approach to competition policy that simply sees big as bad. In chapter 11, we argue that a well-informed approach to competition policy must be based on the understanding that there are a number of different kinds of industries, including network industries, economies of scale industries, innovation industries, and global industries that all need large scale to maximize productivity and innovation.

We agree that the undue influence of large corporations in politics is a matter of serious concern. But the threat should be addressed by political reform, including campaign finance reform and the "countervailing power" provided by parties and other centers of social and economic power, not by the crude weapon of antitrust law wielded by single-minded Justice Department lawyers. Moreover, reforms to combat special-interest corruption should target not only large firms but also small firms and their powerful special-interest trade associations.

The United States became the world's leading industrial nation in the nineteenth and twentieth centuries on the basis of a commonsense approach like this. Federal, state, and local governments subsidized infrastructure monopolies, including canals, railroads, interstate highways, and municipal water and electrical systems and telephone systems. To prevent them from exploiting their pricing power, infrastructure monopolies, unless they evolved into competitors, as cable and telephone companies and rail and trucking did, have usually been publicly owned, like highways, or organized as privately owned, publicly regulated utilities. Antitrust legislation was not allowed to prevent the formation of efficient, competing oligopolies in increasing-returns industries, including the automobile industry, steel and oil in the past, and computers, search engines, and online platforms today. At the same time, as we discuss in chapter 9, the history of attempts in the United States to rig markets to protect small producers has been a history either of failed and abandoned policies (anti–chain store laws, anti–branch banking laws) or waste (most of the subsidies for less efficient small businesses).

As in the past, American prosperity will depend on growing economic dynamism driven by technological innovation, while sharing the gains more widely. That will require a flourishing innovation ecosystem in which for-profit enterprises of all sizes, from tiny startups to global corporations, together with government at all levels and academic institutions, play important and complementary roles. And perhaps most important, as we discuss in chapter 13, this will require a new orientation to federal policy, what we term "national developmentalism," in place of the failed global neoliberalism that now rules Washington economic policy making. National developmentalists recognize the critical need for an active development state that partners with companies (often big ones, but also small innovative ones) to help them innovate, be more productive, and compete globally.

The generational reaction against big government and cartelized industries in the late twentieth century was healthy insofar as it helped create public support for the creative destruction of the early information age. Nearly half a century later, however, the small-is-beautiful worldview has degenerated from refreshing iconoclasm into stifling bipartisan orthodoxy. Ritualized denunciation of what Governor Bobby Jindal called "big anything" prevents Americans from thinking seriously about solutions for America's growing economic challenges that require a healthy big business sector.

As Samuel Florman wrote, "*Smallness*, after all, is a word that is neutral—technologically, politically, socially, aesthetically, and, of course, morally. Its use as a symbol of goodness would be one more entertaining example of human folly were it not for the disturbing consequences of the arguments advanced in its cause." Indeed. Small enterprises have an important place in the American system. But to flourish in the twenty-first century, we must learn again that big can be beautiful, too.[58]