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Chapter Title: Comment on "Big Business Stability and Social Welfare"

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Comment Partha Chatterjee

Is it in a country's best interest to have a stable big business sector? Fogel, Morck, and Yeung investigate that question from the perspective of innovation and growth. They find that countries with more stable big businesses grow at a slower pace. They show that countries with less stable big business sector not only benefit in terms of growth rates of gross domestic product (GDP) per capita, but also in terms of growth rates of total factor productivity (TFP) and capital accumulation. So should governments spend any public money to ensure stability of big businesses? The answer is yes if big businesses helped the government achieve some or any of its social objectives. And this is what the authors investigate here—does a country with a more stable big business sector outperform other countries in terms of achieving certain social goals?

The authors identify these social goals and categorize them under *liberty*: health care, education, public infrastructure, environmental protection, overall quality of life; *equality*: income distribution, poverty; and *fraternity*: unemployment, labor rights, labor protection. They find measures for each of those, sometimes several, and find correlations between those measures and big business stability. They also develop several measures of big business stability. Further, they also regress between big business stability and each of the previously mentioned indicators, controlling for per capita GDP.

The range of variables that they use in the paper is quite large and varied. For a large number of cases, the authors fail to find any correlation between the variables and big business stability. In some cases, even if there seems to be a raw correlation between a variable and big business stability, it disappears when controlled for GDP per capita. Thus, overall the authors find almost no evidence of a link between big business stability and better performance of the social sector in a country.

The absence of a connection between big business and better performance in the social sector is quite clear. However, do countries actually choose to have big businesses? The authors provide quite a few anecdotal evidences from incidents and events, as reported by the news media, from both developing and developed countries. I think it would add much value to the paper if this section is further developed. The authors need to investigate if there is a systematic bias toward big businesses in policy making, both in legislations and in public spending.

Once it is conclusively established that presence of big business is just

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not incidental or some historical accident, but rather a product of policy making, the authors can draw stronger conclusions regarding the motives of the political system (like political rent-seeking, or influencing public opinion to win elections) in its dealings with big businesses.

Further, this research can be extended to examine if the bias toward big business stability varies across countries—is there a difference between rich and poor countries? Or maybe democratic and nondemocratic countries? Perhaps the role played by big businesses in a more democratic country is different than the role played in a less democratic country. I think it might be worthwhile to explore some of these questions.

Overall, this paper is a step forward in closely examining the contribution of the big businesses to the society. This paper also brings forth some important open questions that need to be examined in the future.

Comment Pushan Dutt

Schumpeter first advanced the notion of "Creative Destruction" in his book *Theory of Economic Development* (1912). It was here that he made a clear distinction between innovation and invention. Schumpeter argued that while anyone can come up with an invention, it takes an entrepreneur to see its economic viability and to exploit its potential. The entrepreneur was seen by Schumpeter as an indispensable "hero" and the driving force in a capitalist economy.

The world that Schumpeter invoked was dynamic, messy, intrinsically uncertain, and far from the neoclassical world of equilibriums, steady states, and smooth trajectories. In such a turbulent world, businesses, individuals, and institutions based on earlier innovations are constantly undermined and swept away by new technological and organizational innovations. Growth in capitalist economies is not a smooth process but one of creative destruction. The Schumpeterian notion of creative destruction is much cited, even modeled (Aghion and Howitt 1992; Grossman and Helpman 1991) but has been rarely put directly to an empirical test. This is where this paper makes a very important contribution—by constructing an index of business stability, it shows that countries characterized by big business stability exhibit lower rates of economic growth.

A forthcoming version of the paper in the *Journal of Financial Economics* starts off by asking the question "Is What's Good for General Motors Good for America?" Surprisingly, unlike the Schumpeter of 1912, the later Schumpeter of 1942 would probably answer this question in the affirma-

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