

## **Don't Confuse Business Interests With Economic Interests**

**Christopher Ragan**

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Few things are more enjoyable for me than browsing the shelves of a bookstore. As an economist, I naturally check out the economics offerings in the hope of finding something new and cool. But one thing that really irks me is that most bookstores don't have a separate "economics" section. Instead, their economics selection (usually not very good) is found under the "business" heading.

Most non-economists probably think economics and business are the same. But anyone who has studied economics knows they are very different. Having done so for about 30 years, I am very comfortable thinking about how markets work, how they often fail to function effectively and how various government policies affect their operation. But I readily admit to having no expertise about product development, marketing campaigns, distribution networks or managing employees.

I only wish more business people admitted to having the opposite ignorance. People successful in their businesses obviously know a lot about running their own companies and dealing with their unique competitive challenges. But many of them believe their business acumen extends to the broader economy. They suffer from the misconception that what is good for their business is good for the country as a whole. And this is where they are terribly wrong.

I wouldn't care so much if they kept these views to themselves. But the real problem is that many business leaders badger politicians to enact policies in the name of the national interest when, in fact, the policies are really in the businesses' own private interests, and hurt the country as a whole. Economists call this "rent seeking" – and among those of us who claim to be defenders of the public interest, it is a pretty dirty term.

A great example is unfolding right now: The fight between the Big Three telecom companies and the federal government over the upcoming spectrum auction and the treatment of the U.S. potential entrant, Verizon Communications Inc.. When the Big Three complain about how Verizon's entry would lead to disastrous outcomes for Canadians, we should all be suspicious.

Adam Smith, the Scottish philosopher and founder of modern economics, would have been very suspicious, and would also have quickly identified these companies' more likely concern – that Verizon will eat their lunch by offering lower prices and better services. Mr. Smith was crystal clear about business interests, writing in 1776 that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy

against the public, or in some contrivance to raise prices.”

Verizon’s success would surely come at the expense of lower profits for the Big Three, a possibility clearly suggested by their significant share-price declines over the past three months. This would obviously be bad for their shareholders – but it is just fine for the millions of Canadian consumers who would benefit through lower prices and better service. The new Minister of Industry, James Moore, is strongly resisting the rent-seeking arguments of the Big Three and promoting the interests of Canadian consumers by encouraging greater competition in the marketplace. Fortunately for us, he understands the difference between business interests and the national interest.

Policy makers don’t always see so clearly, however. For example, past and present federal governments have repeatedly gone weak in the knees when presented with the opportunity to provide financial assistance to some firm or industry as a means of “creating jobs.” Everyone’s favourite Montreal-based aerospace company has long been a master at convincing governments that it needs financial assistance to develop new products and compete in a fierce global marketplace.

But here’s the rub: While employment at that aerospace company will rise when it expands as a result of the taxpayers’ generosity, there will be very few “new” jobs. The highly skilled workers that design and manufacture and market airplanes weren’t unemployed before they got hired there; instead, they were bid away from their previous jobs at auto-parts firms, metals fabricators, marketing agencies, or wherever. The shareholders and employees of the aerospace company certainly benefit from successful rent seeking. But how is it in the national interest to divert resources away from everyone else toward this specific firm? Creating jobs in one firm or industry is child’s play if you control the government’s fiscal levers; creating jobs for the economy as a whole is much more difficult.

Don’t get me wrong. I’m not opposed to capitalism or profits. And as a shareholder I am always delighted when my investments do well. But policy makers have a special responsibility. They need to recognize and defend the genuine national interest, and develop a resistance to the seductive but usually self-interested arguments coming from business leaders.

Maybe this would all be easier if bookstores stopped confusing business with economics.

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