Speaker 1:	00:04	Welcome to the Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people. Interesting things.
Bill Walton:	00:24	Welcome to the Bill Walton Show. What do you think about the following statements? Small businesses are overwhelmingly responsible for job creation, innovation, and American prosperity. Small businesses are more productive than big companies and small businesses' owners are the core of democracy in America. Yet Washington, controlled by big business and engaged in crony capitalism, systematically discriminates against them. We all know this is true, right? Right? Well, no, these things are not true or at least mostly not true. Here to explain why is Robert Atkinson, author of Big Is Beautiful: Debunking the Myth of Small Business. Rob is founder and president of the Information Technology and Innovation Foundation, and he's one of the country's foremost thinkers on innovation economics. Rob.
Bill Walton:	01:24	Joining me to share his insights into business and the economy is Ron Nicol, who led Boston Consulting Group's, America's practice, and was global leader of its media, technology, and communications group. Ron, named as one of the top 25 consultants in the world, has developed strategies for dozen Fortune 100 companies. Both Rob and Ron are returning guests and their long and impressive resumes can be found on our website. Ron, Rob.
Rob Atkinson:	01:56	Thank you Bill.
Ron Nicol:	01:57	Thank you, Bill.
Bill Walton:	01:58	Rob. Big Is Beautiful: Debunking the Myth of Small Business. Why did you write the book?
Rob Atkinson:	02:05	Well, initially I was getting more and more frustrated by exactly what you just said. Everybody in Washington, and frankly around the country, assumes that all of these things are true. Small business creates the jobs, they're the innovators, et cetera. When you really start to look at the evidence, I started to just go and get government data. What you find is, it's almost exactly the opposite. I felt that we needed to set the record straight. We needed to have a honest discussion about the different roles that small and big business had. Because if we didn't do that, we're increasingly demonizing large companies in the US, both parties. As we do that, we're going to make it

		harder to grow the economy, we're going to make it harder to grow good jobs.
Bill Walton:	02:49	Ron, what do you think of... How would you define a big business? You've worked with them.
Ron Nicol:	02:53	Well, I define a big business as a business that has scale, a business that is actually... Talk about the Fortune 100, 500 companies, the S&P 500, those are big businesses to me.
Bill Walton:	03:06	How would you do it? I mean, we have some 40 or 50 million businesses in America. Where's your line between big and small? Or is that just a metric we don't need to worry about?
Rob Atkinson:	03:17	Well, if you believe the small business administration, their definition of a small business is generally a company that has more than 500 employees. I don't think any of us would call a 501-person company a big business. You're really talking about companies that have a billion, 5 billion in revenue, 5,000 workers kind of thing, and then upwards from there.
Bill Walton:	03:40	Yet it seems like you mentioned both sides of the aisle of issues with big business. It seems like if you want to demonize something, you put big in front of it. Big pharma, big oil. What did you say big before we came on? Big-
Rob Atkinson:	03:55	Well there's one-
Bill Walton:	03:56	Big chicken?
Rob Atkinson:	03:57	Big chicken. He didn't mean the chickens were big, he meant the big chicken companies. But you see this with big broadband. You just put big in front of it and it's seen now as bad. Somehow, the whole act of getting big. We cite in the book, talk a lot about Justice Louis Brandeis, who was a Supreme Court justice back when the industrial revolution really happened. He was the leading advocate against bigness, against getting big. He actually used the term, the mark of Cain. If you were a big company, you basically had gotten big only by sinning. The only way you could get big was by committing a sin. In other words, by cheating. In the natural order of things for Brandeis, everybody, all the firms would be smaller. It was only if you cheated that's how you got big.
Bill Walton:	04:45	There's a romanticism on both the left and the right. The agrarian view Thomas Jefferson had was, the country was going to be built with yeomen, with their small workshops and their

farms. You couldn't have a democracy unless the country looked like that.

Rob Atkinson: 05:04 Yeah. Yeah. There was a view that being a wage earner somehow diminished mankind, diminished humans, diminished their ability to participate in the democratic process. Only independent yeomen farmers, shopkeepers who owned their own shop. That was really about what America was founded on. Now, obviously Hamilton and that Hamiltonian tradition was very opposite of that. Hamilton said, "If we don't get bigger companies, we're going to be completely dependent upon the British for the rest of our lives and suffer all of the problems with it." That tension in American politics has been there really since the founding of the republic.

Ron Nicol: 05:45 Rob makes a great distinction in his book between different types of entrepreneurs in terms of small business. I think it's a very important point, which is, there's a business ecosystem that exists and it does require small, medium size, and large companies as we defined them earlier. But the ecosystem could be in steady state without having government forces pushing it in the wrong direction. I think it's a great point he makes in the book because we're not saying that we don't need entrepreneurial small businesses, because they will become the larger business of the future. Amazon started as a small company and it became a large company. Almost all companies have to have that trajectory. It's very important to have the ecosystem working. The problem is, we have people with their thumb on the scale.

Bill Walton: 06:33 Those people being the regulators?

Ron Nicol: 06:34 The government, the regulators. It's interesting, and Rob also makes this point in the book, that we talk about antitrust today, of course we know Teddy Roosevelt was a big trust buster. Well, trust is not even a business structure that currently exists yet we still have the legacy of that era in our business.

Bill Walton: 06:53 One of the interesting thing Rob writes about in his book is, I guess, it was a law enacted. Congress enacted a law that would prevent companies from colluding together to enter into a cartel to fix prices, so they stopped doing that. But what did they do? They merged.

Rob Atkinson: 07:10 They merged.

Bill Walton:	07:11	It kicked off the merger wave. The first merger wave in the country is what? 1880, 1890 in that era? What happened then?
Rob Atkinson:	07:18	Well, the funny thing, the Europeans never developed antitrust the way we did, so their firms catalyzed [inaudible 00:07:26] the Germans, that's why the German firms never really got big. The French firms, by and large, [inaudible 00:07:30] got big. They just catalyzed, they collaborated and colluded. Our tradition was, we said, "You can't do that." These firms said, "Boy..." with this new technologies that were coming about in the 1880s, 1890s steel and machines, electricity, "We've got to get big. We've got to get scale," so they merged. That was the beginning of really the big American firms that we still have today that we should be proud of. Firms like US Steel and Singer sewing machine for example. Many, many big firms that emerged out of that and we became the global leader for that precise reason.
Bill Walton:	08:10	Well, but-
Ron Nicol:	08:10	Sorry, I was going to say Bill, there are good economic reasons for that. When you look at the economics of scale, practically speaking, if you look at scale, overhead scale for example, when you double the size of a business, it's unit cost goes down by 20%. That's a logarithmic relationship. What it says is, bigger businesses are inherently more efficient. Now, if you drive too far, you create complexity, so there are sweet spots for various industries, various businesses. But the economics of large business make a tremendous amount of sense.
Rob Atkinson:	08:39	There was a study done back in the early 80s, late 70s by the Federal Trade Commission and it analyzed the light bulb industry. It found that the most efficient producer system for the US light bulb industry were two firms, they had only two firms. Well, wouldn't this reduce competition? The point being, to your point Ron, the scale economies of making a light bulb were so big that the minimum efficient factory size could produce half the light bulbs in America. Why would we want 10 light bulb factories that were all inefficient.
Ron Nicol:	09:11	Great example.
Bill Walton:	09:12	But not every industry is subject to the same dynamic.
Rob Atkinson:	09:15	No.

Bill Walton:	09:15	I think this concept of traded goods versus services, things like that. Not every industry is going to benefit with big companies. I guess if you're in the leather business or-
Rob Atkinson:	09:28	Dry cleaners.
Bill Walton:	09:29	Dry cleaners, things like that, you don't get much scale by pulling together 1000 dry cleaners. [inaudible 00:09:34]-
Ron Nicol:	09:33	That's right. Yeah.
Rob Atkinson:	09:36	That's why we have a natural distribution of firm size. The problem though in the US is, it's an unnatural distribution right now because the thumb is on the scale, and we can talk a little bit more about that, to make it so that more of the economy is in smaller, less efficient firms and less of the economy is in mid-size and larger more efficient firms.
Ron Nicol:	09:58	It's easy for people to focus on very large business. There is a concept of increasing returns to scale in particularly network-type businesses. If you look at a company like Microsoft and Microsoft Windows, you look at network organizations and companies, the cost goes up linearly as you add an additional node, but the value goes up as the quadratic, the square of the number of people. People focus on that.
Bill Walton:	10:22	We're going to get back to quadratic in a minute.
Ron Nicol:	10:24	Okay.
Bill Walton:	10:26	You're watching the Bill Walton Show. I'm here with Ron Nicol and Rob Atkinson, and we're talking about big business, and small business, and how the economy grows. Let's jump back to quadratic. We were talking about the scale that happens when a-
Ron Nicol:	10:39	Right because as... Think about it this way, if you have a telephone business, you have an additional subscriber, you add the wire that goes to that subscriber, but the value for that subscriber, they can call everybody else in the network. Well that's the economics of Facebook. That's the economics of many of these large businesses that we have today, as I mentioned Microsoft earlier. Those businesses, they get an enormous amount of attention, so everybody believes they're running the world when in fact, to Rob's point, there's a distribution of business size based on economics.

Rob Atkinson:	11:07	Well, I mean, I couldn't agree more there. We go through the book, we talk about in one of the chapters, what are the economics behind different industries having different sizes? For example, you have some industries where you have network effects like Facebook. I mean, who wants to have Facebook, especially in the [inaudible 00:11:26]. If the government breaks up Facebook into two parts, Facebook and Headbook, who in their right mind wants to have to post everything twice? You have one Facebook set of friends and you want to do it once, so that's the reason for those industries.
Rob Atkinson:	11:39	There are other industries that are heavy duty innovation industries. I look at a company like Boeing, they have to spend an enormous amount of money to build, not just in R&D and design, and in tooling, and setting up to build, for example, the 787, the all-carbon fiber plane. Billions and billions of dollars, which they don't make back unless they sell a lot of planes. It's the reason why we have two major airline [crosstalk 00:12:04]-
Bill Walton:	12:04	We have Airbus and we have Boeing.
Rob Atkinson:	12:06	Airbus and Boeing, and that is the natural order of that market.
Bill Walton:	12:11	History lesson. We didn't start out with the big businesses. We had an agrarian economy in 1800, and then grew slowly through that century. What were the triggers that we went from that economy to the economy we have today?
Ron Nicol:	12:26	Well, what I would say is railroads. You had, connecting markets together, so you had a natural aggregation from that point of view. Rob, what else would you say?
Rob Atkinson:	12:36	Yeah, no, I think you're absolutely right, Ron. There's two things. There are changes on the supply side and the demand side. Railroad's on the demand side. I'm a company and I've got a great factory, but I can only serve people within a 70-mile radius of me, because that's only how far the horse and wagon can go that's economic. After that it starts costing more, so there's another little factory there. With the railroad, all of a sudden I can serve 600 miles, 1000 miles, and so my factory can get bigger, and bigger, and bigger. That's one reason. That's one factor.
Rob Atkinson:	13:05	The second is just on the supply side itself. Having technologies like the electric motor and better machine tools. I mean think about, also, just technologies themselves. It never made any sense to have 100 car companies. In fact, at one point we had

		about 60 car companies in the US, and then in 1910 there was just lots and lots of little car companies and-
Bill Walton:	13:30	I think we got all the way up to 300.
Rob Atkinson:	13:32	Maybe it was 300, I think it's in the book, but eventually it was like, it made no sense because somebody was going to figure out scale, who happened to be Henry Ford who figured it out first. You only had, at the time, four major car companies, maybe five, and that was just because of the technology-
Bill Walton:	13:47	That's an interesting distinction because you've got process innovation. He didn't invent necessarily a better car. He invented a faster way to make the car.
Ron Nicol:	13:55	Well, Bill, you're hitting on a perfect example, which is January 5th, 1914 was the day Henry Ford announced the $5 work day. He announced... Just so you know, at the time the going salary in Detroit was a dollar or so an hour. He essentially increased-
Bill Walton:	14:12	Per day.
Ron Nicol:	14:12	... wage. Sorry, per day. He increases wages by five times. Now, the headline of the Detroit newspaper was, "Henry Ford works for the working man. Look what he's doing." The Wall Street Journal was, "Henry Ford destroys American business." What was Henry Ford doing? Well, Henry Ford was no one's fool. There was a great cartoon in one of the newspapers that showed one of his factory workers pulling up to the factory, getting out in a raccoon coat and being escorted into the factory. Well, what was happening is, he couldn't keep his workers. His attrition rate was extremely high, and the reason is because those workers could go over to the Dodge brothers and build the entire transmission, where on the Henry Ford assembly line, they were tightening a lug nut. It was a very boring job, but the economics of assembly lines dominated and that's where we ended up. That's why that business became so large because it moved from the job shop business to full production.
Rob Atkinson:	15:10	It was also so much more productive that he could afford to pay $5 a day and still make a profit and sell a cheap, low cost car, [crosstalk 00:15:18] car.
Bill Walton:	15:20	The technology changes that we've... We had the railroad, that was an innovation, and then we had the electric motor, electricity, and there was... We could create new products with

		that. The first wave was the railroad, when big is beautiful, and then the manufacturing companies [crosstalk 00:15:38]-
Rob Atkinson:	15:38	Then the manufacturing companies both what they would call a discreet part assembly, which is a car but also flow. So, things like the chemical industry or the wood products industry, those you develop very, very big expensive machines to put inputs in one end and out comes products. That's another factor. What was interesting Bill, one of the things we did is, we looked at the evolution of firm size in the US. What we found is, in the last 40 years, the average manufacturer has been getting smaller. Part of that I think is China, but part of it also is what people call flexible manufacturing technology. It's easier now to customize products with technology and manufacturing.
Rob Atkinson:	16:21	You can be a company that makes really cool [inaudible 00:16:24] of these. You don't have to be as big as you might have 50 or 100 years ago, but it's just the opposite in the rest of the economy because of information technology. Insurance, banking, a whole set of sectors are getting bigger and that's all to the good because, as we point out in the book and Ron as you mentioned, the bigger you are, the more productive you are.
Bill Walton:	16:44	I thought the internet was going to allow smaller firms to be-
Rob Atkinson:	16:47	Everybody's-
Bill Walton:	16:47	... at scale. What happened? Why was that wrong?
Ron Nicol:	16:49	Rob made a very good point earlier that there is a natural distribution of firm size. Within that distribution by the way, when we talk about big business as we tried to define earlier, in the range that we talked about, there still is a change in that distribution, so big businesses are changing. In fact, when you look at the rank, if you rank businesses from the 1950s and you rank order them, what you see for the first, until the 1990s or so, is what I would call laminar flow, where the ranking pretty much remains the same. The large businesses that were the leaders of their industry stay large. What's happened in the last couple of decades?
Bill Walton:	17:26	[inaudible 00:17:26] laminar flow.
Ron Nicol:	17:27	Yes. Meaning they didn't change their order. The one that was on top stayed on top, the one that was at the bottom stayed on the bottom. What's happened now, just imagine this, the

rankings are completely jumbled up. Some of the companies that were in the mid range now become the most successful and vice versa, which means we can't put a thumb on the scales against big business because it's hard to succeed in big business.

Bill Walton: 17:50 Well, the thing that we pointed out about the benefits of big business, I guess, is illustrated by what Henry Ford did, the $5 wage.

Ron Nicol: 17:58 Work day.

Bill Walton: 17:59 Big business pays better. The benefits are better. I mean, talk about the benefits of [inaudible 00:18:04].

Rob Atkinson: 18:05 We went through the book and we looked at, again, statistical evidence mostly from government agencies on a wide array of variables. Big business pay... again, these are all averages, so some small companies might do great, some big companies not so great, but on average they pay higher wages, they're more productive, they export more, they do more research and development, they injure their workers less, they lay their workers off less, they have a higher share of women and minorities, they pollute less, they do better on cybersecurity, there are fewer cybersecurity breaches you name it.

Rob Atkinson: 18:39 The only two areas where one could maybe say small business gets to be tied, one is job creation. Now the mythology in the US is, small business are the job creators. Reality is, if you go and you track, as the government does, they'll look at every small business created let's say in 1995, and they create a lot of jobs. Then they follow that cohort. Every single year that cohort loses businesses and loses employment until year 22. Small business creates a lot of jobs, they also destroy an enormous number of jobs. They're just on a revolving cycle unfortunately. Somebody starts a business it fails, they might start another one. It's really big business that has created more of the jobs in the US.

Ron Nicol: 19:23 That's a great point Rob, because that also shows why you have the stability in the workforce in large firms because people know they have a secure job and actually people will sometimes take more career risks in a large firm because they will do that to get ahead and become successful.

Bill Walton: 19:38 You're watching the Bill Walton Show. I'm here with Rob Atkinson and Ron Nicol and we're talking about big business and small business, and the economics of how big businesses get

		big. As I was thinking about a spine for this show, I mean this is an extremely complicated topic. We're talking about micro economics, macro economics, we're talking about comparisons among countries, things like that. But as I'm hearing you two talk I'm thinking, the economics are pretty well known in a sense of, if you're in a particular industry, if it's susceptible to innovation through technology, or scale, or managerial excellence, which is a soft technology, you can get pretty big and successful. That's almost a science. I don't know that it's quadratic Ron, but it's-
Ron Nicol:	20:31	It's a science.
Bill Walton:	20:31	... a science. On the other end we've got the politics and what I was fumbling around for at the beginning of the show when I was trying to get the... We had this idea of producer republicanism and then the other one was market fundamentalism. It seems like, we know how the economic models work and yet we've got the political theories, libertarianism, progressivism, all sorts of isms and things like that that interact and it creates bias against monopolies and things like that. Talk to how the politics interact with the economics.
Rob Atkinson:	21:09	Part of the politics are, it's just, you never lose by kissing a baby on the campaign trail and you never lose by praising small business.
Bill Walton:	21:16	Unless you're Joe Biden.
Rob Atkinson:	21:17	Then you might. It's just one of those things politicians naturally... We go back and look at John F. Kennedy, Johnson, Reagan, Ford, Bush, Clinton, they all sing the praises of small business. But it's more than that though. I mean, there was an op-ed that we cited that speaker Paul Ryan wrote before he became speaker, obviously a Republican leader. The title of the op-ed was, Down With Big Business. Just really, you think about that from what you used to think the Republican party was to more recently where you could say, down with big business. What was speaker Ryan thinking about? Well, he was worried that big business was... that it was too big, it wasn't about market forces anymore and also crony capitalism. They were influencing Washington too much.
Rob Atkinson:	22:09	On libertarian right, and this goes all the way back to Hayek, a famous conservative libertarian economist, if you will. They just feel like the natural order of things are price-mediated markets.

In other words, I sell you something, you buy something. It's all done. Whereas John Kenneth Galbraith back in the 50s talked about that there's a planning sector. [inaudible 00:22:32] when the companies are so big, not everything is pure market if you will. I think Galbraith went overboard, but that's the fear. We want markets to work in the best way. For that to work is for you to have five people, and you have six, and me to have 12. That's one thing.

Rob Atkinson: 22:49 On the left, what you have now is what we call progressive localism, where the view is, boy these big companies are suspect. They're foreign, in the sense of they're not part of us anymore. We just want everybody to work at a local bakery, maybe a worker-owned local bakery because, think locally, produce locally, act locally. It's just this localism is good and we don't like these big bookstores because we want to go to the local bookstore and we want to go to the local bodega and have our kale and craft brewed local beer. That's the idyllic view for a lot of people on the left, and unfortunately most Americans work at big companies.

Ron Nicol: 23:34 Not just that Rob, the fact is, look at the consumer, everyone romanticizes the small business, yet how many people order from Amazon? They love the big business, the economics they afford, the convenience they afford. The other thing is, big business, because it's a target, it's easy to create villains from bigness. You have this, 'CEO of the large business'. But the reality is, the average tenure of a CEO is five years. This is not a job that people stay in very long. It's a very tough and very competitive job yet there's a lot of billions created out of large business.

Bill Walton: 24:12 Well, and we've got the good versus evil. I think, to pick up on the point you raised Rob, you write a great line in your book. "The new right, the libertarian, was inspired by Ayn Rand to go Galt as John Galt, and the new left was inspired by Tolkien to go Hobbit."

Rob Atkinson: 24:29 That was actually a line from my co-author Mike Lind. I wish I could take [crosstalk 00:24:33]-

Bill Walton: 24:32 Okay, attribution [inaudible 00:24:34].

Rob Atkinson: 24:34 It's a great line. It really is. If you watch Lord of the Rings, it really is an appealing place to live, isn't it? What I'd love to be able to do, I'd love to be able to live in Hobbiton with my

		standard of living. You only have one of those, you can't have both of those.
Bill Walton:	24:50	Oh gosh, we have to choose, and that's what economics is [crosstalk 00:24:54]-
Rob Atkinson:	24:55	If you ask Americans, really what do they do. They show it by polls, they show it by their behavior. They choose income, standard of living, convenience. I mean, that's what Americans want.
Bill Walton:	25:07	Well, you're also right. Big has become suspect because of the scandals. Enron was a big problem for everyone, and then all the other... Barclays had a scandal and Wells Fargo was encouraging their sales people to sell products people didn't want or need. Yet you also point out that, well, yes, they're scandals because they're big and obvious and they get reported and yet they're 1.3 million C corporations. The denominator's pretty small when you look at the scandals compared to all the businesses out there.
Ron Nicol:	25:42	That's right.
Rob Atkinson:	25:45	You largely don't hear about the scandals from the small companies. They don't make the front page of the New York Times. Either lots and lots of bad behavior by small companies just as there is... Clearly there's bad behavior by some big companies and we shouldn't try to whitewash that. I mean, what Wells Fargo did, for example, was wrong, what Enron did was wrong. They get tarred with the broad brush, "Oh, they're all like that." That's just a mistake.
Bill Walton:	26:13	They also operate in unlike industries, big tobacco and big pharma. Maybe we can talk with the two of you about big pharma and drug prices. That's on everybody's mind. It's obvious big pharma's overcharging. What are the economics of creating a drug?
Ron Nicol:	26:30	A couple points I'd make on that. One is, again, because of government meddling after World War II in terms of the health insurance, we have a distorted market in healthcare, so that creates distortion, one. The second thing is, there is a case to be made, I think, for an inefficiency in R&D in drug manufactures. If you look at what's happening in terms of the acquisition and spin-off of some of the R&D parts of the business and so forth, some of the models need to change. But they are changing

because the competition is occurring and so it will sort itself out.

Rob Atkinson: 27:07 Two points on that. One, first of all, most of the scandals in that space have come from small and mid-size drug company, not the major pharmaceutical companies like Eli Lilly or Merck. A good component of that is, it's very clear. I mean, if you read [inaudible 00:27:22] economist who... independence [inaudible 00:27:24] academic economist write, "There is no doubt that if we impose price controls, we will have fewer drug discoveries in the future." The idea of my son and my daughter not having a much better pharmaceutical cabinet for them to be able to go and get cures and treatments than I have, to me it horrifies me.

Rob Atkinson: 27:44 We have to recognize that one of the prices we pay for higher drugs is we're funding an enormous amount of R&D in Alzheimer's, in cancer, in diabetes and all of these breakthroughs. We're making a lot of progress. The number of new drugs in the last three year, five years has been significantly up, it's growing. The last component I'll say is, if these companies are charging outrageous prices, then they should have outrageous profits. You don't see that, you really don't. There's been studies by, I believe the CBO, but we reviewed all of those. The profits are a little bit higher, maybe one or two percentage points higher when you adjust for risk. They're not massively higher. They're not like 40% when everybody else is 12.

Bill Walton: 28:27 One of the policy prescriptions you have in your book is that we ought to be more serious about the nature of modern government, and modern businesses, and globalism. We really need to think differently about the relationship between businesses and government, particularly in response to China. Ron, do you want to comment at all on the experience you've had working with the big companies and the relationship with-

Ron Nicol: 28:55 Well, it's a misnomer to talk about large companies, particularly very large companies, as being national companies. They are truly international companies and global. If you look at the large companies in the US they have very large foreign markets. Again, it requires you to look at the world as a product to market as opposed to looking at a country. Just using the example we talked about a minute ago in pharma, one of the problems in pharma is because of the difference in drug prices around the world. You have subsidies occurring by the US country. Patients in the US are subsidizing many other parts of the world because, again, they're using size. They're negotiating from a national standpoint. The National Health Service in England is negotiating as a very large customer to a lot of pharma companies and they will therefore get lower prices.

Rob Atkinson: 29:52 I would argue they're free-riding on us.

Ron Nicol: 29:54 Yes, I would agree.

Rob Atkinson: 29:55 [inaudible 00:29:55]. But I think, Bill, you raised a really important point which is, increasingly, the US companies are competing against major Chinese companies. Those Chinese companies oftentimes are state-owned, or they're all state-backed in one way or another. China doesn't have our view of, "Oh, we should break up companies." They're are the exact opposite. They go out and look at companies and they say, "Okay, you two companies, you got to join." They did that in high speed rail for example. Their high speed rail company, CRRC, is the largest in the world, has two thirds of the global market.

Rob Atkinson: 30:25 If we start to atomize our companies, our GMs, our IBM's whatever, we start to atomize them, they are going to be very, very hobbled against really robust, tough Chinese competitors. We're not going to become China, nor should we, where we massively subsidize our companies. But the least we can do is we can allow them to get the scale they need to go and compete robustly with companies like from China.

Ron Nicol: 30:50 Rob, that's a really good point. In fact, if you look at the Chinese companies, they are starting with an assumption that big is beautiful and so they're putting those companies together very quickly. A number of years ago I had a meeting in China with the semiconductor teams. They basically said, "We're going to create semiconductor business," and they create an industry. They don't wait until a lot of small companies happen to figure out to merge, they actually do it.

Rob Atkinson: 31:14 Yeah. They're doing that in pharmaceuticals now. They have, I don't know, 500 little small pharmaceutical companies, mostly generics, and they realized this isn't going to work. They've imposed the most draconian pricing and regulatory rules where they're intentionally going to drive out 90% of those companies out of business.

Bill Walton: 31:36 We're talking about China and we're talking about them being pragmatic about the size of business, is it making economic arguments? The Chinese are run by a Politburo that's largely

		educated in the STEM sciences and we're largely educated as lawyers, so we're not quite interested in the business model. But it does get to one of the questions I have. I think one of the reasons big business has become unpopular is, they're unsure to which country they owe allegiance. You see that when the tech companies go into China and they agree to give away certain kinds of technology, and we talked about this before, because they want to make their quarterly numbers. There's this feeling that maybe the US companies haven't been loyal to the US national interest.
Ron Nicol:	32:23	Oh, that's absolute true Bill. That happens. I mean, an example we were talking about earlier is Google. You have an interesting situation where Google is assisting the Chinese in building their infrastructure and technology, and at the same time their employees in the US are lobbying against them working with the US government.
Bill Walton:	32:41	Well, not only lobbying against it, but they shut it down I think for the time being.
Rob Atkinson:	32:46	I think they may be back involved again, but I agree with that. But the key thing there, I think, is, there's really two views, two answers, and both are wrong. One is somehow we should just, "Oh, you big companies, you're being disloyal and you should be more loyal." Okay, that's not going to happen. You got to see [inaudible 00:33:06] to do that they're going to be out of their job, not in five years, but in one year.
Rob Atkinson:	33:10	The second answer is really what the progressive left wants, which is, just give up on big companies. We'll just have an economy of small companies, maybe 100 workers at most and we know they'll be loyal to the US. I think the right answer is, you have to have incentives that better align the interest of big companies with American interest, and we do have our own interests. Interest around defense, we have interest around good jobs. We should use incentives to get better alignment, I would argue.
Bill Walton:	33:38	But who would be the we in that sentence and who would be creating incentives? I mean, how do we develop a consensus? Seems to me the reason I wanted to talk about this is we've got to develop a consensus, big is not bad, and as you put it, "Big is beautiful," for a lot of very good economic reasons, but also people live a lot better. We love all the [crosstalk 00:34:00] goods and services. How do we?

Ron Nicol:	34:03	It's a good question. Here's what I would say. I'm a believer that you certainly don't want to over-regulate but at the same time it's all about the level playing field. If you look at all the issues around trade, the argument that's being made, and I agree with it, is fair trade makes a lot of sense where we have a lot of disadvantaged trade agreements today that create distortions in the markets.
Rob Atkinson:	34:26	A lot of these companies, and we had talked about Jeff Immelt a little earlier, before he left as the CEO of GE, he made a point, he said, "The old global model is dead. We are going to be localized in most markets around the world." It wasn't because GE wanted to be localized, it was because they were being forced to localize by governments, and that's the failure of the global trading system at the WTO. If it weren't for these policies, a lot of American companies wouldn't have off-shored as much as they did. They were forced to offshore localizing production. They got, I almost said who the firm is, but a fairly, certainly a Fortune 100 firm that I know of, were told by the Brazilian government, "If you do not open a factory here, you don't get market access." Simple as that.
Bill Walton:	35:11	You're watching the Bill Walton Show. I'm here with Ron Nicol and Rob Atkinson, and we're talking about business, and economies and how America can more effectively integrate its great businesses with America's strategies here and abroad. Consumer interest versus producer interest. We've had, I think, a consensus in America that it's good to offshore, it's good to do things, go to the lowest cost place we can because that's going to drive consumer prices down and that is good. Yet now we're seeing a school of thought, and I think it's come rising out of what Trump has brought to the table. This elites versus the rest of us. A lot of America has been left behind. Oren Cass, for example, has written, I think, interestingly about how we need to think about producer interests, that is the working man, in addition to just lower prices. Thoughts?
Ron Nicol:	36:07	I would just say this Bill, and it's a theme which is, when you interrupt the equilibrium that exists in markets... by the way, they're necessary checks and balances on markets. But as you say, when low cost labor is available in other parts of the world, people will move to use that low cost labor. Today there's a lot of discussion around having firms be... the governance be based on stakeholder as opposed to shareholder value. What that means in the extreme case is forcing a number of people, for example, employees on the board.

Bill Walton:	36:39	This is what the Business Roundtable did recently?
Ron Nicol:	36:42	Yes, and some of the candidates for president are making a big deal about this. I would argue that we have a fairly fluid and competitive labor market in the US. In fact, I would argue, having worked for 30 years in various parts of the world that the US labor market is one of the most fluid in the world where in the US we have employees at will. That means they can leave when they want, and it means that they can be fired at the will of the company. That creates a dynamic that you actually have more labor mobility. You go to Europe where they have work councils, it's very difficult to downsize a company in Europe, it's very difficult to make them more efficient and more effective.
Bill Walton:	37:21	But I thought labor mobility was decreasing in the United States as people are increasingly unwilling to pick up and leave Cleveland or whatever to go to the south, go to Texas.
Rob Atkinson:	37:33	Geographic mobility [crosstalk 00:37:33]-
Bill Walton:	37:32	Geographic mobility-
Ron Nicol:	37:34	Geographic mobility [inaudible 00:37:35]-
Rob Atkinson:	37:35	Employment tenure. I agree with the last part of what Ron said [inaudible 00:37:40], if we had essentially the employment structure that the federal government has, private sector employees can't get laid off, it'd be awful because you can't downsize when you need. It is terrible. The Europeans are suffering from that. Having said that though, I do think that some of what happened in the US were due to a couple of different forces. One is the dollar is not really a market currency. The dollar was higher than it should have been because it's the reserve currency, and secondly, the Chinese in particular were manipulating their currency. If those factors were not, and subsidizing.
Rob Atkinson:	38:14	If you took away those factors, you would still have offshoring. We make T-shirts there, but some of the offshoring wouldn't have happened or it would have happened more slowly. Part of it just was the amount and the speed was somewhat artificial. It's not to say that we can keep all of that. Ridiculous notion. We can't keep all of it, but we could've slowed it down and kept some of it.
Rob Atkinson:	38:33	The second is, we frankly didn't have as good a policy as we could. For example, we've long argued for a better research and

development tax credit in the US. We're anemic compared to our competitors. We don't do as good a job in training advanced manufacturing workers, apprenticeship programs. There's a whole set of things we could do so that our companies are more likely to keep work here and we just, in my view, [inaudible 00:38:58] made a mistake. We haven't done that.

Ron Nicol: 39:00 I agree with that Rob. I can give... An example I would use is the IT services business as an example of an industry that rushed to outsource, tremendous amount of resource went to India, went to other markets and what's happened is the reaction in the US has been to automate and a lot of that labor now has been bid up in those countries and that labor arbitrage is going away. I think it's a temporary in most businesses. But I also agree with you, it's more in the commodity business where it's prevalent than in the more high tech businesses.

Rob Atkinson: 39:30 But we could have policies, for example, to support more automation. I'm a big believer in using the tax code to support capital investment. If we had done that consistently, and if we continue to, then we'll get more automation. That makes us more cost competitive. You think about it, we don't have to compete on Chinese labor costs, we have to compete on Chinese product cost. We can have higher labor costs long as we're more productive. If we work on those [crosstalk 00:39:57]-

Bill Walton: 39:57 How do you change the tax code to bring that about?

Rob Atkinson: 39:59 Well, you can do a couple of things. One, I think one of the benefits of the recent corporate tax reform act of a year and a half ago or so was, it allowed what's called first year expensing. If I buy a big machine, I get to write it off on my taxes in the first year as opposed to depreciating it over five or 10 years. Secondly, to go back to this whole point, the prior version of that for years and years and years was small businesses could expense all their equipment investment, and big companies could expense almost none of it. This tax provision changed that. I thought that was a step in the right direction, but it was only a five-year provision.

Bill Walton: 40:39 Well, let's develop that. Small business has been subsidized, they've got got their own small business administration. We've talked a little bit about the political preferences. Frankly, they're what, 35, 40, 50 million small businesses and they all vote. That's why I think politicians are paying attention. Rob, what do we have? A couple thousand CEOs and [crosstalk 00:41:03]-

Ron Nicol:	41:04	Much much smaller.
Bill Walton:	41:06	How do you level the playing field so we have economic policy that doesn't say big is bad, small is good?
Rob Atkinson:	41:16	What's funny is, one of the biggest... I got two complaints for this book. One is that I hate small business, which is wrong. I run a small business. The second is that, oh, clearly the fat cats are in control of Washington. My only response to that is drive down first street Northwest and look at this giant building and on the top of it says, The National Association of Realtors. When you're big enough to have your own building two blocks from the Capitol, you've got a lot of power and a lot of clout. The realtors are all small, they're little small independent realtors and yet they have their own lobbying organization.
Rob Atkinson:	41:52	To your point Bill, the National Federation of Independent Business, the beer wholesalers, you go down the list. You look at the big money lobbyists, some of them are big companies, but many of them are these aggregations of small companies. I think the short answer is, how do you do it? You have to have the conversations we're having today. You have to make policymakers understand that a level playing field for America is going to mean a more prosperous and competitive America.
Ron Nicol:	42:16	I think that the level playing field is exactly the right point which is, stop trying to meddle, stop trying to put in forces and incentives to create distortions. Let the market work. Now, it doesn't work in all cases. We need places where we have to influence that. Generally speaking it can work.
Bill Walton:	42:33	But have you looked at the tax code recently?
Ron Nicol:	42:37	Yeah, it's quite large Bill.
Bill Walton:	42:39	It's very unlevel.
Rob Atkinson:	42:40	There have been a couple-
Bill Walton:	42:41	I had to use one of my Ron words to describe that.
Rob Atkinson:	42:43	... couple of very good studies, one by AEI, American Enterprise Institute, another actually by the Congressional Budget Office, and if you had a neutral tax code, vis-a-vis size, small companies would be paying something on the order of $100 billion a year more.

Bill Walton:	42:56	I want to come back to the lobbying point. Jonah Goldberg who writes for the National Review and interesting books on many things. He writes, "The bigger the business, the more reliable the partner for government." You're saying that's not necessarily true.
Ron Nicol:	43:13	Well, I think as a definition of a business, probably so, but not definition of industries. For example, large companies can afford efforts to do lobbying and so forth where small industries can't.
Bill Walton:	43:25	Ron, you've been inside the C-suite for decades now, five decades. How are CEOs feeling? Do they feel that the lobbying and the... I mean, how much time do they spend on managing their relationship with government versus creating value?
Ron Nicol:	43:40	Well, that's a minor part of their time. They're a besieged group of people. It's a very difficult job to be a CEO, and you know that Bill, you've been a CEO.
Bill Walton:	43:49	It's a-
Ron Nicol:	43:50	It's a hard job-
Bill Walton:	43:50	For 14 years and it never-
Rob Atkinson:	43:53	That's why you have gray hair.
Bill Walton:	43:56	Yeah, I'm actually only 32 years old. This is what it does.
Rob Atkinson:	44:00	That's what it does to you. It ages you.
Ron Nicol:	44:03	But it's tough. I mean, it's a tough job and it's something I don't think a lot of people recognize that I mentioned earlier, that the average tenure is only five years. These people are not in the job for... Now, there are examples where people are in the job for decades, but that's not the norm. The norm is a very short tenure to make change.
Bill Walton:	44:19	Well, you're watching the Bill Walton Show, and I'm here with Rob Atkinson and Ron Nicol. Right now we're talking about the very sympathetic plight of the average big company CEO. Ron, so the CEOs are not feeling good yet how do... There's all this notion about CEO compensation and how outrageously they're compensated relative to the receptionist. I mean, how do you

		answer those questions about income inequality in big business?
Ron Nicol:	44:51	Sure it's a good point. The latest issue of The Economist had, I think, very good articles on inequality, which I think is another one of those shows you could do Bill on the myth of inequality. But I would say this-
Bill Walton:	45:03	Well, when you don't count transfer payments it seems pretty unequal-
Ron Nicol:	45:05	Exactly-
Bill Walton:	45:05	... but we've [crosstalk 00:45:06] the level of-
Rob Atkinson:	45:07	There are many, many factors [crosstalk 00:45:08].
Ron Nicol:	45:08	But the point you're making, I mean, it comes down to where the value gets created, and it's risk reward. There are many examples, and it's what Rob pointed out earlier, the small companies where there's examples of this don't get publicized, but the large companies where a CEO may make a lot of money get publicized quite frequently. Some of those CEOs are in the right place at the right time. But if you look at, on average, what CEOs do to contribute to a company's shareholder value creation, the market makes sense. Now, there are distortions in this too. We went through a period of time where, frankly, compensation consultants were essentially comparing every CEO against every other CEO in their industry, which ratchets up the CEO compensation. There are examples where we have CEOs-
Bill Walton:	45:58	You have to love those compensation consultants.
Ron Nicol:	46:00	The CEO certainly did at the time.
Rob Atkinson:	46:03	Well, there's another problem too, which is, during the Clinton administration, there was a concern about the compensation. What they did is, they capped compensation after you pay above that it's taxable, and so what happened? Stock options. Again, it distorted that. I think we just leave it alone to some extent. I will say though Bill, one of the studies we cited in the book, a little bit old now, but it was a good study and it looked at the... You add up all the Fortune 500 CEO compensations of stock, salary, all the rest, and you compare it, the top 14 hedge fund managers that year made more. That's a big problem.

Rob Atkinson: [46:42] The second thing though, if you look at the studies on inequality by firm size, again to your point, there's no difference. Inequality in small firms and big firms, a lot of small CEOs make a lot of money. Secondly, if you go and look by country, countries that have more large firms have less inequality than countries that have a lot of small firms. There's a good... We can argue as we should or have a discussion about, is there too much overall inequality in the US economy? Fine, but it's not due to firm size.

Bill Walton: [47:14] Well, would that be just the difference between first world economies and third world economies-

Rob Atkinson: [47:20] No.

Bill Walton: [47:20] ... as we used to call it? No?

Rob Atkinson: [47:21] It's certainly that, but it's also-

Bill Walton: [47:22] Because there's-

Rob Atkinson: [47:22] ... within the OECD [crosstalk 00:47:23]-

Bill Walton: [47:23] ... wild income inequality if you look at developing countries.

Rob Atkinson: [47:28] One of the points we also make in the book, the best indicator to determine whether a country is undeveloped is the share of jobs in small businesses.

Ron Nicol: [47:36] Yeah, that was a very interesting statistic in the book.

Rob Atkinson: [47:38] If you have like 80, 90% in small business, I can guarantee you're an undeveloped economy-

Bill Walton: [47:42] Well and that's because if you're a small business, you're basically unemployed, you're working for yourself, you're scratching out some sort of subsistence. You're an agrarian pre-agrarian economy.

Rob Atkinson: [47:51] Exactly, or local services, or tourism and yeah, [crosstalk 00:47:55]-

Bill Walton: [47:55] America's gone from what, 100 years ago, 40, 50% of Americans were, 'self employed', now it's about 10%?

Rob Atkinson: [48:02] Yeah, it's the lowest rate of self-employment we've ever had.

Ron Nicol:	48:04	You have to ask why that happened. I mean, it happened because of [crosstalk 00:48:08]-
Bill Walton:	48:08	Yeah, we have political rhetoric which says to be self employed is to be living the American dream.
Ron Nicol:	48:14	Well, that's the anachronism in today's culture. I think Rob points this out in the book very effectively, which is the roots of that was the agrarian economy of the 17th and 18th century.
Bill Walton:	48:27	So we're living in a politically romantic time where we want to go back to, I guess, if you're-
Ron Nicol:	48:32	What's interesting that many people believe it, so it obviously works. I mean, because there's a lot of dialogue on it, a lot of discussion around it.
Bill Walton:	48:40	Well, if you want to go back to that I have two words, modern dentistry. That's a subset of what's created for us with all these big companies. Tyler Cowen, a friend, I think, of yours has written a book, The Pay On To Big Business, and he points out that big business provides most of all the [inaudible 00:49:00] things we enjoy.
Rob Atkinson:	49:02	Air conditioning.
Bill Walton:	49:03	Okay. Although some of us think air conditioning is a problem because before Washington had air conditioning, the politicians went home for the summer.
Ron Nicol:	49:12	You have a good point.
Bill Walton:	49:15	Rob, how do you make the case? What's been the... I mean, I think we can make the case. We've scratched the surface here about the economics of industries and technology and managerial scale. It works. Yet the political firestorm that big business faces and policymakers face is real.
Rob Atkinson:	49:34	Well, I think one of the biggest factors, and we write about it in the book, is big businesses, they've got to stop being apologetic for being big. You ask big businesses today, you talk to the CEOs and what do they say? That first thing they say is, "We support lots of small businesses." That's fine, but they need to be, I don't want to say loud and proud, but they at least need to assert, "Look, big businesses are big business." All big businesses as a group play an important role.

Rob Atkinson:	50:01	Big business is on the defensive and they've been on the defensive for many, many years now. You see all of these conferences that they put on in Washington about how they're helping small companies. They're almost apologetic for being big and as long as they keep doing that, it's going to be hard to have support for it.
Ron Nicol:	50:19	I think it's going to hurt the country because when you have the CEOs of large businesses that are very successful apologizing for it or trying to change the mission of the company from shareholder value to other social objectives, you're changing the reason the company is successful.
Bill Walton:	50:39	What's your take on the shareholder value versus the stakeholder-
Ron Nicol:	50:43	Stakeholder value.
Bill Walton:	50:44	... value that Business Roundtable came out and they said-
Ron Nicol:	50:47	Sure, I don't agree very much with it. I mean I would say this, that I think-
Bill Walton:	50:51	I tend to fall that you've got to make a profit before you can do all these other things.
Ron Nicol:	50:55	Yeah. I think that society should have, and does have, mechanisms to accomplish those other goals. Companies should exist to create shareholder value and it's not the short-term quarterly and that's a problem. The short-term quarterly focus of CEOs and CFOs of companies is a mistake. Shareholder value is the net present value of the future cash flows. Now, you can't measure that because it's in the future. But if you run your business based on that, it will be much more successful and the country will be much more successful.
Rob Atkinson:	51:25	I think part of the reason why this focus on shareholder stakeholder value came up is because there were too many big companies that focused on short-term value creation. They were willing to sacrifice long-term value creation, "Oh, we're going to cut R&D so we could meet our quarterly earnings targets." A lot of people know that's going on and people are rightly frustrated [crosstalk 00:51:47]-
Bill Walton:	51:47	Is there a lot of evidence to that?
Rob Atkinson:	51:48	There is a lot of evidence to that. A lot of evidence to that.

Ron Nicol:	51:51	Yeah, I would agree with that.
Rob Atkinson:	51:52	Yeah. I think part of the answer is, how could we better align societal... Societal interest are, it is in the interest of society to have profitable companies in the long run.
Bill Walton:	52:03	Well-
Rob Atkinson:	52:04	... and we don't do that.
Bill Walton:	52:05	... we've mentioned I ran a public company. Do you know what it's like to go in front of your shareholders every 90 days?
Ron Nicol:	52:10	Oh sure.
Rob Atkinson:	52:10	Yeah. [crosstalk 00:52:11]-
Bill Walton:	52:12	You basically want to say, "Well, not a whole lot's changed. I mean, we've got some fluctuation in the numbers, but we're still pushing ahead." You don't get to say that.
Ron Nicol:	52:20	But I would argue... I agree, it's a very difficult thing and I see my clients go through this all the time. I think the best ones are the ones that keep the eye on the big picture and focus on the long-term and create short-term success. Not always short-term success, but if they can explain what they're doing with a strategy and be clear about it, shareholders would give them a break.
Bill Walton:	52:42	I think it's very complicated because I think if you point out, the average CEO has been on the job five years. It takes about two years to really learn what the job is and then you become lame duck, and so you get about two or three years of effectiveness. It's hard to-
Ron Nicol:	52:59	Very difficult.
Bill Walton:	52:59	Hard to not think short-term. I don't know how you align, but I think maybe that's a topic for our next show is we figure out how to align CEO's with long-term value creation. Are there any examples of anybody who has done that, the companies that you feel have thread that needle?
Rob Atkinson:	53:17	Well, I had a discussion with Michael Dell recently, a year and a half ago or so, and Michael Dell was the happiest clam in the pond because he had gone private.

Ron Nicol:	53:28	Then he went public again.
Rob Atkinson:	53:29	And then he went public again. But while he was private, he was very happy, he said, because he didn't have to do all this, and he could really think about... The best panel I've ever been on in my entire life was a panel with Jeff Bezos. I moderated a panel with Jeff Bezos and... oh, come on, the CEO of Qualcomm, the son of the founder, Irwin-
Ron Nicol:	53:49	[inaudible 00:53:49].
Rob Atkinson:	53:49	Paul Jacobs.
Ron Nicol:	53:50	Jacobs. Paul Jacobs.
Rob Atkinson:	53:52	Qualcomm being a telecom wireless company and Amazon... The last thing in the world, these guys were were short-termists. It was their company, they had a vision, they wanted it to go for the long run, and they were willing to make big, big bets, risky bets.
Ron Nicol:	54:08	Good example.
Rob Atkinson:	54:09	I think there are companies like that where the owner and the manager are more aligned. Sometimes when you just have professional managers, I mean, especially if you've got a five-year tenure, man, if you don't get that stock price up, you're out. Fixing that is a hard problem, but it is a problem.
Ron Nicol:	54:25	Also just one other example, you just mentioned Amazon. Amazon for many, many years made no profit, yet the message was clear they were growing, it maintained shareholder value, it didn't have those short term results necessarily, but created a tremendous company.
Bill Walton:	54:43	There's the solution. Now, I'm sure that lots of CEOs who would be happy to be given 25% of their company in exchange for their salary, but that's for the next show. Unfortunately, guys, we've run out of time. I feel like we've just scratched the surface of a complex and interesting topic. Rob Atkinson, I'd really like to thank you for this because-
Rob Atkinson:	55:02	Thank you Bill.
Bill Walton:	55:02	... it's a real contribution.

Rob Atkinson:	55:03	Thank you.
Bill Walton:	55:04	... to the debate and counterintuitive, and you take on some things that need to be taken on.
Rob Atkinson:	55:08	Somebody once asked me when I interviewed with them, "No one agrees with you, so why did you write the book?"
Bill Walton:	55:14	Well, that's why I like the book, Big Is Beautiful. Ron Nicol, thank you.
Ron Nicol:	55:20	Thank you Bill.
Bill Walton:	55:21	I'm glad you've taken time away from helping big companies succeed and sharing your insights today. Thanks. That's it for now. Thank you for joining us and we will see you back on the next Bill Walton Show.
Speaker 1:	55:36	Thanks for listening. Want more? Be sure to subscribe at thebillwaltonshow.com or on iTunes.