



Big Business and the Market: Friends or Foes?

Class 3 - Power and Market: How Government Affects Business

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Comparative economic systems (Mises, 1929)

▶ Capitalism

- Division of labor based on private ownership of the means of production
- Cooperation of many individuals or groups, none of whom controls all capital goods
- Cooperation based on respect for existing property rights, regulated through contract, gift, and exchange



▶ Socialism

- One individual or group controls all means of production
- No exchange-based cooperation

▶ Interventionism

- Mix of private and public ownership
- Some private ownership rights only nominal, with de facto government control (e.g., price controls)
- An unstable mix?



General concepts of the role of government in business

▶ Public interest

- Defining and enforcing property rights
- Redressing “market failures” (externalities, public goods, monopoly pricing)



▶ Private interest

- Regulations often benefit particular interest groups
 - ▶ Tariffs, quotas, subsidies: benefit domestic manufacturers
 - ▶ Health, safety, and environmental regulation: often favor large firms over small firms
 - ▶ In general, politically connected firms can use the regulatory system to their advantage).
- The role of concentrated benefits and dispersed costs
- “Bootlegger and Baptist” coalitions (Yandle)



Social and cultural perspectives on business

- ▶ Ayn Rand's "Big Business: America's Persecuted Minority"
- ▶ The "New Left" revisionists on "corporate liberalism"
 - William Appleman Williams, *Tragedy of American Diplomacy* (1959)
 - James Weinstein, *Corporate Ideal in the Liberal State* (1968)
 - Gabriel Kolko, *Railroads and Regulation* (1965) and *Triumph of Conservatism* (1963)
- ▶ Murray Rothbard on corporatism
 - Antitrust movement (1880s and 1890s)
 - Progressive Era
 - WWI, New Deal, WWII

For some time I have come to the conclusion that the grave deficiency in the current output and thinking of our libertarians and “classical liberals” is an enormous blind spot when it comes to big business. There is a tendency to worship Big Business per se. . . and a corollary tendency to fail to realize that while big business would indeed merit praise if they won that bigness on the purely free market, that in the contemporary world of total neo-mercantilism and what is essentially a neo-fascist “corporate state,” bigness is a priori highly suspect, because Big Business most likely got that way through an intricate and decisive network of subsidies, privileges, and direct and indirect grants of monopoly protection (Rothbard, private correspondence, 1966).

Effects of interventionism

▶ Effects on business objectives

- “When buying and selling are controlled by legislation, the first things to be bought and sold are legislators” (P. J. O’Rourke).
- Note on fiduciary responsibility

▶ Effects on organizational structure

- Promotion of “bureaucratic management” (Mises, 1944)
 - ▶ Taxes and regulations that distort profit
 - ▶ Laws interfering with hiring and promotions
 - ▶ Threat of arbitrary antitrust or regulatory activity
- Restrictions on institutional ownership (see Mark Roe, *Strong Managers, Weak Owners*, 1990)

Government intervention and firm size

▶ Policies promoting bigger firms

- Fixed costs of interacting with the state → economies of scale and scope
 - ▶ Lobbying, communicating
 - ▶ Compliance
 - ▶ Intellectual property
- Direct subsidies
- Indirect subsidies, e.g. transportation (Kevin Carson)

▶ Policies promoting smaller firms

- Antitrust
- Rent extraction (McChesney, *Money for Nothing*, 1997)
- Disclosure requirements
- Direct subsidies (energy and telecom, incubators, SBIR awards, etc.)
- Trade barriers, war, state control of education, etc. that retard the international division of labor, reduce stocks of human capital, and lower the marginal product of labor, all of which reduce the scale and scope economies that favor large-scale production.



The legal form of organization

▶ Costs and benefits of organizational forms

- Recap: vaguely defined property rights

▶ Government and the corporation

- Tax policy
- Limited liability
 - ▶ Note on limited liability and “uncorporations” (Ribstein)
 - ▶ For creditors
 - ▶ For torts
 - More general issue of owner/employer liability
 - Legal doctrines of vicarious liability and *respondeat superior*
 - Hessen (1979): liability should go with control (general partners or corporate officers) (problem of residual control rights)
 - Complex legal and economic issue!



Takeaways

- ▶ Government does help big business, but it helps small business too.
- ▶ Government policy has many diverse and complex effects on firm size, organization, strategy, and performance.
- ▶ Corporations of course benefit from the state, but are harmed as well.
- ▶ Limited liability is not an artificial state privilege.
- ▶ What would the firm look like on the purely free market? Impossible to say ex ante – but let's give it a try!