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BIG IS BEAUTIFUL

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American politicians may not agree on much these days. But they are unanimous in their veneration of small business. With the job market stuck in neutral, both Republicans and Democrats are pushing to give small companies more help, and are trumpeting the supposedly unrivalled ability of small firms to create jobs and propel innovation. In part, this reflects political calculation—the small-business lobby is powerful in Washington. But it also reflects the hold that small business has on the public imagination. We may spend our dollars at Walmart and IKEA, but in our hearts we have a soft spot for the corner store.

Americans have always been ambivalent about big companies, as Marc Levinson shows in his new book, "The Great A. & P. and the Struggle for Small Business in America." A. & P. was the biggest and most important chain store in the first half of the twentieth century. Consumers liked the lower prices and the greater selection that A. & P. offered. But distrust of A. & P.'s power, and the threat that it posed to the livelihood of small grocers, sparked a national campaign against chain stores, which led to the enactment of laws designed to limit competition and to restrain cost-cutting by big retailers. States passed taxes targeted specifically at chain stores. The Robinson-Patman Act, of 1936, effectively made it illegal for suppliers to offer chain stores better deals than they offered other retailers. And state and federal fair-trade laws allowed manufacturers to set a minimum resale price for their goods and to legally prohibit retailers from discounting them.

The odd thing is that although these laws stemmed from a populist movement, they actually resulted in price increases for the public at large. In other words, it wasn't consumers the government was trying to protect from big business—it was small business. A. & P.'s most important foe in

Congress, the populist Wright Patman, was open about this, saying that he wanted to insure that the U.S. did not become a "nation of clerks." Forcing consumers to pay a few extra dollars for their groceries or household goods was worthwhile if it was a means to this end.

These days, government regulation to keep prices high is less popular. But the fetishization of small business continues apace. Some of the support derives from real virtues that small companies offer—diversity of choice, connection to local communities. But much of it derives from the idea that the nation's economic well-being depends on such companies. Given that the overwhelming number of American businesses are small, and that, as we've all heard, small businesses create most new jobs, this seems reasonable enough. But the truth is that, from the perspective of the economy as a whole, small companies are not the real drivers of growth. One can see this by looking at the track record of the world's economies. The developed countries with the highest percentage of workers employed by small businesses include Greece, Portugal, Spain, and Italy—that is, the four countries whose economic woes are wreaking such havoc on financial markets. Meanwhile, the countries with the lowest percentage of workers employed by small businesses are Germany, Sweden, Denmark, and the U.S.—some of the strongest economies in the world.

This correlation is not a coincidence. It reflects a simple reality: small businesses are, on the whole, less productive than big businesses, and though they do create most jobs, they also destroy most jobs, since, while starting a business is easy, keeping it going is hard. This is true around the world. A recent study by the World Bank that looked at ninety-nine developing countries found that large firms had significantly higher productivity growth. And in the U.S. the connection between size and productivity is, as a 2009 study showed, especially close. In part, this is because big businesses are able to enjoy economies of scale and scope. Big businesses are also better able to make investments in productivity-enhancing technologies and systems; in the U.S., for instance, big companies account for the vast majority of R. & D. spending.

It's been ever thus. Levinson shows that, because A. & P. invested in its own warehouse-and-delivery system, it was able to improve inventory management, which is essential for any retailer. While its competitors were taking four months to turn over their inventory, A. & P. was doing it in five weeks. Walmart, similarly, invested heavily in making its supply chain more efficient, and it was directly responsible for a sizable portion of the productivity boom of the nineties. It's harder for small businesses to innovate in these ways, particularly when credit is tight, as it is now. More important, most small businesses aren't necessarily interested in expanding or innovating. A recent study by the economists Erik Hurst and Benjamin Pugsley shows that only a tiny fraction of small-business owners have any interest in becoming big-business owners, or even in bringing a new idea to market. Most are people who simply want to run a small company, do work they enjoy, and have some control over their own financial lives.

Those are admirable goals, but they're not going to make companies more productive. And that matters, because greater productivity is the main driver of long-term economic growth and higher living standards. Because big companies are more productive, they offer workers, on average, better wages and benefits—or, as in the case of Walmart, they offer consumers significantly lower prices. And the impact of these things on living standards is not trivial. It's hardly a coincidence that in the decades after the Second World War, when ordinary American workers became part of the middle class, very big companies employed a huge percentage of the workforce: in the early seventies, one in five non-farm workers worked for a Fortune 500 company. Small may be beautiful. It's just not all that prosperous. ♦

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