think small: enterprise and the economy

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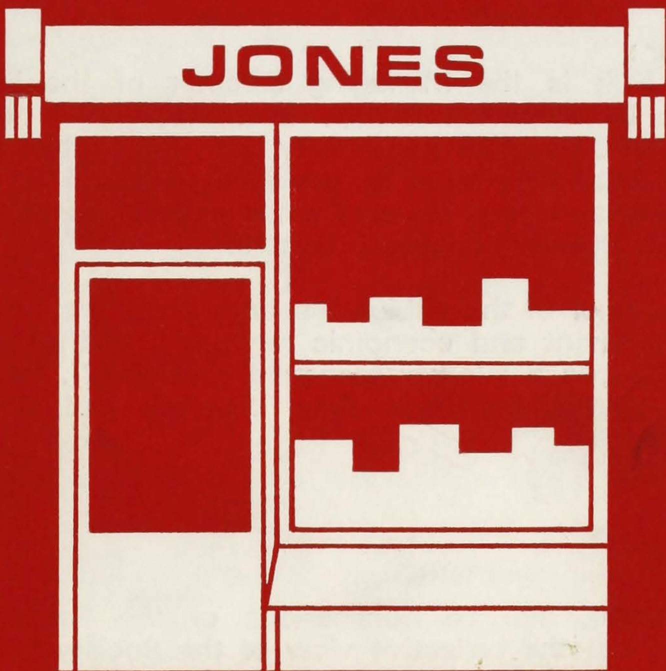

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1. industrial society at the turning point

Britain was the first country in the world to go through the " industrial revolution " and it is therefore not surprising that it is the first to feel the long term after-effects. We have managed to achieve what classical economists would have considered impossible: a combination of high levels of inflation and unemployment, together with low levels of wages, productivity and investment, compared with our industrial competitors. As consumers, we increasingly choose foreign makes, with over half our imports being manufactured goods, and imports having risen from 10 per cent to 17 per cent of the domestic market between 1965 and 1974. As employees, we astonish the world with our readiness to stop work apparently at the drop of a hat. And as residents, we are voting with our feet to desert our great cities. This is certainly not the result of public indifference. The media seems to have been covering one economic " crisis " after another for the past 20 years. The state of the economy, rather than questions of justice, now seems to determine elections. Thus successive Prime Ministers have committed themselves to securing economic change. With over half the nation's output passing through the public sector (which is supposed to employ the brightest and reward them well), one might expect more progress than seems to have been made.

But could it be that we have been on the wrong track, that the very measures we have adopted aggravate the problem ? Will today's economists look in retrospect like the doctors who once used leeches, sapping the natural resilience of the sick patient in an attempt to revive him ? This pamphlet suggests that we are at what has been called a " turning point ", where fundamental changes have taken place which make a repetition of past policies for regulating the economy irrelevant, at best, and counter-productive, at worst. It took one hundred years, from 1780 to 1880, for Arnold Toynbee to coin the phrase " industrial revolution " for a series of changes that profoundly altered the way people lived and worked. One hundred years later, we could be in the midst of a second industrial revolution, where once again technological change is sweeping away the foundations of our way of life. If this is so, it will demand different forms of organisations from the ones that grew up in the previous era. The central argument of this pamphlet is that, as we cannot expect a return to the trends that were prevailing prior to the recession, we should shift from propping up the giants of yesterday to encouraging the organisations that are more appropriate to tomorrow's conditions, and that this will depend on a huge increase in the birth, survival and growth rate of small enterprise.

industrial evolution

In the late 18th and first half of the 19th century, a number of changes took place in the structure of society which came to be called the industrial revolution. Very crudely, new sources of power, mechanisation and specialisation created the right technical conditions for the development of large factories. The release of labour from the land allied with sources of cheap food and materials from colonies made possible the growth of cities around railways and docks, which in turn led to a shift in where and how people lived. Simultaneously the financing device of joint stock companies, coupled with the availability of private wealth and a new class of entrepreneurs (often foreign) made it easier to set up firms to exploit the technical possibilities.

The industrial revolution was characterised by the immense scale on which human endeavour was organised. Not since the building of the pyramids had so many laboured together in common purposes. In turn, the scale of this organisation, more than perhaps any political response to it, shaped the foundations of our present society. It has determined where most of us live and work, giving rise to giant cities and factories. Even more important, it has created the divisions of class and location within the political battlefield, with the labour party (broadly speaking) allying itself with the organised manual workers and with the places where the industrial revolution grew up — the cities and depressed regions.

We are now living through a number of radical shifts in the basis of society, which future generations may well choose to describe as the second industrial revolution. In some ways, things are coming full circle. These changes apply to all the factors of production—labour, materials and energy, capital and land. They affect what people do and where they do them. They are creating new expectations and demands. And they transcend national boundaries.

If we first consider *labour,* traditionally the largest employers have been in manufacturing and transport, which have provided the rank and file of the labour movement. Now, however, manufacturing accounts for only one third of all jobs in the UK, and one fifth of jobs in London. Employment in the docks and the railways have also shrunk in recent years, largely as a result of changes in technology. This decline will continue as, by international standards, these industries are still over-manned. Hence, the traditional base of the labour movement is contracting. Employment has increased instead in the "growth services" like banking, insurance and public administration. At the same time, there has been a shift in the nature of employment within sectors. Firstly, a growing proportion of jobs are done by women, partly because more women want to work and partly because employers prefer women where repetitive and meticulous work is involved. Secondly, a growing proportion of all employment is white collar; there is no longer much demand for the "hewers of wood and toters of barges", and if all work can be said to comprise handling things, people and data, there is a definite shift from dealing with things to dealing with data, as a result of automation and the use of computers. This can be seen in the USA where white collar workers accounted for 40 per cent of all employment in 1970 compared with 15 per cent in 1900; even in manufacturing, white collar staff now occupy one third of all jobs (Daniel Bell, *The Coming of Post-industrial Society*). Those manual jobs still left in large scale factories tend to involve minding machines and performing repetitive tasks. There is a declining number of apprenticeships for the remaining skilled manual jobs and these are usually out of reach for the majority of today's school leavers who lack basic qualifications. For a variety of reasons, it is foolish to expect a great increase in employment within large factories for manual workers.

Nor will clerical or office jobs fill the gap. Roughly one quarter of those leaving school lack any CSEs or O-levels yet there are few office jobs that do not require some evidence of school achievement. Furthermore, much of the past expansion in the service sector has been in what Bacon and Eltis call the "non-productive sector". This has risen faster than in other industrial nations, reflecting, one suspects, not consumer preferences, but a growth in the administration of top heavy bureaucracies and cumbersome systems. (Consider, for example, the legions of parking meter attendants, or VAT inspectors who, with 1 to every 117 traders, outnumber the French and the Italians by 50 per cent.) The British trend has been to have more people handling data—the "impersonal services"—while fewer deal directly with people. It is interesting to compare London with Paris, where jobs requiring no human input, like giving out and collecting tickets on the Metro, are done entirely by machines. In contrast, where we have supermarkets, self-service petrol stations, and service-less cafeterias and hotels, Paris has more labour intensive small shops, restaurants and boarding houses, where the work involves personal contact. Some would say we should rejoice that the mass of people can now "work" away from the sweat and noise of making things, in comfortable offices, where they can organise to stick up for their rights; should we not congratulate ourselves that, for example, productivity has risen so fast, and that large supermarkets have kept down prices for ordinary working people?

The answer depends on what alternative forms of work there are, what people can or want to do, and on the relative availability of different resources. For instance, the expansion of office work may soon be reversed because it is the repetitive paper handling jobs that are most susceptible to replacement by computers, whose costs are falling fast. It is not here, but in the co-ordination of hand, eye and brain that man has the greatest comparative advantage. While there is a real limit to the amount of administration we can consume or export, there seems to be no limit to the goods or personal services that we want, which are limited to what we can produce from available natural physical and human resources.

Turning now to *materials and energy,* we know from the various studies that followed the publication of *Limits to Growth* that we live in a world of finite resources. Following the success of OPEC, we can no longer take for granted the idea that the Third World will provide us with whatever primary goods we demand, taking our manufactured goods in exchange. Rising material costs will put a new emphasis on maintenance and repair. Rising transport costs will give an increased economic advantage to smaller production units serving a localised market and drawing their employees from nearby. There are already signs of change in the re-emergence of bakeries and the growth of local breweries, encouraged by the fact that they produce a more palatable and better value product.

In contrast with the 19th century, the supply of *finance* for industry has become far more concentrated. An increasing part of the finance available for capital investment is tied up with the savings controlled by pension funds and insurance companies. For example, some 60 per cent of stocks and shares are now owned by institutional investors. A great deal of finance does come from retained company earnings but this too is concentrated, as an increasing proportion of output is controlled by multi-national companies. The 100 largest companies account for 40 per cent of output, a higher proportion than in most other countries, and increasingly the investment of these companies has been located outside this country.

Finally we come to *land,* where we find that our great cities are declining in both population and employment, and that growth is occurring instead in country towns with less than 5,000 population. Where once the great Victorian achievement stood—docks, gasworks, railway yards, factories and mills—there are now derelict buildings and vacant land.

Around them the communities decay, trapped in the spiral of decline portrayed in reports from the Community Development Project and the Department of the Environment's Inner Area studies, particularly on Liverpool. A combination of technological change, changing locational advantage and lack of investment have made them redundant.

tasks ahead

Radical changes in industrial policy and thinking will be required to cope with the pressures created by the shifts in the economic base of Western industrial societies. However, a moment's thought will confirm that we have not lacked policies and ideas but rather the capacity to implement them effectively. Hence we must consider whether the basic organisational structure of British industry is still appropriate for the tasks it has to execute. Have we, in effect, bred dinosaurs who will be unable to survive the equivalent of an ice age?

The main argument of this pamphlet is that the changing demands placed on our industrial system can only be met by a vast increase in both the birth and growth rate of small enterprises. This will require radical changes in public policy at both national and local government levels, as these are currently geared to dealing with giant organisations. If the labour party is to respond to the challenge (which both the liberal and conservative parties have seized), small enterprise must be seen as compatible with the basic objectives of socialism and the labour movement. Before considering the relevance of small enterprise to satisfying the needs of the main "stakeholders"—consumers, employees and the local community—we thus need to review the relationship between small enterprise and socialist thinking, and to consider what are the aims of socialism, how these have been implanted in practice and with what effect.

Until recently, there has been a growing gulf between socialist thinking and the small firm. To some socialists, the very idea of small businesses is unattractive, with them being seen as sweat shops, exploiting workers, evading taxes and operating inefficiently. At the same time, to many small businessmen, socialism is "anti-business", associated with high taxes and low benefits, bureaucracy, interference and wastefulness.

In trying to make progress towards various socialist ideals, such as more equal living standards, successive governments have encouraged industrial concentration in the belief that larger firms would be more internationally competitive and provide better wages and working conditions. Widespread concern with the poor performance of much of British industry has also led to the belief that the answer lay essentially in more investment and rationalised facilities. It was thought possible to resolve the problems of industrial conflict and responsiveness to the wider public interest through nationalisation. Competition policy was neglected even though labour governments have been in the forefront of anti-monopoly legislation. It seems that small firms were largely ignored.

At long last there is a realisation dawning that a change of direction is needed. It is reflected in important speeches by the Prime Minister and Peter Shore on the need to foster small firms in cities and in the subsequent appointment of Harold Lever to conduct a review of what policy changes are needed. The stereotypes on which earlier thinking was based are beginning to appear false; large firms are often proving to be inefficient, while nationalised industries have had more than their share of labour disputes and frequently seem unresponsive to either the consumer or the wider public interest. At the same time, it is becoming evident that the most serious and intractable of all the economic problems facing this country is unemployment. Large firms are often over-manned by international standards and will have to slim their workforce if they are ever to meet shop floor demands for better real wages and conditions. Furthermore, as many of these firms are multi-national, they have considerable choice over whether to invest in this country or abroad and whether to use British made components or equipment.

Consequently small firms are beginning to be taken seriously again by the government and large employers alike and there is a mushrooming group of associations seeking to represent the small firm. With the liberal and conservative parties committed to far reaching changes to assist small firms, will the labour party be able to convince the electorate that it is more able and willing to take the measures needed to tackle unemployment in ways that create real work and hence are not inflationary ? Some progress is certainly being made. Government measures such as tax reform, the expansion of the Department of Industry Small Firms Counselling Service and investment in small firms by the National Enterprise Board are steps in the right direction. Many local authorities have appointed industrial development officers, are halting development schemes that threaten small firms and even mounting campaigns to help them. But isolated measures will not turn the tide which has caused the small firms sector to decline further and faster in Britain than in other comparable industrial countries.

There is a case for the Labour Party "catching the whigs bathing and stealing their clothes". However, there is little point in providing greater incentives to enterprise as recommended by the conservatives and liberals if the resources small firms require to get started and grow remain outside their grasp. Hence, rather than encouraging people to jump higher, a socialist response should focus on removing the hurdles that stand in the way of productive enterprise. The basic problem for the small firm is obtaining the resources it needs, many of which have actually been released by the recession. Small firms complain that they cannot compete with large firms on equal terms in securing premises, personnel, finance and access to markets. As much of the supply of these resources is controlled by large institutions, changes in their attitudes and policies will be required.

The essential argument for changing the policies of large institutions towards small enterprise is that nothing less will solve our economic problems and correct the underlying malaise that lies at the heart of so many industrial conflicts.

Our economic performance depends on balancing the needs of ever more selective consumers with the aspirations and capacities of a diverse workforce, while also taking account of the interests of the surrounding community. Despite the advantages large firms have in selling to mass markets and raising finance, their very size makes it hard for them to cope with the many competing and changing demands on them. They find it harder to build the trust required. Yet they are inherently vulnerable to disruption because so many goods and services are now very complex, involving the simultaneous collaboration of enormous numbers of people. This collaboration is becoming harder to ensure, perhaps because the basic needs (food, shelter and clothing) have been met for the majority of employees and hence needs that are higher on what the American psychologist Maslow calls the " hierarchy of needs " (such as " self-esteem " and " self-expression ") take on relatively greater importance. Consequently, more diverse and flexible types of organisation are required to accommodate these needs and, however hard a giant organisation tries, the class ridden and suspicious nature of British society tends to make its efforts unconvincing.

Now technology is making it possible to work in smaller units (with the obvious exceptions of industries like steel and cars which are untypical of the mass of industry). Simultaneously, natural resources require different products with, for example, a greater emphasis on long life and repairability. Is it not therefore time for some of the giant organisations to wither away ?

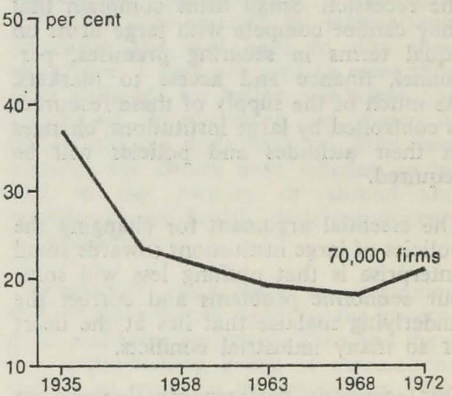
Certainly some of the founding fathers of British socialism would have been aghast at the way " monopoly capitalism " has developed side by side with union control over the supply of labour. Karl Marx foresaw in *Das Kapital* that the concentration of power into " gigantic industrial enterprises was at the expense of many small capitalists whose capital partly passes into the hands of their conquerors, partly vanishes ". The pioneering achievements of Robert Owen and of the Rochdale Cooperators created an important strand in British socialism favouring self-governing small enterprises. William Morris (who must be due for a revival) ensured libertarian principles were adopted at the time of the formation of the socialist party. Socialism was not just a matter of improving the living standard of the working classes, for " Nothing should be made by new labour which is not worth making or which must be made by labour degrading to the makers ". The aim was not the reduction of labour to a minimum but the minimisation of " pain in labour " or drudgery. Along with Morris, many of the other leading lights in the early socialist movement were proprietors of small business or self-employed artisans.

The ideas of syndicalist writers found respectability in the writings of G. D. H. Cole and the development of " guild socialism " with its emphasis on encroaching control within industry from the bottom up. The labour party introduced the first anti-monopoly legislation in 1948 and set up the Prices and Incomes Board which probed efficiently in large organisations. More recently a number of books have argued the case against " corporatism " and in favour of small enterprise in terms with which most socialists can agree, like Fritz Schumacher's *Small is Beautiful* and James Robertson's *Profit* *or People* ? There is now a flourishing Socialist Environmental and Resources Association which has helped to promulgate breakthroughs such as the efforts of Lucas Aerospace workers in drawing up an alternative corporate plan based on appropriate technology (Dave Elliott, *The Lucas Aerospace Workers Campaign,* Fabian Society, 1977). Finally, in recent months there have been important speeches by the Prime Minister, the Secretary of State for the Environment and the Foreign Secretary which criticised mammoth bureaucracy and praised enterprise.

The mood of the times is now against size and remote control and in favour of self-regulating systems. The labour party must adjust to this or be swept away as the liberal party was when its power base disappeared at the turn of the century. As we lack the " colossi " to straddle the worlds we have created, we must cut the world down to size. There is nothing inherently socialist about working in the public sector, and it does not seem to have yet led to a nobler breed of men. As Daniel Bell put it: " The hallmark of conflict in post-industrial society is the clash between the professional and the populace, and the key to progress is not managing class conflicts but bureaucratic conflicts ". Ralf Dahrendorf in *Class and Class Conflict in an Industrial Society* suggests " we have to look for the ruling class in those positions that constitute the head of bureaucratic hierarchies ".

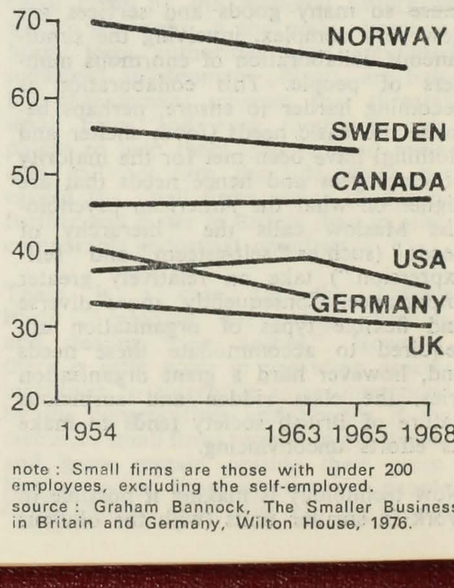
Hence the case for promoting small enterprise is a complex and far reaching one. The measures needed require more than simple tinkering with our mixed (or mixed-up) economy. The following chapters consider in turn the contribution small firms could make to our three major problems—by strengthening the economy, creating more work and maintaining our cities. It examines why small firms have declined and sets out what local and central government respectively need to do to make it easier for small enterprises to obtain the resources they need. Finally, it summarises the key ingredients of an effective programme.

Small firms as percentage of manufacturing employment



source : Report of the Committee of Enquiry on Small Firms, Bolton Committee, HMSO, 1971.

Proportion of manufacturing employment in small firms



note : Small firms are those with under 200 employees, excluding the self-employed.
source : Graham Bannock, The Smaller Business in Britain and Germany, Wilton House, 1976.

2. strengthening the economy

Large companies, both private and public, have come to dominate the British economy to an unusual extent, producing a far more concentrated economy than our industrial competitors. S. G. Prais has shown that the hundred largest private companies have doubled their share of output in the last 40 years to well over 40 per cent (see chart on page 17). This has been due more to mergers and acquisitions rather than to indigenous growth, the average number of plants owned by these firms rising between 1958 and 1972 from 27 to 72. A relatively small number of publicly owned enterprises control the basic industries of power, transport and communications, accounting for 8 per cent of employment and 19 per cent of fixed investment. The 6 largest nationalised industries purchase one third of all plant and equipment and are significant buyers in the higher technology fields. The trend here, as in the private sector, has been towards the centralisation of power and the closure of smaller operating units. These have now been joined by giant publicly owned trading concerns in the motor, aerospace and ship building industries that compete with foreign firms.

At the same time the importance of smaller firms (employing less than 200 employees) has declined rapidly in manufacturing. The Bolton Committee report, commissioned by Anthony Crosland, drew on the 1963 Census of Production which showed that 20 per cent of employment and 17 per cent of output in manufacturing was accounted for by small firms. This was the lowest proportion in Europe. John Bolton has since said that the situation has reached crisis point. By 1971 the decline had begun to reverse, with an 18 per cent increase in the number of small firms and a slight rise in their proportion of net output to 21 per cent (see chart opposite). However, we still lag far behind our more successful industrial competitors (see opposite).

The loss of small firms is very much bound up with the UK's poor economic performance. It reflects a high mortality rate, a low growth rate and, above all, a totally inadequate birth rate. Graham Bannock in *Smaller Businesses in the UK and Germany* calculated that Germany has 40 per cent more small firms per head of the population. To give another comparison, the USA has roughly two to three times the birth rate and only one quarter the death rate for firms of the UK. The comparison is even more disturbing for tiny firms (under 10 employees) in relation to the population, many of which would be relatively new enterprises. There are one third more in the USA and twelve times more in Germany than in the UK. This means that the bloodstream of our economy is not being renewed and we are not breeding the industrial leaders of the future.

It has been argued that the decline of small firms is inevitable, a price to be paid for technical progress. But an economy controlled by giant organisations is surely contrary to the general public interest. This may seem heretical as the growth of big business offers distinct advantages to the corporate state. Large organisations are more convenient for government and civil service to deal with. They appear to be capable of creating jobs and exports in large numbers. They are also easier for trade unions to organise and hence tend to provide better pay and conditions than those small firms which operate in highly competitive markets. But these are not adequate reasons for relying on large firms to the extent we do.

appropriate size

Rather than trying to argue that small is inherently better or more beautiful—for what matters is whether an organisation is *appropriate* to its environment—I want to emphasise the need for a dispersal of power for three reasons. First, large organisations are prone to certain diseconomies of scale — basically low morale. This is reflected in industrial stoppages, resistance to improved working methods and a failure to increase either the quality or quantity of output sufficiently to stop a flood of imports. Thus international comparisons, such as the Central Policy Review Staff's report on the motor industry, have shown that our low growth of productivity is as much due to our failure to use existing machinery to the full, as to the lack of investment. Second, planning controls and incentives count for little when employment is dominated by giant multi-national organisations. Consequently there has been a loss of public control over investment and plant location and closure decisions. This is because once an organisation straddles a number of countries, it can concentrate investment wherever operating costs are lowest and the market is expanding fastest. Governments are encouraged to vie with each other in offering " bribes ". Third, large firms are more capital intensive and so the subsidies used to encourage employment tend to be dissipated in imports of plant and machinery. This helps to explain why the net contribution of large firms to the balance of payments is so low. Yet the public sector ends up having to pay most of the bill for the consequences of industrial run-down, such as unemployment and retraining, and in many cases has also become the employer.

The causes of our relatively poor economic performance are often attributed to such factors as low levels of investment, the calibre of our management or poor industrial relations. An alternative explanation is that we have created unmanageable and unresponsive organisations. Irreconcilable conflicts can arise when a large number of different units, and hence cultures, are combined with the bureaucratic quest for consistency. For performance depends on motivation as well as simply the kind of plant installed. Economists have long argued against oligopoly on the grounds that once an organisation becomes insulated from the pressures of the market through barriers to entry and the possibility of falling back on the government if all else fails, then it becomes sloppy and unresponsive. The resulting lack of productive capacity and quality goods have led to imports making inroads in many markets that should be satisfied through domestic production. Oligopoly also restricts our long term economic performance because we are not breeding tomorrow's industrial leaders. In consequence, we are increasingly dependent on foreign technology, which supplies the high value-added components and machinery, leaving the UK to compete on labour costs and government subsidies.

It is sometimes argued that we need giant enterprises because they are better able to plan and organise production efficiently and to weather economic storms. This latter proposition is put forward, for example, by J. K. Galbraith in *American Capitalism* where he states: " The size of General Motors is in the service not of monopoly or the economies of scale but planning. And for this planning — control of supply, control of demand, provision of capital, minimisation of risk — there is no clear upper limit to the desirable size. It could be bigger and better." However, this may no longer be so, due to changes in environmental factors (such as rising raw material and energy prices, and increasing conflict within industry) which favour a profusion of smaller units.

A further factor that favours the small firm is that subdued rates of economic growth, along with increasing competition from countries with low wage rates, will inevitably force firms to change what they produce. The continued expansion of choice will make consumers more discriminating (assuming that import curbs are not introduced). The only viable response is for firms to seek out niches where they have a competitive edge and this is proving difficult. In the industries where there is comparatively little product differentiation, such as steel or chemicals, British firms can only compete if they can match foreign competition in quality, reliability and price; on all these scores (except perhaps price), most British firms seem weak. While large firms (particularly ones relying on highly specialised assembly processes) are geared to meeting steady mass demands at low costs, they get into difficulties when circumstances change radically— consider British Leyland and Chrysler. There is therefore evidence that the prevailing management style of large companies is inappropriate to the management of complex, unpredictable situations and to the resolution of conflicting demands.

In contrast, the smaller firm offers certain benefits to the consumer which will continue to be important. First, they can be more flexible and responsive to particular needs than larger firms. These specialised needs include the luxury market, specialised components and the whole field of service and repair (which is likely to assume even greater importance, given the rising stock of goods, and increasing replacement costs, which justifies the reconditioning of many products).

Second, small enterprises, and particularly new firms, turn out to be an important source of innovation, developing new products or services that large companies may ignore or suppress. Though the Bolton Committee found no overwhelming evidence one way or the other, studies in the USA have shown that small firms introduce more successful innovations than the very large firms. Large firms tend to be conservative and may sit on an idea to prevent a competitor stealing an advance. As an example, though the transistor was developed in the large Bell Laboratories, it took what at the time was a small Japanese entrepreneur (Sony) to realise the potential use in pocket radios. A good deal of research effort in large firms is wasted, whether it be drug companies indulging in " molecule manipulation " to evade patents, people writing their doctorate theses in company time or people working on irrelevant projects. Large production processes are also unlikely to encourage innovation and produce new work and techniques because of the dominance of each part of the process by the requirements of the whole. In addition, the unsatisfying nature of the work itself and the lack of opportunity for creative self-expression can mean that inventiveness and the interest in exploiting new ideas is lower in large hierarchical organisations than in small ones.

It may still be argued that many production processes are inherently large—the examples of electricity, steel and cars always come to mind. However, these process industries are by no means typical of the mass of industry. Within manufacturing, four sectors account for half the net output of firms employing less than 200. These are mechanical engineering, other metal production, paper printing and publishing, and timber and furniture. Significantly, with the exception of electrical engineering, these are the only manufacturing sectors whose employment grew between 1959 and 1973. In contrast, as mass production involves repetitive processes, it is the most susceptible to automation. For example, Italian-made robots have already taken over the basic welding jobs on the Volvo and Rover production lines. In the long term, these large firms will have to shed much of their current labour requirements.

Even within the giant industries, small plants are often more efficient. For example, in electricity, the higher morale found in smaller plants together with proven technology can result in lower costs, while the system as a whole becomes less vulnerable to a breakdown or dispute. As a consequence, there is a growing realisation among industrialists that many plants are too large both in absolute terms and in relation to the community in which they are located. The maximum desirable size seems to be 500. Unfortunately, however, the UK has one of the highest proportions of large plants in the world, many of which are in declining industries. To take a comparison, in Japan, France and Sweden, more than half the manufacturing workforce is employed in factories employing less than 200 compared with little more than a quarter here. Even in the USA, the large plant is the exception rather than the rule. Studies by economists such as Bain and Stigler have shown that the average American production unit has only 90 employees. Only 14 out of 48 industries needed more than 50 employees to achieve optimum size.

It is therefore perhaps predictable that the Bolton Committee found that the return on assets was higher in small firms than in large firms. Though there may be some technological economies associated with size, the greatest returns often come from the greater "muscle" the large firm develops. However, after a certain size, organisational diseconomies frequently set in and the giant firm becomes "muscle bound" or sluggish as a result of excess flab. It can obtain greater amounts of inputs but these are turned into fat rather than used efficiently.

The problem for a large firm, particularly in Britain, is in developing a common sense of purpose and avoiding becoming top heavy with administration. Large companies may have greater flexibility between plants but this is at the expense of reduced flexibility within them. Trying to develop a consistent set of policies in perhaps 75 plants, each operating within a different local culture, can outstrip the capabilities of the most energetic management. The organisation then grows, not in response to the real needs of consumer or worker, but for reasons of internal "politics". Rather like the Peter principle, in the absence of competition, organisations tend to grow beyond the point where they are manageable.

the right balance

The preceding sections have brought out the importance of choosing the right scale for an organisation. They point to the need to minimise the numbers of people operating under any one hierarchical system except where the technological economies clearly offset the diseconomies of poor morale and communications. In the past, organisational changes have often been carried out by management consultants to suit the convenience of "top" management. In the future, organisations will have to be changed to strike a balance between the attitudes and culture of the workforce on the one hand, and the demands and potential of the industry's technology on the other. The reasons for this are essentially practical. First, the humblest worker can now put a spanner in the works. Second, there are vast differences in the objectives and capacity of work groups in different parts of the country, so any standard solution is bound to lead to upset somewhere. Third, whereas the technology of the first industrial revolution demanded concentration of activities in close proximity with one another, the new technology of the second industrial revolution makes dispersal possible. As this last point is not immediately obvious, it is worth sparing some thought to the effects of technological change on locational decisions.

Three distinct technological revolutions are going on—in transport, in communications and in capital equipment. Now that we have motorways and containers, plants can be sited almost anywhere in the world and linked to each other allowing, in the case of say tractors, the marketing of a similar product throughout the world, with different countries specialising in the manufacture of different sub-assemblies. Second, enormous changes are taking place in the way information is handled and stored, which makes many traditional office functions irrelevant. For example, a great deal of the clerical functions associated with manufacturing, such as scheduling or invoicing, can be handled far better by computers. It is interesting to note that one third of all postal communication in the USA are machine generated; the whole of the functions involved, for instance, in reading an electricity meter, preparing a bill, delivering it, writing out and returning a cheque, could be handled just as well without human intervention. As much of this work is neither creative nor socially satisfying, we perhaps should not mourn its passing.

The third change is in the automation of basic productive processes wherever long runs are involved. The very processes that serve the "mass" market and which have done so much to narrow the gaps in the style of different classes are unlikely to need more labour, except with either considerable endurance or specialist skills. Finally, along with increased mechanisation there is yet another even more important trend. The Third World is committed to increasing its share of world manufacturing. Not only does this mean it is less likely to buy our finished products but also that it will be increasingly taking over mass production work—as the construction of new car plants in Spain and Korea aptly demonstrates. The more capital that is tied up in plant, the more important it is to secure undisturbed production runs. Simultaneously, once processes have been deskilled, the manufacturer is free to locate new plants wherever labour is most compliant and plentiful, and restrictions and taxation are least onerous.

Those trade unionists who are more concerned with protecting their existing members' interests than in expanding employment opportunities may well respond that large manufacturing firms are needed because they provide better pay and work conditions, particularly for office staff.

But we must ask whether these benefits are worth the price we pay for them as consumers and as employees. For the ability of large firms to cosset their employees is not necessarily the result of more liberal management or even greater efficiency in the use of resources but may well be due to their greater freedom from market pressures. Is it desirable that some large companies affect the trappings and style of medieval principalities? In return for the security and comfort they provide—a social world that may compare very favourably with the loneliness and run down state of the surrounding neighbourhoods—they expect a degree of allegiance and uniformity from their staff that is far removed from the rugged individualism supposedly associated with free enterprise. They can afford to construct monuments to corporate grandeur, in the shape of giant prestige headquarters, and to give executives all the advanced toys which technology can produce, irrespective of whether these really create improved products of services for the consumer. They can regulate the rate of product innovation and price their goods so that they maintain a comfortable existence. And, if they cannot pay their executives more, they can always increase the attractiveness of fringe benefits. Without direct government intervention, for example through effective planning agreements, such giants can be kept in check by three means only: the first is the possibility that good staff may leave and start up their own companies in competition, which in the UK is both unfashionable and difficult to do. The second is that they may be taken over by companies who can see better ways of utilising their resources. But once firms grow above a certain size, the only threat is nationalisation; however, the scaling down of the National Enterprise Board makes this a fairly weak threat. The third possibility is a change in attitude on the part of management.

There are several signs of changes in company thinking which offer some hope. The first is that large companies increasingly appreciate the advantages of having a number of semi-independent small factories which function as profit centres in an attempt to secure the commitment found in the smaller firms, but with the financial and counselling back-up that only the large firm can muster. The second is that some large firms who have come to dominate the areas in which they operate have begun to think of fostering new small enterprise as a means of providing them with greater flexibility with regard to hiring and firing; this applies to such diverse companies as ICI, Tate and Lyle and BSC (see, for example, the report of a seminar *Creating Work Through Small Enterprise,* organised by IBM and the Urban and Economic Development Group). Finally, there is increasing recognition within, for example, the National Enterprise Board and NEDC that the best prospects for increasing employment lie with the smaller firm. But it would be foolhardy to think that transition to a more flexible and socially responsive industrial structure can be accomplished through the efforts of corporate management alone. New government policies are needed for both big business and small enterprise.

3. making giant enterprises responsible

The growing power of the giant corporations is a major cause of concern to the labour movement. The problems have been well documented by Stuart Holland and others. Carl Wilms Wright in his Fabian pamphlet on *Transnational corporations: a strategy for control* (1977) gives examples of the undesirable effects they can have on national sovereignty and government policies for investment, pricing and trading, competition, balance of payments and labour relations. Proposals for checking their power which have found favour include the development of countervailing power through more investment controls, international collaboration between unions, the extension of public ownership and the completion of planning agreements.

However, for all the rhetoric, the fact is that we seem unable to create the machinery needed to make such policies work. Controls and incentives work best when private investment is highly profitable. When closure is threatened or when a multi-national company has a choice of countries in which to invest, neither the unions nor the government have any trump cards to play. Furthermore, there is insufficient expertise or inside knowledge to question and change investment decisions, for this requires an appreciation of the options. Consider, for example, how Ford Motor Company was effectively able to demand its own terms when it came to building a new engine plant in Wales, even though it partially replaced existing facilities at Dagenham and there were in practice few alternative sites available in the UK.

But legislation against restrictive practices is not adequate. When there are only a few leading firms, there will be a tendency for them to behave in a oligopolistic way, copying each other, for example, in setting prices. So long as there are substantial barriers to entry, the big corporation will tend to behave in ways that involve the minimum inconvenience and risk. Even if the government decides to be tough (for example on restrictive practices or prices) the astute giant company can usually avoid the penalties as the British Gas Corporation did in changing its accounting practices to show a lower profit, or as multi-national companies can do through altering transfer prices.

Nor does the answer lie simply in public ownership, since nationalised industries at times adopt the worst practices of large private companies. They can also be equal offenders in disregarding the public interest, as the acres of wasteland owned by public corporation in our cities bear witness. Instead of publicly owned industries being regarded as the leaders in terms of good practice, too often they are seen as the laggards. The most recent innovations (the creation of the National Enterprise Board and the first planning agreements) are undoubted steps forward as instruments for intervention but cannot be said to pose real threats to established power.

There is therefore a strong case for rethinking the basis of industrial policy aiming both at dispersing and checking concentrations of power. Rather than considering business as split into the public and private sectors, when ownership often makes little difference to the way organisations are run, we need to differentiate according to the scale of the organisations and hence the power they can exert. Specifically we should distinguish between the *oligopolistic* sector, covering firms with substantial market power, and the *competitive* sector covering the remainder.

oligopolies

The oligopolistic sector would comprise firms or divisions of firms that dominate significant markets—perhaps as a rule of thumb where 3 or less firms account for 75 per cent of a particular market. It would thus include nearly all the nationalised industries, some of the companies owned by the National Enterprise Board and a fair number of the top hundred corporations.

In the oligopolistic sector, controls would still be applied over both pricing policies and wage levels, which could then be lifted for the rest of the economy. Instead of so-called free collective bargaining between unions and management, bargaining would take place between the government and the firms over strategic plans. The aim would be to reach a planning agreement covering a period of 3 to 5 years, focusing in particular on plant expansion and closure decisions, and their employment and environmental implications. A local dimension is required involving local authorities, trade unionists and similar bodies. Social and efficiency audits might be required as well as the conventional financial audit. The government would then use its powers over expansion in the non-assisted areas and regional incentives to influence location decisions (as in Sweden). At the same time, these firms could be required to develop arrangements for employee participation that were acceptable to all concerned. Some aspects of implementing such a policy were described in *Towards a Worker Managed Economy* (by Jeremy Bray and Nicholas Falk, Fabian Society, 1974).

the nationalised industries

In the rest of this chapter, the focus is on the nationalised industries. The concentration on those industries in public ownership is partly because they should be the easiest to change and partly because they should give a lead to the private sector. The need for planning agreements is indisputable. But it seems impossible to ever develop satisfactory working relationships between government and the boards of the major industries, even when they are nationalised. Conflicts over specific decisions, such as increases in pay and prices, delays in approving long term plans, changes of direction over the location of new facilities and the proliferation of committees investigating one aspect or another of the nationalised industries, have widened the gap between government and the boards. They have depressed industry morale and possibly raised costs to the consumer and the public at large. Not surprisingly, hopes for improved coordination and accountability remain largely unfulfilled. The changing economic and political climate now makes increased government involvement in industrial affairs inevitable. However, the basic problem still to be tackled is how to reconcile two conflicting types of objective: on the one hand companies must have a considerable degree of autonomy in commercial matters if they are to be motivated and efficient; yet on the other hand the government wants to ensure that industries receiving public finance act in the wider public interest, cutting across the single minded pursuit of commercial efficiency.

Despite a number of authoritative studies and continual complaints from the nationalised industries themselves, government goes on acting in a largely pragmatic manner, best described as crisis management. As a consequence, the long term shape of the nationalised industries is being formed by the responses made to immediate problems. The potential benefits from sound planning are therefore being lost in the very industries that need it most.

failures

Planning is vital for three reasons. First, capital intensive and interconnected industries (such as electricity and railways) must be closely coordinated if their customers are to benefit from the potential economies of scale. Second, investment plans need to be coordinated within each sector to ensure that total capacity matches demand at minimum cost. Gradual adjustment would be too costly because of the interrelationships between the industries and the inflexibility or lumpiness of any changes in capacity. Third, the construction or closure of new facilities has huge side effects on the surrounding area. Public ownership provides government with another policy instrument for manipulating the secondary consequences of the industry's activities on various public policy goals. These include full employment, environmental improvement, a healthy balance of payments, economic growth and the control of inflation. It is this inevitable conflict of objectives that lies at the root of our failure to make the most of public ownership.

Ad hoc intervention tends to sap management morale and independent drive. While a critical report, parliamentary question or ministerial directive may cause an industry to change course, their power for good may easily become neutralised in time. Attending enquiries, often several simultaneously, and answering questions takes up considerable top management time. The resulting uncertainty diverts management from focusing independently on improving performance. Also instead of seeking to educate politicians, civil servants or the general public by explaining the basic economics and options of their industry, boards become defensive, concealing or certainly not publicising the implications of their actions and resisting requests for information needed to formulate public policy. The industries themselves begin to adopt civil services mores and are unlikely to produce individuals prepared to rock the boat.

Ad hoc intervention also reduces accountability. Directions without compensation for the costs incurred provide an excuse for disregarding financial targets. So long as the nationalised industry can act as the injured party, it may in a perverse way enjoy the loose relationship. In such a situation, policy making gets neglected. The lack of a sound framework of policies makes it difficult for the nationalised industries to develop their investment plans in a way that is consistent with the wider public interests. As a consequence, planners tend to lose heart and planning becomes simply an exercise in public relations.

Thus the most telling attack that can be made on the nationalised industries is not that they are inefficient but that they fail to live up to their promise. Also, like most large organisations, some suffer from the effects of obesity—a certain sluggishness in doing things and the need for higher inputs to keep them going. The answer to the problem is decentralisation, but how should it be done ? Three main approaches to resolving the dilemmas have been put forward.

First, government might establish a handful of objectives but leave the industries free to decide how to realise them. This is attractive in theory. But while at a certain level of generality there will be consensus, there will always be conflicts when one tries to make the objectives operational. Almost all of us are in favour of goals like prosperity for all, reduced unemployment and cleaner air. The problem is in expressing them in terms which are capable of resolving the inevitable conflicts that arise between different objectives.

A second approach is to rely on the original Morrisonian concept of a public spirited board. But while such an approach may well work where the basic conflicts of policy are few and comparatively simple, it is ill suited to the type of policy issues we face today.

The third approach is for government to formulate policies for specifying output targets or else decision rules that would lead to the right output after making the trade-offs between competing objectives. But this job is difficult to carry out in practice as it requires government to know what is technically possible and the related costs and uncertainties, whereas the necessary expertise will tend to be concentrated within the industries.

A better approach than all these would be to set up a close dialogue over policy issues between the government, nationalised and those private industries receiving substantial public financial support. Once a planning agreement has been made, it should last for some years, whatever emergency comes up. Under such an approach, government would set the priorities by laying down guidelines for what policy considerations industry planners should take into account. Industries in turn would establish the technical alternatives and work out the implications for the different policy goals and the obstacles that stand in their way. The industries would then be compensated for costs incurred specially for taking account of the public interest. A *planning agreement* would then be reached setting out what was required from both the industry and the government to resolve the key conflicts. Thus it would "get down to business" and not simply be the outcome of woolly discussions. The purpose of the planning system would be to put the important conflicts on to the political agenda and to ensure that the necessary fact finding and analytic work was done.

Turning to the record since the war, instead of meaningful discussion there has been a "dialogue of the deaf" over investment plans and a tendency to interfere with minor matters while the greater strategic questions were inadequately considered. There are some fairly basic reasons embedded in the structure of government and the nationalised industries which help to explain why the task of policy analysis is done poorly or in a half-hearted fashion. The first reason is that the civil service and the nationalised industries are neither primarily concerned nor organised to cope with the demanding job of policy analysis and formulation. The second reason is that the processes that govern or guide the links between government and the industries are themselves ill-adapted for bridging the gaps between them.

Improved planning systems could help to support such a dialogue, but while weighty documents pass between industries and the civil service, they fail to focus adequately on the key investment and operating decisions and on the basic policies and procedures. There is consequently no means of judging whether industry has correctly identified the major improvement opportunities open to it, or for agreeing objectives in terms of key operating results. In the absence of explicit objectives and clear policies, it is of course impossible to measure or evaluate performance objectively.

To overcome these deficiencies, three types of change are needed. First, the scope and methods of policy analysis must be radically overhauled; second, organisational changes are needed to ensure policy analysis receives the attention it deserves; and third, planning and control processes must be improved to make it possible to delegate more authority to the industries while strengthening overall public control.

Taking the first change, a clearer framework of guidelines is essential if better decisions are to be made on the future shape of the nationalised industries. These guidelines must satisfy four criteria. First, policies should be stated explicitly for each goal of public policy. The second criterion is that policies should be backed up with appropriate incentives and regulations. The third criterion is that such policies must be based on careful evaluation of the total costs and likely benefits associated with alternative policies. The final criterion is that policies should have a clear time horizon.

The foregoing approach will be difficult to implement under the present structure. Because policies cross departmental lines, involve both the ministries and the industries, and require thorough and sustained analysis, a reliance on the traditional approach of committees and the passing backwards and forwards of memoranda is inadequate. Instead, reliance should be placed on *ad hoc* task forces, composed of a small group of experts drawn from relevant departments within the civil service and outside, following the principles used in the NEDC sector working parties but with the inclusion of consultants. Their job will be to distill existing broad policies into a set of guidelines and to identify, analyse and present policy alternatives in terms politicians can readily understand and respond to. The task forces should consult with the many pressure groups, following the precedent set by Tony Benn in energy policy.

sector boards

A new type of organisational structure is also needed in the nationalised industries if a more total or comprehensive approach is to be taken to planning. The alternative that would seem to fit in best with the approach to policy formulation advocated here is a "sector board" (or policy council), an idea which seems to have found favour in the report from the NEDC. In the case of the existing nationalised industries, each sector board would be headed by a chairman reporting to junior ministers responsible for the energy, transport, communication and steel and other industry sectors. The sector boards would have reporting to them the Chief Executives or Directors of the industries making up each sector. In the case of energy, that would include coal, gas, atomic energy and electricity. For transport it would include rail (passenger, parcels and freight businesses), road freight, buses, domestic airlines, airports, inland waterways and docks. Certain of the ancillary activities such as railway hotels might well be hived off to a separate holding company within the National Enterprise Board, as they do not impinge on transport or energy policy, though they would remain closely connected as suppliers or customers.

The power of these boards would be strictly defined to reflect the distinction between issues of public policy, sector policy and industry policy. The basic task of the sector boards would be to develop and implement a coordinated *plan* for a particular sector, not to interfere in particular decisions. They would, therefore, within policies laid down for different government policy objectives, exercise four main types of responsibility: (a) formulating the basic assumptions and guidelines on which industry plans should be based, for example, forecasts of market size; (b) approving draft investment and marketing plans and policies and resolving key issues or conflicts (including pricing and levels or types of service); (c) agreeing operating objectives for all the parameters of performance (including measures of social performance) and reviewing the performance of each industry; and (d) interpreting government policy affecting the sector and assisting to develop it through analysis and representation of the industries' viewpoints.

Since these boards would provide a major check on the industries themselves, they would replace the current boards, some of which have few or no outsiders on them. They would also replace many of the staff of the Department of Industry and Department of the Environment, whose responsibilities relate to specific industries; many of these might be transferred to form the small central analytic staffs of the new boards, along with outside experts on energy and transport policy. The composition of the board members would reflect their basic duty of assisting the chairman in questioning and approving industry plans. They would be full time and generally chosen to reflect the different stakeholders involved and for their ability to play a policy making role. For example, the board might include people representing local government, the City and industry, as well as trade unions and the consumer associations concerned. These members would be appointed by the minister and would not be delegates of the interests concerned. The board might also retain as consultants distinguished former members of management from the industries concerned as well as academic experts.

Such an organisational arrangement would bring five major benefits. First, it would make it easier to coordinate the plans of different but interdependent industries. Second, the proposed arrangement frees government to focus on the questions of public policy and removes many technical issues out of the political context. Third, it would make it easier to exploit certain opportunities for rationalisation. Fourth, the sector boards could provide an effective stimulus to industries to improve efficiency. The final benefit is that such an arrangement is conducive to a greater degree of workers' self-management at the operational level.

planning

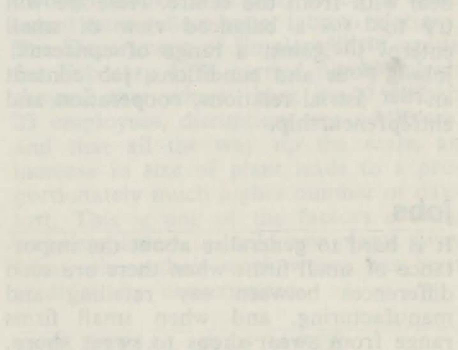
To further reinforce the links between government and the nationalised industries some changes need to be made to the planning and control processes. Every plan should not only set out a preferred alternative but the reasons for rejecting alternatives with supporting data. This would get away from the tendency to present a *fait accompli* or to "make the ministry an offer it cannot refuse" and would allow more informed discussion to take place on the key issues.

The plans could also be used to raise future policy issues to ensure that the necessary analytic staff work was programmed sufficiently far in advance of decisions having to be made for it to have an influence on that decision. Finally the plans would provide the basis for deciding what level of public assistance would be given, through regional or industrial aid or major orders from the public sector.

Closely allied to new planning systems would be the overhaul of the information systems. Some work has been done on developing improved indicators but public annual reports need to be expanded to contain more meaningful indicators of performance. The reports might monitor operating efficiency (as measured by variance from targets, comparisons with selected parts of other undertakings and so on) and adherence to public policies. Finally, the accounts should set out additional costs incurred for reasons of public policy, as far as these can be calculated. Such costs would then be reimbursed by the department responsible for the particular area of policy.

Once such an orderly arrangement had been set up, it would be possible to delegate considerable authority down to either regional or functional executive management. The large monoliths could be broken up into manageable units that could then get on with running the business, varying their methods to match the resources and needs of their particular region or function. The precise form of decentralisation would depend on the industry. In a utility like gas, the regional approach would be most appropriate and such a change could be linked to general measures of devolution to facilitate planning at a more local level than is possible at present. In a manufacturing industry, like British Leyland, a functional approach would be better, perhaps breaking it up into lower priced cars, luxury cars, commercial vehicles and special products. In both cases, the sector board would still retain the key functions with regard to finance but operating more as an investment bank than as the executive management. It is worth noting that this is the approach used with apparent success in GEC and is in line with practices in other more successful industrial nations than the UK. The model could be applied to the private sector, through the introduction of two tier boards, which would bring us in line with Common Market requirements.

Share of the 100 largest UK manufacturing enterprises : net output



source : Census of Production.

4. creating more work

One of the main concerns of socialism is with the nature and quality of work. To many in the labour movement, small firms are associated with offering worse pay and conditions, while their proprietors are thought to take too much out of the business and avoid paying taxes. This argument is somewhat like the right wing attack on " scroungers living off state benefits "; though there are undoubtedly many examples that bear out the truth of the caricature, it hardly justifies penalising the small firm. More likely the reason why small firms have been treated so unsympathetically in the UK is that they lack the " muscle " or bargaining power of the giant companies, are harder to organise and difficult to deal with from the centre. Here we will try to take a balanced view of small enterprise against a range of concerns: jobs, wages and conditions, job content and industrial relations, cooperation and entrepreneurship.

jobs

It is hard to generalise about the importance of small firms when there are such differences between say retailing and manufacturing, and when small firms range from sweat shops to sweet shops, from reminders of things past to the shape of things to come. Their significance not only depends on the kind of activity but also the location; small firms tend to be most concentrated in certain inner city areas. As a general rule, the poorer the area, the lower the proportion of small firms and this applies across the nation, cities and regions, with the north east, for example, having 40 per cent fewer small firms per head of the population than the UK average (which is itself below most European nations'

Though the cut-off point for defining a small firm is typically taken as 200 employees, lower numbers are used in construction and retailing. The Bolton Committee reported that " small firms account numerically for the vast majority of all business enterprises. Their diversity is even more striking than their number ". There are roughly 6 million (one third of private sector work force) employed in small firms of which 2 million are classified as self-employed (though this includes) groups like doctors who may largely work for one employer). Taken in aggregate, therefore, small firms are big business.

Of more importance than just the present size of the small firms sector is their future. With unemployment on some estimates expected to rise to 2 million, the most important long term problem for the UK is how to satisfy a high level of wants using the available work force to the full. It is now increasingly accepted within business circles, including the CBI, that even if the economy were to improve, there is little chance of large firms taking on more unskilled staff, as most firms already have more than they need. While more modern plant is often needed, it should be recognised that this will often lead to further redundancies.

The small firm on the other hand is typically over stretched and short of staff. CBI studies show that small firms tend to operate much closer to capacity. Furthermore, as small firms tend to be more labour intensive, any given investment could lead to twice the direct employment, as the following figures from the Bolton Committee report suggest.

COMPARATIVE PRODUCTIVITY

	under 200 employees		over 200 employees	
	1954	1963	1954	1963
output per man	719	1,097	852	1,425
capital expenditure per man	53	78	78	140

The expansion in employment could come from a number of sources, probably in this order. First would be the increased survival rate of existing small firms, second the growth of those who currently cannot keep pace with demand, and thirdly an increased birth rate of new firms catering primarily for unmet needs.

The extra demand would come in part from improved living standards and in part from import substitution. It is not that individual small firms are likely to provide many more jobs, but that the sector as a whole is the most fruitful source.

wages and conditions

Many of the sectors in which small firms predominate are associated with low wages, for example shops or clothing firms. Small firms rarely offer anything like the fringe benefits of the larger firms and are probably less likely to meet the highest standards of health and safety at work. The reason is as likely to be the effects of competition as the grasping proprietor; here the concentration of purchasing power in both the public and private sectors is often at the expense of employees in small firms. However, the conventional socialist response to such a situation tends to be one of self-righteous outrage—rather like slums, the solution is seen as closing anything that fails to meet the "proper" standards. However, again employment is a little like housing. Just as slum clearance does not mean an end to poor housing conditions, and may create homelessness which is worse, so driving small firms out of existence can hurt the poorest groups most. Thus, for example, homeworking has been attacked as exploitive; yet it supplements the income of poor immigrant groups who would undoubtedly be discriminated against in large factories and allows them to be with their children at the same time.

Rather than employing still more inspectors or introducing further laws that are practically impossible to implement, would not a fairer and more effective answer be in widening the range of choice through stimulating the growth of firms and through improved training and union organisation? Providing communications are reasonable, conditions will then be improved simply because employers want to hang on to their staff.

At the same time, increasing concentration leads to a situation which makes free collective bargaining impossible. In many industries, firms with oligopolistic or monopolistic power face employers with the power to bring industry to a halt. Such a situation encourages inflation and results in the consumers with less bargaining power (such as the elderly) losing out. It also leads to reduced employment, hurting those who lack union protection, such as school leavers, while causing those on low pay to lag further behind.

job content and industrial relations

Many small firms survive, just as the UK should, by being resilient and skilful. One advantage they have is that they are much less prone to disruptions through industrial action, which to some extent must reflect better labour relations. The Department of Employment Gazette for February 1976 carried figures which showed that where there are less than 25 employees, disruptions are very rare, and that all the way up the scale, an increase in size of plant leads to a proportionately much higher number of days lost. This is one of the factors causing large employers to build new plants away from where their work worce has been traditionally concentrated.

INDUSTRIAL STOPPAGES

plant size	number of stoppages per 100,000 employees	number of working days lost per 1,000 employees
small firms		
11-24	8	15
25-99	19	72
100-199	23	155
200-499	25	329
500-999	30	719
1,000 or more	29	2,046

There are several reasons for the lower rate of stoppages which are bound up with job content. First, in most small firms there is a very short line of command and the proprietor can usually turn his hand to anything. Second, the production process itself tends to be more flexible; compare, for example, a typical small light engineering firm with a car assembly line which, if some component is unavailable or some operation not carried out, quickly grinds to a halt.

The quality of life at work can be just as important as people's " free " time, considering the time it takes up. Hence the opportunity to work in close contact with other human beings and the chance to learn and practice a skill may be worth sacrificing some take-home pay for. It is significant that many large companies are beginning to experiment with " job enrichment " in order to retain employees and enlist their interest, the most notable examples being in Sweden at Volvo and Scania-Vabis. However, so long as the firm is large, it is still difficult to convince employees that they are " part of it " without more radical changes.

cooperation and entrepreneurship

One of the objections of some socialists to the small firm is that they represent competition, which is seen as both wasteful and in conflict with socialist principles. In contrast, the spirit of cooperation is stressed, for example by the Industrial Common Ownership Movement, which succeeded in obtaining a private members' bill providing £250,000 to help start cooperatives. Cooperatives have also been put forward as a possible answer to local unemployment in places like Fife, Cumbria and Wandsworth. One of the inspirations is the success of the Mondragon Association of Cooperatives in the Basque part of Spain and common ownership firms like Scott Bader.

However, there are certain facts of life that must be faced. Competition may involve some waste but it is a good way of keeping large companies on their toes. It is significant that in countries like Poland small firms are being actively encouraged because the government now recognises that the varied and special needs of human beings are ill-served just by large companies which tend to adopt inflated and regimented forms of organisation.

There is undoubtedly a great deal of scope for employees of firms or sections of firms threatened with closure to form themselves into cooperatives and to carry on the business or something similar, rather than join the unemployed. This is particularly true of family firms threatened with closure when the owner retires or dies. However, a great deal needs to be done to make the sale of the firm's assets to the work force easier while it is still a going concern.

But I am personally doubtful about the notion that *new* firms organised as co-operatives will contribute sufficient jobs for those who are presently unemployed (though they are well worth supporting on other grounds). I come to this view because starting a firm is always hard and requires a great sense of purpose, which can usually only come from the founder. One needs a captain in a small boat in stormy water, whereas it is possible to be more democratic in a large vessel on flat open seas. The exceptions to this generalisation are where the enterprise only employs a handful, where qualified staff are involved or where there is some common experience to forge a sense of unity. It would certainly be worth trying to repeat the Mondragon approach in a close knit community but cooperation should not be assumed to be a ready substitute for capital. There are undoubtedly many young people who are attracted to the notion of cooperatives and who are reluctant to work in what they perceive as soulless bureaucracies. Furthermore, in some inner areas there are large groups of immigrants who have enterpreneurial characteristics and could extend back from retailing to manufacturing.

Now that there are fewer opportunities in the public sector, many may prefer to set up in business. Interestingly, recessions are usually associated with higher rates of business formation because traditional job opportunities are closed and many competent people are made redundant.

5. reviving the cities

The big question for our cities, and particularly those inner areas where many of the worst off live, is how they are going to revive themselves economically. The problems of employment, small enterprise, and run down areas like the inner city are interwoven and therefore hard to disentangle. There is a growing realisation, reflected in the White Paper *Policy for the Inner Cities,* that economic problems lie at the root of urban decay and that the decline of small firms must be reversed. However, implementation of this changed attitude is still some way off and it is therefore worth spelling out the importance of small enterprise to the viability of our cities. One of the major changes in our cities has been the loss of employment—now declining faster than population in the inner areas of all the great metropolitan connurbations like London, Manchester and Birmingham. It is the loss particularly of manufacturing employment which causes the most concern. For this is where the greatest job losses have been. Furthermore, manufacturing employs a higher proportion of operatives and pays higher wages than does the service sector. As it is also government policy to expand the manufacturing sector to help the balance of payments, we need to consider where the jobs have gone.

branch plants

A great deal of job loss has been due to the rationalisation of large multi-plant firms which have closed their older inner city factories and offices. In the London borough of Wandsworth, for example, seven eighths of the job loss was due to 10 large firms closing their plants. Two factors have encouraged such closures. First, operating costs in the inner areas are higher. These areas have smaller and older plants than elsewhere. Their sites are usually cramped as the surrounding area has been built up. It may be difficult for employees to get to work, particularly those living in the suburbs. Goods movement is also difficult in many places. Second, a combination of the property boom and local authorities buying land for building houses provided an additional incentive of securing a high price for the old factory site.

Even where plants have not been closed, multi-plant firms tend to concentrate expansion outside inner areas, where resources are easier to come by, improved communications having made traditional central locations irrelevant. Thus the food and drink industries no longer need to be on the river; motorways have made rail connections unnecessary; telephones and data transmission services mean that factories can be distant from head offices.

A good deal of the argument about regional incentives and government control over the location of industry thus turns out to be misplaced. Comparatively few of the 500,000 jobs lost in London between 1961 and 1974 have gone to the regions or new towns—perhaps 1 in 6. Rather it is the high death and low birth rate of firms that is to blame.

office jobs

The decline in manufacturing is no longer being offset by the rise in service and office employment. Between 1961 and 1974, the only major increases in employment in the service sector in London were in wholesale distribution, banking, other business services, education and hotels. There are several reasons why the growth of office jobs is likely to taper off. With the decentralisation of population and rising transport costs, the banks and insurance companies (which accounted for much of the growth) are now moving the bulk of their administration to out-of-town locations where costs are lower and it is easier to attract labour. Those who require regular and easy contacts with other firms stay but the departments which do move tend to be the very ones that employ the more unskilled in routine clerical functions.

A further cause of decline is that clerical jobs are often just as vulnerable to mechanisation as manual jobs. Indeed, they may well be more dispensable than many manufacturing jobs which rely on the coordination of hand and eye. Computerisation of many repetitive functions can only be held back so long as labour is cheap, compliant and available. Yet shortages of adequate clerical staff like secretaries are a constant cause of complaint to employers.

The public sector is unlikely to provide increased employment, with education, local government and the health service being particularly vulnerable to cut-backs. Though improved living standards and increased tourism appear to create a demand for more personal services, typical services like hairdressing or cleaners have in fact been in decline. It is in fact the less developed and not the most advanced countries that offer the most personal services, as a comparison between Sweden and Singapore would make evident.

New developments in technology could transform our conception of what a city does and what an office does. In the past, cities grew up because there were many economies from the concentration of activity in close proximity. But once the predominant nature of work changes from moving goods to shifting data, the advantages of proximity disappear and the external costs become all too obvious. It is increasingly hard for staff to get into cities, as transport costs rise and as the apparent pleasure people get from driving their cars is replaced by the more obvious costs of waiting for public transport. In marked contrast the transmission and storage of data has become far easier. Not only do most letters still reach their destination the next day, but new developments in telephone technology allow people to have meetings without coming together and to obtain access to information without relying on rows of clerks.

If we relate these changes both in technology and relative costs to the question of the future of large offices, of which banking is a good example, we can expect firms to continue having luxurious suites of offices right in the heart of great cities, where they can impress customers and subdue suppliers, but they will have little need to accommodate the " other ranks ". This prospect also opens up opportunities. For instance, the office of the future has a far higher level of capital equipment and more sophisticated buildings than the average factory; these will require servicing. Someone has also to make and maintain the hardware (and software) that make the changes possible. Thus the developments in banking may open up the greatest opportunities for manufacturing and maintenance, particularly for the small local firm.

Finally, against the argument that large companies are too tied to their headquarters by inertia and prestige to move, it should be remembered that New York has lost over a hundred corporate headquarters over the last decade. They left to escape the stress and high cost of a decaying city and to move where their executives lived or wanted to live. If property continues to be relatively dear in the centre of our cities, while the surrounding area deteriorates, there is no reason why the American pattern should not be repeated here.

small firms

Allied to the changing role and functions of large offices, the closure of large factories or their movement out of the city has meant that small firms are becoming the main source of employment in manufacturing. It is hard to say for certain how many people are employed by small firms as statistics are unreliable. The 1968 Census of Production revealed that 40 per cent of people in manufacturing in London worked in small units; this is bound to understate the total as it excludes firms employing less than 11. The London borough of Southwark, for example, has over 2,500 firms employing less than 200 and only 40 employing more.

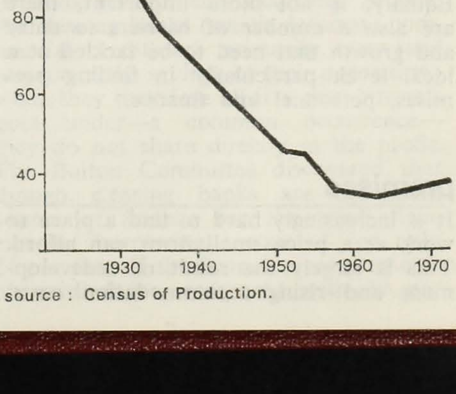
Despite, and in many ways because of, the economic recession, there are now opportunities for substantially expanding the small firms sector in a way that is unlikely for larger manufacturing firms. There are two great appeals of such a policy. First, small enterprise is uniquely suited to the conditions of many inner city areas where many problems are concentrated. Its operations are intensive in terms both of the relationship between labour and capital and also of the space it occupies. Thus small firms can often operate in old multi-storey premises whereas large firms would demand new single storey factories with space alongside for potential expansion. Second, unlike large firms, many small firms actually need to be near the centre of large cities to be close to customers, a range of specialised suppliers and a pool of trained labour. Many of the resources small firms require (and complain are difficult to obtain, such as premises and personnel) are now potentially available and standing idle.

At the same time, the concentrated and diverse character of cities creates the essential conditions for entrepreneurship and innovation to flourish. This point is well illustrated in Jane Jacobs' *The Economy of Cities* where she argues that innovation is a bi-product of work: " New goods and services, whether criminal or benign, do not come out of thin air. New work arises upon existing work, it requires 'parent work' . . . (Cities) depend upon large numbers and great diversity of economic organisation, some of which of course grew large in their heydays." New firms are often needed to introduce innovation and there are now signs that the numbers are growing (see chart opposite).

Small firms also help pay for the services provided in urban areas. At a time when local government is faced with rising demands for services and falling sources of revenue, it should not be forgotten that small businesses can be an important source of rates. Unlike many residents, small businesses are likely to contribute more than they cost; they pay a higher rate in most urban areas and make few calls on local authority services that they do not pay for directly.

Finally, there is the contribution that smaller firms make to keeping things in balance. In any industrial system some concerns will grow and flourish while others stagnate or decline. By having a diversity of concerns operating in different markets, the community insulates itself from over-dependence on the success of one unit, just as wise farmers avoid over-dependence on any one crop. The various parts support each other, giving vitality and resilience to the whole. It is a tragedy that in some inner city areas the death of small firms and the low replacement rate has left large firms with excessive influence. For example, in Canning Town, 75 per cent of the 60,000 jobs there are controlled by 15 firms. It is not surprising that, in such a situation, half the workers experienced redundancy between 1966 and 1972. The more concentrated the area, the more rapid is the rate of extinction. While a full cost-benefit analysis has not been attempted, there is enough evidence to suggest that a further fall in the amount of small firms operating in inner areas would be catastrophic for the urban community as well as for the nation at large.

UK manufacturing establishments with 10 employees or less



source : Census of Production.

6. removing barriers to enterprise

The reasons often given for the decline of small firms in the UK are the various disincentives to entrepreneurship, such as the high cost of finance and tax rates, which bear heaviest on small firms. However, a closer examination suggests that other factors are equally important. For example, the low birth rate and higher death rate of small firms in the UK compared with the USA are bound up with the general business environment as a recent study by A. D. Little for the Anglo-German Foundation clearly shows. Comparing the poor showing of New Technology Based Firms (NTBF) in the UK and Germany with the USA, it points to the US advantages of a very large domestic market conducive to rapid growth and development; the availability of private wealth as a source of seed capital for new ventures; a fiscal framework which encourages the flow of private risk capital into new ventures; the existence of an active (over-the-counter) market for the trading of shares in new ventures; social and behavioural attitudes which encourage entrepreneurship and the mobility of individuals between academic institutions and industry, as well as the willingness of scientists to set up their own businesses in order to exploit their technical knowledge; and " a large and active government expenditure programme in high technology areas which provides significant opportunities for NTBF's endeavour, particularly through government procurement programmes ". There may also be a greater personal aversion to taking risks and getting one's hands dirty in the UK, though this is by no means universal.

Equally, if not more important, there are also a number of barriers to entry and growth that need to be tackled at a local level, particularly in finding premises, personnel and finance.

premises

It is increasingly hard to find a place to work at a price small firms can afford. This is largely the result of redevelopment and rising accommodation costs, both rents and rates. In the past, the inner area acted as natural seedbeds for innovation and nurseries for new enterprise. Entrepreneurs found it easiest to start in secondhand premises on a small scale, taking advantage of close proximity to customers and suppliers. Now, starting in business is harder. Many of the customers have moved out. Redevelopment schemes have sought to remove nonconforming uses and to provide more room for housing and open space. In the process, they have cut the supply of cheap workshop premises. They have also caused many established firms to go out of business and in the process severed important networks and linkages and reduced the viability of other firms. Various surveys suggest that between one third and one half of firms affected by redevelopment go out of business. Neither the private nor the public sector has replaced the premises that have been lost.

personnel

Personnel, paradoxically, can also be a problem for small businesses. There is an apparent contradiction between the views of employers that their chief problem is a lack of skilled workers and the views of local people who see the chief problem as lack of jobs. Small firms find it particularly difficult to keep skilled workers when there are more secure and better paid semi-skilled jobs in the public sector or in large firms. Thus there are apparently more former skilled craftsmen working in the post office in Clerkenwell, once a thriving area, than are left in small firms. And one side effect of Ford's new plant at Halewood, for example, was to attract away skilled craftsmen from small firms, thus weakening Merseyside's indigenous economy. Small firms find it hard to attract and keep young people prepared to learn a trade; as a consequence, many firms are run by old men whose businesses will disappear when they retire.

There are a number of other reasons for the shortage, though it is not yet possible to assess their relative importance. First, wages, opportunities for overtime and fringe benefits will almost certainly be lower than in large firms, operating in more oligopolistic conditions and able to pass the cost on to the consumer. Second, working conditions are often unattractive, with many workshops appearing Dickensian, cramped, dirty and cold. Third, young people have come to want clean office jobs or jobs in large factories where they can work with their " mates "; while small business may appeal to middle class radicals and conservatives, it is not in line with the self-image of most working class teenagers. Fourth, small firms operating in inner areas suffer from the generally low levels of training and apprenticeships. Fifth, the movement out to the suburbs of the more skilled is compounded by the deteriorating public transport services and the obstacles placed in the way of people driving to work. Finally, it is difficult for small firms to make contact with people who might be interested in learning the business or taking over the management when the owner retires. Finding staff is in many ways similar in its problems to finding a spouse. Personal contact is the main method and this suffers when communities break up. Labour exchanges do not communicate the subtleties of the very specialised work most small firms do and are little used by the small firm. Advertising is beyond the means of the small firm which can hardly compete with Fords or Marks and Spencers.

finance

A further problem is that of securing finance for starting up and expanding small firms. Evidence to the Wilson Committee suggests this is the main failing of the present system. With higher rates of taxation and higher levels of investment, it is certainly harder now than in Victorian times to save enough to start a small business or to borrow it from friends. Until recently, the high cost of borrowed capital has put a further brake on expansion. There is also a shortage of equity or risk capital, needed by a small firm before it can borrow from institutions. The clearing banks are essentially interested only in giving secured loans, usually for short periods. Merchant banks and venture capital organisations generally have been uninterested in backing new ventures, as opposed to financing substantial ongoing firms.

There is, however, considerable controversy over whether changes in the financial institutions are required to help the small firm. The prevailing view is well put in Graham Bannock's study *The Smaller Business in Britain and Germany* which stresses the impact of the taxation system. This tends to dominate the thinking of organisations such as the CBI. However, studies of successful entrepreneurs suggest that it is rarely the drive for wealth alone that makes someone set up a business; hence we may have to look elsewhere for explanations of the low rate of start-ups in the UK. There is also the view expressed by nine principal companies providing development capital in their evidence to the Wilson Committee on Financial Institutions. This is that the real problem is the lack of " equity " or risk finance and shortage of viable propositions. The alternative radical view is that the existing financial institutions which control the flow of personal savings in the UK have attitudes towards risk which inevitably favour the established and substantial enterprise, despite their undoubted concern with the plight of the small firm.

There are a number of facts which support this view. First, a high proportion of personal savings are channelled into house purchase through building societies or into government securities. Second, the clearing banks (which dominate commercial credit) are primarily concerned to protect the savings of their depositors; while they may lose all if a new business goes under—a common occurrence—they do not share directly in the profit. The Bolton Committee discovered that though clearing banks are the main source of finance for the small firm, external borrowing accounted for only 24 per cent of the financing requirements of small firms, compared with 39 per cent for quoted companies. The High Street banks, in contrast to the USA banks, do not identify with local communities as they are essentially national or international institutions. Nor do they necessarily have the specialised expertise to assess opportunities, the bank manager being more concerned with assets than prospects. Finally, the high cost of dealing with small firms makes the provision of venture capital to new firms relatively unattractive compared with assisting established organisations. Again it is very different in the USA, where banks seek out researchers in universities whose work might lead to profitable products and where the Small Business Administration underwrites the lendings of specialised Small Business Investment Corporations.

The high degree of concentration in our industrial structure creates other difficulties for the small firm, which add to their financing difficulties. First, small firms have to pay more for their supplies and those in manufacturing find it increasingly hard to obtain small quantities quickly from large firms. The bulk discounts offered to large purchasers reflect their purchasing power as much as economies of distribution. It is worth noting that this practice is illegal in the USA under the Robinson-Patman Act.

Secondly, small firms have greater difficulties in penetrating the mass markets, with the growth of large retailing chains and the centralisation of purchasing which increase the minimum size of order. At the same time, small firms have failed to develop counter-vailing power through collaborative buying or marketing arrangements, which are common in other countries such as Germany, Denmark or Yugoslavia.

Finally, even where the small firm has succeeded in selling to a large customer, there is a tendency for large firms to defer paying their bills, thus upsetting the precarious cash flow of the small firm.

In summary, the concentration of market power in ever larger organisations—which is more advanced in the UK than in any other mixed economy—produces an environment which discriminates unfairly in favour of the strong and established. It has also destroyed those natural self-correcting tendencies associated with a market economy which are supposed to bring resources and needs into balance.

7. what local government can do

The government has already directed that local government should give far more attention to the promotion of industry than it has in the past. Inevitably this means assisting small firms as large new factories will be few and far between, particularly in high unemployment areas such as the inner city. Encouraging small firms will be more difficult than either managing public monopolies or controlling giant companies. It will require a number of changes in government policies and practices, particularly at local level. The first set of measures are aimed at local government and could be introduced as part of the " new deal " for inner city areas. They are aimed primarily at making better use of existing resources rather than directly subsidising small firms.

The first priority should be to widen the choice of employment opportunities, both through retaining existing industry and making it easier for small firms to set up and grow. With few resources at their disposal, they need a supportive environment. Access to resources, including premises, personnel, finance and markets must be made easier. To take personnel, for example, the government training services can fill an important gap by providing more relevant training to those groups who find it hardest to get jobs (basically the under 25s, the over 45s and West Indians). The MSC report, *Young People and Work,* contains some useful proposals but these will amount to little if the expansion of training is unrelated to the requirements of employers, both existing and potential. This calls for the introduction of local labour market planning in which local authorities should take the lead. Similarly, transport authorities can improve accessibility by focusing on the problems of getting to work and of moving goods within cities. The current emphasis on building new motorways or underground lines needs to be replaced by measures to improve the services on existing routes, supplementing these with new bus routes that link up where people now live with where they can work. In both these cases, local authorities acting either independently or in groupings need to take the lead in bringing the different agencies together. But, above all, more small units of accommodation are needed at rents that small firms can afford, as demand far outstrips supply. This is a field in which local authorities have both some of the powers, expertise and resources and so is worth exploring in more detail. Paradoxically, despite the shortage of small work spaces in inner areas, there is an abundance of empty buildings and vacant sites that would be better used for industry than for other purposes. There are well over 20 million square feet of empty industrial floor space in Greater London, mostly in factories which are far too large for any likely occupant. If rehabilitated and converted, many of these could provide cheaper and better premises for new and growing firms than fresh building.

The Fabian pamphlet *Inner City : Local Government and Economy Renewal* by Haris Martinos and Nicholas Falk set out the kind of planning and policies which are required. However, policies will not by themselves be adequate if they are not backed up by new approaches to organisations that match the task in hand. Whereas in the past local government planning has tended to be reactive and restrictive, it will have to become more positive and catalytic in areas that have lost their locational advantage for private enterprise. Four kinds of organisation are needed, which are described briefly here, and some of the implications for government policy and expenditure are taken up in the following chapter under the heading of " premises ".

industrial housing associations

At present, though it is often viable to convert old buildings to new uses, there is no established form of developmental agency. A financing capability and an organisation to take on the role of the housing associations in the industrial field are needed. The most logical source of this finance are the pension funds and insurance companies that invest so much in new buildings, but they will need a great deal of underwriting before finance is available on anything like the required scale to stop the empty buildings deteriorating beyond the point of no return. Local government can provide the security required by making available the premises, being flexible with planning permission and by taking a head lease. It should also grant rate free periods in industrial premises of say two years for new firms employing less than say 20, or which occupy empty buildings, to help them get established. This is one of the useful measures contained in the Inner City White Paper. The aim should be to create " working communities " in which a complementary range of small firms share the same building and, where appropriate, common services. There are certainly enough successful experiments in different parts of London—Covent Garden, Clerkenwell, Chiswick and Rotherhithe—to show that this approach can work. But it needs fostering if it is to be more than a set of isolated examples.

industrial development agencies

In some areas, new industrial estates or parks and small factories will be required to accommodate growing firms. The land is certainly available, ranging from the vast former docklands, railway marshalling yards and gas works to former large factories often on main roads. The problem here is acquiring it at existing use value. Many local authorities complain that the nationalised " statutory undertakers " have been particularly self-centred in the past. The government can take the lead in instructing nationalised industries to hand over surplus land to local authorities at its existing use value (based essentially on the rent that can be secured from such uses as lorry parks and allotments). Excess rating of empty property is also desirable wherever land and buildings lie idle, as this will drive down the value of empty sites. Vacant land owned by local authorities must also be identified and incentives provided to ensure its early reuse. The finance and expertise for development is available from the private sector but it is the local authorities who will need to bear part of the risk and act as catalysts. What is needed are partnership arrangements with private developers or institutions, on the lines of the French *societé mixte.*

The key to success is finding local resources and tapping them. These can include technological universities, polytechnics and industrial research establishments, though there is nothing akin to the Stanford Industrial Park in Palo Alto or the string of high technology firms around Boston that draw many of their products and some of their personnel from the creative work of the university laboratories. A local industrial development agency, modelled in part on the Scottish and Welsh Development Agencies, could ensure the development of an integrated strategy in areas like the docklands that have lost their economic base and which require infrastructure improvements as well as the other measures described in this chapter.

small enterprise centres

Providing premises will be insufficient if small firms, particularly the fledgeling ones, are still weak. One way in which small enterprises can become stronger is through collaboration. Many small enterprises face similar problems to those encountered by large firms but have no one to turn to for help. By joining together, just as small shop keepers and farmers have done, they can begin to get equal treatment with the larger firms. Collaboration can involve sharing basic services such as secretarial facilities and reception within the same building. The same approach can be applied to a whole area. It can also involve combining on certain business functions, such as purchasing or distribution. In some areas, the Chamber of Commerce might take the lead ; in others, new organisations are needed, like the new Association of Covent Garden Enterprise. There is no reason why local authorities should not extend the idea of community development with funding for voluntary organisations to support for similar ventures in the economic sphere. Good examples of this are an association of Merseyside firms involved with off-shore technology, backed by the local authority, and Enterprise North, which helps small firms to get started, backed by the Department of Industry's small firms division. Given that many of the problems, and hence the solutions, are common to many areas, there is a strong case for a body that could bring together information and act as a central resource for independent local efforts, including advice and counselling. A good model here is COSIRA (the Council for Small Industries in Rural Areas) which takes in both the artist craftsmen, who receive public support through the Crafts Advisory Committee, and the artisan and other kinds of small firm, who do not. However, the key to success is organisation at the local level, with the Department of Industry's small firms information centres and local authorities providing back-up support. The functions of the Scottish Development Agency's Small Business Division could well be copied in other regions.

local economic task forces

Just as local authorities already accept responsibility for housing lower income groups and encouraging related services through community workers, so a similar effort is needed in the industrial and commercial field. Many local authorities have already accepted the need to do something about employment, have formulated industrial policies and appointed industrial development and employment officers. But good intentions will have little influence if they are not backed by action. The designation of Industrial Improvement Areas, which the Inner City White Paper encourages, should be followed by a coherent set of measures to overcome local business grievances. This will typically involve improvements to public transport, flexibility with regard to parking restrictions, appropriate housing for key workers and environmental improvements to make a run down area "come alive" again. Rather than the local authority trying to do everything itself, it would be better advised to set up a "task force" drawing on local business leaders and others with a stake in an area's future. These must not be talking shops but bodies with the powers to get things done. They could be linked to the notion of partnership schemes between central and local government as proposed in the Inner City White Paper.

Mounting an effective strategy will depend on concentrating on either a particular geographical area or a business sector and uniting all the departments involved. Such an effort must have top level backing, its own small team and budget and close links with local business and union leaders. There are now signs that many local authorities recognise the problem. There is still time to ensure that small enterprise has a permanent place in the life of our cities, but it will require a massive switch in attitudes and practices before business is once again a vital part of a balanced and self-sustaining community. It is therefore suggested that each local authority with a substantial number of small firms should appoint an Industrial Development Officer with specific responsibility for small firms. They should aim to introduce programmes of measures catering for existing small firms to help them grow or weather a rough patch. In appropriate places they should help to set up arrangements to encourage new firms to start up. Pioneering efforts in authorities like Tyne and Wear, Strathclyde, Southwark, Wandsworth and Northumberland deserve to be encouraged and copied more widely.

8. what central government should do

Government cannot avoid taking some responsibility for the imbalance in our industrial structure. First, successive governments have assisted the natural tendencies towards concentration and the elimination of competition by applying anti-monopoly powers weakly and by promoting mergers, for example through the IRC. Though this may have been justified at the time in terms of strengthening the industry concerned, there is a good deal of evidence that the resulting giant companies have failed to deliver the goods. British Leyland is the most obvious example.

Second, government has helped finance the expansion of giant firms with aid and tax incentives that effectively discriminate against the smaller firm, while at the same time making it harder for individuals to save or borrow the finance required to start up a business. This is particularly true of regional incentives which have made it easier for large firms to close their older inner city locations and to obtain subsidies for equipment (frequently imported) and brand new factories at public expense. Not only have these moves helped to erode the economy of our older cities but have failed to regenerate the poorer regions.

Third, government has created a legislative and fiscal framework which bears most heavily on the smaller firm who cannot afford the time or administrative overheads that this requires. As a consequence, the national economy is now dominated by enormous publicly owned industries, by giant privately owned multiplant and, in many cases, multi-national firms.

Together with policies aimed at checking the social and market power of giant firms through planning agreements, measures are needed to reduce the barriers to entry and growth for the smaller firm. Often the resources which small firms need (such as buildings and people) are available but under-employed. To succeed, any measures must be long term and they must provide an environment in which initiative can flourish. Britain lags far behind other industrialised nations such as the USA, Sweden and Japan in the quality and extent of the support provided to small firms.

There are too many small firms with different situations for central government to deal directly with them. Nobody wants an expansion of central bureaucracy. Instead, it is more effective for any positive measures to be taken by local authorities, with central government providing incentives in the form of information, powers (where required) and supplementary finance. This could form part of the general programme of decentralisation and devolution.

premises

The Inner City White Paper recognises the need for premises and proposes legislation to enable local authorities to make loans of up to 90 per cent for industrial buildings and to give initial rent free periods. It also proposes industrial general improvement areas to make the environment more attractive. But this is only part of the answer. Unrealistic rental expectations and hoarding of land are still with us. As part of the new inner city programme, government should ensure the provision of land for industrial development schemes in their key sector programmes and in their acquisitions under the Community Land Act. It could also help to reduce the unrealistic valuations on many empty buildings and sites by requiring leases on major empty sites in public or private ownership to be offered for sale through an auction if they have lain idle for say more than three years. This is particularly important in the case of land owned by local authorities and nationalised industries in areas where industry is cramped and the local community suffers from the effects of blight and dereliction.

As small firms need premises which are ready to move into, it is important to increase the supply of small units and this requires finance which could well come from the private sector. Government should enable local authorities to give rental guarantees to take head leases even on property they do not own in order to secure commercial finance. At the same time government should redress the lack of finance for conversion of empty buildings through a combination of the extension of derelict land grants, increased funding to the Historic Buildings Council for the conservation of fine industrial buildings and a new kind of improvement grant, analogous to home improvement grants, for bringing buildings up to the statutory requirements for fire and health (these regulations can account for an estimated one third of the cost of bringing empty buildings into use again).

Certain planning and building controls should also be relaxed. Local authorities must be encouraged to allow non-conforming uses and mixed use of buildings where there is no local objection, and also to drop redevelopment and reduce uncertainty where significant numbers of jobs are involved. A review of the various building regulations is also needed to establish those which are no longer cost-effective. An analysis of the division of powers both within and between authorities would determine how far present organisational arrangements are responsible for excessive uncertainty and delay with regard to both rehabilitation and new development. (A study by Slough Industrial Estates has shown it takes twice as long and costs on average 25 per cent more to build the same sized factory in this country as in other industrial nations, mainly because of problems at the planning stage.) One approach worth considering is to exempt firms employing less than say 50 from all but the bare minimum of building regulations and to treat the regulations as a Code of Practice, desirable standards but not mandatory.

The other major control, Industrial Development Certificates, would be better handled at the regional level so that they can be linked with local planning. IDCs should be dropped altogether for rehabilitation schemes involving subdivision. This will reduce some of the uncertainty and time wasting negotiations. At present, the finance available for high risk areas like the docklands or the promotion of small firms is quite inadequate and partnership arrangements are needed to tap all available sources of finance. The NEB could play a distinct and useful role in inner city areas like the docklands by backing local development agencies. Alternatively, a new agency and more importantly a financing mechanism is needed to boost the effectiveness of local authorities through the creation of regional and urban industrial development agencies with the kind of powers exercised by the Scottish and Welsh Development Agencies.

personnel

Given the difficulties individual small firms have in organising training programmes and their preference for experienced people, it is important to increase publicly funded training. The government should ensure the Training Services Agency (TSA) provides more help to small firms, particularly for in-house training, where appropriate through groupings of small firms. Sponsored training should be free for firms employing less than say fifty.

There is also a need for short management courses which, unlike full time business courses, are not subsidised. Some of the Industrial Training Boards already provide these but their efforts could usefully be supplemented by directly funding programmes aimed at the new entrepreneur. The TSA should also seek to maintain and where justified expand public sector training programmes (such as local authority apprenticeships) so that there are no bottlenecks as far as skills are concerned. It could also require large firms which are completing a planning agreement with the government to extend their training programmes and " train for stock ", since the best training is often provided through experience of working in a large firm. All these measures point to the need for a review of the links between the various agencies at local level. One possible model is Sweden, where the Employment Services link up employer requirements, employee capabilities and the various training programmes (see Santosh Mukherjee, *Making Labour Markets Work*, PEP, 1972).

As well as faults in the planning and coordination of training and employment services which hit the small firm hardest, there are also disincentives to employing certain groups, given the competitive environment in which small firms work. The erosion of differentials for skill and experience and the increased difficulties of laying unsuitable people off as a result of the Employment Protection Act make firms more and more wary of taking on youngsters. A good way of overcoming these problems would be to subsidise the costs of employment for groups that have special difficulties in securing employment. This could be limited to employment black spots using a version of the Regional Employment Premium. A start has been made by offering firms employing less than 50 a subsidy of £20 a week for each additional employee but this only applies to Special Development Areas. Alternatively, a more general measure would be for the Department of Employment to cover the cost of national insurance and pension fund contributions during the time before the value of the outputs of these groups had reached the cost of employing them. Belgium and France have introduced measures on these lines. Another alternative is a fixed payment to young people to allow them either to go for education or to be employed but at a lower wage.

Finally, many of the restrictions on employment of young people are imposed by unions to protect their existing members and there is a need for a change of attitude here. Increased costs of employment may otherwise simply hasten the loss of employment, either through mechanisation or the transfer of production elsewhere.

finance

Successive governments have encouraged the concentration of industry into ever larger units. Though large scale industry normally pays considerable taxes because it is more capital intensive and more mobile, it receives greater help from the government in the form of investment grants and incentives, as well as the spin-offs from the New Towns Programme and building of motorways between cities. The total government assistance has been estimated at £2,500 million per annum, which is biased disproportionately towards large firms, particularly as, with their specialised staff, these are better able to know and exploit the various grants and tax allowances. Yet despite public support, big industry has not delivered the goods. In contrast, many of the grants have minimum cut-off points.

There are a number of ways in which government could remove the financial disincentives to both starting up and expanding small firms. First, now that the original Job Creation Programme is being dropped, separate funding is needed for organisations which plan to be commercially viable after a stipulated launch period, whether as cooperatives, partnerships or private companies. This could be through low cost loans for capital in the second and third years and through grants for the social products such as extra training. There is a good case for putting this programme under the Department of Industry's small firms division to ensure that it is more than just a stop-gap.

The second step is to change regional grants. The system of grants and incentives should subsidise the employment and training of groups of people whose marginal product is low, rather than subsidising machinery which is frequently imported. International comparisons show that the UK incentives are amongst the highest in the world and the most biased towards capital intensive ventures. They do not apply to many inner areas with high levels of unemployment. As large firms say they disregard incentives in making expansion and location decisions, the opportunity should be taken to overhaul the system so that it helps the people who are most in need and does not discriminate against the smaller firm.

Furthermore, schemes for specific industries should not have minimum size requirements which effectively restrict them to large firms who already have a built-in financial advantage. A better approach would be to encourage investment by keeping interest rates low and by introducing a guarantee system that covered part of the risk of either setting up a new business or expanding an existing one in areas of relatively high unemployment. This could be handled either through the clearing banks or through the local industrial development agencies referred to earlier. Funds might then be made available both for particular areas and also those industries it was public policy to encourage.

The third, and most controversial area of all, is business taxation. In 1975-6 the government collected from VAT 1½ times what it received from corporation tax, suggesting that company taxation bears most heavily on the small firm. The vital first step is to raise the VAT exemption level to say £50,000 to help new enterprises to find their feet and reduce time wasting administration. This would be in line with German practice which allows the smallest firms to opt out. It has been calculated that three quarters of traders have a turnover of less than £50,000 and that while they contribute £185 million in VAT, it costs £218 million to collect. Certainly the total costs of collection to the firm as well as the Inland Revenue must exceed the revenue from the smallest firms. A single rate should be introduced at once, possibly at 10 per cent, to simplify matters.

There is also a clear need for greater incentives which make it easier for firms to accumulate capital in their early stages. The government's aim should be to give small firms at least equal treatment to large firms in terms of the effective cost of finance and to compensate them for the services they render to government in collecting taxes, national taxes, national insurance and statistics, and for the extra risk the personnel take. The suggested cuts in income tax should make a considerable difference but they could well be supplemented by a progressive rate of taxation on profits. It should not, however, be necessary to go nearly as far as the conservatives suggest, as there is little evidence to show that high marginal rates of income tax or capital transfer tax are the factors that stop people setting up or expanding their business. Instead efforts should concentrate on reducing the deterrents, including company law which stops a new proprietor acquiring a firm out of its profits.

Another major barrier to expansion is the high cost of borrowed capital which hits small expanding firms hardest. Even if they can borrow, small firms end up paying interest rates perhaps 3 per cent above the norm. The best way to provide finance to small firms at lowest interest rates is through incentives to the clearing banks and organisations, like Finance for Industry, to provide capital for expansion and seed capital for new enterprises (for example through extending the leasing of equipment and factoring services to much smaller firms). The public sector's role here is first to underwrite the risks of investment in new firms as the French Central Bank does for firms investing in priority areas defined in the National Plan. An alternative model is the Small Business Investment Corporation, which in the USA draws up to four fifths of its investment finance from the government's Small Business Administration. In 1976, the SBA provided a total of $2.6 billion in loans and loan guarantees which scaled down to the British level would require some £150 million. Second, the government needs to reduce risks and the cost of capital by bringing down the interest rates that small firms are charged. The advent of revenue from North Sea Oil should make this far easier as the public sector borrowing requirement can be cut.

The final measure required (which already applies in the USA and France) is to develop preferential procurement schemes to reduce the barriers facing new small firms and to provide assistance to firms producing a "social product" (for example, in cooperatives and training workshops). Firms are often required to have operated for 3 years before they can be considered as government suppliers, while centralised purchasing can result in orders being too large for small firms to supply. Focus at first should be on developing domestic suppliers for items that are imported, for example by promising contracts subject to satisfactory quality and providing help with design. There is also a case for advance or at least prompt payment for all procurement in the public sector from small firms in areas of high unemployment.

information

Information is also a resource and the small firm has neither the staff nor the access to expertise to obtain it. The need here is for a stronger small firms division, extending the remit of this division of the Department of Industry, and of the local information centres, some of which have already experimented with services such as counselling. They could organise a wider range of practical services to small firms which are starting up, such as in the areas of legal, accounting and marketing advice, as well as assisting firms to develop project proposals for securing finance and acting as a "broker". There are a number of possible models for the role that the division might play including the UK Council for Small Industries in Rural Areas, the American Small Business Administration and the measures in France and Japan. The main issue is how to make such efforts effective at the local level.

There is a good case for the urban equivalent to the COSIRA. Experience with the Local Enterprise Development Unit in Northern Ireland is encouraging. However, given the distrust that small businesses have of government and "hand outs", it might be better to work through locally based and locally controlled "enterprise centres", modelled perhaps on the US Community Development Corporation model, which provides finance.

The special interest of the labour movement in cooperatives and the fact that this country has lagged far behind many other nations (such as France, the Third World, Yugoslavia) makes it imperative to introduce the promised Cooperative Development Agency to help viable producer cooperatives establish themselves. The agency could help to provide advice services for undertaking feasibility studies and act as a "broker", preferably through the information centres. Typical "clients" could include firms started under the Job Creation Programme, firms whose owner is retiring and even plants threatened with closure. These studies could then lead to the provision of finance.

Other measures with immediate practical benefits involve reorganising the flow of information. On the one hand, it is vital to reduce paperwork required from small firms by evaluating the cost effectiveness of different returns and administration arrangements. Sample surveys, for example, could be applied to all returns for firms employing less than 200, with no loss in accuracy and with considerable savings in cost. On the other hand, the government could make much better use of the information it collects to provide better information on market trends and prospects (for example, using custom controls to indicate opportunities for import substitution). As the subject is so complex, a review should be set up with representatives of both small business and the main agencies concerned to both streamline form filling and to exempt the very small firm (under 50 employees) from all but the minimum of requirements in areas of high unemployment. This problem has been given top priority in Canada and the potential benefits are substantial, including the elimination of soul destroying work and the freeing of management time to concentrate on more important matters.

9. organising for change

This pamphlet has argued that fundamental changes are needed in the *scale* of both production units and firms if our economy is to respond to the increasing and often conflicting demands placed on it by consumers, workers, the local community and suppliers of scarce natural resources. Specifically, it has suggested that a balanced industrial policy is needed which: (a) breaks up excessively large organisations into manageable units; (b) regulates pricing, wages and plant closure policy decisions in firms with substantial market power; (c) reduces the barriers to entry and expansion facing small enterprise.

It has not been suggested that small is always better or beautiful, merely that some of our extraordinarily diverse and specialised needs cannot be fulfilled without a greater diversity of organisations. In particular it has argued that the adoption of such a policy offers the best chances of tackling the underlying causes of much of our present malaise: it would strengthen the economy, create more work, make giant enterprises more responsible and revive the run down inner city areas.

small enterprise

The key problem now is no longer one of technology but of organisation. In particular it is the problem of how to mobilise our human resources in order to satisfy the needs of the community as a whole. The answer will involve the implementation of four inter-related principles: (a) the reduction of unemployment requires the creation of real work, not nominal jobs. More work can best be created through the expansion of small enterprise to meet growing areas of demand, and to reduce imports, rather than through propping up large firms indefinitely in declining sectors; (b) living standards in real terms can only be increased through working more effectively. This means securing higher productivity and this in turn will demand better labour relations and a more skilled and flexible work force, for the investment to pay off; (c) labour relations can be improved by increasing the proportion of smaller production units both in existing and new firms and by creating more " wholesome " work, in which there is greater identification between the worker and the customer, and between management and the work force; (d) greater investment of a work creating kind can only be secured by creating a more stable and predictable society, which in turn relies on achieving greater diversity in the types of organisation and more dependence on self-regulating systems.

Achieving these kinds of changes will require shifts in thinking at both national and local government levels. Though the Bolton Committee report led to the creation of a small firms division within the Department of Industry, with only about 20 civil servants it is too small to carry much weight. Its main efforts are confined to running a network of 11 information centres, providing an excellent series of free leaflets and representing the small firm in relation to new legislation. This division needs to be bolstered to implement the changes set out in this pamphlet and therefore needs a minister of Cabinet status.

There is a large list of measures suggested in this pamphlet affecting a number of government departments. A White Paper is therefore needed, following Harold Lever's review. The next stage should be the establishment of a Small Enterprise Commission, with representation of business associations and unions, to oversee the implementation of the new programmes. This would give a government department the credibility it needs if it is to raise confidence and interest in small enterprise. The Small Enterprise Commission would embrace the Cooperative Development Agency and would be responsible for initiating and funding a diverse set of measures aimed at helping new firms to start and existing small firms to grow. It should also take over responsibility for hand crafts and for the promotion of improved design. To implement responsibilities the Design Centre, Crafts Advisory Committee and Council for Small Industries and Rural Areas should be transferred to this new agency in England, while in Wales and Scotland the respective development agencies would be responsible.

In addition to the existing Small Firms Information Centres, other sources of advice and information will be required. These are best handled through local authority industrial development officers working with local Chambers of Commerce and banks. There would thus be a link (now lacking) between the Department of Industry and local authorities (Nicholas Falk, Haris Martinos, *op cit*).

As efforts tend to be concentrated on those with greatest "clout", small enterprise development units are needed in all the large institutions that deal with small firms. These include the Training and Manpower Services Agencies, local authorities, the banks and large corporations. There are signs that this is beginning to happen and the recommendations in this pamphlet are therefore intended to encourage the new initiatives that are being taken rather than to discredit them. Major changes are also required in the provision of finance to both new firms and cooperatives. In addition, ways should be found of allocating a proportion of major contracts influenced by the public sector to small firms, as this will provide the best form of financial underpinning. There is plenty of experience in the USA of how this can work. At the same time, a guarantee system underwriting say 75 per cent of the cost of fixed assets should be implemented through the clearing banks which should be encouraged to set up specialist small enterprise development sections to provide advice as well as financial assistance. The final key change in this area is to provide a source of finance to allow either groups of workers or managers to buy out the owners of businesses threatened with closure, and set up cooperatives.

big business

As far as the regulation of large corporations is concerned, the main priority is to pull together the various organs of public policy, including the sector working parties of the National Economic Development Council (where an industrial strategy is emerging for key sectors), the Central Policy Review Staff, the Monopolies Commission, the Price Commission and the various sections of the Department of Industry. The result will be expressed in the formulation of more planning agreements. It would also result in a much tougher attitude to mergers which threaten competition and to the break-up of any organisations which are no longer responsive to community or market needs.

The main changes in legislation required are of company law, allowing employee interests to be more effectively represented. One possibility worth investigating is that of trading legal controls over unofficial strikes for the right of employees in large firms to have job security in areas of high unemployment, subject to reasonable behaviour. In this way, rather like in Japan, labour would have to be treated as an equal partner with the shareholders and companies would therefore take greater steps to help new enterprises to set up.

In conclusion, a major difference between the present period of change and the first industrial revolution is that we now have the information to understand and predict economic trends, together with a powerful public sector charged with ensuring the public interest prevails. This will count for little if the organisations that produce the wealth of goods and services that we want are unable to cope with the pressures on them. We have 15 or so years of North Sea oil to allow us to manage the second industrial revolution in a planned and democratic way. Alternatively, we can fritter away the opportunities and face a perpetual and irreversible deterioration in all that we hold dear.

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Nicholas Falk argues that industrial society is at a turning point where traditional remedies will no longer work. The scale of organisation is as much a problem as ownership. Consequently, the expansion of small firms is essential to strengthen the economy, contain the power of giant organisations, create more work and revive inner cities. The promotion and fostering of small enterprises is thus in harmony with the policies and priorities of the Labour Party.

The author goes onto argue that a shift in industrial policy is required with more control over giant private and public corporations through effective planning agreements and other measures, and with correspondingly fewer constraints on smaller firms. Increased personal incentives by themselves will be ineffective. A comprehensive programme is needed to reduce the various barriers to the growth and expansion of small firms. The pamphlet contains proposals for making personnel, finance, information and advice more readily available. The private and public sectors must work in partnership. Changes in organisation are therefore needed including a Small Enterprise Commission at national level, and local economic task forces.

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The Fabian Society exists to further socialist education and research. It is affiliated to the Labour Party, both nationally and locally, and embraces all shades of socialist opinion within its ranks — left, right and centre. Since 1884 the Fabian Society has enrolled thoughtful socialists who are prepared to discuss the essential questions of democratic socialism and relate them to practical plans for building socialism in a changing world. Beyond this the Society has no collective policy. It puts forward no resolutions of a political character. The Society's members are active in their Labour parties, trade unions and co-operatives. They are representative of the labour movement, practical people concerned to study and discuss problems that matter.

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