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Why businesses misbehave

Nowadays, the myth of heroic business no longer has much purchase. Yet, the tragedy of villainous business behaviour is that it is preventable

Are successful businesspeople more like heroes or villains? In fictional accounts, one can find plenty of examples of each, from Charles Dickens's miserly Ebenezer Scrooge to Ayn Rand's rugged individualist entrepreneur John Galt. In F. Scott Fitzgerald's *The Great Gatsby*, Tom Buchanan represents privileged old money, with its ruthlessness and incapacity for empathy, whereas Jay Gatsby is a self-made millionaire with no shortage of sentimentality and idealism.

One finds the same distinctions in social-science depictions of entrepreneurs. Joseph Schumpeter and his followers viewed entrepreneurs as the engines of growth, the heroic figures who delivered 'gales of creative destruction.' By contrast, Frederick Engels's *The Condition of the Working Class in England* heaped scorn on British industrialists who pushed their workers not just into poverty but into inhumane working and living conditions. But later, he and Karl Marx made the two roles an essential part of their theory of capitalism: ruthless businesspeople exploit workers but also unleash innovation and growth, ultimately transforming society.

These conflicting depictions reflect society's complex views of business. Obviously, it would be naive to expect all businesspeople to be either heroes or villains. Like most of us, they are often both.

Demystifying business men of the past

Many names that we now associate with philanthropy or higher education originally belonged to the robber barons of the late nineteenth and early twentieth century. Industrial magnates like John D. Rockefeller, Andrew Carnegie, and Cornelius Vanderbilt showed no compunction about intimidating and acquiring rivals in order to monopolise their respective markets and increase prices. They were also downright brutal – and sometimes murderous – toward any workers who

had the temerity to ask for higher pay or better conditions.

Leland Stanford, the founder of Stanford University, was probably even worse. Not only did he and his associates corner the railway construction industry on the Pacific coast; they also concocted a scheme to get American taxpayers to pay for it. Stanford also savagely exploited migrant workers, especially Chinese, who laboured under conditions so harsh, and for pay so low, that very few Americans would work for him.

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Stanford then jumped into politics to solidify his gains and benefit further at taxpayers' expense. He strong-armed California's state legislature and municipal governments into issuing bonds that provided more public money for his railroads. And as governor of the state, he organised murderous raids against Native Americans and whipped up hatred against the very Chinese who had been so crucial to his success.

Nowadays, the myth of heroic business no longer has much purchase. Johnson & Johnson, once praised for its proactive product recalls to protect customers, is using a dubious legal manoeuvre (the 'Texas two-step' or 'divisional merger') to avoid paying damages for its marketing and sales of contaminated talcum powder. The big oil companies, after decades of denying and sowing disinformation about climate change, are now pretending to be committed to environmental activism. But no one is buying the ruse.

Killer acquisitions and the motivation to be 'good'

And then, of course, there is the tech industry, where many entrepreneurs started as idealistic outsiders promising to make the world a better place. Google's motto was 'Don't be evil.' But now 'Big Tech' is synonymous with market domination, consumer manipulation, tax avoidance, and other abuses. (In 2018, Google removed its motto from the preface of its Code of Conduct.)

For years, the sector's biggest players have been acquiring or simply copying new entrants' products to reinforce their own dominance. A tell-tale example is Facebook's purchase of Instagram, in 2012, and WhatsApp, in 2014. Internal documents have since shown that these acquisitions were motivated by top executives' desire to neutralise

potential competitors.

Even more questionable are 'killer acquisitions': a company purchases a new technology under the pretence of integrating it into its own ecosystem, only to decommission it entirely. These monopolistic methods come on top of other tried-and-true tactics, such as bundling products to stop users from switching to rival services, as Microsoft did to kill off Netscape, and as Apple has done with its iOS ecosystem.

Last but not least, Big Tech has benefited massively from unbridled data collection, which allows a dominant player to know much more about consumers than potential rivals do, and to mount formidable barriers to market entry. The result is not just market concentration but also the mass manipulation of users, sometimes through misleading product offerings and even more often through digital ads.

A preventable danger

Fortunately, businesses do not have some incorrigible tendency to misbehave. From the *fin de siècle* industrialists to corporate bad actors today, the common denominator has been a system that lacks proper checks against abuse. If we want better behaviour and better innovation from companies, we need to provide the right institutional environment and the right type of regulation.

James A. Robinson and I tried to emphasise this point in *Why Nations Fail,* when we compared Bill Gates and the Mexican telecommunications tycoon Carlos Slim. Both men, we argued, had an interest in making as much money with whatever means they could; but Slim could get away with much worse behaviour than Gates, owing to the differences between the Mexican and US legal and regulatory regimes.

Opportunities for exploiting the system were already multiplying by the time Microsoft had become a leading company, and they have since become much more endemic, with colossal costs for the US economy.

Looking back, I now think we were too generous to the United States. Though US businesses had a stronger incentive than their Mexican counterparts to innovate, there were plenty of ways that they, too, could get away with misbehaviour. Opportunities for exploiting the system were already multiplying by the time Microsoft had become a leading company, and they have since become much more endemic, with colossal costs for the US economy.

The tragedy of villainous business behaviour is that it is largely

preventable. To create the proper balance of guardrails and incentives, we must both disabuse ourselves of the myth of the heroic entrepreneur and recognise that the gales of creative destruction do not blow automatically. Only with better regulations and stronger institutions can we achieve prosperity and hold the most powerful people in society accountable for their behaviour.

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