Book Reviews

Graham Bannock and Alan Peacock, *Government and Small Business.* London: Paul Chapman Publishing Ltd., 1989, 278 pp. ISBN 1-8596-035-7.

The 1970s brought an end to sustained economic growth. Substantial transformations occurred in national and international economic structures. One of the main problems policy makers faced was that of properly appreciating the role of small firms (and also middle-sized firms) in the modern industrial economy.

This book explores the subject of small business and its economic impact, by comparing the situation in Great Britain with the situation in other European countries and also the U.S.A. The authors proceed on the assumption that small firms can more readily adjust to new conditions than larger enterprises because of their high degree of flexibility. For that reason, small firms represent an eminently important potential for growth and employment. In view of the increasing rate of unemployment in Europe, small firm development is a significant priority. The potential of small firm job creation, however, can only develop, if policy makers were to eliminate existing discriminations and disadvantages that operate to retard the success of small firms. This requires purposeful promotion of (1) exporting, (2) access to capital markets and (3) virtual reform of the tax system. This book is intended to be a reference book for the reform of national economic policy insofar as it affects small business.

Alan Peacock's introduction reviews the twelve studies that make up the chapters of this book. Six of the studies were directed by Peacock and the other six were directed by Graham Bannock. Peacock and Bannock are also the coeditors of the book.

In his introduction, Peacock defines the fundamental policy problem of discovering and then establishing the optimal balance between markets and state intervention. Based on his experience with practical economic issues, Peacock lists four problems that often confuse policy makers:

1. It is difficult to form a consensus among managers, trade unionists and the government officials concerning the specific aims and objectives of economic policies.
2. Politicians tend to choose those measures that involve the least possible financial risk.
3. Profit and efficiency are not easily combined when profit depends more on the bargaining skill of government officials, and less on satisfying domestic and foreign demand.
4. Government officials prefer to negotiate with a few large and established enterprises rather with a greater number of competitive small firms.

These problems are referred to in different ways in each of the subsequent studies collected together in the three sections of the book. The studies in the first part elaborate the role of small firms in the national and international process of economic growth and development. Market share is used to define small firms, yet no strict quantitative definition is a offered or adhered to. The questions presented here, open the door to future and more intense research. The questions are as important and interesting as the factual-empirical statements in this book.

Although scientific research on small firms has increased of late, there is still much to be done. As Peacock explains, "We still know very little about how business proprietors spend their time, how management changes as firms grow, how small firms are financed and what returns they earn. We do not know enough about how many small firms there are and what sectors they are in, where they are expanding and where contracting." (p. 13)

Two chapters (3 and 4) present the results of empirical surveys (1985, 1986) on the position of small firms in export, as well as the significance of export performance with regard to employment and economic growth. In exporting, large enterprises are clearly dominant. It is also true that great export potential exists for small firms. Of particular interest is the interview data which reflect a rather pessimistic self-assessment of export opportunities and chances of success on the part of small businesses. The small business interviewees report that export financing problems, as well as the lack of information and contacts in the export business are immediate obstacles.

It has been established that at times of economic stagnation, small firms play an important role in maintaining employment. The author calls attention to the lack of research done in determining an optimal combination of small and large firms for the purposes striking a balance between employment and growth.

The last contribution in the first part deals with the new entrepreneurial activity among small firms in Great Britain during the 1980s. "It used to be a very fashionable thing in Britain to start up in one's own business, a route taken predominantly by the untrained and uneducated. Now it is all the rage. Large numbers of graduates of bodies in higher education . . . express a desire to have their own firm and may start one straight away. In the early 1970s there were virtually no courses in entrepreneurship and small business management, now they are available everywhere" (p. 85).

The main question in the second part of the book is the competitive impact of the tax system on small firms. The circumstances in the EEC countries and the U.S.A. are closely examined in three reports. The general increase of tax burdens and the growing complexity of the tax systems is at issue. The main topic in Europe is the value added tax (VAT). It turns out that a relatively greater burden is placed on small firms, especially when we examine both the burdens of the tax and the compliance requirements.

In general, it is said that the current tax system for investments of small firms is quite obstructive. The tax reform introduced in 1986 in the U.S.A. is distinguished when compared with the EEC and is offered as a model for the tax reforms needed in the EEC among the nations and other places. As a general principle, the impact of government intervention on big and small companies should be "neutral" and not biased to favor big business over small. Especially, as part of the economic policies of Great Britain and the U.S.A. during the 1980s, measures were taken in the area of tax reduction to promote tax neutrality. The main strategy for the promotion of small firms must be with the elimination of discriminatory taxation. Also, the compliance burdens of government activities must be lessened.

The contributions in part three deal with the relatively high burden caused by social legislation and inflicted upon small enterprises (and also medium sized firms). By comparison, the burden in Europe is higher than it is either in the U.S.A. or Japan. The main observation here is that the relatively higher burden on small and medium-sized firms is a consequence of relatively high administration expenses incurred by the implementation of social legislation. In order to eliminate the negative employment effects on small business, a reduction of administration expenses is necessary. Several strategic methods of reporting data are suggested in the last chapter.

This book is required reading for students of small business economics especially those who wish to advocate a policy program designed to support and expand the small business sector.

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Al Rainnie, *Industrial Relations in Small Firms: Small Isn't Beautiful.* London: Routledge, 1989.
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In his book, Rainnie challenges Schumpeter's idea that small firms and entrepreneurs act as creative agents for the rest of the economy. The title also refers to Schumacher's catch-phrase, "small is beautiful." Small size is widely valued by students of small business, yet remarkably undiscussed despite the dramatic interest in small business research during the last decade. Rannie analyses the economic and political position of the small firms during the 1980s. He contrasts the industrial-relations practices in two contrasting industries, namely in printing, where the majority of workers are male, and in clothing, where women dominate the work force. He concludes that the Schumacher