The Role of the European SME as a Means to Combat Unemployment

and Social Exclusion in the Context of the Dual Economy

Thesis submitted for the degree of
Doctor of Philosophy
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by

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ABSTRACT

The Role of the European SME as a Means to Combat Unemployment and Social Exclusion in the Context of the Dual Economy

by
IRENE FAFALIOU - KYRILLOPOULOU

The specific research aims to evaluate the European SMEs strategy and see if and to what extent it provides an effective and appropriate public response to unemployment and broader social exclusion. Our analysis, reflecting upon the increasing economic concentration in various sectors of the global economy, has considered the possible impact of the “dependency” and oligopoly - implied by Robert T. Averitt's "Dual Economy Model" - on this strategy’s effectiveness. Juxtaposing the free-market model, within which recent SMEs’ policy responses have been formulated, and the alternative dual economy framework, this thesis seeks for the empirical evidence that assess both frameworks’ relative merits in offering a better understanding of contemporary economic structures and informing more realist policy designs.

The research undertaken so far indicates that the SMEs policies, informed and designed on the basis of the free-market paradigm and flexible specialization approach, have not captured sufficiently the “real” nature of industrial and labour changes taking place at a European or global level since the mid-70s. Accordingly, they have failed to recognize the pragmatic macro-, meso- and micro factors influencing SMEs’ employment-inclusion capacity. On the contrary, Averitt's Dual Economy model appears to come closer to describing the global capital movements and production trends, and to interpret in a more realist and creative way the marginalization of small industry and secondary labour markets. In overall, the European Union’s SMEs policy has been proven ambiguous in nature and of limited effectiveness in combating unemployment and social exclusion. Moreover, this thesis’ evidence-based Dual Economy approach has shown that there is no ready-made formula for entrepreneurial solutions capable of addressing the structural barriers being behind broader society’s exclusion. However, this research has made clear, that a comprehensive and solid framework approach to social problems can open new, complementary ways in conceptualizing entrepreneurial initiatives likely capable of addressing real social needs.

The implications of our research outcome for alternative public policy responses to realist social needs and different multi-criteria evaluation approaches are discussed at the end.
To my beloved father and mother, Christos and Angeliki
ACKNOWLEDGMENTS

I am greatly indebted to a number of persons who have contributed in one way or another to the completion of this work.

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I would also like to thank Prof. C. L. Papageorgiou (the Agricultural University of Athens) and Dr. P. Kaldis especially for the advice given to me during the early stages of this thesis.

Last but not least, I would like to express my deepest gratitude to my husband and son for their encouragement and support throughout this study. It is to them that I dedicate this work as the least recognition of their patience for which I shall always be indebted.

Irene Fafaliou-Kyrillopoulou
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1. References Cited Explicitly in the Text

2. Other Background Studies taken under consideration but Not Explicitly Referred to
The Role of the European SME as a Means to Combat Unemployment

and Social Exclusion in the Context of the Dual Economy
Chapter 1

Introduction: The Issue in Context

This is an introductory chapter that provides the context for discussing the European Union (EU) SMEs strategy in response to unemployment and social exclusion, in the chapters to follow. It sets the general scope of the thesis and explains our basic rationale for addressing this issue in the first place. Then, it overviews the main themes that stimulated our concerns with the SMEs’ strategy/debate related to unemployment and social exclusion’s alleviation. From this overview, a range of questions arises addressing the credibility of current dominant assumptions and the free-market framework within which the EU’s SMEs policies have been designed and developed. This part hopes to help the reader of the thesis to understand “how” and “why” our preliminary questions on methodological and definitional problems of popular explanations related to the issue, have been initiated. It also hopes to introduce the reader to this research’s logic for drawing upon the framework provided by Averitt’s “Dual Economy” model and its developments and extensions, notably Atkinson’s “Flexible Firm” model and Braverman’s “deskilling” thesis. The industrial and political economy orientation underpinning our assessment framework also aims to inform in the way our “key” research questions were released and thus formulated this thesis’ main objectives. Finally, this introductory discussion seeks to provide some explanations on how our initially stated concerns with the central issue have shaped the methodology and structure used in this thesis and informed its evaluation direction.

Research Purpose, Context of the EU’s SMEs Responses to Employment Inclusion, Themes and Issues, Analytical Frameworks and Evaluation Approach

This thesis is an effort to evaluate the EU small and medium sized enterprises (SMEs) strategy’s strengths and weaknesses and see if it works in alleviating unemployment and tackling social exclusion problems, considering the possible impact of the dependency
and oligopoly implied by Averitt's "dual economy model". To put it differently, the specific research aims to assess, in a comparable manner, the credibility of the "free-market paradigm" within which, from mid 70s onwards, a range of ideas and policy prescriptions emphasize the SMEs' dominant role in economic development, job generating process and social exclusion combat. The two models will be contrasted so that we will be able to decide which one appears to run the economy more appropriate to create social inclusion. The way each account views the role of small firms is a central issue to this enterprise. The policy implications for addressing social problems are finally discussed.

Our main rationale for raising the above issue is that any effective approach undertaken towards an assessment of different sorts of public or super-national policy effort- in our case the EU's SMEs policies\(^1\) - should not take for granted that this is a "good" and "desirable" provision for its own sake. Instead, such an approach should assess a policy in terms of its "real" contribution to broader human welfare both in economic and social terms\(^2\). In the case of the SMEs policies addressed to social exclusion, this means that beyond the conventional, quantitative performance indicators assessed, i.e. profit level, turn over, value added, number of jobs created etc, additional qualitative criteria should be incorporated. Such criteria should evaluate the social accountability of the small-scale industry as to its ability to provide, for instance, stability of employment, work satisfaction, jobs for the less advantaged people of our societies, broader socio-economic benefits, etc. This is the reason that we have specifically chosen to evaluate such policies' outcome not only in terms of aggregate employment figures as the free-market paradigm does, but in terms of inclusion numbers of the unemployed and the socially excluded persons. Furthermore, this thesis focuses the SMEs policies' evaluation on their capacity to promote an "independent" culture for these groups by achieving greater equality in wealth distribution\(^3\). The link of the two social groups, i.e. the unemployed and the social excluded, is intentional and seeks from the outset of this thesis to shift attention to the possible connection between these two groups\(^4\).

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\(^1\) F.N.: At the end of this chapter we present a list of the European Union policy directives to the Member States for the SMEs in the 1980s and 1990s.


\(^4\) F.N.: In Chapter 4, we analytical discuss this issue based on evidence from labour market trends.
From the beginning of this thesis, we want to make clear that our "evaluation logic" is that any approach taken to assess the validity of public interventions should also help in our understanding if policy works, for which group of interests, and how (if does not) can be improved. This involves a framework of clearly identified hypotheses, assumptions and theories that inform the policy’s shaping not only on ideological grounds, which to a certain degree seems to be inevitable, but mainly, as in our case, on industrial and political economy explanations5.

Our initial concern with small-scale industry’s role and associated policy initiatives has been partially stimulated by the wind of optimism in recent academic and policy literature as to its innate virtues and superior flexibility capacity. Such qualities attributed to small firms are often assumed by the free-market paradigm as determining SMEs decisive role to common wealth and employment provision6.

Indeed, since the mid-70s oil-crisis recession and the abolition of the internationally fixed exchange rates, most EU governments have promoted the small-scale enterprise driven economic development as the "Royal road" to combating unemployment and social exclusion.

Such an emphasis on micro-economic thinking has been also strongly associated with the successful performance of some prosperous and highly competitive regions structured and functioning out of the context of the mass-production principles that, this time, had captured the attention of some social scientists on the reformist political left7. These exceptional localities8, known as industrial districts, are comprised of small, flexible, responsive and innovative firms. According to the advocates of this approach, small firms’ most prominent characteristic is that their production is organized along the principles of what came to be the most influential small-firm paradigm of the contemporary production organization, known as the flexible specialization approach.

8 FN.: Such places of economic dynamism include Baden-Wurttemberg in Germany, Bargelona in Spain, Cambridge in Britain, areas of Central and North-East Italy, Silicon Valley in the USA etc. For further information see in Pyke, F. and Sengenberger, W. (Eds.), (1992): "Industrial Districts and Local Economic Regeneration", International Institute of Labour Studies, Geneva.
In the words of Piore and Sabel\(^9\) (1984): "Flexible Specialization is a strategy of permanent innovation, i.e. accommodation to ceaseless changes rather than an effort to control it". To put it differently, the basic philosophy of the flexible specialization approach is that: "clusters of predominately small firms can gain economies of scale and scope by increased flexibility through specialization and inter-firm cooperation" (Humphrey\(^10\), 1995). Within such an optimistic context - associated with presumptions that craft principles can provide a dynamic, viable, efficient and innovative alternative to the crisis-ridden, mass-production system mode of organization - any attempt opposed to official support to SMEs programmes has been ignored.

In fact, ever since the first establishment of the industrial districts, in the early 80s, flexible specialization theorization has been extremely influential. Its proponents assume that the experience of a small number of industrial developed economies represents a model for peripheral economies and especially for small firms since "best practices" are deemed to be replicable in different socio-economic contexts.

As regards the workers involved in such flexible production, the advocates of flexible specialization assume multi-skilling and a broader skill-base that offer workers greater control over the work process, whereas "training" secures their jobs\(^11\). Furthermore, the employers alleged preoccupation with quality pursuit rather than price/cost cutting is deemed to reduce pressure for wage cutting\(^12\).

Another element that captured our attention as reinforcing current optimism with the SMEs' role at the expense of large firms, was an observed employment shift towards the SMEs in many OECD\(^13\) or EU countries (Loveman and Sengenberger,\(^14\) 1990).

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\(^13\) FN.: Organization for Economic Co-operation and Development: hereinafter referred to as OECD.
Furthermore, over the same period, the emerging intensification of global competition associated with the Japanese and the NICs\textsuperscript{15} challenge, and presumptions about footloose capital movements around the world have been deemed as also pointing to production mode's reorganization in favour of small-scale industry. The basic philosophy of this approach is that Governments' ability to engage in macroeconomic management had been increasingly problematic (Ohmae\textsuperscript{16}, 1993, p.78). Global development is considered as a source of additional problems for the advanced countries' labour force as large production entities or global capital assumed to be transferred to lower cost countries or flow under no restraint around the world. Such assumptions, in turn, have generated much policy experimentation and directed several governments of the First World industrial countries to employ competitive strategies based on wage-cost cutting practices\textsuperscript{17}. To put but an example, it appears that the British Conservative Government's fear that capital flows from higher-cost countries to lower-cost countries would result in the downgrading of the country's competitive edge in the world economy, led her to dissent from the adoption of the Social Chapter\textsuperscript{18} in December 1989. As far as the European small-scale industry policy debate is concerned, the proponents of the globalization thesis claim that small industry advancement is compatible with global regionalism. In close relation to such an assumption, all EU member countries should favour small-scale business policies since large firms' outsourcing activities -due to the old-fashion assumption that "distance is the enemy" of profits- assumed to give impetus to the SMEs' growth\textsuperscript{19}.

Another group of economists further informed the small-scale industry debate by claiming that recession through the release of entrepreneurial hidden force also promotes small industry booming. In this way, such a rhetoric has further contributed to the wide spread view that large industry, despite the substantial and consistent direct subsidies or financial and tax incentives, does not present any more the hegemonic form of current industrial settings.

\textsuperscript{15} F.N.: New industrialized countries: hereinafter referred to as NICs.
\textsuperscript{17} Peet, R. (1986): "Industrial Devolution and the Crisis of International Capitalism", Antipode 18, pp.78-95.
\textsuperscript{18} FN.: The "Social Chapter", employed by eleven of the twelve E.U. countries in 1989, aims at countering the social dumping thus the disadvantageous impact on labour that many scholars argued it could result from the operation of the single market given the wide differences in labour standards and costs. For further information on the matter, see: Addison and Siebert (1994): "Recent Developments in Social Policy in the New European Union", Industrial and Labour Relations Review, Vol. 48, No. 1, pp. 5-27.
Thus, although much controversy exists as to the causation of the small-industry phenomenon, a growing body of political ideas has been developed in the EU since the mid 70s, assuming that large-scale industry, is no longer effective as a locomotive of growth or an employment provider (Clegg, 1992). These ideas in turn influenced and shaped the EU policy direction in favour of the SMEs.

In the meanwhile, during all that optimistic small-industry theorization period, the growth of mass unemployment and the extension of poverty and social exclusion to new social groups have been constantly augmented. Indeed, the figures on social inequalities are extremely depressing. For instance, in the European Union member countries, in 1994, 50 million people lived below a poverty line set at one-half a nation’s median income. Furthermore, at the same period 16 million people (10.5 per cent of the workforce) were officially registered as unemployed, of whom more than half have been unemployed for over a year (EC Commission, 1994). Ever since, these figures have increased sharply and mass unemployment appears to extend into the 2000s.

Tables 1.1, 1.2, and 1.3a and 1.3b below give some further insights on the evolution of unemployment and poverty since the mid-70s.

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21 F.N.: According to projections presented in the OECD Economic Outlook, June 1999, the unemployment rate for the year 2000 in the EU is to stand at 16.6 as percentage of total Labour Force (see TABLE 1.3, p. 19).
Table 1.1: Unemployment and long-term unemployment as percentage of total Labour Force in selected OECD countries, OECD Europe and EEC- from mid 1970s to 1990

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a) Standardized unemployment rates from labour force surveys, except in the case of Austria, Denmark, Greece and Luxembourg where registration data have been used.
b) Unemployment for twelve months and over. Data are from household survey sources, except in the case of Austria, where registration data have been used.
c) Or adjacent years.
d) 1979.
e) Average of data for 1979 or 1980.

Table 1.1: Unemployment and long-term unemployment as percentage of total Labour Force in selected OECD countries, OECD Europe and EEC- from mid 1970s to 1990

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>16.4</td>
<td>18.7</td>
</tr>
<tr>
<td><strong>Central &amp; Western Europe</strong></td>
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<td>—</td>
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<td>—</td>
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<td>43.6</td>
<td>43.9</td>
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<td>3.2</td>
<td>3.2</td>
<td>5.9</td>
<td>5.6</td>
<td>—</td>
<td>28.7(d)</td>
<td>45.0</td>
<td>49.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>8.4</td>
<td>7.3</td>
<td>15.2</td>
<td>17.8</td>
<td>—</td>
<td>38.2(d)</td>
<td>62.7</td>
<td>67.3</td>
</tr>
<tr>
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<td>—</td>
<td>—</td>
<td>1.6</td>
<td>1.4</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
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<td>4.9</td>
<td>5.4</td>
<td>9.7</td>
<td>8.3</td>
<td>—</td>
<td>35.9(d)</td>
<td>51.0</td>
<td>49.9</td>
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<td>5.0</td>
<td>10.0</td>
<td>7.1</td>
<td>—</td>
<td>29.5(d)</td>
<td>44.4</td>
<td>40.8</td>
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<tr>
<td><strong>Southern Europe</strong></td>
<td>—</td>
<td>—</td>
<td>12.9</td>
<td>12.4</td>
<td>—</td>
<td>—</td>
<td>60.0</td>
<td>62.9</td>
</tr>
<tr>
<td>Greece</td>
<td>—</td>
<td>—</td>
<td>2.9</td>
<td>3.1</td>
<td>—</td>
<td>—</td>
<td>43.0</td>
<td>52.4</td>
</tr>
<tr>
<td>Italy</td>
<td>6.6</td>
<td>7.6</td>
<td>9.5</td>
<td>10.9</td>
<td>—</td>
<td>51.2(d)</td>
<td>64.6</td>
<td>70.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>—</td>
<td>—</td>
<td>7.3</td>
<td>5.0</td>
<td>—</td>
<td>—</td>
<td>53.7</td>
<td>48.3</td>
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<td>17.5</td>
<td>16.9</td>
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<td>2.8</td>
<td>—</td>
<td>—</td>
<td>19.8</td>
<td>16.5</td>
</tr>
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<td>Denmark</td>
<td>5.8</td>
<td>5.8</td>
<td>8.9</td>
<td>9.4</td>
<td>—</td>
<td>36.2(d)</td>
<td>31.6</td>
<td>25.9</td>
</tr>
<tr>
<td>Finland</td>
<td>4.4</td>
<td>5.9</td>
<td>4.9</td>
<td>3.4</td>
<td>—</td>
<td>27.0</td>
<td>18.8</td>
<td>6.9</td>
</tr>
<tr>
<td>Norway</td>
<td>1.8</td>
<td>2.0</td>
<td>2.7</td>
<td>4.9</td>
<td>3.1</td>
<td>3.3</td>
<td>7.7</td>
<td>11.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.9</td>
<td>2.1</td>
<td>2.5</td>
<td>1.4</td>
<td>6.0</td>
<td>5.5</td>
<td>9.1</td>
<td>6.5</td>
</tr>
<tr>
<td>OECD Europe</td>
<td>4.7</td>
<td>5.6</td>
<td>9.2</td>
<td>8.8</td>
<td>—</td>
<td>31.5(e)</td>
<td>52.0</td>
<td>52.8</td>
</tr>
<tr>
<td>EEC</td>
<td>4.8</td>
<td>5.7</td>
<td>9.6</td>
<td>9.0</td>
<td>—</td>
<td>32.7(e)</td>
<td>52.8</td>
<td>53.7</td>
</tr>
<tr>
<td>Total OECD</td>
<td>4.9</td>
<td>5.1</td>
<td>7.3</td>
<td>6.2</td>
<td>—</td>
<td>26.6(e)</td>
<td>33.3</td>
<td>33.7</td>
</tr>
</tbody>
</table>

- **a)** Standardized unemployment rates from labour force surveys, except in the case of Austria, Denmark, Greece and Luxembourg where registration data have been used.
- **b)** Unemployment for twelve months and over. Data are from household survey sources, except in the case of Austria, where registration data have been used.
- **c)** Or adjacent years.
- **d)** 1979.
- **e)** Average of data for 1979 or 1980.

Table 1.2: Unemployment as percentage of labour force in selected OECD countries, OECD Europe and EU in the 1990s

<table>
<thead>
<tr>
<th></th>
<th>Percentage of labour force</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Belgium</td>
<td>11.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>9.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Finland</td>
<td>9.3</td>
<td>12.7</td>
</tr>
<tr>
<td>France</td>
<td>10.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Germany</td>
<td>8.0</td>
<td>11.4</td>
</tr>
<tr>
<td>Greece</td>
<td>8.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>14.8</td>
<td>10.3</td>
</tr>
<tr>
<td>Italy</td>
<td>10.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Japan</td>
<td>2.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Norway</td>
<td>4.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>6.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Spain</td>
<td>19.7</td>
<td>20.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.5</td>
<td>8.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8.8</td>
<td>6.9</td>
</tr>
<tr>
<td>United States</td>
<td>6.2</td>
<td>4.9</td>
</tr>
<tr>
<td>OECD Europe</td>
<td>9.5</td>
<td>10.3</td>
</tr>
<tr>
<td>EU</td>
<td>9.9</td>
<td>11.2</td>
</tr>
<tr>
<td>Total OECD</td>
<td>7.0</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: Based on OECD Economic Outlook, June 1999, p. 19.
Table 1.3a: A comparison of poverty percentages in the Member States of the European Community for different years, taking 50% of the national average of equivalent expenditures as the poverty line, using the methodology of Eurostat (1990), "Poverty in Figures," Theme 3, Series C, Luxembourg (households)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>abs</td>
<td>%</td>
</tr>
<tr>
<td>1. France</td>
<td>18.0</td>
<td>3,503</td>
<td>14.8</td>
</tr>
<tr>
<td>2. Spain</td>
<td>20.3</td>
<td>2,129</td>
<td>17.8</td>
</tr>
<tr>
<td>3. Portugal</td>
<td>31.4</td>
<td>906</td>
<td>31.7</td>
</tr>
<tr>
<td>4. Italy</td>
<td>12.0</td>
<td>2,237</td>
<td>14.7</td>
</tr>
<tr>
<td>5. Greece</td>
<td>20.5</td>
<td>604</td>
<td>17.4</td>
</tr>
<tr>
<td>6. Ireland</td>
<td>18.5</td>
<td>167</td>
<td>17.4</td>
</tr>
<tr>
<td>7. Belgium</td>
<td>6.3</td>
<td>226</td>
<td>5.2</td>
</tr>
<tr>
<td>8. Luxembourg</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>9. Denmark</td>
<td>8.0</td>
<td>166</td>
<td>8.0</td>
</tr>
<tr>
<td>10. Netherlands</td>
<td>6.9</td>
<td>345</td>
<td>7.9</td>
</tr>
<tr>
<td>11. United Kingdom</td>
<td>14.1</td>
<td>2,808</td>
<td>18.9</td>
</tr>
<tr>
<td>12. Germany</td>
<td>10.3</td>
<td>2,592</td>
<td>9.2</td>
</tr>
</tbody>
</table>


Table 1.3b: A comparison of poverty percentages in the Member States of the European Community for different years, taking 50% of the national average of equivalent expenditures as the poverty line, using the methodology of Eurostat (1990), "Poverty in Figures," Theme 3, Series C, Luxembourg (persons)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>abs</td>
<td>%</td>
</tr>
<tr>
<td>1. France</td>
<td>19.1</td>
<td>10,313</td>
<td>15.7</td>
</tr>
<tr>
<td>2. Spain</td>
<td>20.9</td>
<td>7,829</td>
<td>18.9</td>
</tr>
<tr>
<td>3. Portugal</td>
<td>32.4</td>
<td>3,167</td>
<td>32.7</td>
</tr>
<tr>
<td>4. Italy</td>
<td>14.1</td>
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<td>15.5</td>
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<td>5. Greece</td>
<td>21.5</td>
<td>2,073</td>
<td>18.4</td>
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<td>6. Ireland</td>
<td>18.4</td>
<td>625</td>
<td>19.5</td>
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<tr>
<td>7. Belgium</td>
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<td>5.9</td>
</tr>
<tr>
<td>8. Luxembourg</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>9. Denmark</td>
<td>7.9</td>
<td>407</td>
<td>8.0</td>
</tr>
<tr>
<td>10. Netherlands</td>
<td>9.6</td>
<td>1,363</td>
<td>11.4</td>
</tr>
<tr>
<td>11. United Kingdom</td>
<td>14.6</td>
<td>8,226</td>
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</tr>
<tr>
<td>12. Germany</td>
<td>10.5</td>
<td>6,448</td>
<td>9.9</td>
</tr>
</tbody>
</table>

Source: The same as Table 1.3a
Although precise comparable information on jobs' insecurity of new social groups such as professionals, technicians or managers is yet statistically difficult to obtained at an international or European level due to countries customized differences in measurement, a number of accumulative evidence indicates that unemployment is no respecter of "class". For instance, in 1991 when unemployment rate in the United States jumped 15 per cent, due to companies "downsizing" strategies, managers' unemployment rate (mainly CEOs of multinationals) rose 55 per cent. Accordingly, the shift in employment structure towards the service sector characterized by feminization, the expansion of the "Knowledge-based" economy, and the contracting out of services have been also reported as causing employment insecurity to traditionally skilled employees working previously in relative secure and standard jobs in the manufacturing sector.

Table 1.4 below shows traditionally skilled and unskilled jobs losses in manufacturing across the OECD countries from 1970s to 1994.

---

22 OECD. 1991 Employment Outlook: op. cit., p. 44.
24 F.N.: Although a lot of vagueness surrounds the "Knowledge based economy" definition since "Knowledge" is not a traditional economic input and no adequate indicators have been yet developed for its measurement, there is however a general agreement that its most visible sign is the emergence of the information society. For further information on the matter see, The OECD Observer (1996): "The Knowledge-based Economy", No. 200, June/July '96, p. 9.
Table 1.4: Employment Trends in selected OECD countries in Manufacturing, 1970-94

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Skilled</th>
<th>Unskilled</th>
<th>High-wage</th>
<th>Medium-wage</th>
<th>Low-wage</th>
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<tr>
<td>Australia</td>
<td>-0.7</td>
<td>-0.1</td>
<td>-1.3</td>
<td>-0.6</td>
<td>-0.4</td>
<td>-1.1</td>
</tr>
<tr>
<td>Canada</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>1.4</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>-0.8</td>
<td>-0.3</td>
<td>-1.3</td>
<td>0.8</td>
<td>-0.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Finland</td>
<td>-1.3</td>
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<td>-2.1</td>
<td>1.3</td>
<td>-0.6</td>
<td>-2.7</td>
</tr>
<tr>
<td>France</td>
<td>-1.2</td>
<td>-0.4</td>
<td>-1.8</td>
<td>-0.6</td>
<td>-1.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>Germany</td>
<td>-0.8</td>
<td>-0.5</td>
<td>-1.1</td>
<td>0.4</td>
<td>-0.7</td>
<td>-1.5</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.7</td>
<td>-0.4</td>
<td>-0.9</td>
<td>-1.1</td>
<td>-0.4</td>
<td>-0.8</td>
</tr>
<tr>
<td>Japan</td>
<td>0.2</td>
<td>0.9</td>
<td>-0.2</td>
<td>1.2</td>
<td>0.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>Netherlands</td>
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<td>-1.1</td>
<td>-2.1</td>
<td>-0.8</td>
<td>-1.1</td>
<td>-2.4</td>
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<td>Norway</td>
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<td>-0.8</td>
<td>-2.1</td>
<td>0.2</td>
<td>-1.3</td>
<td>-2.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>-1.5</td>
<td>-0.8</td>
<td>-2.4</td>
<td>0.5</td>
<td>-1.5</td>
<td>-2.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-2.3</td>
<td>-1.7</td>
<td>-2.9</td>
<td>-2.0</td>
<td>-2.4</td>
<td>-2.4</td>
</tr>
<tr>
<td>United States</td>
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<td>-0.3</td>
<td>-0.1</td>
<td>0.1</td>
<td>-0.5</td>
</tr>
<tr>
<td>OECD (19)</td>
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<td>-0.7</td>
<td>0.2</td>
<td>-0.2</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

Source: Based on "The OECD Observer", No 200, June/July 1996, Table 2, p. 8.

According to Rajan\(^{26}\) (1993), multi-skill clerks, supervisors, secretarial occupations, recreational services, secretaries and full-time personal services occupations are to be decreased in the 1990s. The majority of the occupations concentrated in manufacturing are to be amenable to part-time jobs, whilst junior and single-skilled craftsmen, operatives, unskilled and manual occupations are to be contracted in numbers (Ibid.). The only occupational groups that according to Rajan are to be increased in numbers and responsibilities at the work place, are the following: managers and administrators, engineers, scientists etc., associate professionals, multi-skilled crafts, sales and marketing occupations and security staff (Ibid., pp. 28-29). Other scholars, such as Fielding\(^{27}\) (1995), have also suggested a new insecurity status for previously stable occupations. In particular, Fielding’s work focuses on the increasing instability and insecurity of managerial groups. We extensively explore the evidence on the evolution and current shape of the job market in relation to such occupational groups in Chapter 4. What is important for our concerns’ development - from the earlier mentioned themes and issues- (if they stand true) is at least a questioning of dominant claims arguing that in the free-market era we live in a more stable society than before the EU’s SMEs responses to unemployment.

Most interesting for our discussion in the subsequent chapters is that failure in reducing unemployment through small industry generating process, is interpreted - most often - either in terms of state economic management weaknesses or strengths or, alternatively, of much "public" instead of "private" administration of societal organization. Indeed, the Social Democratic model, characterized by solidarity, assumes state's responsibility for social protection, fundamental social rights and the role of social partners. Therefore, it calls for state intervention in the economy associated by high public spending in subsidies and welfare policies to cushion any transition or cyclical depression. At the other end of the spectrum, the USA theory of liberal markets requires minimalist intervention, deregulation, market-led strategies, welfare linked to work programmes, and individual-driven entrepreneurial solutions to the challenge of transition.

In the context of such interpretations informing public policies, the old Keynesian approach of governments is seen as inappropriate and workless\textsuperscript{28}. Instead, the free-market mechanisms are now shaping current industrial and labour-market public policies and any performance failure is attributed to market dysfunction\textsuperscript{29}. We critically discuss such changes that characterize the EU's policy initiatives in the remainder of the thesis.

In these deregulated and liberalized markets, despite the fact that a strong number of "strands/approaches have challenged the optimistic vision of the free-market paradigm informing small-industry-led inclusion-policies, those opposed have not yet managed to develop an alternative credible model. Thus, there appears to be no popular validated approach following the perceived failure of the social democratic and communist models. Therefore, speculating on the inadequacy of alternative political interpretations, the optimistic neo-liberal free-market approach has managed to capitalize "flexibility" as the "key" word to sustainable economic and employment growth. The "flexible specialization" free-market paradigm and its implementation impact on labour force in terms of inclusion, working conditions, or more democracy and less control at work, are empirically considered in later sections of this thesis.


In seeking to understand better the small-industry policy/debate, we should note that such a close concern with small firm’s economic and inclusion capacity is not strange per se nor a new phenomenon in the economic policy literature. Indeed, several scholars, for instance Lyberaki\textsuperscript{30} (1991), reviewing the long-standing multifaceted history on the matter, point out the fact that the optimistic small industry theorization has its origins in the 18\textsuperscript{th} century "core" economy, occurred almost in the dawn of the industrial revolution. From Proudhon’s idealized and utopian craft communities, which were criticized by Marx in the "Poverty of Philosophy", the issue penetrated to the "periphery" economy taken by the Russian populists, the Narodniks, as an alleged alternative to capitalism. Recently, in the context of the development theories\textsuperscript{31}, the search for appropriate technology has also led the neo-populists to the small firm’s important role (Kitching,\textsuperscript{32} 1982). Furthermore, according to Lyberaki\textsuperscript{33} (1991), in the ’70s, small firm’s theorization - in its most recent and influential guise - supported the Informal Sector debate and, finally, appears to be the most favoured option for the E.U.’s policy-makers to recession and unemployment and a major means to overcoming such problems.

What it appears to be confusing, however, is public interventions based on frameworks and assumptions that contradict the “real world’s” picture in terms of industrial and labour restructuring. In relation to this issue, our initial concern is whether it is enough to seek explanations based on inherent characteristics of small firms. Furthermore, Does the free market paradigm provide a realist, credible reference of the conduct and performance of all firms’ type? Is it appropriate to justify unemployment as a trade off with inflation? Isn’t it a paradox first to herald recession for small firms’ generation and then blame it for unemployment growth and social exclusion increase? Does this constitute a consistent and integrated approach to human life problems?

Furthermore, our concern is whether it is enough for the broader academic inclusion literature and related research work, merely to realize incidences of paradoxical phenomena occurring in our societies. That is to say, there is a group of writers that,

\textsuperscript{31} F.N.: In particular in the context of the "appropriate technology" and "small is beautiful" approaches.
although it informs the debate on changes in labour market, does not seek alternative solutions to addressed social problems. For example, some researchers recognize that, at present, the advanced deregulated and liberalized industrial societies are faced, on the one hand, with rising skill requirements suggesting as decisive the role of "human capital" for economic growth and competitiveness. On the other hand, high and persistent unemployment, precarious, unstable jobs and a depreciation of skills through technological displacement of labour and/or under-utilization are observed. Then, the possible future developments of work and skills being predicted, range from those who report a radical change in the nature of work and skills in the future to come to those predicting "jobless growth" and social excluded groups and societies34.

Without refuting the complementary value of such efforts, we think they do not systematically inform practical interventions "for the better" in the labour market since they do not point to any policy alternatives that may improve current settings. Bearing such inadequacies in mind, our thesis discusses policy implications and alternative solutions to inclusion in the context of existing systems. Let us now turn to the framework debate informing policy initiatives.

The only alternative framework to the free-market liberals that remains in mainstream economics is the Institutionals' approaches. Of these the dual economy approach is perhaps the most fully developed and has been around long enough to be evaluated against reality. Averitt's35 Dual Economy model is also associated with the dual labour market theorization and this fact has additional value for this research's purposes since it constitutes an effort to assess industrial performance in terms of labour markets' evolution. Averitt's work, although mainly along the same lines as the institutionalist paradigm36, has several unique properties that set it apart and which we discuss in detail in Chapter 3. Therefore, this thesis will seek to explore the power of this alternative framework to that of the prevailing free-market Monetarist frame of reference with its

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36FN.: The Institutionalist paradigm denies the free-market approach economic and industrial assumptions. The Institutionals are in favour of an oligopolistic model of technology, driven by core firms in core economies. The implications of this model for the economy as a whole are an ensuing permanent disadvantaged and dependent role of the small business sector always destined to lag behind the core economy in terms of technology, profitability and employment conditions. We extensively discuss the major principles of this account in the next chapters.
optimistic small-scale industry approach to explain recent changes in industrial and social structure.

By juxtaposing the alternative free-market and dual economy frameworks, the broader questions that are addressed in a comparable manner in this thesis are as follows:
Why, despite the good intentions of - almost all - political parties to contribute to economic and social prosperity through the provision of a small industry development strategy, the unemployment not only continued but seems to have been extended to new social groups?\(^{37}\)

In close relation to the above: Why has Europe's record on small firm's job lagged the USA's performance? Are there alternative explanations for the "failure" of Europe's small enterprise programmes to deliver on employment and economic development? Are the solutions suggested connected with the way the E.U. conceptualizes SMEs in the context of the free-market ideology?

All the above raised questions reflect on widespread, published concerns that coincide with ours and, although they do not all represent the backbone of this thesis' "key" questions, run through many of the subsequent chapters since they give an idea of broader concerns and speculations on this thesis' peripheral issues.

At this point, we should like to denote that the European SMEs debate as to the SMEs' role in combating social exclusion and unemployment problems, although interesting, suffers from a number of problematic methodological and definitional aspects. To this definitional confusion we now turn. In fact, SMEs, unemployment, social exclusion, flexibility, globalization and a host of other industrial/social proxies, have been defined and measured in different ways and it appears to be a lack of clarity of definitions and measurements in terms of several respects: What does in fact constitute a "small" firm? What are the methodological impediments to conceive small firm's dimensions in pragmatic terms? How do we measure unemployment? What groups are qualified to be included in the "unemployed"? What are the alternative meanings of "flexibility" concept, initially related to firms' and labour's readjustment capacity? How do we measure flexible employment? What is the nature and meaning of the "socially

excluded" and what are the economic and social factors forcing people to such a status? In fact, without a clear understanding of the nature and evolution of such basic concepts underpinning this research's issues, we will not be in a position to explore the validity either of the free-market or dual economy model. The lack of clarity on such themes hinders our understanding about the relative merits of the two models in terms of their descriptive and analytical power as explanations to unemployment and social exclusion. Let us now refer to some of these specific problems briefly since in the subsequent chapters we explore them in detail.

As regards the SMEs strategy's statistical and methodological problems, it appears that, in the market-clearing era, the EU's SMEs "sector" constitutes an elusive concept. In fact, SMEs are highly heterogeneous entities and their available typologies differ widely from country to country. Therefore, at a first glance, it appears that in the European member countries, a number of methodological problems in terms of measurement have been developed from confusion in small firm's statistical definition.38

The same vagueness appears to surround also the notion of flexibility. As a consequence, a lot of barriers are created in any effort seeking to comprehensively interpret its implications for deskilling and polarization of employment terms. The same confusion appears to result from its ambiguous implementation within work organizations, although in its basic definition it is rather a straightforward concept meaning adaptability and responsiveness to pressure. The various dimensions of the flexibility concept and their implications for industrial and political economy interpretations of the real world are discussed in the subsequent chapters of this thesis.

The third "key" concept calling for a clarification in the context of this thesis is the "social exclusion" term. This also appears to have generated much controversy. The number of theories developed, aiming to explain the causation of the phenomenon or give a meaningful interpretation of the term, reflects the confusion on the matter. In

38 FN.: In Chapter 2 we explore a number of different ways chosen by governments for SMEs' definition. We also refer to different SMEs measurement approaches and subsequent problems for data comparability at EU or global level.

fact, in the last few decades, social exclusion appears to be used as a summary concept that contains a wide range of recent socio-economic developments such as "new poverty", inequality, discrimination or the underclass. Indeed, several scholars as for instance Riggs, F. W. (1988), have indicated marginality, irrelevance, alterity, closure, disaffiliation, deprivation, destitution, foreignness etc. as some of the notions recently involved in the term. Each political account, the Liberals or Social Democrats, not to mention the Communists, gives different interpretations to persistent and sustained unemployment and attributes exclusion to different causes. Such perspectives are critically reviewed in the chapters to follow.

The same definitional problems relate to globalization's conceptualization. The literature on the matter is huge and involves a number of this concept's dimensions. In the chapters to follow, some aspects of globalization are explored since their identification will promote our understanding of mainstream claims that inform a lot of current industrial and labour market policy development.

All the above stated themes and issues made us to assess- as an alternative to the Milton Friedman and Friedrich Hayek approach- the framework described by Robert T. Averitt (1968) in his work "The Dual Economy". In brief, Averitt's basic arguments rest upon three new concepts. These are: (a) the center and periphery firms that compose the two types of business organization. These two industrial types reflect what he calls the dual economy, (b) and (c) being the "key" industries and the "technical production system". The center firms in relation to "key" industries and the technical systems are integrated in what he calls the "core" economy and thus constitute the driving forces of any economic development, whilst the role of the secondary economy - which is populated by small firms - is deemed as dependent on the core economy (Ibid., p.2). We critically discuss the principle tenets of Averitt’s dual economy model and their empirical validity in the chapters to follow.

John Atkinson (1984) in his work "Manpower Strategies for Flexible Organizations" provides a development to Averitt’s dual labour market model by what he describes as

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"the flexible firm" model. This paradigm effectively suggests the incorporation of the core labour market within the structure of the core firm. Due to its close relation with Averitt's model and its analytical use as an instrument at a microeconomic individual firm level, in the subsequent chapters we discuss also the main principles of Atkinson's "flexible firm model" and the empirical outcomes from its implementation on labour markets' structure.

Averitt's dual labour market model has received some further theoretical support from a Marxist labour process perspective. The evidence-based developments of the modern Capitalist labour process examined in this thesis have as a starting point some characteristics and issues involved in Harry Braverman's (1974) conceptual framework, developed in his classical work "Labour and Monopoly Capital". Such a Labour Process theorization draws attention, much in the same lines as the advocates of the pessimistic views on Flexible Specialization, to issues such as: who is the owner/s of production factors, who controls or designs work and, subsequently, how and by whom wage-levels are determined. Such approaches, more or less, have thus tried to understand better alternative forms of capital and labour relationships - experienced at times within the context of the place of work – that, at the end, shaped changes in the nature of the labour market. Since Braverman's explanations are of great importance for the development of our discussion in the subsequent chapters, let us now briefly refer to the main principles of his account.

Labour Process theory is based on the combination of the following three elements: (a) the 'human activity' or 'labour' components of the capitalist structure, (b) the objects upon which labour acts (raw materials, unfinished products etc.), and (c) the means by which labour acts. According to the labour process analysis, the capital-owners have treated 'human activity' since the beginning of the paid-work-system as commodities. The capital-labour relation then is deemed as a site of conflict, which determines how technology and work organization are utilized by management in order to extend its control over labour.

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Thus, the basic idea of the labour process theory is that the management of technology gives power to managers of capital to control the output rates (e.g. length of time or work intensity) and, hence, the price received for the job by the hired labour. Furthermore, management by dividing labour or replacing skilled with unskilled workers, on one hand, achieves lower employment cost and, on the other, secures loyalty and cooperation through corporate culture. Advocates of this approach also argue that management can further secure labour obedience through sub-contracting practices or via production transfer to the Third World countries.

Under Braverman's theorization such labour division then, reflects an intensification of jobs' polarization and deprivation of skills. Braverman was convinced that the oligopolistic corporate powers, based on the Scientific Management System principles, introduced in the beginning of the century by Frederick Taylor (1947), would lead to workers' deskill intensification and jobs' polarization through changes in technology and work organization by the end of the twentieth century.

It appears crucial for our discussion purposes also to denote that Braverman has termed "skill" as the equivalent to "craft definition", in other words Braverman has defined "skill" as a notion involving an ability to "conceive" as well as to "do". Such a skill interpretation then, Braverman has argued, requires a considerable amount of task-specific training. In fact, Braverman has rejected the free-market advocates' definition of skill within the context of which "skill" is viewed as a technical and objectively measurable thing that quasi-relates to the possession of knowledge and experience in terms of a special dexterity. In Braverman's words such skill conceptualization "becomes degraded along with the degradation of labour and the yardstick by which it is measured shrinks to such a point that today the worker is said to possess 'skill' if his or her job requires a few days or weeks training".

According to several other analysts of the "skilling" thesis, for instance Gallie (1991), or Crompton & Jones (1984) such scholars as Braverman believe that the "expansion

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of higher grades is deceptive: it reflects industrial relations' strategy rather than any real increase in skill levels. The underlying dynamic behind the process of deskilling is thought to be an increased concern by management to tighten control over the work process... By routinizing work, (management's) predictability (about the workforce power) is increased and the capacity of employees to resist is weakened through the greater substitutability of labour" (p. 320).

Interestingly, Braverman has fully rejected the skills' upgrading free-market advocates' presumption even for the professional workers. In fact, he argues that in a process of proletarization and homogenization of the labour force even non-manual jobs have been transformed into deskill ed ones equivalent to the proletarian condition. He has further suggested that occupations such as those in the service sector, as for instance accountants or technicians, have been also deskill ed and, hence, he considered such employees as constituting the "new proletariat" of the working class.

From the aforementioned discussion, it appears that it may be a strong intersection between, on the one hand, Braverman's labour process approach and, on the other, Averitt's dual labour market and Atkinson's flexible firm model. That is why in our approach to evaluating the EU's SMEs responses to unemployment and social exclusion in the chapters to follow, we incorporate several elements of the Labour Process Paradigm and seek for their validation or refutation. Such elements assessed relate to differentiated ownership structures between small and large firms, disparity in capacity to develop managerial techniques of human resources, inequality in control patterns and power relations, availability of technological improvements, etc. We hope that a clearer understanding of such proxies' empirical evolution will shed more light to policies' shaping.

Further, we should denote that an underlying assumption in forming our approach to the EU SMEs policy's evaluation, is that the SMEs' strategy focused on societies' prosperity, should not be based on frameworks that isolate SMEs from their wider macroeconomic environment. This is the reason that, although primarily concerned with the EU's SMEs responses to inclusion, in our approach employed we explore also what is currently taking place in the terrain of industrial and labour's development.
globally. That is to say, globalization and its empirical impact on firms' job generating capacity/strategy are extensively examined in the chapters to follow.

Therefore, this thesis seeks to establish the evidence for assessing the relative merits of dual economy and free market frameworks as offering a better understanding of contemporary socio-economic and industrial structures and a learning basis for policy improvement. In other words, what is being examined is which model provides a realist reference for the relevance of a SMEs' policy formulation and implementation as a strategy to defeat unemployment and social exclusion. The main questions that seek for answers are: Does the institutional, dual economy framework provide at least as plausible explanation as the neo-liberal economics' model of social exclusion and unemployment? If so, what does this imply for SMEs policies related to job creation and social exclusion?

A further question that its answer seems to develop our understanding of labour markets' and societies' structure is: How capital/labour relations have changed through this transition period from mass production to small-scale industry? In fact, over the Fordism period the typical prevailing form in capital/labour relationship was that of a collective sort of determination. This thesis will seek to interrogate whether the former collective type of capital/labour relationship has been eradicated and replaced by multiple forms of capital/labour relations thus fragmenting labour's ability to organize the labour market as regards working time aspects, wage formation, social insurance etc.

Furthermore, the thesis will attempt to examine whether the amendment at the margin of the state management and the substitution of state's role by market forces have helped in any sort of way the long-term unemployed, the elderly, and the socially excluded rather than made their plight more acute. Also a related question is whether the fragmentation in labour solidarity (if it is true) has set any limits upon the use of workers' skills or the utilization of their creative power. Has the liberalized labour market facilitated the decomposition and instability of the work organization and employment of the worker to the extent of increasing the levels of social exclusion and unemployment?
In conclusion, current research’s main objective is to explore whether, at the end, the SMEs strategy as a whole can work if the structure of dependence and oligopoly, implied by the dual economy model, should prove to be a better explanatory framework than that of the free market model. Where do both frameworks leave alternative public options? Can different entrepreneurial accounts tackle unemployment and social exclusion problems in a more realist way?

Having set the context of our research, our basic rationale, basic issues and themes surrounding the SMEs’ conceptualization and informing current policies, and our concerns’ orientation, we now turn to the methodological procedure followed by this thesis. This involves the hierarchy of our “key” research questions, steps of our objectives, research stages, our main empirical resources, and, finally, the structure of the thesis in chapters’ order.

The hierarchy of our “key” research questions is as follows:

-To what extent does the Dual Economy Model provide a credible alternative theoretical framework that empirically describes the reality of the global economy and its impact on labour market structure in the European, national and regional contexts?

In this connection, the following questions will be addressed:

-What strengths or weaknesses in the EU’s SMEs strategy does a dual economy perspective imply as a potential cure for unemployment and social exclusion?

-What evidence is there in the experience of an alternative strategy for the construction of structures that may overcome some or all inherent weaknesses identified for existing SMEs policy by a dual economy framework?

-What are the policy reforms needed to enable a solid alternative strategy for the generation and sustainability of SMEs to evolve from the existing range of European policy options in these areas?

- What are the implications for the EU’s policy “evaluation logic”?
Our research objectives involves the following steps:

- to identify the principle tenets of the dual economy model and seek to establish from empirical data the levels and trends in industrial concentration in those sectors that Averitt describes as composing the "core" economy,
- to present an empirical description of the contemporary labour market in order to reflect on the extent its structure confirms what could be anticipated given Averitt's dual labour market theory;
- to reflect on various evidence-based studies of the SMEs' development and their impact on job creation during the last twenty years in relation to trends in polarization and social exclusion growth;
- the aforementioned initial stages, based on existing empirical work, will then enable us to generate a hypothesis for further research as to the likely effectiveness of an alternative strategy employed to support general development of the SMEs;
- to identify a policy evaluation logic and approach that would help in real terms the unemployed and the social excluded and not just the EU’s control and monitoring action at aggregate level.

Our research methodology includes the following stages:

Stage 1: The systematic analysis of industrial and political economy theoretical and empirical work on:
- SMEs
- Policy issues
- The dual economy framework
- Globalization and industrial concentration
- Labour market structure

Notably this is an effort to identify and investigate the significant issues that formulate related hypotheses on the above areas and a search for the impact of their application in practical situations based on the a priori stated “interventionist rationale” of this thesis.

Stage 2: Assessment of the frameworks compared and evaluation of the EU’s SMEs strategy in the light of the most analytical and comprehensive framework. Both
assessments are based on “key” features that have been empirically documented from the analysis in stage 1.

Stage 3: This will be to suggest what our research implies for action or potential options to public or super-national SMEs policy related to unemployment and social exclusion themes.

Sources of data:

The main empirical data used for SMEs’ conduct and performance come from the OECD Database on SME Statistics, several publications of the "ENSR- European Network for SMEs Research" and a series of "Enterprises in Europe" Eurostat Surveys. From the SMEs department of the “ILO- International Labour Office” as well as from proceedings of international workshops and conferences we have also drawn data on SMEs performance in relation with labour markets.

Material on European labour markets comes from statistical trends published by the European Union or national authorities, in particular from several "Employment in Europe" and "National Labour Force Surveys", and the Eurostat Benchmark Series. Employment estimates for the OECD regions are drawn upon a series of "OECD Employment Outlook", "OECD Main Economic Indicators and Labour Force Statistics" and the OECD, STAN database (DSTI/EAS Division). A number of “evidence-based” work has been used mainly focused on industrial and political economy explanations. More detailed sources of references can be found in the footnotes of the chapters to follow.
Structure:

In Chapter 1 the context of this thesis is outlined. Our main rationale to a public policy validation is first presented. Then, a discussion of the main problematic assumptions and themes of mainstream frameworks that informed current EU SMEs' policy initiatives and raised our concerns with the issues in the first place follows. Finally, the thesis' objectives, the hierarchy of the "key" questions, and our methodological and structural patterns as well as this research's evaluation direction are discussed.

In Chapter 2 we review the EU's policy initiatives and discuss critical studies concerned with small firms' role in industrial and societal organization. Empirical evidence on factors influenced so far small firm's viability and prospects is also considered. In particular, in Section 2.1, first we examine SMEs' definitional problems and, in turn, review the policy initiatives taken by the European Commission to promote the SMEs sector. Section 2.2 discusses in a comparable manner explanations on the SMEs' role in the economy that led to small industry's policy-resurgence. In this section the focus is on the way firms' conduct and performance have been conceptualized and interpreted since the post-war period. Special emphasis is paid on the continuity of large firms' strategies for minimizing uncertainty and perpetuating their ultimate power. The implications of large firms' behaviour for the industrial shaping and small firms' dependency status are examined. A brief summary of different strands/approaches informing current debate on industrial technicalities and social reality follows. Then, the interventionist rationale underpinning national or super-national SMEs responses to social needs since the mid-70s is discussed. Here we examine the way in which changes in the context of politico-economic and industrial structure have been conceptualized and in turn informed public interventions. Our approach to changes is focused on themes and issues that shaped social, industrial, political and ideological mainstream explanations. This enterprise involves exploration of different modes of state, labour and capital interaction. This extract hopes to help the reader to understand better how changes in the way national or super-national state's role in the economy - during the last twenty five years or so – have been conceptualized, gave impetus to the SMEs policies' emergence. In Section 2.3, we initially consider the evidence-based explanations of a range of industrial work on SMEs' conduct and performance, paying special attention to empirical outcomes referred to the SMEs
stability / instability factors and the causes thereof. We also analyze and critically evaluate empirical evidence on the impact differentiated ownership structure, financial systems, historical records, other socio-economic factors, etc had on the shaping of the national distinctiveness of the SMEs’ employment creation performance and employment quality record.

Chapter 3 discusses in detail Averitt's original model and his updating version on industrial restructuring in juxtaposition with the free-market paradigm. The introductory section 3.1 examines the main arguments made by the free-market/flexible specialization advocates. It also briefly reviews some empirical work outcomes that question the credibility of such approaches’ assumptions. This extract hopes to inform the reader on the optimistic vision of this paradigm that - by focusing on a specific mode of production organization – has managed to influence much public policy experimentation on the grounds of the assumption that the “particular” in recent industrial development can stand for the “general”. Section 3.2 examines in a comparable manner Averitt's original model and his updated analysis in terms of macro-, meso- and microeconomic industrial issues and themes related to different firm-types’ conduct and performance. In the entire pursuit, we draw upon empirical industrial documentation and business studies that support or attempt to criticize Averitt’s model, directly or indirectly. In this chapter, our exploration mainly relates to that part of Averitt’s model that reflects directly on the industrial structure, since his dual labour markets model is approached at Chapter 4.

Chapter 4 examines empirical data reflecting on the nature and structure of the labour markets as well as related policy responses. Section 4.1 describes in detail the principle tenets of Averitt’s dual labour markets model. “Key” features of Atkinson’s flexible firm model are also considered. It follows a definitional clarification of the “flexibility” concept and some empirical results on new forms of employment flexibility. Section 4.2 extensively discusses the empirical evidence for and against dual labour markets in juxtaposition with free-market interpretations. Methodological and definitional problems involved in a labour market assessment are also examined. This section’s objective is to explore in detail the empirical evidence that supports or refutes Averitt’s, Atkinson’s and Braverman’s views.
Chapter 5, Section 5.1 examines the context of globalization thesis, definitional problems, and methodological assumptions informing current EU SMEs and labour market initiatives. In Section 5.2 global empirical evidence for and against the dual economy model in juxtaposition with the free-market paradigm assumptions is considered. The impact of both explanatory accounts on small firms and the division of labour is assessed. In overall, this chapter’s main objective is to highlight the dependency of the secondary firms upon oligopolistic structures operating internationally.

Chapter 6 is a link chapter that takes stock of the trends and policy-related results identified in earlier chapters. It starts with an assessment of the Dual Economy Model discussed in Section 6.1. Here, the main questions addressed are:
"Is the small firm sector as dependant and marginal as Averitt suggested?" and "Are the trends concerning polarization such as to confirm the success of the previous policy initiatives or to underpin our originally stated concerns?"
Our framework-assessment outcome that confirms the optimistic free-market views flawed is followed by some thoughts discussing the need for an alternative conceptualization of small industry and broader industrial and socio-economic reality. Section 6.2 evaluates recent EU’s SMEs policy initiatives and discusses their invalidity as being the best means in alleviating unemployment and social exclusion.

Chapter 7 includes our conclusions and the implication of our results for public policies’ evaluation. Various general and SMEs targeted policy recommendations arising from this dissertation are discussed at the end.
Tables 1.5a, 1.5b, 1.5c: List of EU policy initiatives aimed at promotion of SMEs – 1980s to 1990s

Table 1.5a: Main SME policies and major tools applied in the field of Business Environment

<table>
<thead>
<tr>
<th>Aims</th>
<th>Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplification and reduction of administrative overheads borne by businesses, especially requirements for the new installations and statements.</td>
<td>Electronic declarations and unified forms and documents</td>
</tr>
<tr>
<td></td>
<td>Simplification of statistical burdens or administrative declarations for firms</td>
</tr>
<tr>
<td></td>
<td>One-stop shops for handling administrative matters especially for new settlements</td>
</tr>
<tr>
<td>Providing businesses with information, especially on administrative requirements</td>
<td>Informative One-Stop Shops, even on Internet sites</td>
</tr>
<tr>
<td>Carrying out studies on SMEs administrative burdens in order to suggest simplification improvements to policy makers</td>
<td>Public researches about the impact on SMEs of regulations and proposals for improvements of the regulatory systems.</td>
</tr>
<tr>
<td>Reduction and relief for taxes and social security on behalf of SMEs</td>
<td>Legislative reform simplifying tax and social security systems</td>
</tr>
<tr>
<td></td>
<td>Legislative reform relieving tax and social security burdens, especially for new firms</td>
</tr>
<tr>
<td>Simplification of administrative structure</td>
<td>Reorganisation and amalgamation of ministries, public bodies and agencies</td>
</tr>
<tr>
<td>Reducing the occupational impact of business failures</td>
<td>Reforms on failure legislations in order to allow the failed entrepreneur to create a new firm or to avoid failure</td>
</tr>
<tr>
<td>Facilitating enterprise transmission</td>
<td>Legislative reforms, tax reliefs or incentives for enterprise transmission</td>
</tr>
</tbody>
</table>

Table 1.5b: Main SME policies and major tools applied in the fields of Financial Environment, and Internationalisation and Information Services

<table>
<thead>
<tr>
<th>Tools</th>
<th>Aims</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Environment</strong></td>
<td>Legislative production; establishment and incentives of venture capital, seed capital funds or business angels</td>
</tr>
<tr>
<td>Development of innovative funding mechanisms for SMEs start-up and growth, especially in terms of innovation and capitalisation</td>
<td>Establishment and incentives of mezzanine financing, participatory loans, participative credit etc.</td>
</tr>
<tr>
<td>Facilitation of SME access to credit and improvement of their financial structure</td>
<td>Schemes to guarantee debt contracted by SMEs, debt rescheduling and reduction programmes</td>
</tr>
<tr>
<td>Measures for delayed payments</td>
<td></td>
</tr>
<tr>
<td>National programmes of direct aid to SMEs</td>
<td>Financial incentives for SMEs investments</td>
</tr>
<tr>
<td>Institutional reforms</td>
<td>Creation of stock markets for non quoted SMEs</td>
</tr>
<tr>
<td><strong>Internationalisation and Information Services</strong></td>
<td>Incentive programmes for market study and participation in sector fairs</td>
</tr>
<tr>
<td>Promotion of SMEs penetration of foreign markets</td>
<td>Creation of national, private or public agencies to promote foreign trade</td>
</tr>
<tr>
<td>Support of collaborative international efforts and the creation of wider networks for national SMEs</td>
<td>Financial incentives and technical support, often on the part of promotion agencies, in pursuit of foreign partners and establishment of agreements, joint ventures, etc.</td>
</tr>
<tr>
<td>Dissemination of information of specific interest to SMEs (managerial, trade, financial, etc.)</td>
<td>Financial incentives for direct investments abroad</td>
</tr>
<tr>
<td>Upgrading the firm's organization capacity to penetrate foreign markets</td>
<td>Creation of specific information outlets and websites</td>
</tr>
<tr>
<td>Training programmes for managers or employees or entrepreneurs</td>
<td></td>
</tr>
</tbody>
</table>

Source: The same as Table 1.5a.
Table 1.5c: Main SME policies and major tools applied in the field of R&D, Labour and Training, Fostering Entrepreneurship and Enterprise Culture

<table>
<thead>
<tr>
<th>Aims</th>
<th>Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved access to R&amp;D, Labour and Training</td>
<td>Set up of incubators</td>
</tr>
<tr>
<td>Creation of highly innovative new SMEs</td>
<td>Financial tools for creating high-tech and high-productivity industries (seed capital, venture capital etc.)</td>
</tr>
<tr>
<td>Helping existing SMEs to conduct R&amp;D or absorb innovation from outside</td>
<td>Collaborative programmes between SMEs and public research centres or amongst SMEs</td>
</tr>
<tr>
<td>Helping existing SMEs to conduct R&amp;D or absorb innovation from outside</td>
<td>Financial and tax incentives for innovative investments or implementation of quality certification systems</td>
</tr>
<tr>
<td>Helping existing SMEs to conduct R&amp;D or absorb innovation from outside</td>
<td>Public sector innovation programmes in particular areas (IT and Internet, electronic trade, biotechnology, etc)</td>
</tr>
<tr>
<td>Improvement of the national research system in order to disseminate technological innovation to SMEs, among others</td>
<td>Incentive programmes for commercial application of public sector research</td>
</tr>
<tr>
<td>Improvement of the national research system in order to disseminate technological innovation to SMEs, among others</td>
<td>Creation of new research and technology transfer structures or fostering the competence of existing ones</td>
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<tr>
<td>Improvement of the national research system in order to disseminate technological innovation to SMEs, among others</td>
<td>Promotion activities and training or consultancy programmes for the diffusion of new technologies</td>
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<tr>
<td>Improvement of the ratio between quality and human capital cost in SMEs</td>
<td>Vocational training programmes to meet company needs</td>
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<td>Improvement of the ratio between quality and human capital cost in SMEs</td>
<td>Cost relief for hiring trainee personnel and new graduates</td>
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<td>Improvement of the ratio between quality and human capital cost in SMEs</td>
<td>Cost relief for hiring scientific professionals or qualified managers</td>
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<tr>
<td>Favouring access to the jobless in labour market, especially in SMEs</td>
<td>Modification of norms for national labour markets towards greater flexibility</td>
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<tr>
<td>Favouring access to the jobless in labour market, especially in SMEs</td>
<td>Incentives for hiring unemployed</td>
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<tr>
<td>Fostering Entrepreneurship and Enterprise Culture</td>
<td>Incentives to creation of new businesses by the young, women, and the jobless</td>
</tr>
<tr>
<td>Developing the trend to self-employment, especially among the young and areas of society most at risk of exclusion from the labour market</td>
<td>Courses in self-employment</td>
</tr>
<tr>
<td>Increasing knowledge of business methods and labour, partly for future hiring in companies</td>
<td>Courses in company subjects, internships and business game programmes for students</td>
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Source: The same as Table 1.5a
Chapter 2

EU's Policy Measures in Favour of SMEs; Reasons for SMEs Policies’ Resurgence; Evidence on their Impact

In this chapter we review the EU’s policy initiatives and discuss critical studies concerned with small firms’ role in industrial and societal organization. Empirical evidence on factors influenced so far small firm’s viability and prospects is also considered. In particular, in Section 2.1, first we examine SMEs’ definitional problems and, in turn, review the policy initiatives taken by the European Commission to promote the SMEs sector. Section 2.2 discusses in a comparable manner explanations on the SMEs’ role in the economy that led to small industry’s policy-resurgence. In this section the focus is on the way firms’ conduct and performance have been conceptualized and interpreted since the post-war period. Special emphasis is paid on interpretations emphasizing large firms’ strategies for minimizing uncertainty and perpetuating their ultimate power. The implications of large firms’ behaviour for the industrial shaping and small firms’ dependency status are examined. A brief summary of different strands/approaches informing current debate on industrial technicalities and social reality follows. Then, the interventionist rationale underpinning national or super-national SMEs responses to social needs since the mid-70s is discussed. Here we examine the way in which changes in the context of politico-economic and industrial structure have been conceptualized and in turn informed public interventions. Our approach to changes is focused on themes and issues that shaped social, industrial, political and ideological mainstream explanations. This enterprise involves exploration of different modes of state, labour and capital interaction. This extract hopes to help the reader to understand better how changes in the way national or super-national state’s role in the economy - during the last twenty five years or so – have been conceptualized, gave impetus to the SMEs policies’ emergence. In Section 2.3, we initially consider the evidence-based explanations of a range of industrial work on SMEs’ conduct and performance, paying special attention to empirical outcomes referred to the SMEs stability / instability factors and the causes thereof. We also analyze and critically evaluate empirical evidence on the impact differentiated ownership structure, financial
systems, historical records, other socio-economic factors, etc had on the shaping of the national distinctiveness of the SMEs' employment creation performance and employment quality record.
2.1 Definitional Problems in the SMEs Debate; Review of the EU's SMEs Policy Initiatives

There is no doubt that at present SMEs form the great majority of EU enterprises and account for a high share of the employment in most EU member countries. According to E.C. (1998) evidence: "More than 99.8% of the 17.9 million enterprises in the European Union are SMEs, employing 66% of the private-sector workforce and generating 56.2% of total turnover". There is considerable empirical evidence to suggest that in the '80s SMEs (with fewer than 100 employees) had in fact a better record in net job creation than large firms in all EU member economies. This is the background to much of the free-market EU's policy-makers claim, that the SMEs sector constitutes an independent source of economic growth due to its alleged superior flexibility and innovativeness and their optimism concerning SMEs contribution to employment creation. We shall argue that the overall direction of economic and employment change hides important differences at national, sectoral and individual firm level that are shaped by longstanding institutional influences. First, we shall examine some definitional and measurement problems involved in the small industry debate.

2.1.1 Definitional Problems Involved in the SMEs Debate

Despite the EU rhetoric, in practice there appears to be no such single homogeneous entity as a "European SMEs sector". Hence, statistical definitions and available typologies in different countries vary considerably depending upon the institutional and historical contexts prevailing at different national levels. Loveman and Sengenberger (1990) have provided some of the most commonly used small-business sector's definition criteria covering those defining SMEs by "owner-status", as it is the case in Hungary, to those relating SMEs with "legal status", as it is the case in France.

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The German SME distinction is between "craft" and "industrial" firms. The Dual Economy view, as we analytically discuss in Chapter 3, appears to be accepted in Japan's case by talking of SMEs as independent or subordinate firms.

Another area of confusion concerns the statistical definition of "smallness". In fact, up to now there is a clear tendency in most studies undertaken by OECD or EU member countries' statistical bodies to organize and analyze data on SMEs performance, for instance job creation and destruction, by firm size. The main question that arises then, is how we define the "small" size.

In fact, statistical studies on firms' trends, most often, define "smallness" by employment or, to a lesser degree, in terms of the utilized capital. In the OECD countries firms with fewer than 500 employees are usually defined as SMEs, whereas in the European Union a lower cut-off point of 250 is generally used. Such disparity on databases in different OECD or EU countries, as we empirically demonstrate further in this thesis, makes weaker any SMEs public-responses at aggregate level, that are not targeting particular segments of SMEs.

For the first time in 1996, the European Commission - in an attempt to overcome discrepant definitions and increase the coherence and effectiveness of all aid-actions taken for SMEs - adopted a uniform framework of SMEs' reference. That framework involved a number of measures that could promote the use of a unified SMEs' definition at national and Union level. In the form of a Recommendation on the use of a definition-framework for SMEs, small enterprises and micro-enterprises, this set of measures was then presented to all member states, European Investment Bank and European Investment Fund.

According to this definition, a SME is an enterprise, which has fewer than 250 employees and an annual turnover that does not exceed ECU 40 million. Accordingly, the small and medium size enterprise should have an annual balance sheet in total not exceeding ECU 27 million. An additional threshold is that no enterprise or enterprises, which are not SMEs themselves, can own 25% or more of the capital or voting rights. "Small" enterprises are defined as those with fewer than 50 employees and a turnover not exceeding ECU 7 million or a balance-sheet total not exceeding ECU 5 million.

56 OJ L 107 of 30.4.1996, p.4
together with the independence criterion. Finally, micro-enterprises are defined those with fewer than 10 employees. At present, despite the uniform EC’s definitional attempts, the statistical problems still exist since the majority of the EU member countries have not yet complied with the above Recommendation, so any generalization concerning SMEs’ behaviour and performance as a whole, is still subject to vagueness.

The cut-off points currently being followed in practice in different European countries, according to the SMEs’ employment criterion, seem to have been set more or less in an arbitrary way. For instance, in Greece as SMEs are considered those firms that employ 1-99 person. They are then further classified in 3 sub-categories as follows: i) micro-enterprises (0-9 employees), ii) small-enterprises (10-19 employees), iii) medium ones (20-99 employees). Finally, firms, which employ more than 100 persons (100+) are considered as large firms. Other European countries, however, have a significant higher cut-off point. In Great Britain, for example, small firms are defined as those with 200 or less employees.

Despite countries' divergent size-class definitions and sector-classifications that create a considerable number of statistical and methodological problems, the OECD authorities or EU governments do in fact use mostly the “size” criterion definition in SMEs data accumulation procedures. As Loveman and Sengenberger have convincingly argued: "the concern with the scale of enterprises or establishments is meaningful only in a relative or comparative context... It is then, sufficient to set ad hoc or convenient statistical conventions aimed at revealing as much as possible of the variation in the size composition. After all, despite the formidable problems with measurement and comparability of the data, size is still one of the most accessible indicators of productive organization across countries" (Ibid.).

In such a context, characterized by more or less successful efforts to harmonize SMEs databases among the EU or OECD Member States, EU policy-makers and free-market theorizing advocates appear to pay greater importance to the quantitative superiority of the entire SMEs sector at aggregate levels. In turn, based on such figures, they have ascribed to it a “key” role in terms of a job generation capacity.

57 FN.: For more information, see: KEPE, "Final Report for SMEs in Greece", Athens, March 1993.
Consequently, despite the aforementioned statistical, methodological or inter-country variation problems that in practice undermine the implied homogeneity of the SMEs, EU policy-makers have shown a special political concern with the SMEs as an undifferentiated whole. This concern has led in the late 1980's to the creation of various Community-wide instruments and measures that were explicitly aimed at assisting the SMEs. We now turn to such policies' discussion.

2.1.2 Review of the EU's SMEs Policy Initiatives

Throughout the 80's, the European Community's concern with the SMEs, according to several scholars such as Stoker and Benson⁵⁹ (1990) or Crossick⁶⁰ (1988), was related to the likely effects on the small firms from the implementation of a Single European Act. Such a concern was initially expressed in an implicit manner, mainly through directions given to national Governments of the member states.

During that period such major points of the Commission's interest were related to the following issues⁶¹:

-SMEs definition problems using the appropriate maximum employees' threshold number;
-the statistical studies showing a reversal of previous trends for the European policy-makers and a survival capacity of small firms associated with substantial job creation;
-SMEs' contribution to innovation and their consideration as the seedbed of entrepreneurial skill as opposed to the large bureaucratic organizations;
-their unfair competitive disadvantage vis-a-vis large firms;
-finally, the need for a policy in favour of SMEs was designed with an eye towards employment to be implemented on a regional or local level⁶².

EC actions/initiatives in favour of the entire SMEs sector were taken very much with the view of "1992", which set the deadline-year for the completion of the single European market project. The basic philosophy behind such EC actions in favour of SMEs in the free market context was to reduce their competitive shortcomings due to their small size and in that way to facilitate their incorporation into the large single European market. In such a context then and in view of the creation of the internal market, the SMEs main obstacles against the already well established firms, that had been operating for many years on a wide European level, were considered to be the following:

- Financing, especially in view of the modernization and take-off needs entailed by the Single Market project. Both their self-financing possibilities and their access to risk capital were limited particularly in the EC's less developed areas.
- The new EC-wide reclamation and harmonization process appeared also to be often a source of difficulties for SMEs especially when it involved the implementation of stricter legislation in such areas as health standards and workplace security.
- SMEs also appeared to have, in comparison to large firms, a serious handicap in lacking sufficient information as regards such issues as public procurement matters.
- Finally, again because of their limited size, SMEs often employed personnel, which was inadequately trained and could not keep up with new technologies or EC decision-making processes.

In general, such EC interventionist types of action were also assumed as benefiting the employment growth in the SMEs. According to Belaud\(^6\) (1990), such actions, beyond the beneficial effects on SMEs’ employment creation in quantitative terms, aimed also at improving jobs in the SMEs in qualitative terms. In fact, jobs were found in the SMEs characterized by flexible work forms or low quality of working environments such as part-time work, or women labour, instability, and relative lower wages, i.e. features that constitute the so-called secondary labour market. Such increase in flexible precarious jobs was considered by Commission officials to be a long-lasting trend especially if someone would include under the "SMEs independent" label the self-employed professionals supplying specialized services which were often assumed as necessarily linked to new technologies (Ibid.).

Initially, SMEs problems were dealt with by the EC national governments themselves through initiatives aimed at helping SMEs finance or informing them about "1992". However, the SMEs constituted a more explicit Community goal in the sense that there were new initiatives aimed at complementing, where necessary, the national Governments' efforts. In 1986 there was formation at an administrative level of a specific EC Commission "SMEs Task Force" which, in 1989, was replaced by a whole Directorate General (DGXXII) dealing with enterprise, commerce, tourism and "social economy".

Such administrative actions were in fact coincident with a new and more ambitious EC plan, approved in 1989, aiming at the improvement of the SMEs' environment and the overall promotion of their activities. This plan covered the period 1989-93 and was initially granted the amount of ECU 110 million as opposed to the 135 demanded by the less developed EU regions.

The year 1992 witnessed an increased interest in SMEs. In fact, the assumption made by academic and policy makers about SMEs' job creating potential led to the emergence of an ever-increasing political interest in favour of SMEs in the European Council. In 1992, the Edinburgh Council adopted a decision to set up the European Investment Fund (EIF). One of its priorities included granting guarantees to SMEs. A year after, the European Commission White Paper on Growth, Competitiveness and Employment attributes a particular importance to SMEs as regards their employment generation potential and their contribution to the EU competitiveness. The White Paper in fact has envisaged an integrated EC programme favouring SMEs that involved easier access to finance, inter-firm cooperation and improved management.

In June 1994, the Copenhagen European Council concluded that the European Investment Bank should provide loans to SMEs of up to ECU 1 billion over a period of five years. For almost half of these loans the interest rate was to be subsidized by up to 3 percent, the cost of the subsidy, about ECU 52 million, being covered by the EU.

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The subsidy was made on the assumption that new jobs would be created by the borrowing SMEs.

In June 1995 the Cannes European Council asked the Commission to explore ways to improve the effectiveness of policies to assist SMEs. In response, the Commission presented the report on the role of the SMEs as a dynamic source of employment, growth and competitiveness in the Union to the Madrid European Council at the end of 1995. The report was well received. With a view to the Luxembourg Council on Employment in November 1997, the Amsterdam Council in June 1997 asked the Commission to examine initiatives to create more jobs in SMEs. As a result, a task force on simplification was set up in order to improve the quality of legislation and reduce the burden on enterprises, particularly on SMEs. It also asked the European Investment Bank (EIB) to examine, in cooperation with the European Investment Fund, the creation of a facility for financing the SMEs' advanced technology projects. Moreover, the Commission proposed guidelines for member States employment policies as a framework for discussion at the special Job Summit in Luxembourg (20/21 November). One of the most important topics covered by those guidelines was that related to the promotion of a new culture of entrepreneurship in Europe.

Furthermore, at their Summit held in Denver in 1997, the G7 also recognized an inherited economic and social importance to SMEs and the alleged benefits in exchanging best practices; the G7 also expressed the will to continue its work on SMEs improvement. After these various initiatives, a tendency emerges for national government policies to aim for a convergence among the Member States, and between the member States and the Commission on SMEs policy, benchmarking practices and the identification of best practices67.

In 1998, the Commission's interest in SMEs increased to the extent that SMEs from then on constitute one of the major target groups for aid within the context of the Structural Funds:

"Between the periods 1989-93 and 1994-99 the Community appropriations for the

66 FN.: The Commission adopted the third report on the implementation of the Decision made by the EIB concerning the interest subsidy facility for job creating in SMEs on 25 October 1996. (Source: COM (96) 522 final of 25.10.1996, "Commission report on the implementation of the Decision regarding the provision of Community interest subsidies on loans for SMEs" extended by the EIB under its temporary lending facility to the SMEs).

67 FN.: For an extensive discussion on EU activities in favour of the SMEs, see EC, 1998, op. cit., p. 125.
SMEs almost doubled to an average of 10% for all objectives. In the new member states the share reaches at 30 to 40%. The Commission also proposed that the margin available in the existing programmes to be used for SMEs" (Ibid., p. 10).

Furthermore, according to official European evidence: "The European Investment Bank doubled the volume of its global loans to promote the competitiveness of SMEs between 1993 and 1996 and the number of SMEs benefitting also doubled, to stand at 11 034 in 1996. The SME facility has helped 4 435 SMEs to create more than 45 000 jobs. The European Investment Fund now (1998) devotes 34% of its activities to SMEs, with guarantees amounting to 613 million ECUs, of which 397 million ECUs is for the "growth and the environment" pilot scheme" (Ibid.).

In brief, EU actions in favour of SMEs could be classified as follows:

- **SMEs Information and cooperation policies:**

  This involves the creation of the Euro-Info-Centres and opportunities for setting up partner-search networks and specific programmes of meetings between enterprises such as the BC-NET, INTERPRISE and EUROPARTENARIAT. In particular, Euro-info-centres function on a decentralized basis and aim at informing SMEs across the EU on legislative matters concerning their interest, on EU's social and regional funds' aid, on participation in research programmes and other similar issues. These Centres were supposed gradually to become financially independent from Community funding by charging a certain fee for their services. Despite a decade of their operating no change has been made in the way their financial status operates.

  The Business Cooperation Network (BC-Net) - established since 1988- also aims to enhance SMEs information access but this time the information provided is related directly to the market. For instance, the computerized BC-Net centres provide opportunities for cooperation between the SMEs themselves either by simple selling/buying transactions or through joint ventures and other forms of alliances. Such EC's "meso-economic" policy provision, through the BC-Net initiative, appears to aim to some form of "market substitution" by bringing together small firms which, under alternative conditions, might have had great difficulty in finding each other and cooperating68.

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Another similar policy, this time aiming to stimulate the inter-enterprise cooperation and partnership for Europeanization and internationalization, initiated in 1988, is the "Europartenariat" and the "Interprise" programme. Within such initiatives' contexts, a region (or country) of the EU selects a series of local firms able and willing to offer cooperation to other firms in the EU or in third countries.

It is worth adding that since the early 90s, the policy intervention strategies of the EU appear - by introducing measures such as the organization of the international buyers' exhibitions (IBEX) - to realize the increasing importance of transnational subcontracting schemes especially for large firms survival and growth. The IBEX concept was launched and tested under enterprise policy following the request by the Council to test the formula of enterprise meetings organized to meet the demands of large enterprises for the development of new inter-industry partnership (buyers' exhibitions). This concept was taken over in the context of regional policy and the Community SME Initiative (CSMEI). In particular, the IBEX programme organizes planned meetings between large enterprises and SMEs on an international scale, focusing on the needs clearly identified by large enterprises and the specific capacities of SMEs to meet them. The inter-enterprise contracts, directed to specific strategic sectors such as motor industry, agri-food, textile, wood etc., are intended in:

a) to assist large enterprises in their international search for partner SMEs for specific cooperation requirements and b) to promote relations between large enterprises and SMEs by offering SMEs opportunities for direct contracts with large enterprises interesting in their products and services or their know-how.

The main issues that are subsequently raised are as follows:

How many small suppliers can really be benefited from such meetings? Or, what type of relationships can emerge from such requirement-specific contracts between large and small firms? What is small firm's future if the large firm decides for strategic purposes to cancel this production line? In the remainder of this thesis we discuss such matters.

Assisting SMEs through various forms of financial engineering has been implemented on EU level since 1986. In particular, the European Venture Capital Association offers risk capital to SMEs innovative projects transcending national boundaries (total subsidy in 1988: ECU 5.5 million). At the same time, a pilot plan for start up capital was operated for the period 1989-1994 with EU Commission funding of ECU 11.6 million. In fact, the Eurotech-capital fund finances since 1989 high-technology ventures especially those developed by SMEs. More recently, a number of other pilot financial engineering tools such as seed capital or tax incentive schemes have been introduced in selective European countries in order to strengthen the financial structure of small innovative firms and encourage equity financing of investment.

Furthermore, the reform and reinforcement, since the late1980s, of the European Commission's Regional Policy through the unification of the Structural Funds has led to a significant financing -via local intermediaries- of SMEs. This has been particularly striking in the case of re-conversion schemes for declining regions (target 2 zones), sectoral aids - such as RESIDER and RENAVAL - and of course less developed regions in general (target 1 zones, Integrated Mediterranean Programmes). The EU regional development policy has explicitly provided for SMEs in relation to such measures as management aid, technology transfer financing, access to capital markets and direct investment subsidies70. More recently entrepreneurial policies have been introduced aiming at improving the labour pool and intermediate inputs. In such a context several countries have introduced training policies in order to facilitate employees' training targeting at small firms to a great extent71. However, it is difficult to assess exactly EU support for SMEs through regional policy instruments given that this is mostly channeled via national intermediaries. In fact, it is worth adding that recently Community actions are designed as a complement or a contribution to corresponding national or regional actions72.

These interventionist measures do not exhaust the financial aspects of EU's policies. In fact, efforts have been made to facilitate access to easier and cheaper finance in general.

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through the liberalization of the financial services’ sectors such as banking and insurance within the EU territories. Such movements were considered that would facilitate SMEs access as well. The extent to which the very specific SMEs’ financial needs are covered successfully by the above policies still remains an open question\(^{73}\) as they are subject to high national disparities. However, it is worth noting, that empirical evidence emerging at regional level indicates that start-up and growth loans delivered to small businesses by regional credit co-operatives appear to have a lower loan default rate than the loans of governments’ programmes or "ordinary" banks. This is mainly attributed to the way the credit co-operative is personally linked to the loan applicant and trade associations and in this way can create a social pressure that in turn obliges the loan recipient to fully repay his/her loan\(^{74}\).

-Other forms of support:

Those cover a variety of measures, such as training offered to SMEs’ management and employees, particularly in such areas as new technologies. These actions - taken place either in the context of the European Social Funds or in the framework of technology - oriented EU programmes. Moreover, measures to facilitate SMEs’ access to the increasing liberalized public procurement procedures have been taken to enhance the European single market\(^{75}\), reinforce the competition among the European enterprises and, theoretically, create a more efficient allocation of tax payers' money.

More specifically, the European Union's interest in facilitating enterprises' procurement tenders has been revitalized via the introduction of a Green Paper\(^{76}\) in November 1996. The public procurement market importance for SMEs' sustainability and growth can be measured by the fact that the total EU public procurement market in 1997 alone, accounted for ECU 720 billion, that is 11% of GDP (Ibid.).


\(^{75}\) European Commission, Economic reform: Report on the functioning of Community product and capital markets, presented by the Commission in response to the conclusions of the Cardiff European Council, Com (99) 10 final.

Indeed, in most European Union Member States, procurement purchases were about 10-15\% of GDP\textsuperscript{77}. In the Green Paper it was stated that at the time of its publication there was insufficient and incomplete implementation of the public procurement directives by different Member States and that the economic impact up to that time for the majority of SMEs was limited. More recent research work\textsuperscript{78} also identifies that, despite the actions taken at EC level, there are still a lot of barriers hampering SMEs' awareness of the opportunities of public procurement for enterprises like them. This is justified by the fact that only one third of them on aggregate are aware of the opportunities of the opening up of the market for public procurement (Ibid.). The study has shown that even in cases where the information gap has been filled, still alternative barriers emerge for SMEs related to projects too large or difficult in administrative terms, high cost of preparing a bid etc. The situation is even worse in several Member-States where red tape and mistrust relationships exist between public units and SMEs, as it is the case with Greece (Ibid.).

The concrete EC's measures in favour of SMEs can be methodologically divided along the following lines:

They either consist in altering market conditions (e.g. Single Market legislation, common commercial policy) or they amount to a form of financial assistance (e.g. regional fund subsidies, European Investment Bank interest loans, training or research funding etc). In fact, those two basic policy-forms constitute the bulk of the EU interventions in economic sphere.

The other programmes and measures of Community support for SMEs are mainly through structural funds, vocational training programmes, programmes of research and technological development and programmes of international cooperation. Further, EU policy actions, in the realm of the SMEs concern, are in the fields of quality and standardization, innovation, the environment, transport, energy and the audiovisual industry. In general, it seems that the SME dimension touches on a broad range of Community policies.

\textsuperscript{77} Holden, Paul & Carlo Dade (1998): "SMEs and public procurement: lowering transaction costs to increase participation", Enterprise Research Institute, Washington DC, S.A.

\textsuperscript{78} ENSR-European Network For SME Research, 2000, op. cit., Ch. 2.
One-quarter of all public support programmes reported to the OECD primarily target SMEs. As an indication of such spending, it is worth noting that in 1993 a total of US$ 3.75 billion of public money was paid to help start-ups, the acquisition of equipment, R&D, training and consultancy services. This money was given either in the form of direct grants, tax concessions, low interest rate loans or loan guarantees. However, such aggregate trends say nothing about considerable diversity in spending at countries' level.

At the OECD level\textsuperscript{79}, where comparable available data exists, more than 50 per cent of SMEs programmes are administered locally, thus making co-ordination between authorities critical. As the European Commission itself recognizes such funds are often under-used. In fact, the EC tries to persuade the member states and regional or local authorities responsible for implementing the Structural Funds that there is need to give priority to SMEs support and make even easier for them to have access to the relative European programmes\textsuperscript{80}.

The main questions that are subsequently raised are along the following lines: What was the real impact of such immense amount of public money spending on SMEs performance at individual firm level? What was the impact of such substantial financial amounts provided to jobs generating processes? How many firms, what firm-type and to what extent have they benefited in practice from such a huge amount of programmes? What can be said about different EU governments' role on the success or failure of such policy measures? Is there any evidence to suggest that since the Single European Market-project implementation any of the problems confronted by SMEs or the unemployed have been alleviated? Before seeking for a credible answer to the above questions we will discuss in brief in historical terms since the post war period, national and super-national authorities' interventionist logic.

In the next section we start with an examination of the ideological and political changes that altered the way in which state's role in the economy has been conceptualized. We hope this enterprise will be a useful means in understanding better the subsequently discussed theme that is concerned with "how" the EU's SMEs policies' regeneration came about in the mid 70s.


\textsuperscript{80} European Commission (1998): op. cit., p. 121.
2.2 Evolutionary Politico-Economic, Ideological and Industrial Contexts: The Small Industry Resurgence; Interventionist Rationale in Historical Trends

At a first glance, the whole case for "policies" to promote SMEs appears to support the view that they represent a special case and by implication are in a weak position that "needs" support. Such policies, along with the multiple indirect effects of a series of other EC policy measures not explicitly aiming at SMEs, affect them by altering their macro-, meso- or micro- environment and should also be taken into account. However, EU policy-makers appear not to be able to coordinate them. As we shall show, in the European Union context the small industry conceptualization and subsequent policy information appear to rest upon the assumptions and support of the political ideology of market-liberalism led, since the beginning of the twentieth century, by the older Austrian economists Hayek and von Mises. Dual economy theorization has challenged such a free-market firm's conceptualization based on the "New Austrian school" suggestions.

2.2.1 Explanations on Changes in Industrial Technicalities and Social Structure

Dual Economy School and global empirical evidence (see next chapters) have seriously questioned such a narrative's validity promoting the view that in an alleged dynamic competitive process the pursuit of profit constitutes the "key" factor towards innovative entrepreneurship rather than an indicator for the potential development of a monopoly power. This is not to suggest in a deterministic way that in the contemporary various versions of capitalism model the pursuits of "monopoly" and "maximum profits" conceived as mutually exclusive objectives. Since 1958 Duensenberry writes:

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81 FN.: To give but one example, the protective common commercial policy measures in the field of textiles (especially clothing) contribute - to the extent that they are successful and do not simply lead to trade diversion - to the viability of a series of small EU enterprises.
"...the typical relation of prices to costs under oligopolistic conditions is not very different from the relation that would exist under monopolistic conditions".

Even at our times empirical evidence supports that there are central trends pointing to the fact that close to monopoly industrial conditions and long-term profit maximization pursuits are going hand in hand in the process of modern large firms' stability and growth\(^86\). Due to the complexity and uncertainty of current industrial environments however, such firms' objectives are attainable by utilizing multiple-means, subject to different philosophies of companies' owners and their managers about their role and responsibilities, and different legal and regulatory support\(^87\). According to the dual economy approach, the only factor changed in core firms' behaviour - operating within contemporary tightly oligopolistic industrial environments as opposed to the older ones - is in the form and methods used by modern firms and their managers for the accomplishment of such firms' long-term objectives\(^88\). Although such objectives are deemed as opposed to those, short-run in nature, pursued by the old-fashion individual enterprise aiming just at profit maximization, they still aim at securing company's longer stability by encouraging profit-maximization for the whole group of sellers of a given commodity (Ibid.).

In fact, the Dual Economy School's analysis (see next chapter for details) is not to argue for the refutation of the traditional theory or its extensions' and alternatives' conceptualization of profit maximization as the firm's assumed forefront objective\(^89\). Dual Economy School and its supporters do, however, argue free-market theory inappropriateness and invalidity to explain adequately present large core firms' oligopolistic behaviour and differentiated responses to the complexities and uncertainty imposed by the contemporary advanced industrial environments. Thus, the Dual Economy School argues that profit-max is not an objective only pursued by small businesses mostly operating in highly competitive insecure environments and where the


\(^{87}\) Anglo-German Foundation and RSA (1993): "Debunking the Myths about the German Company" in G. Binney (ed.), London, AGF.


owner is at the same time firm's manager, although prima facie this should be the case\textsuperscript{90}. Not to forget, Marx even in the 19\textsuperscript{th} century has marked the high insecurity environments of small firms as opposed to those secured ones of the mature corporations\textsuperscript{91}. Dual Economy School however suggests that, although present oligopolistic conditions allow large centre firms' survival at less than profit maximization level, large core firms still pursue collective monopolistic "power", but in a multitude of formal or secret ways, "generally...prompted by a desire for stability, higher profits and growth"\textsuperscript{92}.

Allowing for countries' disparity in the way historically company's role within the local community is perceived, such practices involve a range of new diversification strategies and integration processes followed by large firms that in most cases lead to increased concentration and pricing outcome that is associated with pure monopoly\textsuperscript{93}. To put but an example some of these techniques are the formation of business conglomerates (holding companies) that are characterized by direct control of subsidiaries (by holding companies) and a high degree of diversification that covers finance, trading and manufacturing or networks of various strategic alliances\textsuperscript{94}. The latter can take the form of subcontracting or outsourcing to smaller and more specialized firms. Such practices, according to dual economy researchers, usually lead to higher small business "dependency" on large firms, while at the same time safeguard large firm's longer stability\textsuperscript{95}. For instance, the Small Business Research Center\textsuperscript{96} (1992) indicates that, for example, in Britain 51.5 per cent of SMEs manufacturing undertakes subcontracting and this part is completely dependent on large firms. Alfort, H. and Garnsey, E.\textsuperscript{97}

\textsuperscript{92} F.N.: For further information on policy methods and contents used by large core firms in modern capitalist societies to ensure greater control of markets and generate greater security and higher profits see for instance: "Corporate Strategy in Mature Markets", Advanced Management Performance International, Harvard Business School, Swansea, 1980, p. 3.
(1994) empirical work indicates that large firms encourage technology or know-how transfer to smaller firms that are more flexible in new production methods, but any form of innovative small firm success usually ends up with its acquisition by a larger firm.

Therefore, so far, any generalization on the uniformity of large businesses' strategies and objectives, as free-market advocates do, appear to be premature and unconvincing since economic and social SMEs' anticipation by large firms indicates that nothing should be taken for granted.

Furthermore, the Dual Economy School claims that changes in core, large firms methods for monopolistic power do not even justify free-market advocates' "managerialistic" assumptions implying that shareholders and managers have antagonistic interests and so, as a consequence, profit-max objectives necessarily have been abandoned as a strategic pursuit. As Prof. Galbraith's writings indicate, in such centre companies, "power" has been merely allowed to change hands thus to pass from owners to managers in order for core firms to manipulate better weaknesses of the modern institutionalized system for their own long-term ends. Top-managers, in dual economy school terms, are not viewed only in terms of their traditional form - as a group separated from ownership - but rather as a social group led by values and philosophies very close to those of the proprietors of capital.

Therefore, what the Dual Economy School and its advocates do argue is that in present various versions of capitalist societies characterized by oligopolistic interdependence, "power" is not exercised any more that much via traditional forms of capital or owners relationship as was the case with the classical capitalism model. In the place of such a thinking this school of thought suggests that in present-day societies "power" is rather exercised by the so-called by Galbraith (1967) - industrial bureaucrat. Quoting Galbraith: "The decisive power in modern industrial society is exercised not by capital but by organization, not by the capitalist but by the industrial bureaucrat" (Ibid., p. 19).

102 FN.: In Galbraith's terms the "industrial bureaucrat" relates to the industrial - technical bureaucracy, i.e. the technostructure that forms managers' and organizations' bureaucracy (Ibid.).
According to Heilbroner\textsuperscript{103} (1970), Galbraith views that the industrial bureaucrat is not concerned with profit maximization, but rather with the retain of its independence from owners and government, through enterprise growth or merely through enterprise safety and survival (Ibid., pp. 230-1).

From a Marxist perspective, Baran and Sweezy\textsuperscript{104} (1968) lend support to dual economy approach by indicating that the top-managerial group constitutes an integral part of the class of large property owners (Ibid. pp. 46-48). Allowing for some interests' difference within shareholders and managerial groups, Miliband\textsuperscript{105} (1969) concludes that: "..... these are tactical differences within a strategic consensus..... the differences of purpose and motivation which may exist between them are overshadowed by a basic community of interest" (Ibid., p. 35).

Further support to such a conclusion is to be found in Nichols\textsuperscript{106} (1969) writings. In fact, Nichols attacks neo-liberals presumption that separation of "ownership and control" in modern large corporations leads to the pursuit of conflicting objectives between shareholders and managers. Nichols argues that the vague proposition of the separation of "ownership and control" is a phony dilemma and that the appropriate comparison, although not to be distinguished too sharply, should be between the contemporary "propertied" managers and the contemporary "non-propertied" managers (Ibid., p. 136). In particular, Nichols writes:

"A defining characteristic of both propertied and non-propertied directors is that their status, their prestige, their security, and not the least their wealth are all directly dependent upon the continued existence of the large private enterprise corporation...

The norms, which govern his (the hired manager's) conduct, derive in part from the shareholder interest and in normative, relational, and to some degree economic terms his position approximates to that of the propertied director. Managerialists have written of a "divorce" or "separation" of ownership and control. In this context we find it more fitting to write of a "marriage of convenience"\textsuperscript{107}.

More recent research carried out by Zeitling, M.108 (1974) & Scott, J.109 (1988) demonstrates that it is the ownership power (i.e. the shareholders') that affects managerial behaviour. Thus, both writers have shown that the shareholders' or even "membership" power can easily exile management that does not operate in the owners' interests, but they never suggest that companies policies are not formulated by management (Ibid.). Therefore, evidence on the free-market advocates' managerialistic issue that profit-maximization is merely required in promoting firm's innovative capacity and not to reinforce firm's power and profit-max in the long-term also appears to be based completely on fragile presumptions. In future chapters we further discuss features of modern managerialistic methods such as human resource management (HRM) techniques used by management under current unit cost pressures so to achieve greater control over employees and higher obedience for the benefit of large firms' organizational objectives, longer stability and profits.

However, there is no general agreement on the form, direction and elements of present realities. For instance, one of the most defining characteristics of the liberalist market conceptualization of small firms rests upon the appealing entrepreneurship image outlined by Schumpeter110. Within such an account it is assumed that the constant turbulence among firms in advanced market economies constitutes a source of renewal for the economic system that in practice reflects opportunities offsetting some social costs of change. Such firms' volatility according to market-clearing advocates reflects the release of entrepreneurial resources that lead to the development of the entrepreneurial engine. Such resources, for instance funds, workers, entrepreneurial talent etc, are assumed to be released during the decline and closure of most businesses and then to be re-deployed to new firms repeating the cycle111.

Based on Schumpeterian theory of economic cycles, the theory of economic evolution, mainly propagated by Nelson and Winter\textsuperscript{112} (1982), further stresses the role of innovation and pioneer entrepreneurship as the main forces for the economic progress of a country.

Alternative studies, however, have shown that such a picture is not that uniformly optimistic. For instance, Reynolds\textsuperscript{113} (1995) and Carter et al\textsuperscript{114} (1995) have demonstrated that in crude estimates about one in 25 adults may be involved, along with one partner, in efforts to start up a new business at any given time in developed economies. Yet, only half of those adults manage to get the new firm going; furthermore, among these new firms, only one-quarter may develop high-growth trajectories. Most important for our discussion, these high growth firms may only begin to create a substantial number of jobs after five or six years.

Such alternative less optimistic conceptualization of new firms' creation, survival or growth may have implications for a SMEs policy targeting employment creation. In practice net job creation via entrepreneurial activities may be more complex. In particular, to stress sustainable job creation as depending upon the entrepreneurial engine, targets policy makers upon a relative small group of high growth firms. This means that, at policy level, measures that hinder the entrepreneurial engine will probably tend to lead to stagnation and structural unemployment. This is the claim of those critics of Engel's Social Democracy\textsuperscript{115} with its highly regulated labour markets and high employment taxes. The entrepreneurial engine involves different cycles in different segments of the economy, which calls for policy provisions that target particular sectors.

\textsuperscript{115} F.N.: According to Engel's Law, the lower the income the higher in proportion the expenditure on necessities.
In summarizing, in recent years a range of approaches has been developed trying to explain present transitory reality and related SMEs public policy responses. It appears useful - in order to reach a more informed discussion - to outline their main principles, although it is not in this thesis' purpose to extensively examine all these "strands"/approaches available. This does not, however, mean that - whenever appropriate - we will not draw upon valuable explanations provided by any of the following approaches beyond the focus being placed from the outset of this thesis in the institutional and labour process approaches.

a) Labour Process theory - a pessimistic view suggesting that the transition period has disproportionately favoured capital resulting in human employment substitution by capital. It is claimed that a degrading of work has occurred for the majority of the workers whereas a very small proportion of the workforce has benefited from an upskilling. Such a perspective points towards an increasing polarity within the labour market associated with the development of a widening gulf between the conception and the execution of work tasks. In brief, the pessimists argue that Flexible Specialization (F.S.) has extended the opportunities for control and the intensification of the labour process. Moreover, they attest that F.S. has resulted (through flexible labour markets and flexible working hours) in greater job insecurity and less guaranteed leisure (Braverman,116 1974, Freeman,117 1990; Boreham118 1992).

b) Liberal free-market theory - an optimistic view that left to itself deregulation of labour and other markets; this perspective optimistically assumed that deregulation and liberalization will lead to liberating human creativity and welfare (Friedman,119 1976, 1980; Hayek,120 1949, 1960).

c) The Institutionalist Approach. This denies the free market model in favour of an oligopolistic one led by technology driven core firms inside the core economy. The implication of this model is a permanent disadvantaged and dependent role of the

small business sector always destined to lag behind the core economy in terms of technology, profitability and employment conditions (Averitt\textsuperscript{121}, 1968; Reagan\textsuperscript{122}, 1963; Bazelon\textsuperscript{123}, 1963; Mydral\textsuperscript{124}, 1967; Galbraith\textsuperscript{125}, 1967).

d) Monopoly Capital. Mix of Marxist and Institutionalist perspectives. Baran and Sweezy\textsuperscript{126} (1968) suggest that in monopolistic markets, where the amount of depreciation is very large, "IT" is in fact reducing the demand for capital as much as for labour. They also claim that the price of capital in such a sector is being kept artificially high by speculating expectations of continued super profits. These two authors suggest that, "it is quite possible that business can finance from its own internal funds alone all the investment it considers profitable to make in innovations (both new products and new processes), leaving no "innovational" outlets to help absorb investment-seeking surplus" (Ibid., p. 102).

e) French Regulation School. Their formula on "Post-Fordism" (Aglietta, M.\textsuperscript{127} 1979; Alain Lipietz\textsuperscript{128} 1987; Leborgne and Lipietz,\textsuperscript{129} 1988; Boyer,\textsuperscript{130} 1993) calls for a policy mix of deregulation and small firm generation plus skills and vocational training to improve employability and resolve problems of structural adjustment required by globalization. Along the same lines as the regulation approach is the analysis on the spatial and regional implications of flexibility and the emphasis on the Politics of Place provided by a number of social geographers. Among these scholars are for instance Murray,\textsuperscript{131} (1991) and Scott and Stopper,\textsuperscript{132} (1987).

\textsuperscript{121} Averitt (1968): op. cit.
\textsuperscript{125} Galbraith, John Kenneth (1967): op. cit.
It remains to be seen which, if any, of the above accounts and under what circumstances is supported by empirical evidence and thus is valid at times to inform EU's policy initiatives addressed to social needs. This is examined in the chapters to follow.

As it has been described so far, the European SMEs' initiatives appear to disregard national or regional socio-institutional differences' and historical records' impact on the SMEs. This might partially be attributed to the obvious difficulties emerging in the context of a free market economy, as the free-market's advocates claim. Thus, in the free-market era, the EU's intervention in diverse areas of economic activity, as it is often the case with the SMEs, has been proven to be quite problematic. However, at an ideological level of explanation, such selective supply-side policies in the context of the EU's interventions may well be related to more complicated issues and depend on ideological assumptions that in practice have influenced policy-makers. To this theme we now turn.

2.2.2 Rationale Underpinning Public Interventions Addressed to Social Needs in Historical Terms

A review, since the post-war period and especially since the beginning of the transition period from mass to small industry production, of the mainstream ideological currents that informed so far EU SMEs policy responses to unemployment and the social disadvantaged, provides with some good insights on the matter. From the mid-70s onwards European policy-makers have assumed that Keynesianism (and hence social solidarity policy paradigm), virtually reinforces the development of high-inflationary pressures by placing great emphasis in active government involvement in several welfare state realms. Previously Keynesian policies assumed to be identical with economic growth, full employment and prosperity and, therefore, considered highly desirable.

Keynesian thinking has influenced the European governments' unemployment policies for a long period of time, approximately from the mid-40s to the mid-70s. According to many analysts of this school of thought, for instance Harrod (1951)\textsuperscript{133}, the real

inspiration behind Keynes' work was his pure concern for the unemployed. In fact, Harrod quite characteristically claims that despite Keynes many typically Conservative features, it was his true humanism and close concern for the social ills that virtually led him to question the conventional economic orthodoxies of his times (Ibid., pp. 331-2). Another analyst of Keynes work, i.e. Stewart\textsuperscript{134} (1967) suggests that John Maynard Keynes' major achievement was to demonstrate the failure of the unregulated economy to ensure sufficient demand to avoid depression and unemployment. This is not to say that Keynes hold fundamental reservations as regarding capitalism ability to generate full employment and prosperity. As the major exponents of liberalism, i.e. M. Friedman and Friedrich Hayek, Keynes and the post-Keynesianism believe in capitalist system and its major underlying values such as liberty, individualism and competitive private enterprise\textsuperscript{135}. However, as opposed to the free-market liberals, Keynesianism suggests that in order to achieve capitalism goals and full employment, state's regulation and control is required (Ibid., p. 221).

Worth adding that until Keynesianism's break-through in the 30's, as Galbraith\textsuperscript{136} argues, state economic action appeared to be unnecessary since, according to Say's Law of Markets, production would automatically create its sufficient demand. Keynes demonstrated that the inter-war depression was in fact a refutation of Say's Law and showed that there was almost no technical reason why demand and production should be in balance (Ibid., p. 21).

In fact, Keynes, in his famous work "The General Theory of Employment, Interest and Money\textsuperscript{137} (1936), developed an analytical macroeconomic framework for understanding what causes large and sometimes prolonged fluctuations in the level of employment. Joan Robinson\textsuperscript{138} (1962), reviewing such Keynes' work, comments: "The General Theory, by making it impossible to believe any longer in an automatic reconciliation of conflicting interests into a harmonious whole, brought out into open the problem of choice and judgment that the neo-classicals had managed to smother. The ideology to end ideologies broke down. Economics once more became Political Economy".

According to the Keynesianism proponents, Keynes major tenet was the realization that deficient aggregate demand leads the economy to "involuntary" unemployment. Such a basic rationale is grounded on the assumption that as economic activity slackens the economy moves, in turn, to a recession or even worse to a depression\textsuperscript{139}. Keynesian paradigm suggests that the State, through its fiscal and monetary policies, should in turn influence total demand for goods and services. Such state economic demand management function can be achieved either through changes in the government's budget - directly by extra public expenditure or indirectly by cutting taxes - or by influencing the amount of money and credit available as well as interest rates (Ibid., p. 680).

In such a state administration associated with an import substitution industrialization strategy, the large-scale, capital-intensive firm sector was deemed, in turn, as tuning the industrialization pursuit of the national economies\textsuperscript{140}. On the contrary, the small-firm sector's role was viewed as being marginal ranging from "eccentrincity" to "historical anachronism"\textsuperscript{141}.

Many scholars, for instance Berger (1990)\textsuperscript{142}, argue that Keynesianism has more or less contributed to the development of policy provisions in the following four areas:

1. The first was state management of the economy in order for full-employment to be achieved. For this reason the State intervenes in the area of fiscal policy, through an injection of money into the economy attempting to increase aggregate demand of goods and services. An underlying Keynesian assumption was that the increased demand would in turn stimulate employment (Ibid.).

Associated with this rationale was also the State's intervention in more specific areas or sectors such as support to firms or industries in crisis that were assumed important either in terms of employment prospects or national interest (Ibid.).


\textsuperscript{141} FN.: The above should not lead to the conclusion that small-scale production was almost eradicated during Keynesianism period. In fact a number of barriers to large-scale industry expansion in a number of sectors associated with certain large firms to utilize subcontractors as buffers, when demand contracted, ensured the persistence of smaller establishments.

2. The second area of Keynesianism contribution relates to the introduction of an all-embracing social security system, that is social security provisions for almost all the active population associated by health and educational extensions (Ibid.).

3. A third feature of Keynesian welfare approach relates to the stimulation of mass-production culture through the introduction of a remuneration system firmly linked to productivity fluctuations (Ibid.).

4. In order for such policies to flourish there was a prerequisite need for social consensus attained on a class compromise between capital and labour. Such an observation, in turn, brought about a need for the institutionalization of tripartite and collective bargaining at the political level. Such an evolution constitutes the final element that informed EU policy based on Keynesianism (Ibid.).

From the mid-70s onwards, advanced industrial economies began to face unemployment growth and, at the same time, inflation problems. The enormous cost of Keynesian welfare provisions was then blamed since its interventionist rational was deemed as building constraints to the free-market effective workings. At the same time, squeezed profits of mass-production industries and rising governmental spending due to social cushioning removed faith in Keynesianism.

In the subsequently emerging market-clearing era of liberalism, EU policy has assumed that the state should promote employment indirectly by helping the "market". Based on the assumption of a "natural" level of unemployment (Friedman M., 1976143, 1980144) European Union policy-makers gave priority, in turn, to inflation suppression and, at the same time, mark out small owners and small enterprises as the mechanism for maintaining employment and social cohesion.

Friedman claimed that a reduction of wage levels and the level of the welfare state benefits could reduce the natural level of unemployment (Ibid.). Those two variables being reduced, it is virtually ensured that the natural unemployment rate would also fall since the trained unemployed will take up the available jobs. During this period of market liberalism, the State's financial support to the unemployed persons' training

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literary aims at a greater flexibility and mobility sought in the labour market\textsuperscript{145}. Within this context dominated by market criteria and obsessed by credentialism and the promotion of an entrepreneurial ideology, EU SME policy has emerged. Self-employment and part-time employment relates to a fundamental change being sought in capital-labour relations (See evidence in Chapter 4). Thus, the typical Fordist model of the one capital / labour relation has been changed to multiple forms of capital / labour relations concerning the working time, the wage formation and flexible contracts. In such a context, many specific measures such as special subsidies, tax cuts, public retraining and so on have been designed in order to curb and reduce long-term unemployment.

Friedman (1977)\textsuperscript{146} in the late seventies wrote expecting the majority of those displaced from work would be absorbed within a brief period of time. However, subsequent evidence has indicated this was widely optimistic. The period of the free market clearing has failed to significantly reduce unemployment (see Tables 1.1 & 1.2 in the introductory chapter).

The new forms of employment policy measures, i.e. SMEs job generating initiatives, have promoted the segmentation of the labour market, have polarized the work opportunities between high- and low skilled workers as well as between men and women and, subsequently, have affected the social security and the social policy system\textsuperscript{147}. The social insurance and the social policy system is now also faced with additional problems arising from an increase in the dependency ratio, quite the reverse of what EU policy sought to achieve (Pieters,\textsuperscript{148} 1991; Pieters, D. Palm, W. & S. 1998, 1999).

\textsuperscript{145} F.N.: The importance given to training by EC for the re-integration of the unemployed persons into the labour market is reflected upon the contents and nature of labour policy recommendations of the White Paper of the European Commission (1993) and the subsequent EC Employment Growth Guidelines (1998, 1999). Additionally, a series of the OECD Job Studies (1994, 1995, 1996), although more pronounced relying on market forces, also point to the crucial role of training measures to the active re-integration of the unemployed.

\textsuperscript{146} Friedman, M. (1977): "Friedman on Galbraith", The Fraser Institute, Canada, also published by the Institute of Economic Affairs.


Thus, accompanying the European Commission's sweeping program of economic liberalization, the emphasis on the future of the social policy in the Union has been mainly on the question of harmonization of national social insurance systems. The role of the state in each European country must be complementary to the market, while the solidarity of the family is reinforced.

It is obvious that the newly emerged EU's social policy role relates to the necessity to facilitate the economic and political integration of the member states at the expense of the social order at national levels. In this way social policy, as the SMEs policy case, reflect the EU free-market rhetoric that follows policy-makers' individualistic interpretation of historical development.

Given the man-made character of the social security systems or the SMEs policy provisions, such intervention also relates to value systems, ideologies, policy rationales, etc. that condition the evolution of aspirations, needs and claims. The EU - pretending ignorance that, as with the SMEs proliferation, social security systems' shaping is strongly conditioned on structural factors prevalent at different times in different member-states, given its goal for private instead of public administration of the society, has limited individual state role to its minimum (Ibid.). Thus, efforts to foster some sort of "liberal" welfare state at the EU level more close to that generated in the USA, had much to do with the influence of the free-market liberals' views on the role of the State accompanied by beliefs in individualism (Ibid.).

In fact Powell (1972), one of the major representatives of the neo-liberals' ideas argues that the welfare state generates disruption of the social fabric by accepting that people have social rights. Powell writes:

"(The) translation of a want or need into a right is one of the most widespread and dangerous of modern heresies" (Ibid.). Powell's further explanations on the matter relate to the assumption that social rights promote "unlimited fuel for dissatisfaction

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(derived from the State or community inadequate provision of services or goods to people in need),...unlimited scope for the fostering of animosities between one section of potential recipients and another" (Ibid., p. 27). As a result, various groups of minorities, such as social security beneficiaries, squatters, students etc. feel justified in using even violence to achieve their aims, thus to protect what they consider to be their social rights. Consequently, the State becomes even deeper involved in societal organization, in this way institutionalizing the "tyranny of small minorities" over the majority of silent peaceful citizens (Ibid., p. 14). According to Powell and the neo-liberals advocates' theorization, the only way out of this state of affairs is to be the refutation of the concept of social rights and the complete deprivation of the welfare state apparatus (Ibid.).

Let us now examine in more detail some views of the neo-liberal school of thought concerning individualism, liberty, equality, how the role of the State is conceived and the overlapping between them. Such an examination will help the reader of this work to understand better private small businesses' conceptualization and SMEs policies promoted within the EU context. According to Hayek\textsuperscript{154} (1949) and the majority of the advocates of this school of thought individualism is complementary to liberty and goes hand in hand with non-intervention by the State. Large scale State intervention and institutionalization of coercion, although they are deemed as necessary in a few pre-defined areas, restrict individual's liberty and States' economic prosperity\textsuperscript{155}. In such a context, individuals are considered as irrational and falling into errors (Ibid., p. 8), but free competition between such beings is deemed as producing more progress than that produced by State's interference (Ibid., p. 7). As Friedman\textsuperscript{156} (1962) argues, equality of materials or incomes from work is unacceptable at a political or ideological level and undesirable at an economic level. Especially the latter might destroy work incentives and social esteem attached to different occupation and in this way might threaten the modern recruitment system's validity (Ibid.). In Friedman terms, "one cannot be both an egalitarian...and a liberal" (Ibid.). According to this group of thought, even being "poor" is better if it's a matter of free choice rather than being relative affluent through coerced by the State welfare measures\textsuperscript{157}. Such societal inequalities in the name of

\textsuperscript{156}Friedman, M. (1962): op. cit., p. 195.

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individual's free choice and liberty are even justified at inheritance of wealth level since, in Friedman's terms, abolition of property's inheritance "would cause a waste of resources and an injustice much greater than is caused by the inheritance of property" (Ibid., p. 91).

Most interesting for this thesis' purposes, in the context of the free-market liberals' theorization, the growth of business monopolies is considered as a scapegoat since it limits competition and voluntary collaboration\textsuperscript{158}. According to their interpretations, the growth of large enterprises has not, however, created a state of monopoly. On this matter, Friedman writes:

"The most important fact about enterprise monopoly is its relative unimportance from the point of view of the economy as a whole" (Ibid.).

The existence of thousands of SMEs and the millions of self-employed in the USA is deemed as a strong justification of this argument (Ibid.).

According to Hayek's (1949)\textsuperscript{159} arguments, the view is of an extremely "atomistic" conceptualization of society. In such a context, Trade Unions' power is considered as economically detrimental. Trade unions are conceived from this perspective as hindering individual freedom, development of free competition, the optimization of supply and demand, free wage levels employment and, finally, they also account for economic growth hindrances and too much State regulation\textsuperscript{160}. Due to such reasons, Hayek argues that trade unions "have become the only important instance in which governments signally fail in their prime function - the prevention of coercion and violence" (Ibid., p. 26). Thus, according to the neo-liberals' ideology, power is concentrated in the hands of the trade unions rather than in those of large core enterprises as the Dual Economy school argues (see next chapter).

As we mentioned earlier, free-market liberals are not against government intervention as a whole. On the contrary, there are fields that governmental action is desirable and justified\textsuperscript{161}. Friedman considers three fields of societal affairs the government action is

\textsuperscript{158} Friedman, M. (1962): op. cit., p. 121.
\textsuperscript{159} Hayek, F. A. (1949): op. cit.
\textsuperscript{160} Hayek, F. A. (1960): op. cit.
\textsuperscript{161} Friedman, M. (1962): op. cit., p.34.
acceptable. These are the ones that "cannot be handled through the market at all, or can be handles at so great a cost that the use of political channels may be preferable" (Ibid., p. 25). According to Friedman the first role of the State is to "make rules and act as umpire" (Ibid.). A competitive market system for example is considered as an area that needs legal support so to function in an efficient way. Hayek\textsuperscript{162} (1944) writes on the matter: "An effective competitive system needs an intelligently designed and continuously adjusted legal framework as much as any other".

The second area Friedman considers as acceptable for Governments' intervention relates to "cases in which strictly voluntary exchange is either costly or practically impossible. There are two general classes of such cases: monopoly and similar market imperfections and neighbourhood effects\textsuperscript{163}. Monopoly cases calling for government's intervention refer mainly to technical monopolies and relate to "a service or commodity that is regarded as essential " and where "monopoly power is sizeable" for instance services like post office and telephones (Ibid., p. 29). As regards government's intervention on "neighbourhood effect" grounds, Friedman suggests that this is required "when actions of individuals have effects on other individuals for which it is not feasible to charge or recompense them" (Ibid., 30).

The third area that calls for intervention from governments' is based on the neo-liberals ideology concerning State paternalism. On such grounds, according to Friedman, minimum financial aid to the poor is justified. Disadvantaged groups of persons with severe mental illness or mentally handicapped are the only groups the State is clearly justified to take care of since such persons can neither take care of themselves and so they are not responsible nor voluntary agencies can systematically treat them (Ibid., p. 33).

In fact, all the above views reflect the ethical and moral grounds on which mainstream groups of thought have been developed and their recognition might be of much help in order to understand better recent EU policy measures for business and labour force growth.

\textsuperscript{163} Friedman, M. (1962): op. cit., p. 28.
2.3 Empirical Evidence of the Impact of the EU’s Policy Measures in favour of SMEs

As already mentioned in previous sections, it is clear from available studies that SMEs do play an important role in all European Community countries at least in quantitative terms. However, the small- and medium-sized sectors' advancement has not proceeded in all the European member countries with the same pace and, accordingly, the employment share of such SMEs is not the same across all economic sectors or across all size classes. For instance Johnson\textsuperscript{164} (1991) stresses the fact that a significant part of employment growth is mainly attributed to a very small number of high-growth firms. According to Johnson's empirical work, a large number of small high-growth firms disappear completely after a short period. Thus, the issue that policy makers should try to shed light on and then do readjustments to policies addressed to such firms' empowerment is the following:

What are the factors influencing in practice such high-growth firms' performances?

A limited number of studies on the matter stress the important role of the entrepreneur or that of the financial management\textsuperscript{165}. Capacity and the use of networking for learning and assistance to a firm's success at individual level are additional factors that have been identified (Ibid.). Innovation and qualified staff and skilled workers recruiting capacity have been also reported as key factors for firms' rapid growth\textsuperscript{166}. A further study undertaken to investigate the most common characteristics related to business failure concluded that both internal and external factors account equally for a firm's performance-failure. However, one of the major findings of this study was that especially for those young firms that were operating for less than five years, internal managerial deficiencies were the most important factor for their failure\textsuperscript{167}.

The question that subsequently emerges is whether entrepreneurship is a quality inherent in SMEs by virtue of their size as the free-market European SMEs policy-

\textsuperscript{164} Johnson, St. (1991): op. cit.
\textsuperscript{167} OECD Report, November 1998: op. cit.
makers claim\textsuperscript{168}. Furthermore: Can the quality of entrepreneurship be affected by alternative, unrelated to firm-size, factors such as for instance regional or territorial aspects? In fact, the lack of cross-national systematic comparable data on the matter and the local character of entrepreneurship make difficult any generalization. It is worth adding that whereas many OECD countries have developed detailed data on SMEs sectors and economic growth for their total economy, few have yet developed dis-aggregated data on sub-national geographical areas over a period of time\textsuperscript{169}. Without such information, it is extremely difficult for job analysts to understand the number of intangible local factors such as for instance cultural, social capital or networking actually influencing entrepreneurial spirit and enterprise development. Yet, it is still possible from available empirical studies at least to determine some common features, which appear to characterize the survival and growth of SMEs at sector/national levels. Those are strongly related to firms' distinct life-cycle stages. Thus, at the earlier stages of firm-birth, managerial capabilities appear to be crucial for a firm's survival. As the firm matures, human resources and innovation strategies' implementation are more important. By the time the firm is well established and has a brand name developed, innovation seems to be more critical for its survival\textsuperscript{170}. However, there is a lot of evidence to suggest that firms operated by families do not so much fail as often cease trading due to their children's unwillingness to inherit and operate the business\textsuperscript{171}.

The EU policy assumptions stress the critical role that national governments and local authorities could play in ensuring a supportive business environment for SMEs sustainability and growth. However, deregulation and liberalization policies appear on average to be incompatible with the creation of a supportive SME institutional infrastructure at local level. Let us first see in detail on what sort of data European policy makers have based their optimistic generalizations about SMEs economic and employment growth capacity.


Up to now there appears to be a number of studies suggesting that in the OECD\textsuperscript{172} economies there has been an increase in the total employment share of small enterprises and establishments at the expense of large ones. At the same time, there appears to be well-documented statistical and empirical evidence suggesting a shift in the size distribution among small firms\textsuperscript{173}. As regards the first trend, at least it signifies the reversal of a historic downward trend in the employment share of small industry. As several analysts have stressed, for example Loveman & Sengenberger (1990)\textsuperscript{174}: "The time series behaviour of small unit employment shares has followed a "V" pattern in which declines through the late '60's or early '70's are reversed and small unit employment shares increase into the '80s. The "V" pattern is evident both for enterprises and establishments, and for the total economy and manufacturing". However, these two authors have also indicated that if the small and medium sized sectors are considered combined then they remain at a stable mark-point of around forty per cent for the observed period\textsuperscript{175}.

Almost a decade before Loveman's and Sengenberger's work, Birch\textsuperscript{176} (1979), in a pioneering study concerning the USA economic development, claimed that SMEs had outperformed large firms as regards their share in new jobs creation. In fact, Birch found that, between 1969 and 1976, 82 per cent of net job increase in the American private economy was attributed to small enterprises. Birch's findings have been confirmed by the outcomes of a subsequent study, i.e. that undertaken by Armington & Odle in 1982\textsuperscript{177}. These two authors have concluded that, for the periods 1978-80 and 1976-82, small firms have contributed 39 percent and 53 per cent on net job creation respectively. In his most recent and comprehensive job generation results, Birch\textsuperscript{178} (1987) demonstrates that the outcome for 1981-1985 confirms his early findings. In particular Birch arrived at the conclusion that 88 per cent of net job

\textsuperscript{172} OECD. Employment Outlook 1994, Chapter 3.


creation was in enterprises with 1-19 employees, whereas small enterprises - with fewer than 100 employees – basically accounted for all net job creation (Ibid.). Following Birch’s empirical analyses, job generation studies have been undertaken in many OECD and European Union member countries, reaching more or less similar findings\(^{179}\).

From the aforementioned, it becomes clear that in the context of such endeavors special attention has been placed on the relation between firms’ size and gross or net job creation. However, such analyses do not provide any information on the likely increase in the turbulence and volatility of firms or jobs. The lack of such information may create barriers to policy makers’ understanding on factors influencing SMEs’ performance at the level of the individual firm. To put but an example, high job-turnover in small firms may create problems for employment stability-rates generating thus greater social problems since small firms are often exempt from notice requirements.

More recent OECD\(^{180}\) and Eurostat\(^{181}\) work confirms that small firms make up over 95 per cent of enterprises and account for 60 to 70 per cent of jobs in most OECD member countries with a particular large share in Italy and Japan. However, these studies also demonstrate that there is a considerable variability across sectors. For instance, as is illustrated in the following Table 2.1, small enterprises/establishments in manufacturing account for a lower employment share, ranging between 40 to 80 per cent.

---


\(^{180}\) Source: OECD, Database on SMEs statistics (1998).

Table 2.1: Size distribution in manufacturing industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of enterprises/establishments of which in employment size class</th>
<th>Employment of which in employment size class</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-19</td>
<td>20-99</td>
</tr>
<tr>
<td></td>
<td>Percentages</td>
<td>Percentages</td>
</tr>
<tr>
<td>United States</td>
<td>1993</td>
<td>73.7</td>
</tr>
<tr>
<td>Canada</td>
<td>1994</td>
<td>50.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>1994</td>
<td>80.3</td>
</tr>
<tr>
<td>Japan</td>
<td>1994</td>
<td>74.3</td>
</tr>
<tr>
<td>Korea</td>
<td>1994</td>
<td>69.5</td>
</tr>
<tr>
<td>Australia</td>
<td>1994</td>
<td>82</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1994</td>
<td>90.6</td>
</tr>
<tr>
<td>Austria</td>
<td>1993</td>
<td>43.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>1993</td>
<td>80.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>1992</td>
<td>82</td>
</tr>
<tr>
<td>Finland</td>
<td>1992</td>
<td>50.8</td>
</tr>
<tr>
<td>Germany</td>
<td>1993</td>
<td>71.5</td>
</tr>
<tr>
<td>Greece</td>
<td>1992</td>
<td>59</td>
</tr>
<tr>
<td>Hungary</td>
<td>1994</td>
<td>76.8</td>
</tr>
<tr>
<td>Iceland</td>
<td>1992</td>
<td>90.8</td>
</tr>
<tr>
<td>Italy</td>
<td>1992</td>
<td>89.7</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1992</td>
<td>79.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1993</td>
<td>78</td>
</tr>
<tr>
<td>Norway</td>
<td>1993</td>
<td>40.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>1994</td>
<td>85.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>1993</td>
<td>44.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1991</td>
<td>84.2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1996</td>
<td>94.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>1992</td>
<td>36.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1994</td>
<td>82.7</td>
</tr>
</tbody>
</table>

Source: OECD, Database on SME statistics; Eurostat (1996), Enterprises in Europe


As Table 2.2 below illustrates, the wholesale and retail trade, hotels and restaurants are dominated by SMEs. In construction SMEs account for 80 to 90 per cent of all employment. Such trends, illustrating small firms' concentration in some sectors or disproportionate high levels of employment concentration, in practice reflect the duality and polarization of the economy. According to Averitt's industrial analysis, small firms' concentration trends in specific sectors highlight the fact that such sectors, allowing for local competitive peculiarities, are characterized by extreme competitive practices. Moreover, these disproportionately high shares of service industries in overall employment underscore the entire SMEs' importance as sources of employment and support Averitt's concern with dual economy developments and employment structure division. However, in the free-market era, the increasing importance of jobs' creation in services - combined with a more general de-industrialization trend observed in all the EU economies - appear to have led the European policy-makers to assume that all SMEs play and will continue to play a predominant role in this dynamism.
Table 2.2: Distribution of employment by firm size and sector in selected countries

<table>
<thead>
<tr>
<th>Employment size class</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>United Kingdom</th>
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<tbody>
<tr>
<td></td>
<td>1-9</td>
<td>10-19</td>
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</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>8.1</td>
<td>5</td>
<td>22.4</td>
<td>23.6</td>
</tr>
<tr>
<td>1990</td>
<td>10.1</td>
<td>5.1</td>
<td>22</td>
<td>23.1</td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>29</td>
<td>11.5</td>
<td>27.5</td>
<td>14</td>
</tr>
<tr>
<td>1990</td>
<td>33.9</td>
<td>10.8</td>
<td>26.7</td>
<td>12.8</td>
</tr>
<tr>
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<td>1992</td>
<td>32.9</td>
<td>10.3</td>
<td>25.8</td>
</tr>
<tr>
<td>1990</td>
<td>38.6</td>
<td>9.8</td>
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<td>1992</td>
<td>15.9</td>
<td>7.2</td>
<td>19.6</td>
</tr>
<tr>
<td>1990</td>
<td>19.7</td>
<td>7.4</td>
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<td>16.2</td>
</tr>
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</tr>
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<td>Manufacturing</td>
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</tr>
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<td>1992</td>
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<td>1988</td>
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<td>6.1</td>
<td>16.1</td>
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<tr>
<td>1988</td>
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<td>13.5</td>
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<tr>
<td>Finance, insurance &amp; real estate</td>
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<td>1988</td>
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<td>10.3</td>
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<td>17.9</td>
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<td>1988</td>
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<td>10.2</td>
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<td>18</td>
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<td>Italy</td>
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</tr>
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<tr>
<td>1991</td>
<td>24.2</td>
<td>14.8</td>
<td>24.4</td>
<td>16.9</td>
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</tr>
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</tr>
<tr>
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<td>14.4</td>
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<td>1988</td>
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</tr>
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<td>12.3</td>
<td>10.2</td>
</tr>
<tr>
<td>1988</td>
<td>58.2</td>
<td>7.4</td>
<td>12.9</td>
<td>9.6</td>
</tr>
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<td>Wholesale and retail trade, hotels and restaurants</td>
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<td>19.6</td>
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<td>9</td>
<td>19.4</td>
<td>24.2</td>
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<tr>
<td>Finance, insurance and real estate</td>
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<td>13.5</td>
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<tr>
<td>1988</td>
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<td>4.2</td>
<td>11.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Total non-farm business sector</td>
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<td>6</td>
<td>15</td>
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<tr>
<td>1988</td>
<td>24</td>
<td>5.9</td>
<td>15.7</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Source: OECD, Database on SME statistics; Eurostat (1996), Enterprises in Europe

Note: Statistical unit: enterprise. Size classes vary: manufacturing = class 2+3+4 of NACE 70; construction = class 5; wholesale etc. = class 6; finance etc. = class 8; business sector = class 2-8.

There is no doubt that large firms’ share in employment and output has tended to show a certain decline since the early 80’s. However, the decrease in the average establishment size in manufacturing by employment size class, is not similar in all European countries (Table 2.3a). For instance, as Table 2.3b illustrates, since 1981, in the United Kingdom the establishment size has fallen, whereas in Germany continued to increase.
### Table 2.3a: Average establishments/enterprise size by employment size class

<table>
<thead>
<tr>
<th></th>
<th>Persons/establishment or enterprise</th>
<th>Manufacturing industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
<td>1-19</td>
</tr>
<tr>
<td>Canada</td>
<td>1992</td>
<td>7.3</td>
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<tr>
<td></td>
<td>1994</td>
<td>7.6</td>
</tr>
<tr>
<td>United States</td>
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</tr>
<tr>
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</tr>
<tr>
<td>Japan</td>
<td>1986</td>
<td>8</td>
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<tr>
<td></td>
<td>1994</td>
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</tr>
<tr>
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<td>1992</td>
<td>13.3</td>
</tr>
<tr>
<td>Germany</td>
<td>1992</td>
<td>6.6</td>
</tr>
<tr>
<td>Greece</td>
<td>1989</td>
<td>13.3</td>
</tr>
<tr>
<td></td>
<td>1992</td>
<td>13.5</td>
</tr>
<tr>
<td>Korea</td>
<td>1990</td>
<td>10.4</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>9.7</td>
</tr>
<tr>
<td>Mexico</td>
<td>1990</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>1994</td>
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</tr>
<tr>
<td></td>
<td>1994</td>
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</tr>
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</tr>
<tr>
<td></td>
<td>1993</td>
<td>5.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>1990</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>4</td>
</tr>
<tr>
<td>Turkey</td>
<td>1988</td>
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</tr>
<tr>
<td></td>
<td>1992</td>
<td>13.2</td>
</tr>
</tbody>
</table>

**Source:** OECD Database on SME Statistics, Eurostat (1996), Enterprises in Europe

**Note:** Statistical unit: establishment, except United States, Germany, New Zealand, Portugal.


### Table 2.3b: Average establishment size

<table>
<thead>
<tr>
<th></th>
<th>Index of persons/establishment; 1981=100</th>
</tr>
</thead>
<tbody>
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<tr>
<td></td>
<td>Canada</td>
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</tr>
<tr>
<td>1981</td>
<td>100</td>
</tr>
<tr>
<td>1992</td>
<td>89.3</td>
</tr>
</tbody>
</table>

**Source:** OECD, ISIS Database

**Note:** Minimum employment size of establishments: Germany: 20; Japan: 4; U. Kingdom: 20; U.S: 1.
In fact, relatively recent evidence suggests that in order for academics and policy-makers to determine the SMEs' role as disproportionately high against large firms, they should assess net job creation, that is birth and death rates, in relation to the initial employment in small and large establishments. In such a case, as the OECD\textsuperscript{182} (1996) report indicates, net job creation rates are often higher for smaller size classes. However, for a number of countries it was found that the highest net job creation rates were among the very small firms, whereas those employing between 20 to 50 employees did not perform better than large firms. It is worth adding that, as a large number of empirical work demonstrates, such very small firms constitute the most vulnerable part of the small-industry spectrum and hence their net employment capacity is often undermined, in the mid-term, by their higher performance-failure rates\textsuperscript{183}.

A more recent OECD\textsuperscript{184} (1998) report stresses an additional methodological matter of studies related to net job creation rates, this time concerning the way by which firms are allocated to size classes. It was shown that net job creation rates of small and large firms were highly sensitive to changes in the size class of firms. Such issues have been completely ignored in any old or recent EU SMEs policy design\textsuperscript{185}.

Another methodological problem appears to exist in the estimation of small firms' share in net job creation. A high emphasis has been placed, up to now, on the size criterion rather than a firm's age-related criterion. Recent research undertaken in the US\textsuperscript{186} has stressed that net job creation rates and employment volatility decline with plant age. Such a distinction deserves special attention since if age is more important than size in determining continuity of employment, then policy-makers should focus more on young firms rather than on small ones. Of course, there is going to be an overlap between new and small in any case. Given such concerns, however, the issue also ends up of how to improve firms' life expectancy.

\textsuperscript{184} OECD Report, November 1998: op. cit.
\textsuperscript{185} FN.: A firm is considered "small" if it corresponds to the criterion "small" in some base year. Then any subsequent job creation is attributed to the size class "small" irrespective of whether the firm has moved to a different size class by the end of the period under investigation.
\textsuperscript{186} OECD Report, November 1998: op. cit.
Given that all small firms are not young, whereas the majority of young firms are small, it is implied a need for the EU's industrial policy reorientation towards entrepreneurship in the place of a policy merely addressing small firms’ needs. Such a policy's focus on entrepreneurship also dictates an emphasis on regulatory barriers' removal rather than on other forms of policy interventions. Such an assumption means that policy makers should ensure that SMEs access to information about regulations such as compliance procedures associated with, for instance, R&D or new technologies should be made available to SMEs at minimum financial and time-consuming cost. Then, the issue is focused on matters such as the number of European member countries that have already set up a "one-stop-shop system" wherein all necessary information that affects small firm’s strategies and decisions can be made available in one place.

"Entrepreneurship" however is in itself a vague and problematic concept that in its simplest meaning, according to Harvard's definition, relates to the pursuit of opportunity beyond the resources someone currently controls. Hence, “entrepreneurship” is not necessarily equal to private ownership or popular models of individual entrepreneurs as free marketeers assume (Ibid.). Also, "stability" in older businesses does not prove an entrepreneurial culture at all - possibly it may imply the reverse. Moreover, there are empirical studies concluding that especially very small firms may be set up to avoid pressures of corporate life rather than as entrepreneurial ventures.

Since 1984, Peter Drucker has indicated that entrepreneurship and innovation are not the capitalist-owners' or small start-ups' prerogatives since they do not constitute any distinct characteristic of individuals or organisational feature of certain legal business types. Dynamic entrepreneurial activities can be equally performed by an employee- and this is the majority of the cases- or by a self-employed or by membership based ownership (Ibid.). Thus, Drucker argues that it is a complete disillusion to relate entrepreneurship and innovation merely with new and small firms as the Anglo-Saxon

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account has favoured for years\textsuperscript{191} or - even worst - with authority and capital-ownership as the Germans have claimed\textsuperscript{192}. According to Drucker, dynamic (i.e. innovative) entrepreneurship is synonymous to dynamic entrepreneurial management and not a preservation of the private sector (Ibid.). Drucker considers innovative organisational potential as a tool entailed by behavioural elements rather than personality features, and claims “behaviour” is the decisive “key” factor that leads to dynamic entrepreneurship practising.

Hence, it appears that - away from private ownership status or size and age of a firm - the innovator entrepreneur has to be a "change agent"\textsuperscript{193} in behavioural terms, thus a person who creates an environment where change is possible and who might also depend on access to others people's resources. Yet, whereas entrepreneurial opportunity may depend on seeing and envisioning a future state, the key element in getting other possessors' resources is to convince these persons that any opportunity is not for you only, but for them as well. This requires the practising of ethical management so as to develop trust among all interested parties, as well as provide leadership skills\textsuperscript{194}. Such issues as ethical management and collective entrepreneurship, as well as their relation to a longer enterprise life are discussed in the chapters to follow.

It is worth adding that a similar SME distribution patterns as those experienced in the OECD member countries have been recognized in empirical studies restricted only to the EU’s area. In particular, EU evidence, cited under Table 2.4, based on a typical distribution of firm size and jobs, shows that large firms constitute a fraction of 1 per cent of all firms in the EU, but these provide one-quarter of all jobs. According to the same evidence, SMEs with less than 499 employees provide the largest proportion of jobs, i.e. almost two-thirds in the EU-12. The data in Table 2.4 show that micro and small enterprises (less than 100 employees) are providing almost half of all jobs in the EU-12.

\textsuperscript{191} F.N.: Bill Gates for example although his business is of that size is still very innovative and entrepreneurial.


\textsuperscript{193} Ref.: http://www.wisc.edu/uwcc/staf/cropp/board.html

Table 2.4 Size distribution of firms and employment share: Selected OECD countries

<table>
<thead>
<tr>
<th>Base (millions)</th>
<th>EU-12 Percentage of firms</th>
<th>EU-12 Percentage of jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base (millions)</td>
<td>15 780</td>
<td>95 000</td>
</tr>
<tr>
<td>Micro enterprises (0-10 employees)</td>
<td>93.3</td>
<td>31.8</td>
</tr>
<tr>
<td>Small enterprises (11-99 employees)</td>
<td>6.2</td>
<td>24.9</td>
</tr>
<tr>
<td>Medium-sized enterprises (100-499 employees)</td>
<td>0.5</td>
<td>15.1</td>
</tr>
<tr>
<td>Large enterprises (500+ employees)</td>
<td>0.1</td>
<td>28.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.1</td>
<td>99.9</td>
</tr>
</tbody>
</table>

Source: EU-12 (1990), The European Observatory for SMEs, 1994

According to further academic evidence\(^{195}\) such a shift towards a greater proportion of jobs in SMEs has been lately moderated. In fact, the relative higher growth of jobs in firms with less than 500 employees compared to large firms continued from 1988 to 1993, but there was no difference in the 1993-95 period for the EU-15 plus Norway. Polarization between large and small enterprises continues as value added and annual sales have grown faster for large firms since 1990 than for the SME sector as a whole (see Table 2.5).

Gallagher's and Stewart's\(^{196}\) (1984) empirical investigation has suggested that the new small-firms' employment growth-rates are on average equal to those of new large firms.

Table 2.5 Size distribution of value added in manufacturing

<table>
<thead>
<tr>
<th>Employment size class</th>
<th>Year</th>
<th>1-19</th>
<th>20-99</th>
<th>100-499</th>
<th>500+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>1993</td>
<td>4.6</td>
<td>10</td>
<td>13.6</td>
<td>71.9</td>
</tr>
<tr>
<td>Canada</td>
<td>1994</td>
<td>4.5</td>
<td>20.1</td>
<td>39</td>
<td>36.3</td>
</tr>
<tr>
<td>Japan</td>
<td>1994</td>
<td>12.1</td>
<td>23.2</td>
<td>29.3</td>
<td>35.4</td>
</tr>
<tr>
<td>Korea</td>
<td>1994</td>
<td>10.3</td>
<td>21.9</td>
<td>14.2</td>
<td>53.5</td>
</tr>
<tr>
<td>Australia</td>
<td>1994</td>
<td>15.3</td>
<td>25</td>
<td>36.2</td>
<td>23.5</td>
</tr>
<tr>
<td>Austria</td>
<td>1993</td>
<td>4.1</td>
<td>23.8</td>
<td>23</td>
<td>49.1</td>
</tr>
<tr>
<td>Finland</td>
<td>1992</td>
<td>7.9</td>
<td>14.7</td>
<td>45.3</td>
<td>32</td>
</tr>
<tr>
<td>Germany</td>
<td>1993</td>
<td>15.4</td>
<td>19.4</td>
<td>10</td>
<td>55.1</td>
</tr>
<tr>
<td>Greece</td>
<td>1992</td>
<td>12</td>
<td>29.9</td>
<td>35.4</td>
<td>22.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>1994</td>
<td>5.4</td>
<td>15.3</td>
<td>25.2</td>
<td>54.1</td>
</tr>
<tr>
<td>Italy</td>
<td>1992</td>
<td>27.2</td>
<td>25.7</td>
<td>22.2</td>
<td>24.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1993</td>
<td>6.9</td>
<td>24.8</td>
<td>27.9</td>
<td>40.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>1994</td>
<td>12.6</td>
<td>23.9</td>
<td>26.4</td>
<td>37.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>1993</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1995</td>
<td>12.3</td>
<td>9.4</td>
<td>22.9</td>
<td>55.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>1992</td>
<td>1.7</td>
<td>11</td>
<td>32.1</td>
<td>55.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1994</td>
<td>9.5</td>
<td>16.6</td>
<td>28</td>
<td>45.9</td>
</tr>
</tbody>
</table>

Source: OECD, Database on SME statistics; Eurostat (1996), Enterprises in Europe

Note: as note of Table 2.1.


From the aforementioned, it becomes clear that the European Union policy-makers' evaluation of SMEs dynamics on aggregate levels, hides the high mortality at the level of the very small firm. According to OECD\textsuperscript{197} (1992) in the 80's and, furthermore, early 90's, higher rates of bankruptcy have been experienced.

Some evidence demonstrated earlier emphasized the fact that young firms generate more than their share of employment. Yet, other studies, such the OECD\textsuperscript{198} (1996), empirically show that less than one-half of SMEs start-ups survive for five years. Furthermore, they conclude that only a small percentage of surviving SMEs turn into high-growth firms and it is just such high-growth firms that make important contributions to job creation and productivity growth. Studies in the UK reveal that 12 per cent of businesses, newly registered for VAT, are de-registered within a year and 35 per cent within three years\textsuperscript{199}. Dubois and Linhart\textsuperscript{200} (1994) indicate that in France, almost 50% of the new small firms died within the first four years of operation.

The following Table 2.6 illustrates a marked variation in entrepreneurial activity across sub-national regions. It is obvious that some regions exhibit much higher rates of entrepreneurial activity than others, whereas certain types of activity are often being clustered together.

\textsuperscript{198} OECD (1996): "Technology, Productivity and Job Creation", op. cit.
TABLE 2.6 Firm birth rates and variations within countries at regional level

<table>
<thead>
<tr>
<th>Regional variations</th>
<th>National Average</th>
<th>Min</th>
<th>Max</th>
<th>Min/Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>All sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France (1981-91)</td>
<td>118</td>
<td>67</td>
<td>264</td>
<td>3.9</td>
</tr>
<tr>
<td>Germany (1986-89)</td>
<td>55</td>
<td>41</td>
<td>90</td>
<td>2.2</td>
</tr>
<tr>
<td>Italy</td>
<td>144</td>
<td>74</td>
<td>202</td>
<td>2.7</td>
</tr>
<tr>
<td>Sweden (1985-89)</td>
<td>88</td>
<td>56</td>
<td>149</td>
<td>2.7</td>
</tr>
<tr>
<td>United Kingdom (1980-90)</td>
<td>72</td>
<td>42</td>
<td>107</td>
<td>2.5</td>
</tr>
<tr>
<td>United States (1986-88)</td>
<td>33</td>
<td>18</td>
<td>74</td>
<td>4.1</td>
</tr>
<tr>
<td>Manufacturing only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany (1986-89)</td>
<td>6.8</td>
<td>4.5</td>
<td>12.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Ireland (1980-90)</td>
<td>22.3</td>
<td>10.7</td>
<td>42.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Italy</td>
<td>26.8</td>
<td>12.7</td>
<td>51.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Japan (1985)</td>
<td>6.7</td>
<td>4.1</td>
<td>12.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Sweden (1985-89)</td>
<td>10.3</td>
<td>4.4</td>
<td>28.7</td>
<td>6.5</td>
</tr>
<tr>
<td>United Kingdom (1980-90)</td>
<td>27.5</td>
<td>10.0</td>
<td>59.5</td>
<td>6.0</td>
</tr>
<tr>
<td>United States (1986-88)</td>
<td>16.8</td>
<td>2.4</td>
<td>114</td>
<td>47.5</td>
</tr>
</tbody>
</table>


Up to now, the evidence questions if small industry as a whole has the capacity to foster new employment growth, as the free-market advocates' assert. As it has been demonstrated, small business' growth and innovative capacity depend on such a complexity of factors that it is difficult to uniformly decide its prospects. However, evidence has confirmed that even innovative small firms are highly dependent on large firms for their survival and growth (see for instance references No. 96 and 97). There is also considerable evidence that suggests, on average, wages and the quality of jobs generated by SMEs are lower than in larger firms. Although this pattern in general terms seems to be true, yet some other empirical studies indicate that there are great variations in wage levels among different countries' SMEs, thus calling for different forms of government and institutional intervention. For example, Loveman and Sengenberger (1990) and the European Observatory for SMEs, 1993, 1994 reports, although they demonstrate that small firms pay lower wages than large firms in almost all advanced OECD countries, yet they also highlight the fact that there is a great variation among countries.

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201 F.N.: There is definitional variation across the countries due to differences in the methods used to measurefirm births. As a result, cross-national comparisons of the average values are not appropriate.


203 F.N.: Manufacturing workers used as denominators.

In order to explain evolutionary success or failure of small business sector there appears a need also to explore other dimensions involved in such a sector's geographically led development such as "ownership" status, "federal structures" and associated (community) factors. For instance, there is a need to explore the financial system's role in different member states as well as its impact on the shaping of firm's size. To take but an example of a pair of countries, according to Prowse (1994), the bank credit system in Britain and Germany since the beginning of the twentieth century has been strongly in favour of large firms at the expense of the small ones. Even in our days new capital requirements in Germany's case are raised from private banks whereas in Britain mostly from stock markets. The ownership's structure currently documented in the two countries, although in both away from the older share ownership's form that was based on individuals or families, now relates - as regards German companies - to financial institutions' involvement, whereas in Britain non-financial institutions are taking the lead in shared ownership schemes (Ibid., p. 21). Moreover, there are different justifications for financial institutions' involvement in the shareholding of companies in the two countries. According to Prowse, in Britain the financial institutions shared ownership is mostly attributed to the role that such institutions can play operating as agents of other investors, whereas German financial institutions involvement is attributed to these organisations' interest in shared ownership per se (Ibid.). Another difference between the two countries' ownership schemes of large firms, is that the one in Britain appears to be more dispersed whereas the German formula of ownership is more concentrated (Ibid., p.35). As we mentioned earlier, a study undertaken by the Anglo-German Foundation has confirmed differences in managerial thinking in the two countries as well. Thus, whereas British companies are managed mostly in favour of the shareholders interests, German firms' management place more attention to the social dimension of companies thus seeing themselves as agents capable of producing wealth and creating jobs for the local community as well (Ibid., p. 18).

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As regards SMEs' ownership structures in the two countries, these also reflect qualitative differences. Thus, whereas the majority of the British small and medium sized enterprises are seldom family owned, in Germany SMEs mostly remain under family control\textsuperscript{208}. German's family ownership and control status and availability of bank lending have been considered as the main factors averting SMEs from rapid capital gains or threats of acquisition or take-over. However, at the same time such security derived from German banks credit availability, has often interpreted as the main reason for stock market underdevelopment and hence as the main cause for lack of entrepreneurship since innovative start-up firms have limited opportunities to raise venture capital funds from stock markets (Ibid.). In the case of the British SMEs, it is often cited that free-market ideology associated with no real banks' involvement in companies' production and capital's constrains to banking systems has led them to short-term pursuits, occasionally to death as well as to the enforcement of their dependency status\textsuperscript{209}. The aforementioned example, despite the free-marketeers'-uniformly shaped - assumptions, gives an idea of how different ownership status, financial systems or prevalent ideologies can affect small business' performance and stability.

However, it is most important to denote that, by placing special focus only in the SMEs' area of industrial order, as the free-market advocates do, we miss the influence that such policies might have on the whole direction of present capitalist societies. In fact, such an emphasis on SMEs for development and job creation, allowing for countries' disparity, has paved the way for a marked shift in power from labour to capital. From one hand, high unemployment levels, regulatory, and legal reforms and, from the other, shifts to smaller production units have weakened Trade Unions' position, and the bargaining position of labour as a whole has deteriorated\textsuperscript{210}. Thus, individuals' insecurity has been reinforced and this has been reflected on a union-membership aversion from employees' part (Ibid.).

In particular, union density among employed people since the early eighties has declined.\textsuperscript{211} Worse of all, the neo-liberals or social democrats fierce propaganda for individualistic initiatives and competition has managed to generate a value system that divides the labour class between an elite of employees and a residual secondary labour force\textsuperscript{212}. The cultivation of such individualistic profit-driven attitudes has led to an intensification of the "dependency" culture among employees or work-seekers that no ready-made or conventional employment formula seems able to alleviate\textsuperscript{213}.

As mentioned earlier, comparisons by size alone are often blamed for hiding differences because of disparities in firms' age. A recent study undertaken among manufacturing firms in Germany, in the area of Lower Saxony, has concluded that there were no jobs tenure differences by size among firms of the same age\textsuperscript{214}. However, other studies relate these data not merely with the institutional / legal framework prevalent in Germany, but also with an ideological background of solidarity between labour and capital that in turn ensures much greater overall job security in Germany than in other European countries such as Britain\textsuperscript{215}.

Some studies suggest that when firms' age is taken into account in jobs' analysis instead of jobs' stability, then job tenure appeared to be affected by employees' experience\textsuperscript{216} rather than firm's size.

Alternative perspectives suggest that comparison of wages by firm's size, beyond the fact that it hides the high diversity within size classes, also hide differences related to the high disparities of economic sectors and geographical locations.

\textbf{Becattini}\textsuperscript{217}(1990) argues, in the case of the Italian industrial districts, on average, wages are higher than in larger firms operating in other regions. According to

\footnotesize{
\begin{itemize}
\item \textsuperscript{211} See OECD, 1991: op. cit., TABLE 4, p. 101.
\item \textsuperscript{214} Wagner, Joachim (1996): Paper presented in Washington Conference.
\item \textsuperscript{217} Becattini, G. (1990): "Italy" in Sengenberger, W., Loveman, G. and Piore, M. (Eds.), op. cit.
\end{itemize}
}
Kristensen²¹⁸ (1992) a similar case has been witnessed in West Jutland, the economic prosperous district in Denmark. Schmitz²¹⁹ (1992) also confirms the high remuneration terms for jobs created by small firms in the industrial district of Baden-Wyrttemberg in Germany. However, as several studies suggest, the standard compensation and working-conditions data in the case of the Italian industrial districts do not adequately describe workers' welfare. This is so because the latter depends heavily on other, non-quantifiable elements reflecting living conditions²²⁰.

Another issue related to job quality in SMEs is that referring to the internationally comparable data on hours of work. Evidence supports that at least in some countries, for instance France²²¹, Britain²²² and Japan²²³, small firms' employees do in fact work more hours than those employed in large firms. However, labour productivity data on the same countries suggest that due to much lower capital-labour ratios, the inferior labour productivity in small establishments is more than offsetting the lower wages²²⁴.

As far as unionisation rates are concerned, those appear to be prima facie positively correlated with size and reflect the differences in compensation and working conditions. Again, there is significant variation across countries²²⁵. One reason accounting for the lower unionisation rates of small firms may be their concentration in industries that have historically been relatively less unionised (see for instance in the tertiary sector)²²⁶. Furthermore, industrial action appears to be positively correlated with size, although the implications of industrial disputes in the cost of production tend to be more severe in the case of smaller firms. This is due to lack of buffer stocks, thus implying a greater bargaining power on the part of small firms' employees²²⁷.

²²⁷ FN.: For extensive information on the matter see for instance: Marsden, 1990: op. cit. or Loveman & Sengenberger, 1990.
Although it could be argued that, on an aggregate statistical basis, workers are less well off in smaller enterprises and establishments, there is no "iron necessity" why this should always be the case. There is no intrinsic correlation between small size and inferior labour conditions. Furthermore, high unionization rates among small firm employees can be found outside the Italian industrial districts, namely in Sweden, as well as in the manufacturing of ladies' garments and printing industries in the USA\textsuperscript{228}.

Lower job stability does not necessarily contribute to greater worker insecurity provided that there are institutions to take care of the social consequences of the instability problem. Surveys on job satisfaction and employees' morale in various countries suggest that job satisfaction levels have been mixed as related to establishment size. In fact the job satisfaction concept is quite disputable and may relate to a host of other things rather than pay. So, while on average effective employment security is weaker in smaller firms than in larger ones, some of the best employment standards and working conditions, under certain circumstances, can be found in small firms\textsuperscript{229}.

To conclude with the job quality issue, there is no adequate systematic empirical evidence to suggest that all jobs provided by new and small firms in the EU's countries are inevitably of lower sub-standards than in larger firms, although the evidence shows that in pragmatic terms this is the case.

\textsuperscript{229} F.N.: For more information on greater job satisfaction in small firms see for instance the Japanese SMEs managers case in Sato, Yoshio (1996): "Work, Organization and Job Quality", mimeo.
Chapter 3

The Dual Economy

In this chapter we discuss in detail Averitt's original model and his updating version on industrial restructuring in juxtaposition with the free-market small-industry paradigm. Section 3.1 is an introductory part that examines the main arguments made by the free-market small industry advocates. It also briefly reviews some empirical work outcomes that question the credibility of such approaches' assumptions. This extract hopes to inform the reader on the optimistic vision of this approach that - by focusing on a specific mode of production organization – has managed to influence much public policy experimentation on the grounds of the assumption that the "particular" in recent industrial development can stand for the "general". Section 3.2 examines in a comparable manner Averitt's original model and his updated analysis in terms of macro, meso- and microeconomic industrial issues and themes related to different firm types' conduct and performance. Special emphasis is paid on the industrial concentration ratio and its usefulness in interpreting power relations in contemporary industrial structure. A range of complementary industrial proxies is assessed on empirical grounds, i.e. technological progress, ownership structure, financial infrastructure, other socio-economic institutions, managerial issues, etc, as to their role in shaping present industrial realities. Also, the national state's role is systematically examined since it constitutes a central aspect in Averitt's industrial analysis. In the entire pursuit, we draw on empirical industrial documentation and business studies that support or attempt to criticize Averitt's model directly or indirectly. In this chapter our exploration mainly relates to that part of Averitt's model that reflects on the industrial structure, since his dual labour markets model is approached at Chapter 4.
3.1 Introduction

As we have mentioned in the outset of this thesis, the mainstream European academic and policy literature appears to suggest that since the mid-70s the crisis faced by mass production industries in the accumulation regime (falling rates of profits despite state subsidies) has favoured small-industry's development and flexible work organizations. Thus, the transition from Fordism\(^{230}\) (Keynesianism\(^{231}\)) to the post-Fordism era (market-clearing era), despite the latter's great confusion and vagueness about its pace, extent and context, has been virtually assumed to relate, at the industrial organization level, to a restructuring pattern that breaks with the principles of mass production or Fordism. For instance, Bannock\(^{232}\) 1973, one of the strongest small-scale industry advocates, has a priori characterized large, mature corporations as "a blind alley in the evolutionary process, like the dinosaur". In a more recent work, he has attributed a large number of inherent competitive advantages\(^{233}\) to small firms. Those appear to involve superior small-firm flexibility and innovation properties as well as better net employment records than large firms. Additionally, a number of small-industry’s cost-advantages have been assumed to arise either from lower wage costs or from inferior fringe benefits claimed to be acquired by small firms.

Moreover, some other scholars suggest the simultaneous generation of small production units with large-scale industry. Flexible specialization theorists, as for instance Sengenberger and Pyke\(^{234}\) (1990) or Sabel\(^{235}\) (1989, 1990) have especially stressed this aspect.

\(^{230}\) FN.: The term "Fordism" was used firstly, approximately around 1931-32, by Antonio Gramsci, in his article "Americanism and Fordism", written in prison (for further information see Gramsci, A., 1971: "Selection from Prison Notebooks", London: Lawrence & Wishart).

\(^{231}\) FN.: For more details on Keynesian principles and their impact on labour force employment conditions see, for instance Hawkins, K. (1979): "Unemployment", Pelican, p. 66-70.


In fact, the "industrial districts" model's appeal to successful economic performance (exports, employment flexibility, innovation) and capacity for endogenous regional development, have led several analysts to assume that such a model constitutes a prototype along the principles of which almost all small firms could comply. Such a view was further reinforced by some small firms' ability - operating also within the industrial districts - to sustain high wages and labour standards despite intensified international competition.

The majority of the free-market's advocates claim that most of the features outlined within the context of the flexible specialization regime are best suited to the characteristics of small firms. For instance, the decentralization of production and the increase in subcontracting and outwork have been assumed to open more space for small firms in an increasing number of activities. Additionally, flatter hierarchies and skill versatility, as well as proximity and responsiveness to the market have been also assumed as being closer to the experience and modus vivendi of SMEs\textsuperscript{236}. The same applies in the case of the transactions-intensive mode of operation, linking closely a chain of independent, yet highly interdependent small firms. Large and highly verticalized firms have been assumed as lacking such experience and it is thus suggested that they may find themselves at a disadvantage when dealing with the uncertainty and unpredictability of current economic settings.

More specifically, under the free-market model of flexible specialization, small firms occupy a critical role in advanced countries' economic development by virtue of their participation in a sophisticated network of inter-firms' relations. Within this network, firms are virtually assumed as sharing knowledge and information and thus become capable of developing jointly new products or production methods\textsuperscript{237}.

After the emphasis on small and medium sized firms, the second defining characteristic of this approach is the use of flexible and widely applicable technologies in production: versatile and general-purpose machines and equipment, instead of large and dedicated machine systems. Product innovation is not prohibited by massive capital investment in rigid technologies; the minimum change strategy characteristic of mass production is

\textsuperscript{236} Berger, J. (1990): op. cit. in A. Martinelli and N. J. Smelser (eds.).
replaced now by a generalized drive to constant innovation. However, how many small firms fit in practice this picture of technology-driven flexibility?

Furthermore, this permanent innovation strategy is assumed as demanding from workers to possess a wide range of skills in order to produce and develop a variety of products. In fact, this upgrading of skills is considered as being incompatible with the rigid separation between conception and execution dictated by the Fordist deep technical division of labour\(^\text{238}\).

Another defining characteristic of flexible specialization is its system of micro-regulation aiming to balance competition with cooperation. The ideal combination of competition with cooperation is deemed as the stimulus for perpetual innovation, skills’ transfer and learning-by-doing practices ensuring that productivity does not stagnate and competition remains fair (no labour sweating). In fact, micro-regulation is accomplished through learned social practices, ethical values as well as more formal rules and institutions. It has been argued that these sets of ideological or ethical practices and institutions tend to be regional in nature, due to the spatial agglomeration of flexible firms and their reliance on dense inter-firm transactional relations\(^\text{239}\).

From the aforementioned, there is no doubt that, prima facie, some of the above outlined free-market/flexible specialization features may well characterize more small rather than large firms. However, how far does this type of small industry fit such a picture? For instance, as regards small industry innovative capacity, Pavitt (1979)\(^\text{240}\) has indicated that a country’s innovative record still depends on the R & D spending of large firms aided by governments.

Moreover, what is the impact of different national-specific conditions on the SMEs general profile? What is the role of the national institutional constraints or opportunities to the competitive behaviour, profitability and performance of small firms operating in different localities? What is the role of different national environments in areas such as


financial systems or engineering culture, research and development, educational profiles of the labour force, corporate governance regulations, employment regulations and a huge number of other business structural parameters to small industry development or decline?

In fact, the SMEs’ flexibility-driven type of explanation used by the free-market advocates has been challenged by a number of analysts on several grounds. The simplest being that it neglects the SMEs’ heterogeneity and focuses on a relatively small proportion of independent small firms. Accordingly, several critiques stress the enormous unevenness of conditions of work and the disproportionate bargaining strength derived from skill: a small group of workers exploit differentiation within the labour market and pursue an active strategy of protecting and reinforcing such differences. Thus, according to such critical accounts, access to skilled jobs tends to rely on existing social inequalities by gender, race/nationality and family connections. A further point of criticism focuses on the labour force dynamics and more specifically on the supply of labour. In cases where there exist considerable labour reserves, employers tend to resort to sweating rather than innovation. With these criticisms in mind, we now turn to an examination of Averitt’s Dual Economy Model and its empirical and theoretical underpinning.

3.2 Averitt's Dual Economy Model

Averitt (1968) and authors within the same line of thought - who are referred to as the Dual Economy School - are among those critics that have challenged the free-market SMEs-driven assumptions. Dual Economy theorization, albeit with substantive differences among its advocates, has its origins in Joan Robinson and Edward Hastings Chamberlin "imperfectly competitive" and "monopolistically competitive" theories and developed in the mid-60s as an alternative approach to the neo-classical presumptions and policies. In particular, such thinking suggests that the traditional neo-classical approaches are not so strong as to their credibility in explaining the realities of the industrial restructuring and giant firms' conduct and performance at a national, regional or global level.

Such inadequacy is attributed to the fact that free-market frameworks do not effectively recognize that State administration is crucial to the remedy of malfunctions generated by imperfect or monopolistic competition practices. Indeed, the imperfect competition theorizing suggests that, unless the State intervenes in the markets, imperfect or monopolistic environments reach a point where monopoly prices lead to crisis. Neo-classical theories fail to realize the important statist role in competitive practices that creates an unrealistic basis for the development of their analysis on contemporary industrial and labour markets.

In particular, Averitt and his advocates share the view that in traditional neo-classical theories... "Reliance on ideology tends to ignore important realities such as the evolutionary nature of technological change and institutional adjustments..." (Munkirs & Knoedler, 1987).

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In the place of the free-market assumptions concerning the behaviour of the industrial structure, the Dual Economy school of thought\textsuperscript{250} has suggested that any attempt at research in industry’s structure calls for combined microeconomic and macroeconomic descriptions\textsuperscript{251}. Such endeavors, according to the Dual Economy approach, should incorporate interrogations on structural components and functional mechanisms prevalent in industrial markets. The Dual Economy model alternatively provides what Averitt\textsuperscript{252} (1968) calls "a microeconomic supplement to the "new economics" of macro policy. ...Averitt claims that... "to pursue the goal of perpetual prosperity, we must go beyond a theory of the "firm" and formulate theories of specific types of firms and industries".

To put it differently, the Dual Economy researchers do not accept the exclusive analysis provided by the traditional neoclassical camps according to which equally all firm-types are passively adapted to and conformed with government policy\textsuperscript{253}. In the place of such an all-embracing firm-theory, the dual economy suggests at least a two firm-types’ approach to industrial analysis. Dual economy advocates’ main rationale is based on evidence-based studies demonstrating that the free-market’s assumptions on alleged SMEs’s inherent properties, merely relate to those firms functioning in the context of what they call "the planned market global system". That is the oligopolistic world of large firms, in particular of those embedded in "key" industries within which firms exhibit completely different properties in terms of technological level and the degree to which they influence governments and financial institutions. In fact, Averitt considers large private organizations that operate within such an internationally planned market-sector as equivalent to "semi-public institutions"\textsuperscript{254}. On the other end of the private-sector rests, according to the dual economy explanations, the world of the small traditional, highly competitive, low-technology industry, namely the "unplanned system" that has almost no strength to influence governmental or institutional decisions\textsuperscript{255}.

\textsuperscript{250} FN.: The work of the advocates of this school of thought can be found for instance in Reagan, M. 1963; Mydral, G. 1967; Galbraith, J.K. 1967; Averitt, R. 1967, or Munkirs, J.R.1985.
\textsuperscript{255} Ibid., pp. 158-172.
More specifically, the Dual Economy School demonstrates that at a microeconomic level of industrial analysis, market concentration, that is "the degree to which production for or in a particular market or industry is concentrated in the hands of a few large or giants firms"\(^{256}\), needs to be measured. In the context of the dual economy school, high concentration levels are assumed, among other factors, to indicate tight oligopolies and, consequently, to be associated with "undesirable" competitive practices that lead to income distribution inequalities and, ultimately, to the division of labour\(^{257}\).

We extensively discuss the compatibility of the empirical evidence with dual economy approach in terms of labour markets' structure and functioning in the subsequent chapters. There is a series of specific empirical areas that the Dual Economy researchers are particularly interested in:

*First*, changes in "barriers to entry or exit, economies of scale, and other technological imperatives"\(^{258}\) as factors providing potential competition indicators that might affect oligopoly or monopoly power practices in a given market or industry.

*Second*, further macroeconomic factors, taken into consideration in the economic analysis of the dual economy school, stress the need for the relative size of the economy's 'private' and 'public' sectors, as well as their relationship to each other, to be examined\(^{259}\).

*Third*, "... the division of the private sector into both its planned and non-planned components"\(^{260}\).

*Fourth*, financial support for the production / technical system used as well as managerial perspectives also provide significant data explaining the shape of the economic structure.

According to the Dual Economy Model, the private economy's planned sector is composed of giant corporations, especially those embedded in key industrial segments upon which economies as a whole depend. Such industrial segments of key importance


for giants firms are the following: Energy, Technology, Engineering etc. This is what Averitt calls the "center" or "core" economy. Averitt identifies two different business systems in the post-war American industrial structure, namely the "core" and the "periphery" system. The "core economy" or "core system" is comprised by what he calls the "core firms" whereas relatively small sized firms populate the "periphery economy" or "periphery system".

Averitt's dual economy model is grounded upon three distinct concepts. The first concept is associated with the nature and structure of firms. These are situated in either the centre / core firm economy or in the periphery / secondary one. These firm-types are distinguished in terms of a number of variables, such as economic size, organizational structure, state of ownership, industrial location, and geographical dispersion, power influence et alia.

Averitt defines the second decisive industrial concept referred to above as the so-called "key" or "basic" industries. The term relates to an industry that is more important in a given economy than the remainder industries. According to Averitt:

"...The economic structure of an advanced country exhibits a hierarchy of industrial importance... (The "key" industries) exhibit extreme concentration rates, almost all key industries are oligopolistic in nature, many of them are dominated by three or four firms... the "displacement effect" (caused by the leading companies in the key industries) ...would virtually vanish small firms".

Most interestingly for our discussion purposes, Averitt locates all "key" industries in the manufacturing sector. In fact, he recognizes that "the American economy ... is a developed economy because it relies heavily on manufacturing for its income and employment". As opposed to the American economy, Averitt identifies "manufacturing" as the key activity being "most often missing or severely undernourished in the economies of the non-industrial countries". To put it differently, the most identifiable activities in underdeveloped regions, are wholesaling, retailing, construction, agriculture and mining (Ibid.).

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The critical role of manufacturing to a country's economic development does not mean that Averitt underestimates or refutes the importance of the services sector. In fact, he quotes: "...the rise of domestic manufacturing along with modern services is often considered as synonymous with economic development". Averitt relates services and public utilities to what he calls "social overhead capital". In this term he integrates sectors such as transportation, communication, power, and water supply, law and order, education or public health etc. Averitt recognizes that especially the narrowly defined “social overhead capital” activities are heavily dependent for development upon their mode of interaction with manufacturing.

In particular, according to Averitt's views, American “social overhead capital” industries show one or more of the following characteristics: "They substantially facilitate the generation of a large variety of other economic activities, particularly manufacturing. The organizations providing social overhead capital services are usually publicly owned or regulated; often called public utilities, they are for the most part privately owned but regulated in this country (in the USA) while often owned by the public in other parts of the developed world. Decades of debate notwithstanding, differences in performance are not great, other factors being equal. The services cannot be imported" (Ibid., pp. 36-37).

In other words, according to Averitt, although "social overhead capital activities" provide the necessary preconditions for the expansion of other industries (especially manufacturing), yet a country's industrialization mostly relies on its manufacturing capacity.

We now turn back to definitional themes directly related to the "key" industries' concept. What seems interesting to be further clarified is the set of certain characteristics that qualify an industry to be integrated in the group of the "key" ones. Averitt gives a sample of a qualification-set as reliable for an industry's inclusion into the "key" ones. This has been formulated by observations he made in "key" industries.
located in the American industrial setting. According to his description, membership of the core economy involves the following eight criteria:

*Technological convergence:* according to this criterion, "key" industries are namely the followings: tool industry, chemicals and electronics; *Capital Goods industries:* i.e. construction, transportation capital goods, electrical equipment and machine tools; *Industrial interdependence-Backward and Forward linkage:* i.e. iron and steel, paper and paper products, petroleum products, non-ferrous metals, chemicals, coal products, rubber products, textiles, and printing and publishing; *Price-Cost effect on other Industries:* steel industry is considered as exerting the most important price-cost effect; *Leading Growth Sectors; Major Research and Development Industries; Wage-Setting Demonstration Effect; Full-Employment Bottleneck Industries* (Ibid., pp. 38-42).

Averitt, based on the aforementioned criteria, identifies then eleven “key” industries; these are qualified with at least two of the criteria being set above. Namely these key industries are the following: machinery (including electrical), iron and steel, nonferrous metals, transportation equipment (other than aircraft and automobiles), aircraft, chemicals (particularly industrial chemicals), rubber products, petroleum refining, electronics, automobiles, and instruments. (Ibid.: p. 43).

The third key concept in Averitt’s industrial model refers to the “technical system of production”, which characterizes a firm’s function and, hence, significantly affects its organization and pricing behaviour. According to Averitt’s interpretation: “Manufacturing is divided into three major production categories, thus: unit and small batch, large batch and mass, and process production. The first two, generally adopted in response to the firm’s market size, differ from process production that requires, in addition to a large market, a product that flows, or one produced with materials having continuous flow potential.”

Averitt continues, "The natural market structure for large batch and mass production is oligopoly... (in which) process production, marketing is paramount.” Averitt also indicates that in process production "absolute capital costs soar...making the barriers to

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269 Ibid., p. 2.
270 Ibid., p. 2.
271 Ibid., p. 31.
new firm entry substantial. But if the plant can be operated full time at near capacity levels, the per-unit costs of capital can be dramatically reduced...low costs depend directly on high sales volume"272.

Thus, Averitt - by identifying different market structures’ mechanisms - raises fundamental questions on the validity of conventional assumptions related to free market workings of supply and demand. If he is right, and then oligopolistic firms may manipulate demand through marketing manoeuvring, consumer’s sovereignty - a leading assumption of the free marketeers - becomes unrealistic273. Accordingly, if oligopolistic firms can technically raise “barriers” to entry in high profit industries, i.e. marketing activities, then: What is in reality the role left to small industry with its limited capacity to initiate and maintain such functions? What does the absence of scale economies mean in practical terms for the profit level of the unit or small batch firms as opposed to that retained by the large, oligopolistic firms? What such a picture implies for distribution of wealth and power relations?

Early in the 60s, Averitt also identified the development of a new institution, namely, the "pure conglomerate". This type of firm reflects on what he calls the "ultimate" American centre-firm. That is a firm which, often through mergers, matures in a short time and operates in different product markets. In this way, the pure conglomerate mitigates the impact of the competitive disciplines of any given market274. Averitt deems "pure conglomerates" as a management conceptual device, often with no real basis on production. Such conglomerates' rationalization and context is central in a manager's task whose responsibility then is merely to ensure a secure and stable management of "capital"275. Thus, Averitt introduces in the industrial analysis the critical role that executives of large firms may have in determining capital arrangements.

Interestingly, Averitt associates his ultimate core firm description with the large or transnational corporation, the strategic growth-patterns of which and impact on labour force are discussed in the chapters to follow. In particular, Averitt writes:

272 Ibid., p. 27.
273 F.N.: For such issues involved see Galbraith’s extensive discussion in Galbraith, J. K. (1967): op. cit.
275 Ibid., p. 60.
"The center firm is large in economic size as measured by number of employees, total assets, and yearly sales. It tends towards vertical integration (through ownership or informal control), geographic dispersion (national and international), product diversification, and managerial decentralization. Centre firms excel in managerial and technical talent; their financial resources are abundant. Their cash flow is large, particularly during prosperity; their credit ratings are excellent. Centre management combines long run with short-run perspective. Short-run considerations are part of the tasks at the lower levels of the managerial hierarchy, while the long run planning is the pre-requisite of top management. Their markets are usually concentrated. Taken together, centre firms make up the centre economy.\(^ {276}\)

Averitt and his advocates recognize that large firms’ oligopolistic advantages are firmly associated with both technological progress and global prospects. In fact, Averitt quotes:

"Centre firms survive in the long-run only when they leave established short-run positions for the challenge of new products and new industries...the static, short-run analysis of conventional price theory cannot catch and effectively evaluate the long-run dynamism of the centre... Technology provides in the long run no less of a mortal threat for centre firms than competition provides for periphery firms in the here and now."\(^ {277}\)

Let us now turn to examine what is there in the literature and empirical work that supports or refutes aspects of Averitt’s Dual Economy Model.

3.2.1 Examination of Theoretical or Empirical Work that Attempts to Support or Refutes Averitt’s Approach, Directly or Indirectly

In the same vein as Averitt, Galbraith claims that the planning-market-system's real threat is not socialism but advanced technology\(^ {278}\). Galbraith industrial observations further confirm Averitt’s view that such technological requirements reinforce even further the need of core industries for State support. The basic logic is that State’s

\(^{276}\) Ibid, p.2
\(^{277}\) Ibid., p. 78.
regulation of the aggregate demand secures markets for new products. Accordingly, the State has to provide highly trained manpower and investment funds for reducing the uncertainty of the innovative products' development.\(^{279}\)

It is worth to remind that in Averitt's dual economy model the American center economy in co-operation with the Federal Government has a crucial role to play in the development of perpetual economic prosperity. Averitt, however, also implies that prosperity's gains are unequally distributed in the society and this is reflected on the marginalized role he provides for the periphery or secondary economy. A factor further reinforcing such an argument is Averitt's realization that the centre economy has been almost diffused across the State and, in practice, dominates it. This is mainly attributed to the cumulative economic power of large organizations comprising the core economy.

Galbraith\(^{280}\) (1967) also claims that the planning system of "networked great corporations" has managed to identify its interest with "national interest" and can thus, to a large extent, stimulate and influence State policies for its own sake.

Reagan\(^{281}\) (1963), another prominent advocate of the dual economy school, observes: "...corporations are not only much concerned to protect their own immediate legislative interests, but are reaching out in an attempt to create a business-oriented political and social framework within which all-public decision-making would be constrained. Instead of the society channeling business decisions within the bounds of public interest, the corporations seek to channel public-interest decisions within business-interest bounds".

Along the same lines of thought, Murray\(^{282}\), quoted in Dunning (1971), observes six primary economic functions for the State in capitalist economies. These are the followings: guaranteeing of property rights; economic liberalization - under the rationale that State's intervention is obligatory in order to abolish the restrictions on mobility and reinforce the standardization of currency, law and weights and measures in

order to facilitate exchange; macro-management; input provision such as those of labour, land, capital, technology, infrastructure and basic manufacture inputs (e.g. steel); intervention for social consensus, and management of the external relations of the capitalist system.

Accordingly, Munkirs & Knoedler (1987) argue: "...The country's private economic planners' strategies and tactics are based on economic, political, and social concerns that are global in scope and suffer little from nationalist, capitalist, or communist sentimentalities."^283

Averitt's particular view as regards the American planned economy's (the centre economy) overwhelming predominance in the world, is summarized in the following quotation, written in 1968:

"...The center economy gives the nation its industrial might. It forms the heart of the greatest aggregation of production potential ever known. The top 500 industrial U.S. corporations, the elite of the center economy, account for nearly three fifths of all workers in U.S. mining and manufacturing. They participate in the innermost councils of government, they are the backbone of American industrial strength in war and peace. Without these 500, their large-scale cohorts, and their economic dependents, America would be a second-rate power. With them, she leads the world's superpowers."^284

Further on in this thesis we consider Averitt's view on the continued domination of the USA as this has been expressed in his Dual Economy revisited.

We now turn to examine explanations on the industrial concentration debate and see whether empirical studies support or refute Averitt's interpretations on the matter.

In fact, Averitt, in his original dual economy model version, attributes the high rates of capital concentration to the centre's firm technological progress pursuit. Indeed, quoting Michael Gort, Averitt claims: "The outstanding characteristic of the industries into which the corporate giants have diversified during the postwar period is rapid technological change."^285

Other empirical analysts, as for instance Utton (1970), do not fully agree that high concentration should be attributed to technological progress although he does confirm that: "...for industries with very low levels of concentration...interest in research had been slight and technical advance slow." More positive than Utton, Prais (1981) claims: "...larger optimum plant sizes have been responsible for increased concentration in particular sectors of industry...on the whole one cannot ascribe to technological factors...the process (of industrial concentration)...".

Averitt, in his second version of the dual economy approach, suggests that high concentration trends should mainly be attributed to financial factors. He relates giant firms' pursuit for greater size to financial advantages obtained that are such as to allow large firms to generate finance easier.

The same reason for high concentration rates of large firms has been stressed by the empirical findings of Prais (1976). Based on them, Prais arrived at the conclusion that such financial benefits, at least as regards the U.K's case, are related not to that extent to the low-cost of the borrowed capital, but to financial resources availability.

In fact, Prais's empirical findings support the view that, in Britain, the institutional investors who have been especially increased in number in the post-war period have tended to lend - both in terms of debt and equity finance - almost exclusively to the top largest firms. The explanation for such a choice, according to Prais's field work, lies in the marketability of giant firms' stock since investors are interested in portfolio management and not in the operations of the corporations per se. In turn, giant firms can relatively easily get all the finance needed and then issue new shares in exchange for the equity of acquisitions. The reason for conglomerates' diversification as regards the UK case - where very loose anti-trust measures towards mergers have been introduced at policy level, in contrast to the US which is a policy environment hostile to mergers - is attributed by the empirical findings to managerial objectives being pursued. In any case, the above empirical work justifies in realistic terms a pro-dual economy theorization that has suggested both size and growth have been sought by core firms mainly for their own sake with the support of institutional and corporate structures.

Other scholars' empirical outcomes, as for instance Labini\textsuperscript{289} (1962), even suggest that under "oligopoly" there is no necessary corollary relation between the technological progress rate and the volume of the new investments needed, as it is for instance the case within a competitive system. According to this account, technological progress determines the form that investment takes rather than the amount.

Beyond the scholars mentioned earlier, who have been directly or indirectly involved in the dual economy empirical support, there appear to be several other industrial analysts who also go along the same interpretations as Averitt. In particular, Davies & Kelly\textsuperscript{290} (1971) confirm such a dualistic industrial organization by giving empirical evidence of small firms' predominance only in three manufacturing sectors. Those are, namely, Leather (80% of net output) and Clothing, and Footwear (71% of net output). Other scholars such as Kelley, A.C. et al\textsuperscript{291} (1972), have further contributed to the dualistic model analysis, whereas Munkirs J.R. et al.\textsuperscript{292} (1987) have provided extensive empirical evidence on economic dualism. In fact, Munkirs's (1985) main contribution to Dualism is considered his recognition that government policies, based on Keynesian macroeconomics, no longer work because of the existence of the Central Planning Core Economy that impedes Keynesian policies' implementation\textsuperscript{293}. The main impediment feature to the implementation of the Keynesian theory of income and employment is that it treats money and the financial sector as an endogenous variable\textsuperscript{294}. We come back to the power attributed to financial industry in the distribution of income and lifestyle worldwide, as it has been justified by Averitt himself, further in this chapter.

Bowring's\textsuperscript{295} book on "Competition in a Dual Economy" (1986) also gives strong empirical support to Averitt's interpretations. In fact, Bowring in this work establishes the existence of the two business economies, the core and periphery, with two different rates of profit, disparities in profit stability and different risk/return ratios in the United


States (Ibid., p. 181). Bowring confirms that core firms have extremely higher profits, more stable and at lower risk earned than those earned by periphery firms, thus as Averitt had clearly suggested almost twenty years before Bowring.

It is important to add that since Averitt's book first publication, over thirty years ago, a limited number of scholars, involved through their writings in economic dualism theorization, have addressed a critique on his model. Hodson, R. is one of them. In fact Hodson in his book "Workers' Earning and Corporate Economic Structure", published in 1983, recognizes that the dual economy model - as opposed to the neo-classical theories - addresses issues concerning the way in which "the different positions and rewards in contemporary society have developed". He also admits the fact that Averitt in his dual economy exploration has specified as a key factor in explaining the development of the two distinct center and periphery sectors, the long-run falling costs for center firms (Ibid.). However, he also reports that "perhaps the most damning criticism of the dual economy model approach is that a full model has never been elaborated" (Ibid. p. 29). He concludes that, "another general criticism of the dual approach is that it is primarily descriptive rather than theoretical in nature (Ibid.). As we describe in detail later in this chapter, Averitt gives his answers to such critics in his dual economy revised paper.

To sum up, the major tenets advanced by Averitt's Dual Economy Model could be grouped, to a greater or lesser extent, under the following headings:

• From a macroperspective, economic structure should be taxenomized into three, indispensable and interrelated parts: those are the planned and non-planned private sectors, and government. Any economic analysis then should take into account this triparted inter-related entities.

• Production technology must be treated as an endogenous variable in any economic analysis aiming at conceptualizing industrial realities or firm's behaviour and performance.

• Averitt's analysis has led to the realization of the emergence of a new institution, namely the oligobolistically-driven industry aiming at its global development under governmental full support schemes.

• Averitt's model stresses the interrelation of production technologies, ownership patterns, behavioural goals and performance goals.

So far, the questions that the above extensive discussion on industrial organization addresses and this thesis will try to shed light upon are the following:

Can, in the current extreme globalized world - assumed as such by the free marketeers - core economies and States' mechanisms still be interrelated and intersected to the extent that Averitt's model is implying? Does current global industrial structure in fact fit? If so, to what extent do less developed countries fit in a picture where "the relation between companies and host governments is often one of a bilateral oligopoly"?297 Moreover, does such a "bilateral oligopoly" relationship equally exist within the western advanced industrial countries?

As we have sought to demonstrate from this section's outset - a key role to the advanced industrialized countries' competitive advantage appears to play the extent to which capital is concentrated in the hands of a few home-based corporations or conglomerates. That is the reason that the geographical dispersion of such concentrated capital equally plays a crucial role towards that direction. Thus, the advantages those economic entities of combined national and global interests enjoy, in practical terms, from financial or political resources - due to their capital concentrated power - appear to be of significant importance to a country's sustainability in the global terrain in the long-term.

Therefore, the global empirical evidence that is to be examined in the remainder of this thesis will be sought to tell this part of the story. The other part of the story that needs to be explored, relates to the employment impact of such practices and, speaking in broader terms, to the effects that such developments have generated for the nature of society's living standards and, in particular, for the periphery economy's employment and working conditions. Furthermore, it remains to be examined whether and to what

extent the empirical evidence confirms a similar control pattern of labour force development as that prevailed in the Fordism period. It is worth reminding that in the mass-production period, as Braverman has claimed, the high capital concentration ratio had gradually led to a high-centralized degree of labour control. Such issues then are critically examined almost throughout the thesis.

Before presenting in the subsequent chapters Averitt's views concerning labour market structure and assessing the global empirical evidence in support to the dual economy, there appears to be a need to clarify the confusion concerning the nature of industrial concentration and some related measurement problems. Thus, in industrial literature, beyond the market concentration concept that has already been defined in the beginning of this section, it appears to be another concentration type, namely the aggregate or overall concentration that has also attracted the attention of the industrial theorists in the Fordism period of mass-production. This "relates to the degree to which a few large firms control the production of the economy as a whole or at least broad sectors of it, such as the financial sector or the manufacturing sector" 298.

It is worth adding that ever since Averitt's observations made in 1968 about the oligopolistic nature of the American economy, the aggregate or overall concentration has attracted more and more the attention of the industrial analysts. Thereafter, its empirical use has been expanded and its importance for the realization of oligopolistic trends in a national or global economy context has been strengthened since, at the same time, market or industry concentration have appeared to be increasingly inadequate to reflect how the overall economy actually works 299.

Industrial literature suggests that the most popular concentration measure, in the sense that it is the one mostly used in empirical work, is the so-called "concentration ratio". This is defined as the proportion (share) of industry output accounted for by the largest 3 to 8 firms within a given sector or market or for the economy as a whole (in this case, the number of the largest firms is usually the top 10 firms). In both cases the largest firms' number is selected in an arbitrary way.

Most data on market concentration are thus obtained from national Censuses of Production and primarily relate to manufacturing industry. According to Clarke, 1985: "For Census of Production purposes a firm (or enterprise) is defined as one or more plants (or establishments) in an industry 'under common ownership or control'. .. Firm size is typically measured in terms of employment, net output, sales or value-added".

However, at the end it appears that concentration ratio appropriateness "depends upon the use to which the index is to be put" so different measures should be investigated for the analysis of a particular problem. For instance, "when concern is with concentration in a product market, then output or sales in that market would seem a natural measure to use, since both are related to the importance of firms in that market. Similarly, concern with buyer concentration in the labour market would indicate that employment would be the relevant measure".

Sales figures are based on total receipts of a given number of firms as a proportion of total receipts in the economy or of a given industrial sector. Value-added then is actually calculating differences between the sales and the cost of raw materials, fuel, power and fixed and variable capital costs.

Although from the aforementioned it has become obvious that there are differences according to the measures we use to estimate industrial concentration, yet in Hannah and Kay (1977) words:
"It is an empirical fact that it rarely matters how we answer it. The overall pattern of concentration and its trends are much the same however we choose to measure them".

Although it is not in this thesis close concern to make an exhaustive review of the concentration measurement issue, yet Hannah and Kay's (1977) suggestions on the matter deem to be worth added as appear to support the actual increased oligopolistic

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302 FN.: Aaronovitch, S. and Sawyer, M. (1975) provide an extensive list of possible measures of concentration.
industrial trends highlighted in Averitt's model. In fact, those two authors have suggested a number of general criteria that such concentration measures should meet so as someone could determine to what extent they account for the market concentration intensification, although there is not general acceptance about their validity. Among such criteria is the "merger condition" criterion i.e. that referred to an increase in measured concentration due to the merger of two or more firms. The basic idea underlying such a corporate strategic growth device is that the number of the per-company establishments increases in a shorter time-span than through the internal firm growth alternative. The impact of the mergers' increase to the reinforcement of persistent capital concentration has been heavily experienced, for instance, in the UK particularly in the 60s (Curry and George, 307 1983).

Furthermore, it appears also worth noting Utton's (1974) suggestions on the issue, provided in his paper "Aggregate versus Market Concentration", where he indicates that there are links between the two concentration's types. In fact, Utton has indicated that, at various degree levels, the largest one hundred UK firms within the manufacturing sector are also the largest firms within the industries in which they operate. Such an indication is of great importance since it gives clues concerning the extent to which Averitt's diversified core firms dominate more than one key industry or oligopolistic markets and how democracy is distributed in the industrial economy and society in general.

The rise and evolution at various dates of the overall concentration of the 100 largest manufacturing British enterprises measured by net output share is also confirmed by Prais' 1976 empirical work. According to this evidence, ever since 1909 there has been a trend towards increased overall concentration. Thus, the 100 largest enterprises share in 1909 was approximately 16 per cent, in 1949 almost 22 per cent and in early 1970 over 40 per cent.

William et al\textsuperscript{310} (1983) actually indicate that, during the 70s, the one hundred largest British firms accounted for approximately 50 per cent of the UK manufacturing output and employment. In accordance with the dual economy model suggestions, William has attributed this fact mainly to the British financial system's lending capacity.

To go across Europe, according to the Statistical Abstract of the United States\textsuperscript{311}, in 1984, the centre economy in the US accounted for almost 51 per cent of the economy's total business receipts and 30 per cent of total employment. Interestingly, in Britain, the degree of concentration in the 60s and 70s combined is even higher than in the USA (Chandler & Daems,\textsuperscript{312} 1980).

Prais,\textsuperscript{313} 1976, (p. 62) also indicates that in the 1958-72 period, in Britain, the units acquired per company rose from 27 to 72. However, in Britain capital concentration through mergers should not be confused with employment concentration since the merger movement appears not always to be followed by production rationalization.

Although there are great differences among European Union member countries and available data on the matter are scattered, yet the empirical evidence, for instance that provided in Telesis' s\textsuperscript{314} (1985) research report, shows that the same failure in terms of production rationalization occurred in France as it did in Britain. However, at this stage we should be very careful not to make up any generalizations concerning employment concentration trends since data on the matter are highly problematic.

\textsuperscript{313} Prais, S. J. (1976): op. cit.
3.2.2 Averitt's secondary firms and empirical evidence on their performance

Having shown how the use of aggregate industrial concentration allows us to determine power relations in the wider economic setting, let us now examine in more detail how Averitt describes the small firm sector. The periphery firm identified by Averitt, is elaborated in terms of the three descriptive devices or subdivisions of the periphery economy firm into the free agent, the satellite and the loyal opposition firm type, grouped in accordance with their relationship to centre firms.

The first type is the so-called "Free Agent Firm". This small firm sub-categorization, according to Averitt's observations of the American industrial system, usually fills in the gap of an industrial system within which there is no centre firm intrusion either as a supplier or product buyer\(^{315}\). This small firm type is "free" of centre affiliations, either formal or informal:

"Manufacturing free agents are often specialized in small batch production – one offs or rely primarily on discontinuous production"… (Free Agent firms due to their small size) "are suffering from the numerous disadvantages observed upon the small, local firm in an ever increasing mobile national market"…

"Small-scale retailers may, through co-operatives, perform high economies of scale due to mass provisions and advertising, allowing them to compete satisfactory with retailing satellites whereas at the same time maintaining free agent status"\(^{316}\).

It is worth noting that often demography and geography help the survival of the free agent business in remote regions with limited markets that make it an "unprofitable" use of capital for the larger firms to compete in. For instance, some co-operatives exhibit the ability to enter such unpromising environments and profitably provide services to remote districts, such as the Rural Electric Co-operatives in the USA and retail co-operatives like Co-op Atlantic in Canada's eastern provinces. Co-operatives are thus able to operate at a large scale whilst providing services due to their unique ownership structure and purpose.


\(^{316}\) Ibid., p. 66.
According to Averitt, a fee-agent firm usually demands highly developed and flexible labour. Despite much of the free marketeers' rhetoric, there is no doubt that small firms, especially at times of recession, can not cope in financial terms with uncertainties in demand or high costs of redundancy. Neither they can afford the fixed cost of training that requires economies of scale. Therefore, the use of flexible labour gives them a dynamism that allows to control fixed costs through recruiting at the desired skill level. However, at a macroeconomic level, as Averitt's model recognizes, allowing for regions, countries and industry socioeconomic disparity, and given that large firms often adopt flexible strategies for Human Resources redeployment, such practices deteriorate labour condition and generate poverty and social exclusion. In contrast to the free-market advocates who claim that participation into flexible labour markets inevitably leads to employees' job enrichment and transferable skills' acquisition as well as to greater autonomy and discretion, Dual Labour market advocates suggest that flexible labour markets tend to intensify polarization of jobs and skills. Furthermore, they lead to insecure, mistrust employment and less guaranteed leisure for employees. In fact, the pessimistic perspective claims that labour market flexibility has benefited only a minority (core) of high-skilled well-paid employees, whilst the majority (periphery) has realized negative effects on their jobs in terms of skills, security, quality of contracts, productivity demands, managerial control, collective power, working conditions etc.

Callinicos and Harman (1987) claim that even the "privileged" core workers are at stake of loosing their jobs especially at economic recession periods. Boreham (1992) suggests that autonomy and involvement in production and economic strategic decision-making even for the core employees appears to be constantly shrinking. In the same vein, Pollert (1988) argues that there is no guarantee that flexibility by virtue

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upgrades the skills of workers; flexibility's implications for skills rather relate to differentiated at times power balance between management and the workforce. To conclude whatever the impact of flexibility on employment, it appears that, if we are to accept a general trend, this is the resulting new labour relation between employers and employees, which is in favour of the former group\textsuperscript{325}. We further treat such issues in the next chapter.

The second periphery category, namely the "Satellite Firms", derives "its revenue either from subcontracting (thus, they are manufacturing systems or subsystems for sale with contract to a single firm) or providing services or materials for centre firms, or from distributing the centre firm's output". According to Averitt, satellite firms can be divided into two general groups, the backward satellites\textsuperscript{326} and the forward satellites\textsuperscript{327} group. Satellite firms take the full force of demand elasticity either in terms of production inputs or in terms of product marketing by distributing the centre firms' output to its final buyer.

It is worth noting that the advantages of the centre firm deriving from the supportive operation of the satellite firm, as Averitt has specified them, are the following:

Transfer of business risk; flexibility of operations; low-cost maintenance of excess industry capacity during slack periods; capital savings, which can be invested in more useful or profitable pursuits; advantages versus antitrust laws; avoidance of fringe benefits payment to the periphery-firm's owner and his employees and circumvention of a series of other problems; good public relations as it is suggested in the following motto: "big business helps support small business"\textsuperscript{328}.

Thus, Averitt's Dual Economy school considers SMEs' economic and social role with great scepticism and attributes to them a dependent role to larger firms. According to this school of thought, allowing for countries and sectors' disparities, "subcontracting"


\textsuperscript{326} FN.: Averitt observed that backward satellites usually have a proximity location to the centre firm, which they are sub-contracting with. For further information see Averitt, R (1968): p. 63.

\textsuperscript{327} FN.: According to Averitt "Forward Satellites" are grouped in the Services sector.

\textsuperscript{328} Averitt, R (1968): op. cit., p.64.
relates to fragmentation strategies of large firms rather than to independent economic development of the small firm as free-marketeers' argue. In contrast to the dual economy theorization, liberal free-market theories, ignoring countries' socioeconomic different framework systems and individual small firm specific needs, view the entire SME "sector" as an independent source of economic growth that is able to operate complementary or independent to large firms and so to regenerate societies.

The third category of the periphery firm is the "Loyal Opposition Firm". This type, according to Averitt, competes, although on unequal terms, with centre firms within the domestic industry (Ibid., p.65). In contrast to the centre firm, the Loyal Opposition firm involves most of the following features:

- heavy reliance on local resources for factory supply;
- technical inferiority of machinery;
- small markets;
- one-plant location and a single or few-products production;
- price-takers (mainly);
- shorter life-cycle span, often ended via the Loyal firm's acquisition by the centre firm;
- low-profits (Ibid.).

From the aforementioned it is quite obvious that, within the dual economy model, the view is that for two out of the three categories of small firms are almost completely dependent upon larger firms. Such dependency then leads small industry to insecurity in contrast to the secured environment of the giant firms guaranteed either by State's direct subsidies or indirect regulations. The category not dependent on the large firm is itself exiled into the marginal market ignored by the centre economy and its satellites.

Soon after its publication, Averitt's arguments on small business subdivisions received empirical support from several reports such as for instance the one undertaken in England by the Department of Industry, the so-called Bolton's Committee of Inquiry on Small Firms\(^{329}\) in 1971. In fact, the Bolton's Committee used analytical subdivisions for defining and analyzing the small firms' sector performance\(^{330}\) almost similar to those described in Averitt's Dual Economy Model.


Overall, the disparities and dependency characterized by the Dual Economy Model between SMEs and the core Economy can be summarized as follows:

1) The individual periphery firm is economically weak since it is economically small as opposed to centre firms that have unlimited economic potential.\footnote{Averitt, R. T. (1968): op. cit., p. 101.}

2) Inherent financial limitations and inappropriate managerial structures prohibit periphery firm from utilizing market or product-specific strategies fundamental for their long run survival and growth (Ibid.). In particular Averitt quotes: "When 'SMEs' productive capacity increases beyond some level, long-run average costs necessarily rise. With a heavy reliance on local sources of factor supply (including management), their range of production technique is severely limited; their factor supply curves tend to be more inelastic than those confronting their large center economy counterparts. In many cases they own technically inferior equipment.... Security markets are often too expensive for their use....Periphery entrepreneurs have a lower average level of education; yet, management decisions are more dependent on a single individual, reflecting his limitations and mistakes" (Ibid., p. 86). In contrast, "Given adequate funds and creative management, center firms can diversify, decentralize, integrate vertically (when anti-trust will allow), and embrace new technologies" (Ibid.).

3) Periphery's firm membership in core economy is restricted since ..."Absolute size, not relative strength, defines center membership" (Ibid.). As Averitt correctly denotes, SMEs expansion is usually dependent on local market growth, but when the local market grows too rapidly, the possibility of center firm invasion increases (Ibid.: p. 86).

4) In general, for a variety of reasons such as a search for 'captive markets', 'distribution efficiency', etc "the periphery is a happy hunting ground for center invaders and the pure conglomerates aspiring towards center membership. The periphery economy's continued existence is heavily conditioned by center economy strategy. Technical changes emanating from the center can force a restructuring of periphery organization. Center firm distribution or factor-supply bottlenecks often induce direct center intervention in former periphery domains".\footnote{Averitt, R. (1968): Ibid., pp. 99-101.}
5) Averitt describes the dependency status of each particular periphery firm type from center firms as follows: "If members of the *loyal opposition*, periphery firms are dependent on center pricing protection and market inaction. If *free agents*, they are limited to economic areas that the center does not effectively touch - a narrowing crack in the dynamic American economy" (Ibid., p. 102).

With regard to the *satellitic firms'* dependency by center firms, Averitt denotes that center firms have forced this firm category into simulated perfect competition (Ibid.). In particular, he claims that since *backward satellites* are selling their output to center firms they are classic price-takers, in this way they are forced, because of a phantom competition that threatens backward integration by center firm, to remain purely competitive. As regards *forward satellites*, according to Averitt's model they survive only for the period they provide satisfactory efficiency and sales volume. Also in the case of the forward satellites, "the phantom competition of direct entry potential forces competitive pricing" (Ibid., p. 103).

Extensive empirical data in support of Averitt's position concerning small business disparities and dependency on core economy is to be found in the Bolton's Committee of Inquiry on Small Firms Report\(^3\) and in several *Fortune 500* concerning acquisitions and take-overs. Below we also give evidence of several surveys carried out in some sectors in different EU countries for shedding light on the matter.

One area that is being emphasized today by the neo-liberal free-market theorization is the importance of human capital and the knowledge economy in enabling small firms to enter the core economy in terms of IT applications and R & D capacity. However, advocates of such perspectives fail to recognize that, on balance, only large multinational firms or strategic alliances and not small firms can cope with R&D activities and increased pace of innovation due to the high business risks involved in such practices\(^4\). Although prima facie such evolution appears to favour flexible small production units, yet, as Averitt has correctly pointed out, periphery firms in manufacturing are ill-equipped to meet this (new technologies) center firms' challenge and need support from large firms, institutions and governments\(^5\).

\(^{4}\) FN.: For a number of examples of new strategic alliances of large multinational firms, mergers or acquisitions in order them to cope with new technologies, see: Van Tulder, R. & Junne, G. (1988): op. cit.
In particular Averitt quotes:

"(Small Units) are directed towards craft rather than science-based technology; most are below the critical size for substantial research and innovation; the managerial focus centres on traditional production with its commitment to present methods and machines; the protection of those commitments is reinforced by powerful social sanctions - union, locality, industry, tradition. The fragmentation of the production process between many firms has resulted in no periphery firm with enough incentives to embrace radical changes, changes that affect the whole process..." (Ibid., p. 97).

The only way through which Averitt considers that periphery industry's technical system is disrupted is by invasion (Ibid., p. 96). Usually, according to Averitt, "the periphery industry borrows technology from a new industry (i.e. electronics) and this is a further evidence of small firm dependency in Averitt's terms (Ibid.).

In general, Averitt views that, "the direction of research and innovation expenditure is designed to allocate resources toward industries under center firm control (Ibid., p. 126).

Weimer's336 (1992), Saxenian's337 (1989), and Walsh's338 (1991) work are some of the contributions, carried out in Germany pharmaceutical industry the first and in Britain the last two, giving support to Averitt's findings concerning small firms' acquisition by larger competitors to obtain a quick access to innovation. In particular, Saxenian's study on the Cambridge case found that British firms did not have long term institutional support needed in order ICTs to be developed339. Therefore, although some small units appear to have a major contribution to make to innovation, yet their role is complementary to large firms and the extent of such a capacity is related to national specific institutional environments340.

3.2.3 Averitt’s Revised Version of Dual Economy Model

Having defined the fundamental preconditions of Averitt’s industrial analysis model, it appears necessary to mark out the importance that Averitt has placed on the financial sector in terms of its ability to promote the oligopolistic markets development at the expense of the viability and sustainability of the periphery firm. In fact, although such an issue was not raised by Averitt in his original model, in a more recent paper, published in the “Journal of Economic Issues”, Averitt admits that in his previous industrial analysis he had underestimated the significance of such a matter (Ibid., p. 798). In particular in this paper Averitt highlights the critical role that the Federal Reserve System in the United States since its beginnings in 1913 has in the creation of the whole world currency and the lubrication of the world economy (Ibid., p. 800).

Averitt recognizes that the immense economic power concentrated in the hands of this institution alone has a profound impact on output, employment and inflation worldwide (Ibid.). He further claims that "the Keynesian banking story is but an illustration of the power that accepted theory holds over us" and that in real terms by permitting an underestimation of institutionalist research it "diverts our attention from the true sources of financial power" (Ibid., p. 801). Averitt by his attack to the Keynesian myth of money multiplier assumptions and to the myth of how private owned banks create money when only the central bank can do this (Ibid., p. 800) also gives his answers to Hodson's (1983) criticism. He writes, "Institutionalist research, even though slow and fragmented, is important because it seeks genuinely new ground ... We take a long perspective and we ask broader questions than those asked by traditional theories..." (Ibid.). He ends up by saying, "Once we extract ourselves from the firm grasp of standard ideas, Keynesian and neoclassical, we will be free to formulate a full theoretical alternative. The Munkirs book suggests that our alternative formulation may not be far away" (Ibid., p. 802).

To sum up the Dual economy model has suggested, and subsequent empirical structural evidence confirms, that SMEs’ development and their future performance relate to and depend upon countries' different socio-institutional support systems and political

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factors. In particular, Averitt's second version model has indicated that, for instance the financial system's distinct national availability to smaller firms is a factor of critical importance for SMEs viability and sustainability. Averitt's model and his advocates have placed great emphasis on distinct entrepreneurial and financial managerial capabilities at individual firm's level for a firm's successful performance. Furthermore, dual economy theorization and global empirical review show that those market forces prevailing in general in different countries or even within different economic sectors within the same country have not yet been overridden by global forces and, in fact, still strongly affect SMEs profitability, survival and growth\textsuperscript{342}. Thus, from this discussion it becomes obvious that any assessment of the contribution of a SMEs strategy to economic growth or employment creation deserves country-specific approaches and presupposes at least a clear understanding of both the SMEs sub-types' real meaning and factors affecting their development and future prospects.

\footnote{\textsuperscript{342} F.N.: See details in Chapter 5.}
Chapter 4

Dual Labour Markets & Empirical Evidence For and Against Dual Labour Market Model

In this chapter, we examine empirical data reflecting the nature and structure of the labour markets as well as related policy responses. In Section 4.1 we describe in detail the principle tenets of Averitt’s Dual Labour Market Model. We also consider “key” features of Atkinson’s Flexible Firm Model as a development to Averitt’s framework. Some definitional problems of the “flexibility” concept and introductory, empirical results on new forms of flexibility in the labour market are also taken into account. In Section 4.2 we extensively discuss empirical documentation for and against dual labour markets by juxtaposing it with the free-market interpretations informing current EU policies. Methodological and definition problems involved in labour markets assessment are also examined. Our objective is to determine if changes in the European Union labour market - during the transition period - have led to a 'real' or nominal increase in employment or, alternatively, have deteriorated unemployment and social exclusion. We examine whether labour market has experienced a number of problems pointing at the shaping of a more polarized European society at the expense of social cohesion. We explore the evidence in terms of Averitt's and Atkinson’s views about dual labour markets in juxtaposition with those who explain labour market flexibility in terms of the free market small industry approaches. The deskilling thesis and Braverman’s views run throughout this section since we attempt to explain additional qualitative transformations in the labour markets.
4.1 Dual Labour Markets and recent Labour Flexibility Arrangements (Atkinson’s Model)

The dual - that is the internal and external - labour market arising within Averitt's dual economy model, has been recognized by many writers, including Averitt himself, to create very poor working conditions for those employed in the periphery or external labour market.

The dual labour market approach has been developed as an alternative interpretation to the neo-classical labour market perspectives. Within this theorization special attention has been given to the role of institutional constrains upon the formation and working of free competition in the labour market. Central to the dual labour market approach is the idea that the labour market is not a homogeneous entity, but it is actually divided into two distinctive and independent sub-markets. Those are the core or internal and the secondary or external labour market. Each market structure then is paralleled to and reflects the structure of Averitt's planned or unplanned dual economy system. Thus, a growing body of labour analysts appears to perceive core labour market as identical with all the internal markets of the oligopolistic corporations. Then, the secondary labour market is deemed as related to jobs offered by the small peripheral firms operating in a highly competitive environment. In Averitt's terms, "Many small-scale periphery firms belong in the residual employment category. They are the employers of the last resort" (Ibid., p. 128).

In order to understand better Averitt's views about labour division into a backbone of organized labour and an unorganized periphery, let us now elaborate more the features that distinguish the experience of the core and periphery labour market as presented in his pioneering work.

According to Averitt, business organization and industry characteristics - combined with unionism's special logic for greater economic power through control over jobs - constitute the key features for understanding labour relation to business dualism (Ibid., p.132). During the post-war period, American 'core' firms achieved prominence by operating in close relation to 'key' industries. In the same way, trade unions' strength derived from "a core of strategically placed workers in important industries" (Ibid.).

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However, whilst core firms' managed to keep growing their economic influence and status - even during recession periods - through vertical integration, geographical dispersion and product diversification, their trade union counterparts faced declining membership. One of the most obvious causes of such contradictory trends, according to Averitt's explanations, is that during the post war period, although center firms secure their future by matching their operations to capital, "organized labour, even that in the center economy, continues to find its membership strength among those who supply labour power" (Ibid., p.150). In Averitt's terms "labour power" is provided by the human capital - white or blue-collar, high or low-paid - that is "a candidate for technological unemployment by known, capital-intensive techniques" (Ibid., p. 149). Those employees who sell human capital that is considered as complementary to that of the most technically advanced physical capital can trade it for their pay package. Given that human capital is, as the physical one, man-made and reproducible through the education industry, it becomes increasingly sophisticated as the economy matures (Ibid.). In this way, according to Averitt, the increasing rate of human capital accumulation and the high demand for it, "reshape today's labour markets (Ibid.).

Thus, the new strategies towards center unions followed by key-industries' management in the post-war America, i.e. those embracing and benefiting employees with wage pacts in the place of earlier practices aiming at unions' disposal and avoidance of wage agreements under governmental auspices, have made center unions short-term winners. In Averitt's terms, center unions' bargaining power by encouraging a constant wage pressure: "have made rising labour cost a high priority threat to the maintenance of long-run cost constancy, (in that way) inducing managements to allocate a major portion of their energy and finances to the deflation of unit labour cost. The scientific community has enormous potential for displacing labour power, and union agitation are providing part of the impetus necessary to transform this potentiality into actuality" (Ibid. p. 151).

Another reason for labour division, especially between skilled with high productivity, and unskilled employees, is attributed to "across the board settlements" of the center economy and to bargaining emphasis on fringe benefits that fostered skilled persons' employment at the expense of the unskilled (Ibid., p. 152). This division is reflected on the organizational arrangements within center plants where "a nucleus" of senior
employees serves their employers assisted at times of high demand "by a floating crew of transients (Ibid.). At times of recession, the latter group is expelled into periphery economy or to unemployment (Ibid.).

Moreover, the nucleus group of employees, through center unions, promoted its own high cost welfare state interests by reinforcing the pattern of its members' overtime employment associated - at times of low demand - by periphery groups' unemployment (Ibid.). Even worse, at times of accelerated automation in center plants and low-demand, center unions' efforts were centred in preserving the status of their members "through gradual reductions in employment (thus) leaving the transients to longer periods of unemployment or eventually banishment to the periphery economy" (Ibid.).

Such center economy practices resulted then in unlimited and disproportionate supply of core manufacturing economy with excessive managerial talent, inexpensive capital funds, and high wages and thereof productivity gains at the expense of services. This further reinforced labour's division (Ibid.). At the same time, almost no economist made any reference to the labour power shift from manufacturing to services as signaling a new phase in America's labour mobility from high wage manufacturing sectors to low wage services-oriented (Ibid., p.153). Averitt also claims that the labour analysts' preoccupation with service sector's lower productivity and hence services' categorization as a periphery economy’s segment was completely wrong. Averitt argues that if services were provided with the same supply of top technical personnel as manufacturing, then lower productivity gains in this sector might be proved just an economic preoccupation (Ibid.). Averitt also attributes further labour division to the fact that most labour analysts ignored that, in reality, contrary to the pull of wages in the manufacturing sector, most jobs in the post war American economy have been created in services, trade and government sectors despite institutional support systems (Ibid., p.154).

In more recent years, at a micro level, as we explain below, existence of the dual labour markets has been enshrined in Atkinson's analytical work referring to the employment strategies employed by the flexible firm model. This is an attempt to suggest the extension of the idea to incorporate it to the core firm.
Atkinson,344 1985, in his work "The changing corporation", indicates three dimensions of flexibility sought to be used by organizations that have embraced the model of the "flexible firm" for their manpower redeployment, i.e. the functional, numerical and financial flexibility (see also Figure 4.1 in next page).

Figure 4.1 "The Flexible Firm"
According to Atkinson then, numerical flexibility refers to firm's ability to change the volume of the labour input so that to coincide with production requirements and this is pertained through the use of external - via subcontracting casual - or internal temporary workforce. Management of large or even foreign companies plans employment through the use of the external labour market. At the same time, develops a two-tier internal labour market comprised of a small "core" segment of full-time, permanent workers and a much larger, secondary part, consisting from part-timers or temporary workforce.

Atkinson's functional flexibility refers to firms' ability to utilize the same employees for various tasks and managerial activities, through the use of skilled, permanent or fixed-term contracts employees. This core group of workforce is well trained and offered constant retraining by management, paid on seniority grounds and granted a lifetime job (Kenney and Florida, 1988345).

Last but not least, financial flexibility (John Atkinson346 1984) relates to firm's ability to harmonize employment cost in accordance with the state of supply and demand in product and external labour markets. Further work done by Atkinson and Meager347 (1986) on flexible firm shows that polarization in skills' development has been reinforced by polarization in employment terms, thus through the use of numerical flexibility.

The various forms of labour flexibility at all levels of employment appear to play a critical role in the "flexible production" notion. At its simplest meaning in terms of production, flexibility refers to:

"...Forms of production characterized by a well-developed ability both to shift promptly from one process and/or product configuration to another (dynamic flexibility) and to adjust quantities of output rapidly up or down over the short run without any strongly deleterious effects on levels of efficiency (static flexibility)" (Storper,348 1991).

However, “flexible production” appears also to involve a number of alternative connotations, which, in turn, have great implications both for the global industrial restructuring and labour force redeployment practices. For instance Alan Warde (1985) has indicated we can distinguish the following flexibility dimensions in terms of industrial production's alternative areas: flexible technologies, flexible products, flexible organization of the labour process (Atkinson's functional flexibility) and flexible contracts between firms and workers (Atkinson's numerical flexibility). Such alternatives have their impact on workforce skill level or employment terms. They also appear to have strong implications for the intra-large firms' relationship. Additionally, alternative utilization of flexible technologies may also affect the relationship between large and small firms in terms of the degree of dependency, especially those small-firms operating as suppliers to larger firms.

According to this approach, flexible production technology - by making available to large-scale producers or leading retailers the alternative option of a micro-electronically controlled multi-purpose machine utilization, in the place of the specific-purpose built machinery - appears to allow them, by reprogramming the machinery, to cope with supplies even on the basis of a daily demand. In this way, the benefit of the small-scale flexibility is gained by large-scale operations.

Therefore, it becomes obvious that production technical systems - quickly readjusted to new demands - are no longer the small firms' prerogatives. In fact, academic literature and empirical work suggest that flexible technology appears to allow also larger firms, by employing the "just in time" (JIT) methods, to account for niche market strategies (Rainnie, A. (1991); Schoenberger, E. (1994).

Such a point, unlike the optimistic small industry presumptions, stresses the possibility for a marginalized role left to the small-firm sector and an uneven development of the Third World countries. In fact, the Toyota Japanese automobile company constitutes an

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example of such an alternative scenario. Toyota unlike its U.S. competitors, such as Ford or General Motors, has not employed an international low-cost located car-production strategy\textsuperscript{354}. On the contrary, its production facilities have been kept in its Japan-located flexible automated plant associated, at the same time, with a hierarchical system of suppliers' networks functioning in close proximity using flexible, skilled labour.

All the earlier mentioned changes in production flexibility raised a number of questions concerning labour employability and social inclusion. The rate of technological changes – associated by production reorganization – despite free-marketeers' different rhetoric developed an unevenness in the labour market never before experienced\textsuperscript{355}.

In fact, during the '80s there was a growing debate about labour market flexibility and whether incidence of part-time work or in general precarious forms of employment have increased job insecurity and in broader terms have decreased the quality of working conditions\textsuperscript{356}. Although employment quality over the period under investigation is not yet conclusive due to lack of systematic, international data for a wide range of EU member countries, for instance on fixed-term contracts, the various national information available show a picture of considerable increases in non standard jobs\textsuperscript{357}. In particular, fixed term contracts concluded directly between the employer and the employee show quite sharp increases in France, Portugal and Spain over the 80s, whilst in Germany and Italy the figures seem to be relative stable in late 80s following a period of expansion in early 80s\textsuperscript{358}. Moreover, in many countries fixed-term and temporary work contracts appear to be associated with flows into unemployment and/or seasonal employment. For instance, in France it has been estimated that in 1987 the fixed-term and temporary work contracts combined accounted for 47 per cent of all new cases of unemployment\textsuperscript{359}. Such an increase compared with 31 per cent of new cases of


unemployment in 1979 was entirely attributed to the rise in the number of fixed-term contracts (Ibid.). Evidence from Italy stresses the fact that in the late '80s, 70 per cent of fixed term contracts were related to seasonal workers recruitment\textsuperscript{360}.

Although not homogeneous, figures on incidences of part-time working show that this form of employment in general has been increased almost everywhere over the 80s\textsuperscript{361}. Many labour analysts have shown that especially part time employment for few hours per week offers almost no security of employment\textsuperscript{362}. Other empirical researchers such as Tilly\textsuperscript{363} (1992) found that even among part-time workers there is further division into a core and secondary labour market. Table 4.1.1 below gives some evidence on incidence and composition of part time employment in selected OECD countries in the 90s. Tables 4.2.1, 4.2.2 and 4.2.3 in the next Section show in more detail increases in some more non-standard forms of employment in the 80s. Due to national definition differences of the various forms of new precarious jobs,\textsuperscript{364} such trends should be treated with great caution and not being a basis for comparison among countries. However, general trends show that on average employees under such flexible contracts are the most vulnerable parts of the workforce\textsuperscript{365}. In the next Section we extensively discuss the quality of new, flexible employment forms and their likely impact to inequality and poverty growth.

\textsuperscript{364} F.N.: For more details on definition problems see next Section.
Table 4.1.1 Incidence and composition of part-time employment in selected OECD countries, 1990-99

Percentages

Part-time employment as a proportion of employment

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<th>Women</th>
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<tbody>
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<td>Austria</td>
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<td>2.6</td>
<td>2.7</td>
<td>2.8</td>
<td>21.7</td>
<td>21.3</td>
<td>22.8</td>
<td>24.4</td>
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<tr>
<td>Belgium</td>
<td>4.6</td>
<td>4.8</td>
<td>4.8</td>
<td>4.9</td>
<td>7.3</td>
<td>29.8</td>
<td>32.1</td>
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<td>32.2</td>
<td>36.6</td>
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<tr>
<td>Denmark</td>
<td>10.2</td>
<td>10.2</td>
<td>11.1</td>
<td>9.8</td>
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<td>29.6</td>
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<td>24.2</td>
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<td>Finland</td>
<td>4.7</td>
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Part-time employment as a Women's share in part-time proportion of total employment

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Source: Based on OECD, Employment Outlook 2000, June 2000, Paris, p. 218
4.2 Empirical Evidence for and against Dual Labour Markets

According to the dual labour market approach, the factors influencing changes in the labour market and thereof unemployment and social exclusion, relate to a clear division of labour into the core and secondary labour markets. Economic, institutional and societal aspects incorporated either in the core or periphery economy – center, large firms or secondary, small ones – determine the way labour is divided. According to the freemarketeers, mainly GNP, regional and regulatory variations affect labour force participation and unemployment rates. This section's empirical data focuses on recent trends in the European Union labour market. In fact, these are examined both in terms of economic factors resulting from changes in the industrial and occupational structure of employment, and societal factors, such as social class and education. Additionally, other relative non-economic factors such as culture, increased participation in education and training, and developments in the social security and employment legislation are also reviewed. Technological changes and their impact on deskilling are also assessed.

Before exploring the developments in the EU labour market we must first note that there are a lot methodological and statistical problems involved in the definition and measurement of the different, newly, emerged flexible employment forms. This is to say they are collectively referred to in the literature as “non-standard” forms of employment when referred to the above. To this issue we now turn.

4.2.1 Methodological and Definitional Problems in the Labour Market

In recent years the diffusion of a vast variety of new flexible employment types in the EU area has challenged the validity of the traditional Fordist basic employment categories. However, they are still in use as unique analytical points of reference in statistical labour market approaches. In fact, traditional labour statistics appear still to ignore several types of work activities done off the books or for cash-in-hand or even for free. Thus, several informal forms of work, such as housework, moonlighting, work done by pensioners or other groups of societies (non-work permit immigrants,

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etc), seasonal or temporary work etc, involved in the context of the hidden or black economy\textsuperscript{367} are not illustrated in official statistics. Therefore, this absence of statistical data - referring to alternative forms of work - does not allow the majority of labour-analysts to involve such "untypical" or "semi-typical" forms of work activities into labour market issues although such factors highly affect poverty and the disadvantaged.

Furthermore, the methodology often used in some statistical illustrations allowing figures on a few more common flexible employment-types to be calculated constitutes an additional problem in the sense that the conclusions reached in the way such methods suggest are unreliable. To give an example, the method used for part-timers or the self-employed is a self-assessment by the employee himself. In general, such a self-assessment approach means that the employees are asked, for example, whether they identify themselves as part-time workers or self-employed, etc. and then the statistical organizations based on such employees' self-assessment classify them under the relevant employment category. Occasionally, a more objective criterion is set, for example, an hour ceiling of weekly work. In particular, Van Bastelaar et al\textsuperscript{368} (1997) have indicated that in countries in which part-time working is relatively common, a considerable proportion of persons reported as part-time workers has usual weekly working-hours of 30 or more. However, in some other countries that are relatively unfamiliar with part-time employment contracts, as it is the case for example with Greece, a considerable amount of people can not even report themselves as part-timers.

It is worth adding that a self-assessment approach is also used by the Union Labour Force Surveys (LFS) for collecting information on the "voluntary" or "involuntary" part-time working. In this case too, data assembled also need to be interpreted with caution as not wanting a full time job may reflect more environmental pressures such as family responsibilities rather than a real desire to work part time.

\textsuperscript{367} FN.: For more information on work forms involved in 'black' economy see: Gershuny, J. and Pahl, R. (1980): "Britain in the decade of the three economies". New Society, 3 January.

An additional deficiency in the calculating method of the flexible employment forms is that some persons might be accounted for twice in statistics, as they might be both part-timers and self-employed or seasonal workers during the period observed. Therefore, data on flexible work forms must be treated with great caution as they relate to different types of working conditions in different European countries using different or broad measures.

Labour force data used by the Union's officials are often based on national labour force surveys being conducted in terms of changes in the number of people in employment without making any distinction to whether such employment refers to full-time or part-time jobs. Similar methodological issues are involved when someone attempts to consider the impact on employment growth from changes being experienced recently in the implementation of the working time directive. These trends, however measured, are at least going in the same direction. Therefore, the main question that arises is the following: to what degree conclusions such as the above are valid? Or, how do sectorial and occupational trends in employment would have altered if allowances were made, for instance, for changes in working time?

In fact, in order to minimize such problems in our analysis we have mainly used the Eurostat\(^{369}\) benchmark employment series as being, to date, the most credible comparable measure of changes in the labour market at Union level. In the remainder of this Section, we refer to data derived after adjustments to full time equivalent employment, whenever such information is available.

Let us now explore the empirical evidence on employment changes at Union level and see if and to what extent it supports our concerns about labour market polarization and deprivation of skills stressed in previous Sections.

4.2.2 Empirical Evidence on the Evolution of Labour Markets; the Deskilling Thesis

Evidence from the Eurostat benchmark series suggests that in 1998 alone, for the first time in many years, the total number of people employed in the Union increased by 1.8 million or by 1.2%, that is twice the rise in 1997 and the highest rate of growth since 1990. However, given the continuing growth of working age population, in 1998 the number of people in work was still over 600 thousands below the figure reached in 1991, seven years earlier. Also for the first time in many years, in 1998, the number of men employed in the Union (aged 15-64) increased by almost as much as that of women. Thus, in 1998, men took some 49% of the net additional jobs created. Nevertheless, the share of women in total employment still went up slightly (to 42%), and over the four years of the last recovery (from 1994 to 1998) of the Union as a whole, over 63% of the net additional jobs went to women rather than men. Thus, the gender gap declined to almost under 20%.

However, as in the previous years, in 1998 as well employment performance varied considerable across the EU. In particular, over the four years of recovery, employment performance ranges from a growth of 5% a year in Ireland, over 3% a year in Spain and Luxembourg, to almost no change in Austria and Italy, and a decline of over 1/2% a year in Germany. Such variation in employment changes among the Union Member Countries used to be in close relation to variations in the growth of output per person employed. Yet, this relationship seems to have altered in the '90s in some countries (Ibid., p. 11). In Spain, over the same period productivity growth has been close to zero. Although the reasons for this still remain an open question, yet most interpretations point to the real average labour-costs reduction that accompanied the productivity decline (Ibid., p. 26). However, the causation of this phenomenon is disputable with some suggesting that such cost reduction was the consequence of the productivity decline, while others seeing it as the determinant factor (Ibid.). Still some

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371 Source: Ibid., Part I Section 1 Developments at the Union level, Graph 3 on Growth of Employment and GDP in the Union 1975-98, p. 19.
372 Source: Ibid., Part I Section 2 Developments in Member States, Graph 15, p. 27.
373 FN.: The average real labour costs used in the Eurostat benchmark series are average compensation per employee deflated by the GDP deflator as a measure of costs.
others consider the productivity fall as a natural corollary of a relatively low level of productivity of the activities being developed (Ibid.).

There is no clear convincing evidence to suggest that there is a close and systematic relation between the output levels and rising or falling employment, as it was mostly the case in previous years. Thus, in general, although it seems that a relatively high growth rate in GDP\(^{374}\) is a precondition for some employment growth to be achieved, yet there is no evidence to suggest that a given rate of GDP growth automatically ensures employment objectives are guaranteed. The regional disparities that have been observed in countries' effectiveness to translate growth of output into more jobs, illustrated in the remainder of this Section, confirm such a claim.

In fact, although the regional data available to Eurostat benchmark series for the early '80s are less complete and, therefore, must be treated with great caution, they suggest that over the past 15 to 20 years the interregional\(^{375}\) disparities in the Union have widened. In particular, between 1985 and 1998, the average employment rate in the top group of regions increased from 75% to 76 1/2%. In the bottom group of the regions, there was no change (42 1/2% for both 1985 and 1998). In the remainder of the region, accounted for 80% of working population living in the Union, the rate increased from 60 1/2% to 61 1/2%\(^{376}\).

Tables 4.2.1, 4.2.2 and 4.2.3 below show increases in some non-standard forms of employment such as part-time working, temporary jobs and self-employment in various European Union countries over the '80s. Such changes, although not necessarily uniformly precarious, to a great extent reflect the impact on the quality of employment of Human Resources Management strategies attempting to match flexibility in the provision of human resources to the needs of flexible manufacturing\(^{377}\).

\(^{374}\) FN.: The main source of GDP data used in the Eurostat benchmark series is from national accounts statistics as given by the DGII, AMECO database, March 1999.

\(^{375}\) FN.: Regions-classification relates to the NUT-2 level regions' classification of which there are 206 in the Union as a whole.


Table 4.2.1 Increases and composition in Part-time employment, 1979-1990

Percentages

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</table>

Source: Based on OECD, Employment Outlook, 1991, Table 2.9, p. 46.
Table 4.2.2 Temporary employment as percentage of total employment

Mineral extraction
& chemicals

Manufacturing

Construction

Distributive trades

Transportation &
communication

Finance, insurance,
real estate &
business services

Other services

Public administration

5.4
5.6
5.1

7.7
7.0
6.4

1.9
1.8
1.8

2.2
2.8
2.2

2.8
2.9
2.7

2.6
3.7
3.0

6.9
5.4
4.9

2.7
2.1
2.3

4.1
4.4
3.8

9.3
9.4
8.5

8.2
8.6
8.6

12.3
11.2
9.9

19.8
15.0
13.9

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7.9
3.1

7.1
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3.6

9.5
8.7
6.8

15.6
14.6
14.0

15.6
15.2
13.1

7.1
5.7
5.1

7.2
7.6
6.2

13.7
12.3
11.7

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10.1
11.5

2.4
2.3
2.6

2.1
3.2
7.0

3.7
6.0
8.9

5.2
8.4
9.9

6.0
8.9
10.9

1.1
2.9
3.9

3.8
6.5
7.5

2.4
9.1
9.5

0.7
6.3
5.9

10.0
11.6
11.0

21.6
24.4
17.4

4.7
6.0
6.6

6.2
6.9
5.8

7.7
8.8
8.2

10.4
11.2
9.1

12.0
13.9
13.6

5.5
6.7
6.4

9.0
10.0
10.1

13.9
15.8
15.4

12.4
16.2
15.9

16.3
16.9
17.2

51.1
60.5
57.2

5.3
5.2
5.1

9.5
6.3
7.9

12.2
10.4
14.0

47.8
58.3
63.2

19.2
21.2
19.3

10.2
13.6
12.6

10.2
13.6
12.6

10.8
13.0
12.3

3.0
2.0
3.0

6.2
8.6
8.6

7.6
9.3
11.8

3.2
3.9
4.2

2.3
3.7
4.7

3.4
5.2
5.2

8.0
10.7
12.7

7.2
9.6
10.3

4.1
4.3
3.5

6.6
10.0
6.0

10.2
13.4
14.7

3.1
4.8
1.9

6.6
5.4
6.3

35.9
27.0
28.1

2.3
1.3
1.5

0.9
2.0
2.0

2.2
2.6
3.7

11.9
8.3
9.8

7.0
5.9
8.1

1.5
1.5
1.4

1.9
3.8
4.3

6.5
5.8
7.0

2.3
1.9
3.2

3.3
3.5
3.4

8.5
8.6
9.3

1.7
1.1
0.8

1.0
1.2
1.7

1.6
2.9
1.6

3.5
2.9
3.6

5.1
5.8
5.2

2.7
1.4
1.8

1.2
2.6
2.2

5.3
5.2
5.4

2.7
2.4
2.7

5.7
9.2
8.5

n 10.5
20.3
13.0

3.4
4.4
3.7

1.8
5.9
5.2

3.1
8.3
7.3

3.9
4.9
4.7

5.0
10.6
9.6

3.6
6.2
5.9

3.6
8.0
7.8

10.1
12.0
10.9

5.1
6.2
7.4

17.0
18.7

37.2
31.6

7.3
10.3

11.7
15.7

15.6
18.5

31.1
29.0

19.1
23.3

6.3
8.9

10.6
11.2

14.8
17.3

9.1
9.8

15.6
26.6

39.4
49.6

4.3
8.2

8.2
16.6

12.3
24.0

29.5
49.4

18.3
31.7

7.8
15.9

8.5
19.3

13.3
22.8

7.7
10.3

5.5
6.3
5.4

11.8
10.2
7.1

2.0
2.8
3.1

2.3
3.0
3.3

2.7
3.1
2.7

6.9
6.9
4.4

9.0
7.8
7.6

2.2
2.7
2.7

3.7
4.8
4.1

7.9
9.8
8.8

4.0
7.4
3.2

I

Total

Agriculture, forestry,
fishing, & hunting

Energy & water

by Industry in the 1980s

Belgium
1983
1987
1989
Denmark
1985
1987
1989
France
1983
1987
1989
Germany
1985
1987
1989
Greece
1983
1987
1989
Ireland
1983
1987
1989
Italy
1983
1987
1989
Luxembourg
1983
1987
1989
Netherlands
1983
1987
1989
Portugal
1987
1989
Spain
1987
1989
United Kingdom
1983
1987
1989

Data refer only to wage and salary workers. All calculations exclude persons with a non-declared status.
With the exception o f the United Kingdom, the number with non- declared status was quite small.
Source: Based on OECD, Employment Outlook, 1991, Table 2.11, p. 50.

131


### Table 4.2.3 Size of self-employment as percentages of total labour force

1979 - 1989 (a)

<table>
<thead>
<tr>
<th>Country</th>
<th>1979</th>
<th>1983</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>8.9</td>
<td>8.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>11.2</td>
<td>12.3</td>
<td>12.9</td>
</tr>
<tr>
<td>Denmark</td>
<td>9.2</td>
<td>8.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Finland</td>
<td>6.1</td>
<td>7.0</td>
<td>8.7</td>
</tr>
<tr>
<td>France</td>
<td>10.6</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Germany</td>
<td>7.7</td>
<td>--</td>
<td>8.4</td>
</tr>
<tr>
<td>Greece (b)</td>
<td>32.0</td>
<td>27.9</td>
<td>27.4</td>
</tr>
<tr>
<td>Ireland (b)</td>
<td>10.4</td>
<td>10.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Italy</td>
<td>18.9</td>
<td>20.7</td>
<td>22.4</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>9.4</td>
<td>8.8</td>
<td>7.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.8</td>
<td>8.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Norway</td>
<td>6.6</td>
<td>6.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>12.1</td>
<td>17.0</td>
<td>17.2</td>
</tr>
<tr>
<td>Spain</td>
<td>15.7</td>
<td>17.0</td>
<td>17.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.6</td>
<td>8.6</td>
<td>11.5</td>
</tr>
</tbody>
</table>

(a) Non-agricultural, excluding unpaid family workers.
(b) 1988 in place of 1989

Source: Based on OECD, Employment Outlook. 1991. Table 2.12. p. 52.

By way of a more precise example, over the years 1985 to 1990, for which the standard deviation (that is the most reliable measure of dispersion) of the employment rate is available, the employment rate increased from 7.2 to 7.7\(^{378}\). This means that over this period the high growth in employment (from 60% in 1985 to 63% in 1990) has benefited more regions where employment was already higher rather than those where it was low. In fact, during this period in the regions with the highest employment rates, employment of working age population rose from 741/2% to almost 791/2%, whilst the employment rate in the bottom group of regions increased only by 2 percentage points (from 421/2% to just over 45%) (Ibid.).

Another qualitative characteristic of changes in regional disparity is that the larger increase in employment in the top of regions was followed by a disproportionately small fall in unemployment. This suggests that a large proportion of the net jobs created went to new entrants to the labour market, whilst in the bottom group of regions the additional jobs went mostly to those who have been previously reported as being unemployed. Such opposite trends may imply that in the bottom group of regions some

groups of individuals in working age, i.e. women, not officially registered as unemployed, are discouraged to take active steps to seek work if they believe there is none available for them.\textsuperscript{379} It is quite characteristic that in the Union just 152 million out of 248 million recorded as active labour force are employed, thus only 61\% of total active labour, whilst in the USA the relative percentage is 75\%.\textsuperscript{380}

Another reason, often cited by the freemarketeers relates to changes in demand, meaning that in the top-countries group employers require high-knowledge-based skills that unemployed people are not qualified to provide.\textsuperscript{381}

Countries' inability to reduce unemployment is occasionally related by the freemarketeers to their insufficient regulatory or legal reform aiming at liberalizing labour, product and capital markets.\textsuperscript{382} According to the Dual Economy School, however, labour market structure in various European regions is not conclusive but it moves in such a way so to tune a two-tier labour market regime.\textsuperscript{383} For instance, if skilled, core workers' supply is in scarce due to artificially raised labour institutional rigidities by governments, firms tend to employ low skilled labour so to maintain dual labour markets' flexibility.\textsuperscript{384} However, the extent of such discretionary practices is subject to restrictions posed to firms by the core labour force and core trade unions.\textsuperscript{385} On the other hand as high skilled supply rises, firms tend to use more skilled in the place of the unskilled workers.\textsuperscript{386} This is an example of how modern firms may try to maintain a flexibility balance in the two-tier labour market regime.

The incapacity of the European core economies to create enough jobs for all, especially for groups such as youths and the low-skilled, has been used by a segment of conventional economists, as an excuse for the resurgence of the debate concerning labour market institutional rigidities impact on unemployment fluctuation. In particular,


\textsuperscript{381} Meadows, P. (1996): "Work Out and work In", York, Joseph Rowntree Foundation / YPS.


these analysts argue that increases in institutional proxies such as statutory minimum wage, firing costs, etc. (other factors being equal) have a negative impact on income redistribution and social inclusion\footnote{387}. To put it differently, the proponents of this strand claim that, for instance, rigidities in high statutory minimum wages are to be blamed for the high and persistent unemployment in Europe, whereas they have a limited impact on poverty eradication as many poor families have no working members. In particular, the OECD (1995) Jobs Study\footnote{388}, Implementing the Strategy Report quotes: "High statutory minimum wages, especially when combined with high-non-wage labour costs, can make it very difficult for youths and other low-skilled workers to price themselves into the labour market" (Ibid., p. 10). The quotation concludes by highlighting countries' best practices: "Some countries, such as Canada, Mexico and the US, by not automatically indexing minimum wages, have allowed increases in average wages and inflation to erode their relative importance" (Ibid., p. 19).

However other studies, based also on the European and the US experience, report that labour market rigidities as a whole account at most for 3 to 4 per cent of unemployment\footnote{389}. Such perspectives argue that statutory minimum wages can at least ensure "fair" pay for the low-wage income families and households and thus reduce inequalities among working households. Further empirical analysis based on employment comparisons of the affected or unaffected US markets' and employers by increases in minimum wage found that a rise especially in minimum wages had almost no impact on employment at establishment level\footnote{390}. More recent empirical research based on longitudinal data concluded that minimum wage increases under certain circumstances even result in net job gains\footnote{391}. Nevertheless, the debate, although not a new one, remains still strong therefore it is worth reviewing some of the older and more recent theoretical or empirical work on the matter and highlighting some of their strengths or weaknesses.

\footnote{387}{F.N.: See for instance OECD (1994) Job Study recommendations to the member countries to reassess the statutory minimum wage as a more direct instrument in achieving redistributive objectives.}
Prior to the relative studies' discussion, in order to understand better the issues involved there is need to denote that there are a lot of definitional and methodological problems in the studies examining statutory minimum wages impact on unemployment and earnings dispersion. For instance, the way minimum wage is calculated relative to mean earnings differs from country to country as in some of them workers earnings are calculated on a net basis assuming a standard number of working hours, whereas in others all supplementary payments received by workers taken into account. There is no doubt that in the latter case the relative importance of net minimum wages is underestimated. Additionally, often, even at national level minima may not be applied uniformly across a country and may thus differ from sector to sector or according to a worker's age, experience and qualification (Ibid.). Another problem, also arising from methodological and definition disparity across sectors and countries is the lack of assessment studies at international level. Thus, although there are several empirical studies assessing minimum wages impact on employment and the distribution of earnings or income at national levels, there are very few concerning cross-sectional comparison at international level. To give but an example, Dolado et al. (1996) study is one of the few that examines at international comparison the strengths and weaknesses of wage minima. In overall, the authors of this study concluded that the increase in minimum wages in the '80s had a positive impact on employment.

Theoretical work on the subject can be grouped according to methodology as follows:

- Work based on assumptions of the standard neo-classical theory. In such a context, if minimum wage is set above the market clearing-wage, then labour demand is reduced and employment level decreases.

- Work done according to the monopsonistic employer's model that results in statistically insignificant or even positive employment effects of minimum wages, and, finally,

- Work based on efficiency wage, human capital or job-search theoretical models (Ibid.). Such theoretical work expects short-run employment increase against a certain level of minima increase. In the long run, however, net gains are deemed as subject to firms profit position associated with changes in product prices and the number of establishments operating in the market.

---

Stemming from a theoretical point of view, recently many analysts, for instance Rebitzer, J. and Taylor, L. (1995), reach the conclusion that an increase in the minimum wage may even reinforce employment. In fact, the basic rational of this group of scholars is based on the idea developed by Henry Ford in 1914 according to which efficiency wages will prevent real wages from falling in response to unemployment because employers recognize that lower real wages are associated with lower productivity. Raff and Summers (1987) studied Henry Ford's experiment and found that the introduction of a $5-a-day minimum wage in Ford's factories raised productivity from 40 to 70 percentage points, decreased labour turnover and absenteeism, and increased the number of jobs' applicants.

Another group of theoretical analysts, such as Cahuc and Michel (1996) based on endogenous-growth assumptions concludes that increases in minimum wages have a positive impact on low productivity workers who are expected to invest in their development through training or education. Consequently such an approach predicts that investment decisions in human capital result in more growth and, in turn, in more employment (Ibid.).

Negative predictions about minimum wages impact on employment and the earnings' distribution have been made within perfect competitive models since the mid-40s. For instance Stigler, G. J. (1946) and followers of his work in the '70s and early '80s, based on aggregates teenage employment rates, and not only to those employed in low-wage industries, conclude that an increase in the minimum wage leads to reduced employment. In particular, Stigler predicted that statutory minimum wages imposition leads to layoffs of those employees whose productivity levels are below the minimum wage (Ibid.). This truncation of the earnings distribution at that wage it was found to result in a reduction of the dispersion of earnings of those in jobs. Brown et al.

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(1982\textsuperscript{400}, 1983\textsuperscript{401}), based on cross-sectional time series comparisons, found that a 10 per cent rise in the coverage-adjusted minimum wage was to lead to a reduction in teenage employment rates by 1 to 3 per cent. However, taken into account that the earlier mentioned predicted effects were related to all teenagers, their real employment impact per establishment in which increased minimum wage was paid it was considered to be much lower. In particular, it was found that under the latter consideration a 18 per cent increase in the minimum wage in New Jersey area reduced employment in the fast food stores only by 0.4 to 1.0 employees per store (Ibid.). In a more recent empirical study Wellington\textsuperscript{402} (1991) concludes that minimum wages' effect on employment, although still negative, is smaller than those predicted by Brown et al, i.e. a 10 per cent increase in the former is to cause 0.06 per cent decrease in teenage employment.

At this point we should mention that empirical research undertaken during the 60s did not agree with Stigler's and his advocates predictions. For instance, R. Lester's\textsuperscript{403} work (1960, 1964) supports the view that a rise in minimum wages has no impact on employment levels. Following Lester's work a number of further studies in the early 90s, based on a similar comparison methodology, i.e. comparisons of employment at affected and unaffected establishments, reached at the same results.

In fact, Katz and Krueger\textsuperscript{404} (1992) and Card\textsuperscript{405} (1992) are among those empirical analysts who concluded that minimum wage increase had no impact on unemployment level. Furthermore, Card and Krueger\textsuperscript{406} (1993) carried out a micro-surveys at the fast-food industry in New Jersey and Pennsylvania. They decided that increases in the minimum wage in such low-paying industries as the fast-food retail trade tend to

increase and not to decrease employment. A year after the publication of the later research, Machin, S and Manning, A.\(^{407}\) (1994) empirically examined whether minimum wage floors are the cause of unemployment in Britain. Their conclusive answer was no. In a more recent paper Card and Krueger\(^{408}\) (1994) provided new conclusive evidence supporting the view that a minimum wages rise has positive impact on teenage employment rates. They found no negative impact caused by the rise in minimum wage either on the number of restaurants or the rate of new openings of fast-food stores in New Jersey and the surrounding states.

Additionally, they found that employment increased faster even at the stores that had to increase wages more due to increases in the minimum wage (Ibid., p. 791). Finally, in the New Jersey area they found no positive connection between minimum wage increase and increases in the prices of fast-food meals (Ibid., p. 788). Card's and Krueger's findings on no positive links of wage minima increase to prices increase constitute the basis of their subsequent critic to monopsonistic and job-search models since the latters make no attempt to explain such effects on prices (Ibid.).

However, the controversy still exists in the field. A study undertaken by Abowd, J. et al\(^{409}\) (1997) also on youth unemployment but this time in France and the U.S. territorial areas has no doubts about the negative impact on jobs because of high minimum wage imposition as the OECD\(^{410}\) Jobs Study (1994, 1995) reports suggested. In particular this new study indicates that during the '80s in France minimum wages rose much faster than inflation, whereas in the U.S. minimum wages fell in real terms. In turn, the study uses this fact and, based on data from household surveys, compares the above change effects on workers earning wages close to the minimum. The authors then end up to suggest that a 1% rise in the real minimum wage both in France and the USA reduces the probability of a young man on such wages to be employed by 2-2.5%.

Yet, recent work produced by other scholars indicates that high minimum wages and generous welfare benefits to the unemployed had no specific effect on the unemployment level. For instance, Cohen, D., Lefranc, A. and Saint Paul, G.\textsuperscript{411} (1997) examined whether high minimum wages have contributed in the higher average unemployment rate in France (at that time, i.e. in 1990 at 10.2\%) and in the USA (5.5\% in 1989).

Although, on aggregates, over the study's investigated period, the US appears to create almost double jobs than France, yet a more detailed examination showed that the issue is more complicated. The authors found that for the lowest skill group of workers aged 25-59 years, who accounted for two-thirds of the total labour force, the unemployment rate in both countries was almost the same across all educational levels. The high differences on the aggregate average unemployment rates between the two countries pointed to France higher unemployment rate of the young and the old. Moreover, the research finding pointed to great countries' differences in the labour market dynamics of the older low-skilled workers. In the USA, a worker of this age, low-skilled group was found to be eight times more likely to loose a job than in France. However, hiring costs per worker were six times lower than in France. That is to say, a US worker is most likely to be redundant, but if he does become unemployed he tends to find work in much shorter time than in France.

Against those blaming French labour market rigidities for higher hiring rates the authors tested the latter's link to the higher minimum wage range in France\textsuperscript{412}. They concluded that minimum wages and unemployment benefits had no more use in explaining unemployment in France than in America. The reason for the high hiring cost in France was found to be in the high costs of firing workers and also to slow country's growth. The authors came to the result that in limited growth periods the cost of an extra worker firing was much higher and his retraining not worthy.

As we have seen from the above examination, labour market rigidities is a quite complex issue that -apart from conflicting econometric and estimation techniques'


\textsuperscript{412} F.N.: At that time France's minimum wage was 60\% of average wages as opposed to only 35\% in the USA.
problems - involves a number of specific economic and institutional context issues prevalent in each country. What might be then the "right" response at policy level for reducing unemployment or decreasing the gap between the "rich" and the "poor"? The answer to such questions appears much to depend upon ideological backgrounds and social actors' power-specific position at national levels. From a free-market perspective, some authors suggest that a policy-measure in favour of firing costs' reduction would lead to greater market flexibility. However, too much labour turnover may hamper innovation and growth413. A dualistic labour market system then embodied in a firm's organization by having a core permanent of workers whose experience will serve so as the firm to generate productivity improvements may well proved to be a very powerful control tool for governments and firms (Ibid.). Then, fluctuations in demand can be met via a buffer of flexible temporary worker, so that the marginal worker will have a very low firing cost (Ibid.). This is much of the dual labour market advocates critic to the freemakers policy makers.

**Bentolila and Dolado**414 (1992) have shown that in Spain's case the introduction of flexible contracts in the second half of '80s and the early '90s have tended to generate core and rigid labour market power at the expense of flexible external workforce. **Jimeno and Toharia**415 (1991) have shown that such flexible workers are paid on average 11 per cent less than workers under rigid employment. Furthermore, **Fallick**416 (1993) gives evidence that part-time work and insecurity of non-standards jobs are more popular in fast growth industries. **Eurostat and Dares**417 (2000) combined report has documented that the risk of low (monthly) wage is greater for employees with fixed term contracts. The report gives empirical evidence that at present the increase in flexible contracts has made on average in Europe 20 per cent of low-wage employees to be "poor", all income resources accounted (Ibid.).

---

From a political perspective Wright⁴¹⁸ (1996) suggests that in a global society where the employed persons are the majority, there will be political support for combating unemployment. Therefore, since flexible labour markets expose more the employed people to unemployment, the greater governments' support to them will be, through policy-measures such as firing-cost or minimum-wage fluctuations so the re-distributive role of unemployment to be facilitated (Ibid.).

Let us now turn to the examination of further issues and themes involved in labour markets' investigation and see what evidence is there to support or refute the Dual Labour Markets approach. First we examine the role of regional disparity to labour markets' performance.

Overall, the regional disparities in employment presented in Employment in Europe 1999⁴¹⁹ suggest that job creation in the Union is rather unbalanced due to highly localized factors. Furthermore, the same evidence suggests the linkage between the operation of some sort of the EU "institutional interventions, i.e. Euro-Structural Funds, and job creation has to be more analyzed. In particular, this report suggests that, although Cohesion countries such as Spain, Italy, Portugal, and especially Greece have received vast transfers from Euro-Structural Funds and succeeded in reducing their gap in GDP per head with the rest of the Union, they have not yet managed to accompany this by a similar convergence in employment terms⁴²⁰. Thus, over the investigated period in Italy and Portugal and to a smaller extent in Spain the patterns of employment still tend to illustrate the lowest employment rates across the Union as it was 15-20 years ago (Ibid.). Furthermore, in Greece, most regions apart from Attiki have experienced a decline in employment since early 90s (Ibid.).

To conclude, 10 of the 17 European regions with the lowest employment rate in 1980, remained in 1998 still among the bottom 17⁴²¹. As opposed to the above, 7 of the 21 regions with the highest employment rates in 1980 and 10 of the 21 regions with the highest employment rates in 1985 remained among the top group of regions in 1998.

⁴²⁰ Source: Ibid., p. 76.
⁴²¹ F.N.: See Employment in Europe, 1999. Graph 75, p.64 for the stability of average employment rates by region in the Union over the period 1980 to 98. See also in the same source Graph 76, p. 64 for confirmation of higher unemployment rates stability of the bottom 10% regions over the period 1983-98.
In fact, evidence from the Eurostat benchmark employment series indicates that over the past twenty-five years, i.e. since the mid-70s, the employment rate in Europe as a whole has failed to increase on average. In particular, despite the employment growth in 1998 alone, for the first time over the four years of the Union's last recovery (from 1994 to 1998), and because of the increase in the labour supply since 1994, the employment rate was much the same as in the early '80s. That is to say that some 3 percent points below the level in the mid-1970s after the first oil crisis. (See Graph 4.2.1)

**Graph 4.2.1**

Change in employment and working age population in the Union, 1960 - 2005

% change

-2.0  -1.5  -1.0  -0.5  0.0  0.5  1.0  1.5  2.0

<table>
<thead>
<tr>
<th>Year</th>
<th>Working-age population</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2.0</td>
<td>2.8</td>
</tr>
<tr>
<td>2001</td>
<td>2.0</td>
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<tr>
<td>1997</td>
<td>1.0</td>
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<tr>
<td>1993</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>1989</td>
<td>-0.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>1985</td>
<td>-1.0</td>
<td>-1.5</td>
</tr>
<tr>
<td>1981</td>
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<td>-2.0</td>
</tr>
<tr>
<td>1977</td>
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</tr>
<tr>
<td>1961</td>
<td>-2.0</td>
<td>-6.1</td>
</tr>
</tbody>
</table>

Source: Eurostat benchmark employment series, LFS, demographic projections and OECD

Indeed, whereas in 1975 the number employed across the Union as a whole amounted to some 64% of those aged 15 to 64, by 1998 the employment rate had fallen to 61%\(^{423}\). Furthermore, though there are substantial differences between the member States, (See Graph 4.2.2) at Union level the number of women employed was still only around 51%

\(^{422}\) FN.: The measure used for the "employment rate" in the Eurostat benchmark series is the total in work relative relation to population of working age, thus this taken as 15 to 64. This has been done because "participation rate" is intended to be an indicator of the performance of Union in creating jobs for those who potentially would like to work. Therefore, the use of the benchmark series means that the ratio obtained by the LFS slightly differs (for example, in 1998, the employment rate derived from the benchmark series is 61.1% from the LFS is 61.6%). Furthermore, since there are a few people of 65 and over still employed -although on average they account for only over 1% of all those employed- the figure calculated differs slightly from the proportion of working age population who are in work (around 0.8 of a percent point more).

\(^{423}\) Source: European Commission: "Employment in Europe 1999. p. 77."
of those in working age, that is some 20 percentage points below the employment rate for men. The change in the labour force is divided between a demographic effect and a participation effect\textsuperscript{424}.

Graph 4.2.2
Changes in the labour force in the Union, 1994-98

![Graph showing changes in the labour force]

Source: Eurostat, Union LFS for population and participation, total labour force being given by benchmark employment plus comparable unemployment.

The very small rise in participation in the Union since 1994 is attributed, among other factors, to a continuing fall in participation by men, concentrated particularly among older workers over 65 and those under 25 staying longer in education, and on a gradual increase in women participation\textsuperscript{425}.

The gradual decrease in the employment number of the older workers, i.e. those above retirement age, and those under the 25 years of age have given rise to an increasing use of the "theoretical"\textsuperscript{426} dependency ratio in many statistical reports aiming to portrait labour. This ratio has actually increased from 20% in 1980 to over 23% at present and is projected to rise around 32% over the next 20 years. However, as several recent Employment in Europe reports suggest, the labour profile would be even worse if the labour portrait was based on the "effective dependency ratio". In brief, this is the ratio of all those of 15 and over that are not in work and, therefore, not contributing to the funding of social protection. This ratio, over the '90s alone, has risen by 10 per cent.

\textsuperscript{424} FN.: In the Eurostat benchmark series each indicator is estimated by assuming the other remains unchanged.


\textsuperscript{426} FN.: This measure reflects the number of people above retirement age relative to those of working age.
Thus, under the latter definition, the dependency ratio may already be over 100%. Such estimation means that today more than the one-person, aged 15 and over, is not working for every person employed. (See Graph 4.2.3)

**Graph 4.2.3**

Effective dependency rates in Member States, 1998
Over 15% not working as % total employment

![Graph showing effective dependency rates in Member States, 1998.](image)

Source: Eurostat, Union LFS

The implications for continued taxation-based funding of the increase in the dependency ratio out of the European social protection systems, not only for pensions, but equally for expenditure on health and long-term care are obvious. In 1980, 81% of the total social protection benefits in the Union was for sickness and old age. This share in 1991 increased to 82.1%. In fact, the social benefit for old age as a proportion of total benefits increased from 43.5% in 1980 to 45.7% in 1991\(^{427}\). Although projective figures for the year 2001 are not yet available, one can imagine European social protection system's weak financial capacity especially if trends concerning employers' contribution to the social protection funds continue to decline. In fact, the employers' contribution to the social protection funds has fallen dramatically from 45.4% in 1980 to 28.2% in 1991. Current general contributions from 27.9% in 1980 to 28.2% in 1991 and the social contribution paid by the protected person from 22% in 1980 to 23.8% in 1991\(^{428}\).

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\(^{428}\) Source: Ibid.
The explanations given in the empirical studies, as to the causes of the dependency ratio increase, emphasize legislative factors and lack of job opportunities. Those retired early could not find another job due to de-industrialization and the primary sector decline reflecting the Union's failure to create enough jobs for older people. Changes to the legislative framework in social security and employment over the last two decades in many Union member countries (i.e. the Job Release Scheme in the UK) have also forced older workers to go to early retirement. In recent years however, most policy measures taken by governments to restrict access to early retirement aimed at reducing the cost of national security systems.

Many institutional analysts attribute this decreasing participation of young people in employment to changes in the employment regulation and the legislative framework within the social security areas. Such changes have gradually reduced or removed employment rights from young people. In fact, many countries such as the United Kingdom have excluded the majority of young people aged of 16 and 17 years old from claiming social security benefits. This, accompanied by the increased interest in further education as significant for career advancement, has led to an increase in educational or training participation as many of such young people seem to have no other choice.

In the market-clearing era young people appear, in a way, to be obliged to stay longer in education since "poverty" penalties from the early educational exit have been increased significantly. Evidence was presented in Employment in Europe, 1998 report, which suggests that the 20 to 24-year-old group represents the most vulnerable group of unemployment. In particular, in 1997 unemployment rates among young people in this age group who had left school with no qualifications were 25% among young men and 27% among young women. In comparison, in the case of graduates of institutions of higher education and similar establishments, 17% of young men and 18% of young women were unemployed. 40% of the unemployed in this age group had no further

429 FN.: Evidence from the Social Protection in Europe, 1997, Chapter 5, indicates that in all Union countries with the highest inactivity rates for men aged 60-64 three types of measures have been introduced recently to reduce early retirement level. These are either in the form of raising the official retirement age or eligibility to a full pension, or partial retirement schemes which mostly promote part-time work combined with partial pension or, finally, incentives to encourage businesses to keep older worker longer.

430 Source: The Economist, 1996.

education on completing their compulsory schooling, or 46% of unemployed young men and 34% of unemployed young women. Among 15 to 19-year-olds, in 1997, in the EU some 25% on average were active in the labour market, i.e. either actually in employment or actively seeking work. However, this does not necessarily mean that these youngsters left school attendance early, neither do they signify a lower training rate. The reason for this assumption is that in many countries, for instance Austria where these two rates are around 80% of the age group, young people are seeking employment (usually part-time) alongside or in combination with training (dual training systems)\(^4\)\(^3\)\(^2\).

Free-market advocates' explanation of young persons' prolonged transition from compulsory education into full-time employment fails to recognize that this may be a sign of people's recognition of the competitive pressures of the labour market thereby serving to intensify middle classes sense of economic insecurity\(^4\)\(^3\)\(^3\). Thus, according to the "liberal" theory of social mobility\(^4\)\(^3\)\(^4\) this is attributed to young persons' drive for increased education that relates to a sign for an increasingly skilled high-tech labour market that due to technological and occupational changes requires better-educated workforce\(^4\)\(^3\)\(^5\). This view stresses the value attached to employment by the individual's investment in education and training as an explanation of processes of skills' acquisition\(^4\)\(^3\)\(^6\). However, this perspective ignores the fact that within a market-driven system of education/training, conditions and results are dependent upon the institutional structure of a society's education systems and on corporate labour market policy (Aston & Green\(^4\)\(^3\)\(^7\) 1996).

\(^4\)\(^3\)\(^2\) FN.: It must be noted that such figures illustrating a high proportion of young men involved within in-company training or dual training should be treated with due caution since the Eurostat records include such young persons both in the employment and in the training statistics.


Roberts, K, S.C. Clark and Claire Wallace\textsuperscript{438} (1994) claim that, allowing for countries disparities, in virtually all advanced capitalist industrial societies "young people are made to feel that they themselves make significant choices, and their transitions have become individualized. (However) individuals' opportunities in each country continue to be governed by the familiar predictors - family background, sex, place of residence, and attainments in secondary education"(Ibid., p. 31). Finally, these commentators argue that according to their empirical investigation in each country examined (Britain & Germany): "young people are prototypical cases of broader trends towards structured individualization and the fragmentation of formerly more homogeneous social groups" (Ibid.).

The authors further point to the fact that if the increased participation of young people in education and training leads to improved employability in the long run, then such a shift from employment to education might be desirable. However, they warn that any occupational upgrading to emerge from educational attainments would necessary be limited (Ibid.). According to them the majority of employees would be excluded from the higher status service sector jobs in growth areas such as multimedia and information management. They also claim that qualification rates have already moved ahead of occupational trends thus resulting in an increase in entry requirements. They further argue that in practice such evolution devalues qualifications rather than upgrades the job (Ibid.).

The debate on the causes and impact of the recently prolonged educational periods between the two contrasted mainstream theories, i.e. the "technocratic", more close to the liberal-free market theory, and the "social closure" perspective, more close to the dual labour markets, is not a new one. In fact, since the mid-70s, and especially in the-80s, the rhetoric for more flexible organizational structures changed the nature of social exclusion. As Parkin\textsuperscript{439} (1979), one of the main advocates of the closure theory, suggests: "In modern capitalist society the two main exclusionary devices by which the bourgeoisie constructs and maintains itself as a class are, first, those surrounding the institutions of property; and, second, academic or professional qualifications and credentials. Each represents a set of legal arrangements for restricting access to rewards


and privileges: property ownership is a form of closure designed to prevent general access to the means of production and its fruits, credentialism is a form of closure designed to control and monitor entry to key positions in the division of labour" (Ibid., pp. 47-48).

According to other analysts such as Dore (1976) the growing numbers of students acquiring tertiary level qualifications is a symptom of credential inflation. This has to be understood in terms of means generated by middle class so to build specialized professional and technical enclaves, along with hierarchical staff divisions (Brown 1994).

Therefore, although the market-driven economy at a first glance appears to encourage middle-class opportunity to capitalize on its superior market power in the competition for credentials as the free-marketeers claim, yet there is little doubt that middle-class still remains in the ascendancy in the competition for a livelihood (Ibid.). Among other analysts Brown (1994) further denotes that middle-class is not a homogeneous group. He writes, "some of the middle class are more equal than others in their ability to exert market power" (Ibid., p. 46).

Concluding, it seems that in Europe there are substantial differences in work nature and market structure reflecting disparities in job security, career opportunities, income and job satisfaction among members of the middle class that lead to further segmentation and increase polarization in the fortunes of students from middle-class backgrounds.

The increasing participation of women in employment has been facilitated by a mixture of social changes and cumulative changes to employment regulation over the last twenty years or so. Indeed, legislative changes, aimed to protect part-time workers (mainly women), have sometimes led to further fragmentation of work for women. For example, throughout the seventies as UK labour governments created even more extensive employment protection rights, many employers in retailing actually reduced the number of hours worked each day by their staff to get below the new legislative threshold for employment rights.

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The growth of male unemployment has also meant that women have now to contribute to the household income. In fact, in the academic literature, the EU's preoccupation with women's employment increase is often explained in terms of a conscious EU strategy development in response to widespread forecasts of secondary labour shortages caused by extensive schooling of young people. Employers are seeking to replace secondary jobs - previously filled by young people - by secondary jobs now filled by women. Evidence presented in *Employment in Europe 1997* suggests that many women are working in jobs inferior to their potential as reflected by their educational attainment level\(^{443}\).

I now turn to explore which economic sectors and occupations have shown a growth in jobs. The recognition of such trends will help us to realize whether recent macroeconomic changes in the occupational and industrial structure of employment have led to the extension of higher or lower skilled occupational grades. In so doing, we take into account that Union's official statistical bodies classify "skill" context of occupations according to the neo-liberals definition of "skill", i.e. as it has been defined in the beginning of this Thesis. To put it differently, in the Union in general, there is a tendency to classify people within a higher skill occupation than might be expected. Despite the classification problems, we still used such data in our analysis for the years from 1994 onwards as they are the only comparable available at present at Union level. For the previous years, i.e. from mid-60s till 1993 and in particular for economic and labour developments by sector or industry we used several *OECD, Main Economic Indicators and Labour Force Statistics* reports.

Prior to our discussion of the empirical data, in the following pages there is need to discuss the grounds of the debate about deskilling, and explain in more details the link with the Dual Economy / Dual Labour Market concepts. This is due to the importance of this conceptual issue to current labour force development. In this context we also review some issues concerning the new Human Capital literature and the high-tech banking sector in relation to the dual economy model.

In fact the debate about deskilling is rather historical, as the Fordist assembly-line job was the result of Taylorite deskilling strategies\(^{444}\). With regard to the history of changes


in skill profiles, Beck, Brater and Daheim\textsuperscript{445} (1980) state that in the first wave of industrialization, i.e. up to the end of the 19\textsuperscript{th} century, there was little demand for particular skills. Alongside former craft workers, companies mainly employed unskilled workers. Textile companies and steelworks expected their workers to be disciplined rather than educated and encouraged them to perform in a manner appropriate to a time economy, in accordance with Taylor’s methods of “scientific management” (Ibid.).

In the second wave of industrialization that involved mechanical engineering, i.e. the chemical industry and automotive manufacturing, it was primarily technical and engineering skills that were required of supervisors. During the same period, specialist vocational skills, for instance those relating to specific products and materials and to repairs were required of increasing numbers of workers. For example, as Georg and Kunze\textsuperscript{446} (1981) reveal, at the beginning of the 20\textsuperscript{th} century in Germany industry and state agreed on a definition of different careers and training paths. Those were anchored in vocational schools and state examination regulations, and in combination with company training courses, formed the basis for today’s skilled trades. This trend characterized the technology-intensive phase of Fordism in which control of the work process shifted to production engineering (Braverman\textsuperscript{447}, 1977).

In the third wave of industrialization that is still in progress and is shaped by computers, the communication industry and financial services, analytical, conceptual and social skills are in demand, in this way, introducing a knowledge-intensive phase in skills development. Yet even here the new micro-technologies are not exerting a direct influence on skills profiles\textsuperscript{448}. Therefore according to historical background most of assembly and service jobs offered today are unskilled in the traditional craft-based sense of the term.

Beck, Brater and Daheim also found that, despite all the drastic changes in skills required and job structures during the industrialization process, the social inequality of occupations and its links with particular social environments and classes tended to be


reinforced and intensified rather than relaxed (Ibid., p.70). They attribute this continuity to the fact that clusters of skills and activities delimiting vocational specialization have always served to reproduce the social differences between people and between men and women, something continued at our times as well (Ibid.).

Thus, according to this historical interpretation, much more influence appears to be exerted on skills' formation by the relevant company organization, the traditional standards of the education and employment systems and, last but not least, by the scale of state and supranational regulation of the labour market (Ibid.). For instance, Aston & Green (1996) show that in Great Britain the collapse of manufacturing industry in the '80s and the increase in unskilled jobs in services have led to a reduction in training for middle-level qualifications449.

Following Braverman's work a lot of debate has been generated concerning the impact of new technologies on skills and the nature of the labour process. For instance some evidence suggests that New Technologies implementation alone had not such fierce impact on skills content as Braverman implies. In particular, Storey450 (1986) argues that he found no evidence of computers' fear from the part of the operators in a study he carried out in three insurance companies. Price451 (1988) also claims that his research concerning manual and non-manual workers' experience from the New Technology introduction, indicates that there was no deskilling evidence. Maclnnes452 (1988), based on his research findings, surveyed in a Scottish bank, argues also that there was no deskilling evidence in Braverman's terms. Several studies conducted by the OECD453 show that New Technology affects different people in different ways. Thus, there is no doubt that less educated people fall easier to technological unemployment, have longer unemployment duration and there is higher probability for them to loose their jobs (Ibid.). Thus, the debate is ongoing and aggregate data scattered, so if we are not to accept Braverman's deterministic views of skills' elimination, nevertheless, we

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are to recognize greater management hierarchical control and an intensification of labour division and lost of the autonomy of most of the workers.

Recently due to flexibilization strategy and the new production policies pursued by management, particular reference has been made about the impact of some new forms of management rationalization on labour fragmentation and ultimately on the quality of working life. These are in the form of HRM, implemented at a micro-firm's level through, for instance, quality circles (QCs) and Total Quality Management (TQM). Although the notion of HRM in its Harvard version relates to efforts made by management for greater employees' involvement and commitment to corporate culture and mission, yet comparable European studies show great implementation disparities at country or individual firm level\textsuperscript{454}. Thus, although on a theoretical level the major HRM tenets relate to a strong commitment of management and unions to vocational training, industrial relations systems based on social partnership, and "true" participation rights through board membership or works councils, careers' development etc., as compensations for assumed all-employees co-responsibility to corporate success, in practice such trends have not realized\textsuperscript{455}. It seems that at this period of market liberalism, public deficit pressures and differentiated industrial culture legacy made managements in most EU countries too much aware of cost structure and numerical flexibility rather than of participative management development and upgrading of employees' skills (Ibid.). Accordingly, the ongoing increased unemployment levels and jobs' insecurity growth, seem to promote exclusionary tendencies for the weaker parts of the labour force rather than supportive solidarity activation\textsuperscript{456}. In fact, many scholars argue that HRM have been used often as a means to marginalize unions' influence at an individual firm's level and to break labour's solidarity\textsuperscript{457}. From the above analysis we realize the closed links between the human capital evolution and dual labour markets theorization.

\textsuperscript{454} F.N.: See for instance the findings of Bournois (1991): "Pratiques de gestion des ressources humaines en Europe: donnees comparees", Revue fran\c{c}aise de gestion, May, pp. 46-50.


\textsuperscript{457} Dubois and Linhart (1994): op. cit. pp. 81-82.
The passive and inconsistent way under which management in private owned enterprises has tried to implement new forms of HRM, led some scholars in the same vein as dual economy school to conclude that the concept of HRD through TQM techniques has been misinterpreted and misleading. For instance, Davis (1998) writes on the matter:

"...the TQM and Harvard stakeholders' approaches are aspirations rather than reality because their basic premises are incongruent with modern capital-based companies where all interests have to come second to the overriding need to make a return on capital sufficient to maintain quoted share prices" (Ibid.). In support to his arguments Davis cites Graham's (1991) description of TQM according to which TQM is defined as:

"...a process of habitual improvement with control embedded in and driven by the organizational culture...The foundation of this theory is the generation of participation, involvement, pride in work and the removal of fear from organizations". We come back to such issues' implication for policy formation in further chapters.

In the last thirty-five years evidence collected from several OECD sources indicates that the main contribution to employment growth in all European countries has been made by Services that is, in Averitt's terms, by the secondary or peripheral part of the economy.

**Graph 4.2.4** illustrates that since the mid-60's the overall employment growth in OECD countries has been progressively diminished whilst at the same time there has been a marked shift from industry to services. **Graph 4.2.7** shows that the annual employment growth in industry and services combined fell from the mid-60s by the early 90s from approximately 2 per cent to 0.5 per cent respectively. However, jobs in services are characterized by a relatively stable expansion that is throughout the years between 1960 and 1990 there was an annual, over 2 per cent growth. This slowed to half this rate in the early 90s when there was a 1 per cent increase. Labour market analysts argue that such employment growth in services, although increasingly weaker, in fact has

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contained a further overall employment deterioration since industrial employment performance in the 70s showed a very weak growth and, even worse, in the 80s and early 90s, a fierce reduction.

Free-market advocates argue the overall OECD employment growth rates could lead to misleading assumptions about employment performance if they were not supplemented by spatial data indicating the significant regional differences. For instance they argue that North America and Japan have performed much better than Europe in terms of employment in industry and services combined\textsuperscript{460}. It is worth adding that this fact has been the main empirical evidence that Thatcher pointed to for arguing for deregulation. However this view is simplistic and shows nothing about jobs' quality and labour force condition in the USA and Japan. Further evidence confronts the, on the surface, relatively poor employment record in Social Democratic (Institutionalist) Europe vis a vis Free Market USA / Japan. That is not to say there is any doubt that employment rate in Europe (at just over 61% in 1998) remains substantially below the level in either Japan or the USA (close to 75% in both). However, trends on labour market (data based on 1998) suggest that Europe creates better jobs for all those who wish to work\textsuperscript{461}, while at the same time job growth rate, although still lower than the US, constantly comes closer to it. Moreover, this net employment growth rate in 1998 was substantially higher than in Japan where employment fell for the first time since the first oil crisis in 1974 (Ibid.). This is one thing to recognize based on tools of conventional neo-classical economics. The dual labour market theorization would however suggest that differences between employment creation rate of Europe and the USA or Japan, should be considered in terms of jobs created in the core or peripheral sectors and thus in terms of "good" or "bad" jobs.

Thus, analysts such as Dreze and Sneesens\textsuperscript{462} (1994) argue in the US secondary unskilled jobs associated by a fall in the relative wage have been generated, whilst in the EU, where real wage rigidity do not allow such reductions to be materialized, unemployment rose instead.

Employment growth by OECD region, 1964-95
Average annual growth rate

Graph 4.2.4 OECD total

F.N.: Industry includes: mining, manufacturing, electricity, gas and water and construction


Graph 4.2.5 North America

Source: The same as Graph 4.2.4

FN.: Includes only countries for which data are available for 1964-95: United States, Canada, Japan, France, Germany, Spain, United Kingdom, Austria, Finland, Norway, Sweden, Switzerland, Australia and New Zealand.

FN.: Excludes Mexico.
Graph 4.2.6 Japan

Source: The same as Graph 4.2.4

Graph 4.2.7 E.U.465

Source: The same as Graph 4.2.4

Graph 4.2.7 illustrates the decline in industrial employment has started in the 1970s. By early 1990 jobs were lost at the rate of 3 per cent a year, and over the '80s, 20 per cent of manufacturing jobs disappeared. Services employment appeared to have been more resilient to recession periods. Indeed, in the European Union, Services employment growth has risen slowly but steadily since 1960. The early 90s, growth was much slower than in the 1980s, but in 1994 it was still 20 per cent higher than it had been in 1980.

465 FN.: Includes only EU countries for which data are available for 1964-95, Germany, Spain, United Kingdom, Austria, Finland and Sweden.
Graph 4.2.8 shows that employment growth in individual industries for the period 1970-93 in the OECD region as a whole has expanded at by far the fastest rate in real estate and business services, doubling between 1970 and 1993. Other service industries, such as social and personal services, restaurants, and hotels, finance and insurance, wholesale and retail trade, government services and communication services, all show strong growth in this period.
Graph 4.2.8
Employment growth by industry
OECD total, 1970-93∗

Source: Adopted from OECD, 1996 "Technology and Industrial Performance", GRAPH 4.2, p. 77
(Based on OECD, STAN database (DSTI/EAS Division), ISDB database

F.N.: For a number of industries the OECD total is an estimate.
Graph 4.2.8

Employment growth by industry

OECD total, 1970-93

Source: Adopted from OECD, 1996 "Technology and Industrial Performance", GRAPH 4.2, p. 77
(Based on OECD, STAN database (DSTI/EAS Division), ISDB database)

F.N.: For a number of industries the OECD total is an estimate.
One of the factors behind such sectorial shifts in employment is considered by the mainstream free-market advocates to be technological progress and subsequent productivity gains. This sectorial shift to services appears to affect almost all developed economies in the recent past too. More recent EU available data⁴⁶⁷ (see *Employment in Europe, 1999*) referring to service sector evolution over the years 1994-98, show services making the main contribution to employment growth in all member countries, while employment in agriculture declined in all countries except Ireland. Employment in industry has increased just by 1% across the EU as a whole. The higher increases occurred in Spain, Finland and Ireland (See Graph 4.2.9). Over the same period, employment in public administration also declined reflecting a squeeze on public spending.

**Graph 4.2.9**

Contribution of broad sectors to the change in employment in Member States, 1994 - 98

![Bar chart showing the contribution of broad sectors to the change in employment in Member States, 1994 - 98.](image)

*Source: Eurostat, Union LFS and benchmark employment series*

The free-market advocates suggests that changes in the occupational skill configurations in the labour market are linked with different development in manufacturing and trade industry/service sector. In particular, since the mid-70s the de-industrialization process, i.e. the declining of employment in manufacturing and the growth of the services/trade employment, have been often blamed for the reduction of traditional job opportunities for skilled manual and non-skilled occupations. At the same time, this shift from

⁴⁶⁷ FN.: The fact that the Union LFS are based on NACE and ISCO classification systems and both these were changed in 1994, made us to use the comparable statistical data being available by the OECD as a more reliable source for a previous years' employment review.
manufacturing to services has been heralded by free-market advocates as representing
the expansion of knowledge-based occupations that lead to an increase in the
qualifications and skills required at work (see for instance Bell, 1974).

Yet, it appears that mainstream economic perspectives fail to recognize that
occupational distribution in manufacturing and the service/trade sector is not
homogeneous. In fact, there are substantial inter-sectoral differences and, even further,
"services" concept appears to be vague and misleading. Callinicos (1989) from a
Marxist approach argues that service sector neither requires just "clean", knowledge-
based jobs, in the way Bell describes them, nor alters the proletarian character of the
majority of such jobs. Braverman (1974) and his advocates without ignoring the
substantial expansion of non-manual jobs, reject the view that good occupational
profiles are linked with services' expansion. In fact, Braverman argues that jobs created
in the service sector may have also been deskilled in terms of occupations' content, as
they require the development of a poorly qualified and cheap workforce (Ibid.).

Against the free-market advocates' conception of the occupational profiles uniformly
distribution to economic sectors, the Dual Labour Market theory, as we mentioned
earlier, would suggest a disproportionate concentration of "unskilled" jobs in the small /
medium enterprise (peripheral) economy with the greater concentration of skilled jobs
in the core economy. By way of an example, Dickens and Katz (1987) have
empirically documented this argument by using as a proxy the wage premia. They
found that wage premia are higher in industries with a more educated labour, in the
more capitalistic and large firms and, finally, in the more profitable ones. That is to say,
high-skilled jobs are to be found in Averitt's core industry. Moreover, Arai (1994)
found that there was a positive correlation between wage premia and the extent of
"autonomy" that workers enjoy at work.

FN.: For further information on the various interpretation of the term, see Abercrombie, N.,
Cambridge, Polity.
Dickens, W., and Katz, L. (1987): "Inter-industry wage differences and industry characteristics in
Lang, K. and Leonard, J. (Eds.): "Unemployment and the Structure of Labour Markets",
Journal of Economics, No. 96, pp. 31-50.
Further evidence on the distribution of employment growth by linking sector with occupational analysis (see Employment in Europe, 1999, Part I, Section 2) reveals continuing disparities among them. The analysis of occupations within the sectors uses 60 NACE. The Four groups of sectors, defined in terms of employment growth over the period 1994 to 1998 have been selected. Comparability problems among the member countries by occupational classification has been minimized using the ISCO classification system combining five groups, three non-manual and two manual occupational groups. These, according to the mainstream free-market ideology in the EU, are in line with different levels of educational qualifications. We find that those with a degree level or equivalent are concentrated in the high-skilled non-manual occupations, whilst those with only a basic education level are mostly employed in lower skilled non-manual and unskilled jobs. Those with upper secondary level of education have a relatively high share in the medium skilled non-manual and skilled manual occupations. The basic source of our secondary empirical data is the EU LFS, which are based on the NACE and ISCO classification systems.

Allowing for countries' disparities, the growth of jobs demanding relative high skills continued in 1998 as in the previous years of the last recovery period. The participation of managers, technicians and professionals in the employment increased, while the number of the unskilled manual workers fell. In fact, jobs' growth of the so-called high skill occupations accounted for almost all the increase in employment in the EU. There has also been an increase in low skilled sales and service jobs. Just over half of the additional jobs for managers, professionals and technicians were taken by men, while women took over 80% of the additional low skilled non-manual jobs for sales and service workers (See Graph 4.2.10).

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**FN:** The 60 NACE 2 digit sectors are combined into four similar sized groups in terms of employment: fast growth sectors, medium growth sectors, slow growth sectors and declining sectors.

**FN:** According to ISCO classification systems, occupations are combined into five groups, three non-manual occupational groups and two manual groups. High skilled non-manual: managers, professionals and technicians (accounting for 35% of total EU employment)
- Medium skilled non-manual: clerks and office workers (13/2% of EU employment)
- Lower skilled non-manual: sales and service workers (13/2% of EU employment)
- Skilled manual agricultural workers, crafts and related workers and plant and machine operators (28% of EU employment)
- Unskilled manual elementary workers (10% of EU employment)
It is worth adding that the above high-growth trends in some top-level "management" jobs, should not lead to false assumptions about upgrading "management" additional jobs as a whole regardless business and economic cycles. As Callinicos\(^\text{476}\) \(1989\) correctly points out, management includes a highly varied range of distinct class positions and skills so any generalization on their working pattern would be risky. Accordingly, one should not ignore the deskilling effects, for example, of the Electronic Banking System or the Electronically Processing Ordering System (EPOS) and centralized ordering on some banking and retail management respectively. In fact, Watanabe\(^\text{477}\) \(1990\), drawing examples from the Japanese Banking experience on the effects of the introduction of large-scale new office technology such as the Third-on-Line System, came to the conclusion that it had sharply affected the labour process. According to his findings the new office technology introduction has caused far-reaching changes in job content of managerial, technical and clerical work at branch offices, computer centres and head office (Ibid.). He quotes: "In general, managerial work has become the subject of an increased division of labour, resulting in mental work being concentrated in a smaller number of top managers" (Ibid., p.59).

\(^{476}\) FN.: According to Callinicos, A. (1989), p. 124, managerial jobs are distinguished at least as follows: 1) "managerial capitalists"; 2) the "new middle class", i.e. higher professional, managerial and administrative staff; and 3) "routine white-collar workers" whose insecurity as to low wages and lack of autonomy place them in the same position as manual workers.

Graph 4.2.10
Change in employment of men and women by occupation, 1992-94 and 1994-98

-0.7 -0.6 -0.5 -0.4 -0.3 -0.2 -0.1 0.0 0.1 0.2 0.3 0.4

Managers
Professionals
Technicians
Clerks
Sales, Services
Agriculture
Craft related
Machine Operators
Elementary

Men
Women

Annual change as % total employment in base year

Source: Eurostat, Union LFS and benchmark employment series

Graph 4.2.11 shows high-skilled job growth to be almost similar in all member countries. In fact in Italy and Germany such categories were the only ones that increased in the last recovery period. As regards manual jobs, the only countries in which there was a significant increase were those that had the highest increase in total employment, namely Spain, Ireland and the Netherlands. Lower skilled non-manual jobs, i.e. clerks, and sales and service staff, increased in all countries except Germany where total employment fell.
Graph 4.2.11 shows high-skilled job growth to be almost similar in all member countries. In fact in Italy and Germany such categories were the only ones that increased in the last recovery period. As regards manual jobs, the only countries in which there was a significant increase were those that had the highest increase in total employment, namely Spain, Ireland and the Netherlands. Lower skilled non-manual jobs, i.e. clerks, and sales and service staff, increased in all countries except Germany where total employment fell.
Total employment in the so-called fast growth sectors across the EU increased on average by 3 1/4% a year between 1994 and 1998. Almost 45% of those employed in this sector worked in high skilled non-manual jobs. Those jobs had the highest growth rate (over 4% a year) among all the occupations. But the growth rate of lower skilled non-manual jobs was also significant (just under 4% a year) (See Graph 4.2.12).

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Graph 4.2.11
Change in employment of men and women by occupation
In Member States, 1994 - 98

Source: Eurostat, Union LFS and benchmark employment series

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478 FN.: In the Union, all fast growth sectors are in services. In particular, they are those sectors in which the number employed increased by 1.5% a year or more over the 4 years of recovery (from 1994 to 1998). They include for example business services, health care recreational activities, computing and the manufacture of office machinery.
In the medium growth sectors\(^{479}\) where the number employed rose between \(\frac{1}{2}\%\) and \(1\frac{1}{2}\%\) a year over the period 1994-98, high skilled non manual occupations accounted for 47% of total jobs, more than in the high growth sectors, while skilled manual occupations accounted for 27%. Lower skilled non-manual jobs had the highest growth (almost 3% a year). Generally in this group of sectors there is a shift towards non-manual jobs, while the number of unskilled manual workers employed continued to decline (See Graph 4.2.13).

\(^{479}\) FN.: Medium growth sectors, in which the number employed rose by over 0.5% a year, include for example education, insurance, wholesaling and the manufacture of radio and televisions as well as precision instruments.
In the slow growth sectors only 23% of employment was in skilled non-manual jobs, while 41% was in manual jobs and 19% in lower skilled non-manual ones.

Nevertheless, in this sector also there was a shift towards non-manual jobs. Thus, the employment in high skilled non-manual occupations increased by over 1% a year and in lower skilled non-manual jobs by \( \frac{1}{2} \)\% a year, while the employment of unskilled manual workers declined by almost \( 3\frac{1}{2} \)\% a year (See Graph 4.2.14).

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FN.: Slow growth sectors, in which the employment increase was less than 0.5\% a year, include for instance retailing, personal services, land and water transport, construction, printing and publishing and the manufacture of chemicals and pharmaceuticals.
The occupational structure of the declining sectors\textsuperscript{481} was similar to the one of the slow growth sectors apart from the fact that in the declining sectors there has been also a high rate of jobs' loss among skilled manual workers (See Graph 4.2.15).

\textsuperscript{481} FN.: Declining sectors in which employment fell include for example public administration, banking, the textile and clothing industry, iron and steel production and agriculture.

\textbf{Source:} Eurostat LFS adjusted to be consistent with benchmark employment series
Therefore, according to the earlier mentioned, in overall, during the period 1994-98 there was a substantial net job creation in the Member States. However, most of the new jobs were concentrated among the high skilled non-manual workers (See Graphs 4.2.16, 4.2.17, 4.2.18 for high, medium and lower skilled employment evolution respectively). Manual jobs increased a little and mostly for the skilled workers (See Graphs 4.2.19 and 4.2.20 for the skilled and unskilled occupations employment changes respectively).
Graph 4.2.16

Contribution of high skilled non-manual workers to employment change by growth group, 1994-98

Annual change as % total employment, 1994

Source: Eurostat LFS adjusted to be consistent with benchmark employment series

Graph 4.2.17

Contribution of medium skilled non-manual workers to employment change by growth group, 1994-98

Annual change as % total employment, 1994

Source: Eurostat LFS adjusted to be consistent with benchmark employment series
Graph 4.2.18

Contribution of low skilled non-manual workers
to employment change by growth group, 1994-98

Annual changes as % total employment, 1994

Source: Eurostat LFS adjusted to be consistent with benchmark employment series

Graph 4.2.19

Contribution of low skilled non-manual workers
to employment change by growth group, 1994-98

Annual changes as % total employment, 1994

Source: Eurostat LFS adjusted to be consistent with benchmark employment series
Therefore, to sum up, the official national documents of the Member States, such as the national LFS, calculated on aggregate at Union level, suggest that job growth by sector and occupation in Europe over the years 1994-98, is strongly associated with net creation of jobs for less skilled workers. On the other hand, jobs for the highest skilled workers are expanding rapidly over time in all Union countries independently of the overall rate of employment growth. The lower skilled workers' jobs' increase critically depends on the overall rate of employment growth. This is strongly the case in all member countries, except in France, for manual jobs.

Over the same period, figures suggest that there is also a strong association between the overall rate of employment and net creation of jobs in industry. The five European countries (Denmark, Spain, Ireland, the Netherlands and Finland), with the exception of Luxembourg, that over this period experienced the highest growth of employment, a substantial expansion of net jobs created in industry has been also experienced.

Countries with declined or relatively poor overall employment growth have experienced either job losses in industry or little job gain (See back Graph 4.2.9).

Source: Eurostat LFS adjusted to be consistent with benchmark employment series

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The entire analysis of employment in terms of changes in the number of people should be treated with great caution given the fact that in the period of recovery, 1994-98, almost all employment growth was experienced in part-time jobs thus over 3 millions part-time jobs of total net 4 millions. According to Eurostat Full-time Equivalent Employment figures (see next pages), such part-time working trends have been experienced both among men and women. In particular, in 1998, almost 70% of the increased employment for women was in part-time jobs (See Graph 4.2.21). Even men employment figures showed a considerable increase in their part-time working share (28%) (See Graph 4.2.22).

Graph 4.2.21

% total women employed

Source: Eurostat LFS

Graph 4.2.22

% total men employed

Source: Eurostat LFS
Such an increase in part-time jobs associated with changes in working-time have imposed a number of methodological problems that, if taken into account, would have changed the overall employment effect in the Union. Full-time equivalent employment is estimated as the total hours usually worked by those employed aged 15 to 64, including the second job, divided by the average hours worked by those, both men and women, employed full-time. By way of an example, an employment adjustment at EU level for the last recession period to a full-time equivalent basis should reduced the increase in employment from just over 1/2% per annum to just under.

At total Union level this means that the full time equivalent rate in 1998 was slightly lower than in the mid '80s when the simple employment rate was at its lowest. Furthermore, after making the adjustments for the high skilled jobs, the employment pattern of these jobs remains much the same as before implying that most of those new jobs created were full-time. This is not the case with the lower skilled non-manual jobs that almost halved their share of total employment. Moreover, given that those that filled most of the net additional jobs created over the observed period were women, it follows by implication that most of these jobs were part-time rather than full-time.

In fact, in 1998 alone, some 6% of men in employment in the EU and around 33% of the women worked part-time (see Employment in Europe, 1999, Part I, Section 2). Part-time jobs are growing at a high rate. However, part-time working varies widely among countries. The highest percentage of men and women part-timers has been observed in the Netherlands and the lowest in Italy and Greece. Sweden and Denmark were the only countries where part-time working decreased in 1998 (Ibid.).

Most of men and even more of women working part-time (far from the Union officials' contradictory assumptions) appear not to want a part-time job given a free choice, thus under no force of circumstances (Ibid., p. 38). This suggests that some people may work part-time because they have no alternative since they are unable to find a full-time job. Some others, especially semi-retired persons or women having family responsibilities may find it difficult to work full-time. In fact, there are almost just under 40% of men and 16% of women who would prefer a full-time job but they cannot find one and so form part of the so-called "under-employed" (Ibid.). It is worth adding that especially as regards women voluntary part-time working, their negative attitude to
it, has been recorded almost two decades ago. Robinson and Wallace (1984) found that: "Managers had waiting lists of women seeking to transfer to permanent full time work". Although it is almost impossible to judge what it would have happened in European societies in the absence of these policies, yet such attitudes towards part-time working raise important policy implications as they reflect the extent to which part-time jobs are in real terms a satisfactory substitution to full-time employment. On these issues should be placed special emphasis given the fact that during the 1990s it has been signaled increasing part-time working and national governments' efforts increasingly aim at encouraging further part-time growth.

The number of people working on fixed term contracts in the Union as a whole also increased significantly in 1998. The trend towards temporary employment started in the early 1990s; by 1998 the share of temporary jobs of all additional jobs created was over 40% and accounted for 12 1/2% of all jobs. Temporary work by gender over the Union is roughly the same at 12% of men and 13% of women. There are wide national variations with Spain having the greatest percentage of temporary workers (just under 35%) and Luxembourg the lowest (under 5%). (See Graph 4.2.23 & 4.2.24)

Graph 4.2.23


Source: Eurostat, Union LFS

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\textbf{Graph 4.2.23}

\textit{Men employed in temporary jobs in Member States, 1986, 1990, 1998}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Graph4223}
\caption{Men employed in temporary jobs in Member States, 1986, 1990, 1998}
\end{figure}

\textit{Source: Eurostat, Union LFS}


\textsuperscript{484} Source: EC Employment in Europe 1999, pp. 38.
Most of the jobs taken by the unemployed were temporary rather than permanent. In fact, over the last recovery period just over 50% of men and almost 55% of unemployed men and women combined took up a fixed-term contract job.

Although total employment before allowing for adjustments has increased in 1998, the number of self-employed in the EU has remained much the same as in 1997. The share of self-employment fell to just over 14 1/2% of total employment. This was due to the decline of employment in agriculture which is composed of over half (53%) of self-employed as opposed to under 2% of wage earners. However, in industry and services combined (excluding agriculture that distorts trends) the share of self-employed was just under 13%, i.e. slightly higher than in 1990 (See Graph 4.2.25). In most of the Member States, except in the South, around half of the self-employed are employing others, agriculture excluded.
In fact, over the four years of the last recovery the number of self-employed in industry and services rose by around 3%, slightly less than the number of wage earners which rose by just under 4% (See Graph 4.2.26). As we can observe, the number of self-employed with employees increased in most of the countries, except Germany and the UK, while the number without employees fell in France, Luxembourg, Netherlands and in the UK.

It is often advocated (see the EU, Employment Guidelines) that growth in the number of the self-employed, especially those with employees, is indicative of the spread of entrepreneurship. However, evidence indicates (see for instance Employment in Europe, 1998, Part II, Section 2 and previous Sections of current work) that this assumption is not always justifiable. In many cases the entrepreneurial activity has been initiated as a response to legislative or fiscal measures in operation that in fact provide incentives to an employee to change his status and become self-employed.

The evidence suggests that there is an inverse relationship between the level of self-employment and employment rates. In particular, self-employment tends to be greater in countries with lower employment rates. This is often attributed either to low
productivity or to structural deficiencies of such economic activities (see Employment in Europe, 1998, Part II, Section 2).

Graph 4.2.26

Contribution of self-employed with and without employees to the change in total employment in industry and services in the Member States, 1994 - 98

Annual change as % total employment in 1994

Source: Eurostat, Union LFS and benchmark employment series.

As far as the link between wages and net job creation is concerned, the relationship appears to be highly complicated. Beliefs that lower pay leads to more jobs are oversimplifications. There is little sign of a systematic relationship between the average wages of low skilled workers (both manual and non-manual) and their share in total employment (See Graphs 4.2.27 and 4.2.28). Only at the bottom 10% of the lower skilled workers is there slight evidence of a systematic relationship (See Graph 4.2.29). In fact, several analysts argue that low skilled workers' wages are not settled within national, regional or sectorial contexts\(^{485}\). As evidence in the Employment in Europe, 1998 (Part I, Section 4) has shown the bottom 10% of wage earners receives less than two-thirds of the average wage.

Graph 4.2.27

Earnings of unskilled manual workers and their share of total FTE employment, 1995

Source: Eurostat & LFS adjusted to be consistent with benchmark employment series and Structure of Earnings Survey

Graph 4.2.28

Earnings of low skilled non manual workers and their share of total FTE employment, 1995

Source: Eurostat, LFS adjusted to be consistent with benchmark employment series and Structure of Earnings Survey
Employment growth consisting mostly of part-time instead of full-time work was accompanied by a fall in unemployment\textsuperscript{486} (from an average of just over 10 1/2 % of the work force in 1997 to 9.9% in 1998). The decline in the number of the long-term unemployed -from 5.2% of the labour force in 1994 to 4.9% in 1998- has been less than that in the overall rate\textsuperscript{487}. In 1998, the share of the unemployed who had been out of work for a year or more (at 49 1/2 %) was higher than in 1994 (47%) and slightly above the level in 1997.

Furthermore, although - as compared to the 1987 rates - the level of long-term unemployment (proportion of workforce unemployed for a year or more) declined in some countries of the EU, in others, such as Greece, Italy, Belgium and Luxembourg, the rate was higher than that in 1987 (See Graph 4.2.30).

\textsuperscript{486} FN.: Total unemployment and youth unemployment data used in the Eurostat benchmark series are harmonized Eurostat figures; the latter is applied to LFS data on population aged 15 to 24. The long-term unemployment rate is calculated by applying the proportion of unemployed out of work for a year or more to the comparable unemployment rates.

\textsuperscript{487} Source: European Commission: "Employment in Europe 1999", Part 1, Section 1.
The relative scale of youth unemployment varies also across the Union. Allowing for countries' disparity, it is suggested that in 1998 the youth unemployment rate fell. However, it was particularly high in Greece, Italy and Spain. Germany and Austria had the lowest youth unemployment rate, and Germany was the only country in the EU where youth unemployment rate was lower than that for the over-25s. Having in mind the methodological and statistical problems mentioned earlier there is a wide margin for manoeuvring statistics to increase youth employment rates. One should therefore treat with great caution such apparent trends observed in Germany and Austria (See Graph 4.2.31).

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Graph 4.2.30

Total and long-term unemployment rates in Member States, 1987 and 1988

% labour force

Unemployed > 1 year □ Unemployed < 1 year

A, FIN no data 1987, EU for 1987 excl. A & FIN

Left bar 1987  Right bar 1988

Source: Eurostat, Union LFS and comparable unemployment rates

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 FN.: Countries are in order by the employment rate in 1998.

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\textsuperscript{488} FN.: Countries are in order by the employment rate in 1998.
\textsuperscript{489} EC: Employment in Europe, 1999, Part 1, Section 2.
4.2.3 Policies' impact on the unemployed and social excluded

The evidence shows that policy measures taken across the Union, far from combating the so-called "natural" or "involuntary" unemployment, have not benefited the long-term unemployed greatly and are having only a marginal impact overall.

Most interestingly for Averitt's claims there is confirmation concerning the dualistic development of the labour market structure. The number of the very long-term unemployed in the Union, i.e. those who had been looking for a job for two years or more, was actually slightly higher in 1998 than in 1994. In fact, in 1998 the very long-term unemployed was 3% of the labour force namely not much lower than in the mid-80s (Ibid.).

The relative number of men unemployed in 1997 who were in work in 1998 varies between Union member countries. Thus the percentage of men employed in 1998 having been unemployed one year earlier varied from over 60% in Luxembourg and over 40% in UK and Portugal, to under 20% in Belgium (See Graph 4.2.32).
Graph 4.2.32

Current working status of men aged 15 – 64 unemployed one year previously in Member States, 1990, 1994 and 1998

Source: Eurostat, Union LFS

Only about 27% of the women in the Union unemployed in 1997 were employed in 1998. This is a lower proportion than for men (32%). As regards women, we also observe high variations among countries. Again Greece and Belgium had the lowest rates of success in finding jobs for those women unemployed one year previously (See Graph 4.2.33).

Graph 4.2.33

Current working status of women aged 15 – 64 unemployed one year previously in Member States, 1990, 1994 and 1998

Source: Eurostat, Union LFS
The majority of those unemployed a year earlier moved to a temporary rather than a permanent job (see *Employment in Europe, 1999, Part I, Section 2*). Such a move reflects, on one hand, the scarcity of standard jobs in the Union, and, on the other, employers' tendency to use such workers on a trial basis before they wholly employ the "flexible firm model" so as to check their efficiency in relation to costs (*Wyplosz, C.* 1997). This is further evidence of the unstable employment condition to be found in the secondary labour market as Averitt predicted / described.

It becomes clear that the E.U. labour market has changed substantially over the past 25 years. Major shifts have been realized both in the gender balance within the economy and in the industrial and occupational structure of employment. These trends have been accomplished by away from manufacturing and production industries towards employment in the services.

The sectorial shifts in the distribution of employment and occupational changes within industries have produced a labour market that is polarized especially within the growing service sector industries. It is worth noting that several authors have challenged free-market theorist assumptions according to which mobility from an external to an internal labour market is determined only by credentialism. Indeed, it has been indicated that, among other factors, gender, socio-economic status, locality, the ethnic-linguistic-national characteristics of the individuals, as well as the occupational distinctions associated with organizational behaviour are those that, in fact, influence the mobility from the external to the internal labour market (Ibid.).

Overall employment in the lower skilled occupational grades has experienced a marked contraction while employment at the higher levels of management, professional and technical grades has increased. This may be evidence of increased monopolization of all existing knowledge by managers. The major repercussion of such changes in the employment distribution appears to be the growth of an increasingly polarized employment market.

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Moreover, according to the International Labour Office 1999 Survey on *Employment, Income Security and Social Protection Measures*, over the last five years, the number of people who could be considered as living "in poverty" worldwide has been increased by 200 million\(^{492}\). Most come from Asia, Africa and Eastern Europe. Furthermore, according to the same evidence even the most advanced industrialized countries during the same period have reduced the social protection provided to the unemployed or people in need. In particular, it is noted that 75\% of approximately total 150 millions of unemployed persons around the world, has been recorded with no social protection at all (unemployment benefit, social security etc.). Over the same period, due to poverty reasons almost 250 millions children left schooling for entering into the labour market. Additionally, also resulting in poverty, evidence shows that there is an increase of births (by six times) among unmarried people, thus indicating a respective increase in the number of children growing up in one-parent-family (Ibid.).

Recent *World Bank* surveys undertaken by Milanovic, B\(^{493}\) (1998, 1999) show that income inequality and poverty, not to mention the number of more than 30,000 children deaths per day across the world mainly from preventable reasons since such incidences are not calculated in poverty estimates\(^ {494}\), have been extremely widespread. In particular, Milanovic (1999), based on household surveys' data from 91 countries, examines world income distribution. He concludes that over the years from 1988 to 1994 there was a sharp rise in world income inequality because of the rising differences in mean incomes between countries rather than rising inequalities within countries (Ibid.). In the meanwhile the super rich became richer. In particular, according to *Forbes Magazine*\(^ {495}\) 2000 the combined wealth of the top 200 billionaires reach at $1,135 billion in 1999, thus they went up from $1,042 billion in 1998. The picture of world income distribution appears more outrageous if we compare the above figures with the combined incomes of $146 billion for the 582 million people in all the least developed countries\(^ {496}\).


Since the economic well being of individuals may depend to a large degree upon the support they receive from other members of their households\footnote{F.N.: For an extensive discussion of the jobless growth in terms of households surveys, see for instance Cregg, P. and Wadsworth, J. (1994): "More Work in Fewer Households?", National Institute of Economic and Social Research, Discussion Paper No. 72, London. See also, Cregg, P. and Wadsworth, J. (1996): "It Takes Two: Employment Polarization in the OECD", Centre for Economic Performance, Discussion Paper No. 304.} below in Table 4.2.4 we indicate the overall share of households with no adult members in employment over the past decade. From the figures illustrated in the Table it becomes apparent that the number of jobless households from 1985 to 1997 has been increased. This is the case for all OECD countries except Ireland, the Netherlands and the United States. Additionally, the number of single adult households for whom the incidences in unemployment are the highest accounts for the most of non-employment rates' growth in households (see Table 4.2.5). Finally, Table 4.2.6 indicates the risk of low income\footnote{F.N.: Low income relates to the bottom quintile of household annual income distribution.} for members of different types of households.
Table 4.2.4 Labour force status of households with at least two adults of working age and nobody aged 65 and over.

Distribution by type in 1996, and percentage point changes between 1985 and 1996

<table>
<thead>
<tr>
<th></th>
<th>All multi-adult households</th>
<th>Two adult households</th>
<th>Three or more adult households</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Nobody employed</td>
<td>One adult employed</td>
<td>Two or more adults employed</td>
</tr>
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<td></td>
</tr>
<tr>
<td>Levels</td>
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<td>28.7</td>
<td>62.3</td>
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<td></td>
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<tr>
<td>Levels</td>
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<td>32.1</td>
<td>52.9</td>
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<td>8.1</td>
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<td></td>
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<tr>
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<td>33.6</td>
<td>54.3</td>
</tr>
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<tr>
<td>Levels</td>
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<td>46.9</td>
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<td>Levels</td>
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<td>64.8</td>
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<td>-2.7</td>
<td>2.5</td>
</tr>
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<td><strong>Spain</strong></td>
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<td></td>
</tr>
<tr>
<td>Levels</td>
<td>12.8</td>
<td>46.2</td>
<td>41.1</td>
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<td>Changes</td>
<td>0.5</td>
<td>-5.4</td>
<td>4.8</td>
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<td>23.8</td>
<td>65.3</td>
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<tr>
<td>Changes</td>
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<td>-7.1</td>
<td>7.1</td>
</tr>
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Source: Based on OECD, Employment Outlook 1998, Paris, p. 22
<table>
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**Source:** Based on OECD, Employment Outlook 1998, Paris, p. 20
Table 4.2.6 Risk of low income for members of different types of households

As a percentage of working age individuals belonging to households in each group

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<td>45.9</td>
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<td>55.4</td>
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<td>72.1 44.5</td>
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<td>78.3</td>
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<td>78.6</td>
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<td>58.0</td>
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<td>93.8</td>
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<td>17.4</td>
<td>19.6</td>
<td>19.4</td>
<td>15.2</td>
<td>10.2</td>
<td>9.0</td>
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<td>26.1</td>
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<td>14.0</td>
<td>18.4</td>
<td>17.4</td>
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<td>9.0</td>
<td>11.7</td>
<td>7.9</td>
<td>7.4</td>
<td>4.9</td>
<td>21.3</td>
<td>8.8</td>
<td>18.4</td>
<td>9.1</td>
<td>5.9</td>
<td>8.5</td>
<td>10.2</td>
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<tr>
<td>Two or more-adult households, without work of which: without children</td>
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<td>25.7</td>
<td>30.6</td>
<td>31.2</td>
<td>27.9</td>
<td>43.4</td>
<td>31.6</td>
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<td>28.8</td>
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<td>87.8</td>
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<td>6.5</td>
<td>12.6</td>
<td>11.4</td>
<td>14.3</td>
<td>6.4</td>
<td>15.2</td>
<td>14.3</td>
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<td>12.6</td>
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<td></td>
<td>3.3 2.8</td>
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<td>3.9</td>
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<td>4.0</td>
<td>3.3</td>
<td>3.7</td>
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<tr>
<td>All workless households of which: without children</td>
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<td>45.0</td>
<td>36.8</td>
<td>40.4</td>
<td>28.3</td>
<td>48.9</td>
<td>31.6</td>
<td>26.6</td>
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<td></td>
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<td>89.9</td>
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<td>13.0</td>
<td>11.8</td>
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<tr>
<td>All households with at least one adult in full-time, full-year work</td>
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<td>8.6</td>
<td>9.4</td>
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</table>

Source: Based on OECD, Employment Outlook, 1998, p. 23
Therefore, although these overall changes over the last few decades hide national distinctiveness shaped by longstanding national institutional differences, yet in general the evidence supports Harry Braverman views about labour process evolution in capitalist societies. Increased deskilling of the traditional craft employment, increased insecurity for unskilled and semi-skilled workers, and trends towards polarization in the quality and opportunity of employment have been observed. Table 4.2.6 above indicates the increased polarization of employment, i.e. the simultaneous increase in both workless households and households with at least two adult members.

Indeed, the aforementioned evidence on labour markets evolution reveals that the optimistic neo-liberals' assumptions that new work organizations will make jobs at all levels more demanding by creating heavier workloads and that they will create a need for a more flexible and multiskilled workforce have been proved futile and invalid. At the same time Braverman's views have proven to be highly compatible with the experienced trends.
Chapter 5

Globalization. Empirical Evidence For and Against the Dual Economy Model at a global level

In this chapter we systematically examine the empirical evidence that justifies or refutes the international dimension of Averitt’s structural approach, incorporated in what he calls the new version of core “planned economy”, that is to say in the international workings of the “conglomerate” enterprise. In overall, this chapter’s main objective is to highlight the dependency of the secondary firms on oligopolistic structures operating internationally. Section 5.1 sets briefly the context and explores definitional and methodological problems involved in the globalization thesis. This exploration is associated with some empirical documentation. This extract hopes to inform the reader in a comparable manner whether the freemarketeers’ assumptions and subsequent interpretations of globalization, set sufficient criteria for assessing global changes and forces. Section 5.2 juxtaposes the views of the free-market globalization thesis advocates with those set by the dual economy school and supports or criticizes them based on empirical documentation. The first group assumes that globalization forces are uncontrolled, thus resulting in powerless states and irrelevant political and social national frameworks. Dual Economy School argues that, although there is an intensification of production and financial mobility, international conglomerated structures, facilitated by national state support and global strategic collusion, have managed to perpetuate their ultimate power. The impact of both accounts on small firms and the division of labour is assessed on empirical evidence. This part of the chapter aims at clarifying the picture of global, industrial and social transformation that gave impetus to current European SMEs responses to unemployment and social exclusion.

499 F.N.: According to Averitt, a conglomerate international enterprise is one that produces and sells a number of economically unrelated products nationally and worldwide. By operating in different market products and industries, the conglomerate enterprise is firstly not subject to the competitive discipline of any one market. Secondly, when national economy goes slack, strong foreign markets may perpetuate the international enterprise’s health.

500 F.N.: The coordination of private investment plans in called by Averitt “collusion”.

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5.1 Definitional and Methodological Confusion

"Globalization" appears to be a very misleading concept. Although Press or Electronic Mass Media use it as if it were an almost universal term, yet it appears to convey various meanings in different countries, societies, ideologies, regions, disciplines. A serviceable general definition has been suggested as: "The loose combination of free trade agreements, the Internet and the integration of financial markets that is erasing borders and uniting the world into a single lucrative, but brutally competitive, market place" (Friedman, T. L. 1996).

Such a definition from a Dual Economy perspective obscures more than it explains. The areas of competition and collusion, and cooperation are ignored. The structure of markets and firms' relative positions are ignored and such a "descriptive" definition gives no indication of the causation beyond "market forces". But markets are themselves a dynamic of "supply" and "demand". The free market experts imply the market is led and shaped by the demand side. Dual Economy writers imply a much more significant role for the supply side and for the institutional regulation of markets.

A dual economist does not contradict T. L. Friedman’s interpretation on the grounds that the results of globalization may be "lucrative" and "brutally competitive", but on the all embracing direction of such outcomes. Instead, dual economists argue that globalization is a “relative”, context-specific concept, with several dimensions and differentiated repercussions. What then they talk about is that globalization is lucrative for actors integrated in the core economy, whilst brutally competitive for those involved in the periphery sector.

In the absence of a systematic and comprehensive description of globalization - beyond viewing it as a market phenomenon - a range of measures has been developed aiming at simplifying its conceptualization (see for instance, Hirst and Thompson, 1996 or Wallerstein, 1991). One popular key indicator is the ratio of exports or imports to...
GDP and another the foreign outwards or inwards direct investments assumed to be realized through the international workings of the Transnational Corporations.

In fact, evidence concerning OECD countries indicates that the exports' ratio to GDP increased from 9.5 per cent in 1960 to 20.5 per cent by the end of 1990. In addition, as Wade⁵⁰⁶ (1996) indicates, in the 1980s, Foreign Direct Investments' (herein after referred to as FDIs) flows grew three times faster than trade flows and four times faster than output⁵⁰⁷ (pp. 62-3).

The empirical evidence that follows, mainly drawn upon a series of the World Investment Reports, confirms also capital concentration in the hands of a few TNCs and thus implies their importance and market power in the global economy system as price-makers rather than price-takers.

According to UNCTAD⁵⁰⁸ (1995), by the mid-90's, there were approximately 40,000 parent firms, with 250,000 foreign affiliates operating around the world economy. Two years earlier, the New Internationalist⁵⁰⁹ (1993) had indicated that combined sales of the world’s largest 350 TNC’s in the early 90’s, were equivalent to about one third of the combined GNPs of the industrial capitalist countries (p.18). The UNCTAD, 1994, World Investment Report⁵¹⁰ provides further data pointing to the extent of intra-firm trade movements with intra-parents company trade as totaled to nearly one-third of the entire world trade. Giddens (1994)⁵¹¹ found an increase in the concentrated economic world power in the hands of the top TNCs between the mid 1970s and the 1990s, with the top 200 transnational corporations’ revenues increasing tenfold.

Table 5.1 below, based on the list of the 1996 world’s top 100 TNCs, ranked by foreign assets, highlights countries', industry's, foreign sales' and assets' composition. In

⁵⁰⁷ FN.: Wade attributes the intensification of capital mobility to tariffs reduction in the First World, but equally to the New Industrialized countries or the Third World reduced protectionism concerning foreign investments under the pressures from the World Bank and the International Monetary Fund (Wade, 1996, op. cit. p. 69).
The Table illustrates the constant dominance in the global terrain by TNCs from the so-called Triad, i.e. EU, Japan, and the US, regardless of whether someone considers number of firms, foreign assets, sales or employment. For instance, in 1996, 85 of the top 100 TNCs were headquartered in the Triad as opposed to 86 in 1990. Most important, the US, Japan, the UK, France and Germany alone accounted for three-quarters of the entries in both years. In fact, European firms account for the largest number (39) in the top 100 list. The five most important home countries of the world's 100 largest TNCs were - in ranking order - US, Japan, France, United Kingdom and Germany.\(^{512}\)

Total foreign assets of the top 100 TNCs amounted to $1.8 trillion in 1996 (Ibid.). Between 1995 and 1996, a number of individual firms' foreign assets, for instance French TOTAL's rose by an outstanding per cent of 53, whereas BHP, Michelin and ENI group assets increased by more than 40 per cent. In the same year, total foreign sales of the top 100 TNCs amounted to $2.1 trillion. This means an increase of seven per cent from 1995 (Ibid., p. 40). The largest increase in foreign sales made by the British firm, Hanson (Ibid.). Total foreign employment of the top 100 TNCs stood at 5.9 million, thus 2 per cent more than in 1995 (Ibid., p. 41). Quite interestingly, total national and foreign employment combined in the same top 100 TNCs fell by 3.5 per cent. Furthermore, the highest representation in the world's top 100 TNCs list is composed by firms operating in highly concentrated industries such as in the electronic/electrical sector. Firms from automotive, petroleum and mining, and food/beverages industries follow the first-ranked position of TNCs from the pharmaceutical/chemical industry (Ibid.).

Table 5.1 The world's top 100 TNCs, ranked by foreign assets, 1996
(Billions of dollars and number of employees)

<table>
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<th>Ranking</th>
<th>Foreign assets</th>
<th>Corporation</th>
<th>Country</th>
<th>Industry (b)</th>
<th>Assets</th>
<th>Sales</th>
<th>Employment</th>
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<td>Foreign</td>
<td>Total</td>
<td>Foreign</td>
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<td>71.1</td>
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<td>5.85</td>
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<td>--(e)</td>
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<td>72</td>
<td>American Home Products</td>
<td>United States</td>
<td>Pharmaceuticals</td>
<td>7.1</td>
<td>20.8</td>
<td>5.8</td>
</tr>
<tr>
<td>99.</td>
<td>17</td>
<td>Eridania Beghin-Say SA</td>
<td>France</td>
<td>Food</td>
<td>6.9</td>
<td>9.2</td>
<td>8.0</td>
</tr>
<tr>
<td>100.</td>
<td>60</td>
<td>Societe au Bon Marche</td>
<td>France</td>
<td>Beverages/luxury products</td>
<td>6.8</td>
<td>21.9</td>
<td>4.2</td>
</tr>
</tbody>
</table>

**Source:** UNCTAD/Erasmus University database

- The index of transnationality is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
- Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).
- Foreign sales are outside Europe where as foreign employment is outside United Kingdom and the Netherlands.
- Data on foreign assets are either suppressed to avoid disclosure or they are not available. In case of non-availability, they are estimated on the bases of the ratio of foreign to total sales, foreign to total employment or similar ratios.
- Data on foreign employment are either suppressed to avoid disclosure or they are not available. In case of non-availability, they are estimated on the bases of the ratio of foreign to total sales, foreign to total employment or similar ratios.
- Foreign assets, sales and employment are outside the United Kingdom and the Netherlands.
- Foreign assets, sales and employment are outside the United Kingdom and Australia.
5.2 Juxtaposition between the Free-Market and Dual Economy Accounts at a Global Level

From the outline earlier it becomes obvious that in the last few decades there is an intensification of capital mobility and, at the same time, a strong capital concentration in the hands of a few actors indicating the central role the TNCs hold in the global economy. However, such a realization concerning the intensification of capital mobility or the high concentration ratio, indicates almost nothing about either the geographical direction of capital or the factors influencing such trends. In this section the specific empirical data and the structural and institutional analytical tools used within the context of the Dual Economy model, provide a basis for mapping and understanding both the shape and driving impetus to globalization.

The big issue that is addressed is the following: how strong is the free-market advocates' assumption that such concentrated productive or financial power represents demand or market-led incidences rather than behavioural patterns stemming from large companies' internal momentum for growth supported by State or supra-national institutions regulated interactions?

In market terms, what is the relative balance of power between end-user - consumer markets - and capital markets? The Dual Economy model implies that consumer markets are both "managed" and even created by nationally or internationally operating structures. As regards capital markets, these are deemed as driving institutional State/Supra-state decisions. Moreover, the biggest TNCs are claimed to be beyond both capital and consumer markets thus in reality shaping them. The model is not saying consumers are merely pawns of TNCs rather it implies consumers and investors, and governments represent merely some constraints on TNCs. TNCs and their end-customers and investors are in a relationship where all three points involved in the triangle influence the other two points. No single point holds absolute power, but it is clear that TNCs are the best organized and most flexible and resource rich element in the triangle.
The internal drive of TNC is to ensure that the rate of their capital accumulation and strategic positioning in the global economy, perpetuate their dominance in the markets and strengthen their ability to avoid hostile takeovers that would also threaten top managerial status. Averitt's model has suggested that TNCs' behavioural patterns are to a limited extent influenced by their countries of origin and other institutional or competitive decisions. What are then the "real" factors that drive the TNCs to take decisions leading to foreign direct investments (FDI)?

In fact, the issues raised in the above discussion appear to be highly controversial. The reason for this is that the position taken on such matters affects the interpretations given to TNCs' impact both on their home-based labour force as well as the international labour. For instance, some globalization theorists such as Hirst and Thompson (1992)\(^{513}\) believe that TNCs have no specific national dependency and cannot thus be controlled by national states. In fact, these two authors argue that TNCs often operate in more than one country and their production process spans across national boundaries as their business strategy dictates. They then suggest that since TNC's can withdraw their investments from one state to another any time they want to, they have an immense leverage over national states and societies. Based on such assumptions, some globalization accounts (see "The Economist", 1994) relate free capital movements with the promotion of the economic growth in capital scarcity areas. It is often assumed - in much of this literature - that this is also the case with the newly industrialized countries of East Asia.

Other globalization theorists relate TNCs' drive for new location to a search for low-wage advantages. Such TNCs' practices, they argue, affect in turn the labour force both in the Third World and the advanced industrialized countries.

Some of them suggest negative repercussions on the Third World countries. For instance Lang and Hines (1993)\(^{514}\) and Williams\(^{515}\) et al (1995) assume that free trade and capital mobility lead to further low-wage exploitation of the Third World workers.


At the same time such trends are assumed as reinforcing long and persistent unemployment in the First World countries. In the same vein, Peet (1986)\textsuperscript{516} argues that the relocation of capital to lower cost regions has contributed to deindustrialization and unemployment of workers in the advanced countries. Furthermore, Frank (1981)\textsuperscript{517} suggests that industrial development experienced in the third world by mobile capital is "undesirable" since it is based on a low-value production rationale and the super-exploitation of the Third World Workers.

The above explanations appear to be based on the assumption of a new division of labour exemplified in Frobel's et al.\textsuperscript{518} (1980) work, "The New International Division of Labour". According to Frobel, the TNCs' free choice to transfer investments from one country to another means that workers in both countries are now faced with competition that comes from pressures from other countries' workers.

This theory is often used to explain factors behind sectorial shifts from manufacturing to service industries in advanced countries. However, the fact that service industries are not able to compensate in either wage levels or sufficient numbers of full time jobs for males in the place of jobs-loss in manufacturing, proponents of this view suggest that governments need to respond fast by attracting inward investments. This can be achieved, according to the international division of labour advocates, through government sustained intervention in labour relations in the form of a welter of anti-union legislation, similar to that experienced in the United Kingdom during the 1980s. Furthermore, such typical Thatcherian public responses should be accompanied by deregulation of wage controls, working hours etc and employment protection. In this vein, Fulcher\textsuperscript{519} (1991) claims:

"National economies have become increasingly dependent on their capacity to attract and retain this increasingly mobile capital, which prefers countries where wage costs are low, unions are weak, state regulations, whether concerned with health and safety, pollution, or arms control, are minimal and tax-rates are low. Such typical features of

Thatcherism as deregulation, reduced taxation and anti-unionism have long been a feature of the export processing zones, set up to attract capital to Third World societies during the 1970s.

However, such perspectives, although to a large extent close to recent capitalist realities, appear to fail in taking into account, first, prohibited factors to the extreme production transferability - having been suggested by Averitt's dual economy model - such as for instance "barriers to exit or entry". These analysts disregard the fact that productive capital in reality faces a number of sunk costs that in fact constitute crucial barriers to exit (Wade520, 1996):

"These (sunk costs) include initial start-up costs, the costs of learning over time about a particular environment, and the costs of building reputation, gaining acceptance among government, employees, and other firms regarding their reliability as producers, employers, and suppliers in each market".

Wade521 involves in his interpretation the barriers concerning financial capital mobility. He recognizes that financial capital is more globalized than the productive one. However, he argues that stock markets remain incompletely integrated. The reason for this, according to Wade, rests either on the impact of inadequate global reputation on trading outside domestic markets for a large number of firms or the differing correlation between domestic savings and investment in the major regional economies.

Furthermore, Fulcher's (1991) perspective appears to forget that especially large firms operating in the "planned" economy sector have to weigh advantages obtained from lower labour cost countries against a number of alternative high-technology production complex factors. In Korzeniewicz522 (1994) words: "The advantages of lower labour costs in the developing manufacturing areas had to be weighed against disadvantages in production flexibility, quality, raw material sourcing and transportation", (p.259). The author based on empirical outcomes indicates that the development of a new "Nike" athletic footwear model took eight months in China, whereas the same model was


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developed in only four months time in South Korea where labour cost level is undoubtedly higher compared to that in China.

The assumption that foreign capital dominates Third World countries has been challenged by a number of authors. For instance, Gereffi and Hempel523 (1996) have estimated that the employees' number in the 200 or so zones operating in 50 countries is only around two million. They also found that these production zones account for only around 5 per cent of total industrial employment at individual country level and less than ten per cent of total manufactured exports. Jenkins524 (1987) work also confirms Gereffi’s and Hempel’s argument. He found that local capital as proportion used for exports, equals foreign capital use.

The assumption of the mobility of capital along the lines of the free-market globalization thesis appears to suit better in low-intensive sectors. Different parts of the world do not compete with each other equally merely on the basis of clearly defined comparative advantages. Averitt's model has suggested that in practice investment is concentrated via TNCs' strategic movements in particular regions and key sectors i.e., in other words, it has been suggested that productive capital is not freely strolling around the world and sectors due to a number of complex factors involved. These are technological progress, infrastructure, core labour availability, established markets et alia. Dual economy theorization has mainly attributed TNCs mobility to the strategic decisions taken by such firms.

Indeed, empirical work on FDIs flows direction confirms the dual economy model suggestions. In fact, Gill and Law's525 (1988) empirical work indicates that "the share of foreign capital received by the developing countries has steadily fallen from a peak of around 30 percent in 1967... Of the developed countries, Canada, the US and West Germany are the leading host countries to the affiliates of foreign multinational enterprises; in the late 1970's they accounted for nearly two-thirds of all FDI in developed countries and nearly half of all FDI" (pp.199-6).

Amsden\textsuperscript{526} (1989), and Wade\textsuperscript{527} (1990) also confirm that capital movements around the world are not uncontrolled, but they are internationally directed. They also argue that the state-interventionist role - either in directing local capital into particular sectors (high-tech or heavy industries) or protecting it, through subsidies or controls on imports and restrictions to TNCs from foreign competition - is also crucial for the effectiveness of TNCs investments. Their examination of the development patterns of the New Industrial Countries of East Asia (i.e. Hong Kong, Singapore, South Korea and Taiwan) and their related economic success, showed that, beyond factors such as geographical location or high aid level and accessibility to the US market, the effectiveness of state intervention was crucial.

Several other analysts, for instance White\textsuperscript{528} (1988) or Kiely\textsuperscript{529} (1994), clearly point to the fact that South Korea and Taiwan economic effectiveness has been largely based on local capital and state alliances. Furthermore, according to Rodan\textsuperscript{530} (1989), although in Singapore's case foreign capital has undoubtedly played a significant role, yet even in this case government had an active role through public investment mobilization. In the same vein, other scholars, such as Schiffer\textsuperscript{531} (1991), confirm the state's crucial role in Hong Kong's economic growth through subsidies, although we should mention not so much as in Singapore's case.

Figures for capital concentration in the context of a few advanced countries, for instance those illustrated in a special issue of the New Internationalist\textsuperscript{532} published in August 1993 on globalization trends, equally reveal that in the early 1990's ten nations accounted for 68 per cent of FDIs in the Third World\textsuperscript{533}. Similarly, the UNCTAD\textsuperscript{534} World Investment Report indicates that almost all-foreign direct investment is concentrated in the already developed countries or alternatively in the Newly Industrialized countries (p.12).

\textsuperscript{532} New Internationalist (1993): op.cit.
\textsuperscript{533} FN.: These ten nations are the following: Singapore, Mexico, Brazil, China, Hong Kong, Malaysia, Egypt, Argentina, Thailand and Taiwan.
Indeed, the FDIs evolutionary picture shown in this Report is as follows:

Although, between the years 1991 and 1993, the developing countries (including the New Industrialized ones) received almost 31 per cent of the total global FDI stock, Africa and West Asia received only 1.7 per cent and 0.8 per cent of the world total respectively, whereas Latin America and the Caribbean received 9.8 per cent and East, South and South East Asia received 18.8 per cent.

Jenkins\(^5\)\(^3\)\(^5\) (1992) also stresses the point that, in recent years, the FDI share of the advanced industrial countries in the low-wage Third World has fallen in real terms. Indeed, his evidence on Britain suggests that the FDI share of home-based TNCs, felt from 19 per cent in 1975 to 16 per cent in 1984. The shares for TNCs based in West Germany and Japan were 27 (1975) to 19 per cent (1984) respectively. Moreover, Griffin and Khan\(^5\)\(^3\)\(^6\) (1992) suggest that the USA's and Japan's outwarded FDIs to the whole area of Asia also fell in the period from 1989 to 1991. Wallace\(^5\)\(^3\)\(^7\) (1996) stresses out that only 18 of the biggest 100 foreign direct investors in manufacturing (the top TNCs in the world) had kept most of their assets abroad in 1993. For instance, the USA's, Japanese or British figures for manufacturing TNCs' assets being kept domestically, were 73, 93 and 62 per cent respectively. Wallace further refers to German manufacturing TNCs' experience according to which, in 1993, almost 75 per cent of their goods were sold at home, while the US and Japan sold at home 67 and 75 per cent, respectively. More or less the same investments' profile appears to exist in the services sector\(^5\)\(^3\)\(^8\).

As regards global trade developments, evidence-based work indicates that they convey a more or less similar picture. Glyn and Sutcliffe\(^5\)\(^3\)\(^9\) (1992) show Africa's, Asia's and Latin America's proportion in world trade has declined. Latin's America share in world exports has decreased from 12.4 per cent in the 50s to 3.9 per cent in the 90s, whereas Asia's share has declined from 17.8 in 1980 to 14 per cent in 1990. The picture for


Africa is almost the same. That is to say, Africa's world exports share has declined from 5.2 per cent in 1950 to 1.9 per cent in 1990. Glyn and Sutcliffe have shown that the increase in the entire developing world global share of exports is mainly attributed to the higher contribution of the four first-tier East-Asian NICs which, taken combined, accounts for almost half of the total manufacturing exports originating from the Third World.

Wade (1996) confirms that 90 per cent of the USA, Japan and Europe economy is grounded on domestic market production. Accordingly, Wade indicates that most of the FDIs worldwide occurred as the natural corollary of state regulations in areas such as, for instance, import quotas, anti-dumping restrictions, national production standards, subsidies etc. McMichael (1996) has further shown that such countries as well as some other parts of the previously unified Third World (i.e. China, Mexico, South Korea and Indonesia) "act as nodes in the trade and investment circuits reaching out from the key First World states". Their privileged condition in terms of inward investments has then been determined, according to McMichael, on the grounds of their domestic markets size and/or their proximity to other large and affluent markets (Ibid.).

The related to the level of foreign direct investment aspect of globalization is often linked to technological advancements' interpretation. However, as we have briefly explained in Chapter 4, labour flexibility associated with high technology may not have a desired effect in every location. Several analysts, for instance Dicken (1992), have indicated that, till the early 80s, Japanese foreign direct investments (FDIs) in automobile industry have been low compared to investments at home. From this period onwards, the increase in the Japanese FDIs has been attributed mainly to protectionism measures introduced by the USA administration rather than to lower-cost labour advantages abroad. The so-called "just-in-time" system, based on flexible production outputs according to actual demand, initially implemented by the Toyota Company, has been assumed by its proponents to be capable of being replicated to all sectors of the economy in all countries (Womack et al., 1990).

As regards the impact of these practices on the labour force, Murray\textsuperscript{545} (1989) claims that: "The cost of employing life-time workers means an incentive to subcontract all jobs not essential to the core. The other side of the Japanese jobs-for-life is a majority of low-paid, fragmented peripheral workers, facing an under-funded and inadequate welfare state" (p. 46).

Further empirical work confirms how large firms have taken advantages of flexible technology applications in order to utilize certain skills' of their employees. For instance Kaplinsky\textsuperscript{546} (1989) indicates that:

"...It is characteristic of the flexible labour process that the same labourers who are involved in operating the machines will also be responsible for changing the settings of machines and for routine functions of maintenance and repair" (p. 15).

As regards the impact on small industry position, a number of empirical studies points at a difficult direction. Let us now examine some of these evidence-based studies. Ruigrok and van Tulder\textsuperscript{547} (1995) in 1988, examined the Toyota system of production redeployment and found that, at that time, Toyota had developed, via subcontracting, a hierarchical system of supply proximity networks comprised from previously independent small suppliers. Most importantly, they realized that profits had shown a downward trend that was in accordance with the suppliers' lower place in the production hierarchy. Thus, to conclude, given flexible production technology availability, employers can either adopt a strategy that allows small firms to perform independently, as Piore and Sabel suggest, or marginally, as the Toyota system of suppliers hierarchy implies\textsuperscript{548}.

The new production paradigm and the Japanization methods of subcontracting or outsourcing have stimulated a regionalization movement in the advanced countries. That is to say, whereas in the mass production era such stages of production process were located in low-wage countries, now, in the flexible technologies' era, they are allowed to return to domestic manufacturing. Indeed, beyond the car industry case,

\textsuperscript{548} Wamack et al., (1990): op. cit.
several other movements of a similar nature have been reported. For instance, Walsh\(^{549}\) (1991) refers to the production of clothing in Germany and Britain, whereas Henderson\(^{550}\) (1989) to the electronic wafers' case in Britain.

Thus, scattered evidence-based work confirms that an electronically controlled production planning potential associated with the use of craft labour also allows employers to pursue a higher value production objective, ceteris paribus, in their home-country. In other words, "New Technology" appears to allow employers to stay home and not necessarily transport their production activities to the allegedly more flexible, low-cost Third World countries.

Such employers appear to produce production redeployment on a global hierarchical basis that may have even stronger implications on world's prosperity than merely the SMEs marginalization. These employers' choice also marks out the potential of an uneven world development associated by intensification in inequality\(^{551}\). The above realizations have revitalized a number of academic theorizing, along the lines of Braverman's views, asserting that flexible technology utilization results in an intensified trend towards polarization in employment terms and skills depreciation. Although, in overall, such global intensification of trends towards deskilling and labour market segmentation is a strong possibility, yet an all-encompassing perspective - not allowing for countries, industries or even firms' type disparity to emerge - appears to be a risky conclusion.

It is worth adding that some commentators, for instance Amin and Robins\(^{552}\) (1990) and Amin & Thrift\(^{553}\) (1994), beyond the flexible technologies beneficial impact on large organizations' fragmentation practices, focus on the fact that these practices have been accomplished with no dispersion of control or ownership. Such alternatives arrived at the conclusion that the protagonists of the Fordism-system, i.e. multinationals, should not be disregarded in current global markets since such firms' power lies in their

constant capacity to influence capital markets, maneuver the trade networks, manipulate promotion, transfer mechanisms etc.\textsuperscript{554}

Amin & Dietrich\textsuperscript{555} (1991) and Amin & Malmberg\textsuperscript{556} (1994) argue that, in the European context, the emergence of the SMEs' territorial competitive approach should be attributed to globalization imperatives requiring more and more intensification in international interdependency, and to Multinational firms' strategic initiatives, and not to strong endogenous territories' growth standards. Alternative industrial studies also suggest that the intensification of mergers and acquisitions associated with large firms' new lean-production reorganization and networking, rather contribute to a stronger global interdependence in the face of which the new localities' emergence comprised from small- and medium-sized localized firms is almost trivial (Amin,\textsuperscript{557} 1994).

Up to now, a range of empirical and theoretical work has suggested that the new production paradigm of flexible specialization associated with the development of new technologies, as well as Japanization methods of subcontracting, may stimulate different modes of small industries' utilization. Furthermore, such diversified organizational practices have indicated that flexible labour utilization within the workplace in practice allows for diversified forms of employees' contracts in the home economy. Despite the free-market theorization for Third World competitiveness growth\textsuperscript{558}, recently reported research has stressed a regionalization and intensification, and maintenance of the higher value production in the advanced countries.

Despite all that, in the advanced industrialized countries there still appears to exist a growing academic and political lobby stressing constantly the fact that we are living in an "extremely" globalized world. According to such a world conceptualization, given an allegedly assumed uncontrolled capital transferability to low labour-cost areas, almost every work aspect is affected. Among those who are placing special emphasis

\textsuperscript{555} Amin, A. & Dietrich (1991): "From Hierarchy to "Hierarchy": the dynamics of contemporary corporate restructuring in Europe", in Amin & Dietrich (eds.).
on such globalization trends are the European advocates of the small industry theorization. In such a context then, both major parties of the free-market political ideology, that is Conservatives and the Social Democrats representatives assume an international competitive role for the totality of the quasi-SMEs sector and the labour force. This approach assumes an autonomous small firm competitiveness through the development of local industries. Given such a presumption then, it is argued that the Third World Informal sector becomes more competitive since it can move effectively from one product line to another. Additionally, proponents of this theorization share the view that a stateless corporation growth is inevitable and at the same time "desirable". Such conceptualization of the world development rests on presumptions concerning the national-state's incapacity to affect global investments' direction, or on views focusing on a highly mobile capital that flows around the globe in a footloose manner. For instance, Ohmae (1993), one of the strongest advocates of the extreme globalization thesis in his book "The Rise of the Regional State" claims that the nation-state "has become an unnatural, even dysfunctional unit for organizing human activity and managing economic endeavor in a borderless world" (p. 78).

Such theorization appears then to affect both work and leisure and in turn Welfare State provisions in the advanced industrialized countries. It is argued, the fierce international competition has left work and leisure at the mercy of Transnational Corporations and for this reason it calls for a reduction in public spending, i.e. in the Welfare State subsidies. According to this reasoning, people need, in turn, to alter the way they perceive work since under global markets full employment attainment is deemed as no longer feasible. Indeed, several globalization thesis advocates, for instance Gill and Law (1988), who conceived the entire global movements with reference to Transnational Corporations, have expressed such a view. Furthermore, they have attributed the intense global activities of such firms during the period of the free-market political ideology to the following reasons:

"Because of their often immense size, decisions about the location of investment, production and technology by transnational firms influence not only the distribution of power resources between states and classes, but also the level of aggregate welfare in various nations and throughout the world. The growth in the size and extent of transnational corporations is the essence of the "transnational stage" in the development of capitalism" (p.191).

Accordingly, these two authors further argue that the intensification of the international mergers has been accomplished because of the large firms' great concern to capture world markets. In fact, they quote the following evidence in support of their claims:
"the stock of foreign direct investment rose from US$ 14.3 bn in 1914 to US$ 386.2 bn in 1978. Of this, the most rapid growth, a six-fold increase, took place between 1960 and 1978."562

In the same vein, Amin and Dietrich563 (1991), who documented the intensification during the 80's in the national, inter-European and international merger activity, also assume that there is a universal trend that marks out an increasing degree of strategic alliances between oligopolistic organizations.

However, how do such perspectives explain the differences observed in global strategic preferences, for instance between German or British corporations operating in the same industry?

To put but an example, Grant and Paterson,564 1994 have indicated that, although in the European context globalization trends are quite pronounced in the chemical industry, yet the global dispersion strategies of the British ICI and the German chemical giants such as Bayer, Hoechst or BASF are quite distinctive. In fact, the British ICI has been involved more deeply in global activities than the German corporations.

Furthermore, how do scholars such as Amin and Dietrich explain the differences observed in merger activity between different countries? For instance, Hughes\textsuperscript{565} (1992) by examining similar data to Amin and Dietrich has come to the conclusion that there is no universal increase in monopoly power. Given that it has been found to be more pronounced in Britain than in Germany, Hughes assumes that this trend has more to do with the differentiated availability of national financial systems as in the case of the Anglo-Saxon countries.

Accordingly, as other analysts have shown, such as Gray and McDermott\textsuperscript{566} (1990), although the merger activity during the 80s in fact increased, the number of completed mergers in Britain, in 1986, in the peak of the mergers' year, was below that of any year between 1963 and 1973. This means that fewer companies were acquired but they have become larger and more expensive.

Such trends do not mean that while globalization occurred in the past at an accelerated pace, there is now a slowing down in the rate of mergers and acquisitions due to markets and industries slow down. First, globalization and the extent of its repercussion still are at the beginning of the 21st century, open questions, although if we are to recognize a major trend, this is an accelerated capital concentration in fewer hands and an intensification of competition between and within centre firms and core countries. Second, we should keep in mind that mergers and acquisitions are merely strategic instruments in the hands of centre firms' management used at times as a quick step to growth or diversification\textsuperscript{567}. Since there are still great countries' disparity and different national macroeconomic policies, legal systems, or managerial attitudes are influencing firms in different ways, core industry appears to respond in a multitude of ways to changes observed\textsuperscript{568}. This means that, at times, centre firms may prefer to pursue fragmentation objectives, such as leverage buy-outs of parts of companies, or outsourcing and subcontracting to cope with niche markets and demand variability.

instead of re-concentration practices\textsuperscript{569}. At the end such trends justify Dual Economy's view that corporate governance and hierarchical control are the ultimate motivators of diversified core economy's activity regardless of the means used\textsuperscript{570}. Thus, the declared new management strategies in the pursuit of automated qualified product-diversification or process innovation at variable demand - through merger and acquisition -, appear to constitute an alibi for center firms' increasing hunger for more control and "power" gains\textsuperscript{571}. Despite such empirical evidence, the extreme globalization thesis proponents appear not to have yet captured the great complexities of the industrial and labour global development.

Averitt's dual economy system appears to challenge those free market authors' assumptions concerning global industrial evolution. In fact, dual economy perspective highly questions free market theorists' claims concerning small industry role within globalization. In the Dual Economy framework SMEs are deemed as highly dependent on large, international oligopolistic firms that invest and function in the planned "key" high-technology industrial sectors.

Furthermore, in contrast to the flexible specialization/free-market assumptions, the Dual Economy framework recognizes large firms' ability to take advantage of flexible technology and flexible labour redeployment techniques and thus to be involved in production-dispersion practices at a global level through the development of subcontracting or outsourcing strategies. However, most important for our discussion, in this model, such strategic large industry preferences have been recognized as achieved without large firms' loss of control or ownership status. This fact highlights small industry high dependency and uncertainty in world economies.

Additionally, Dual economy advocates explain that large firm's global dispersion strategic decisions are in practice highly influenced by the global "production hierarchy". Such strategic production developments are deemed as facilitated by State economic or regulatory support. Indeed, differences between sectors or countries or even within them, depending upon a mixture of micro-, meso-, macro or socio-institutional factors, are recognized as highly significant by the dual economy account.


\textsuperscript{571} Averitt, R. (1968): op. cit. p. 135.
Elger's and Smith's\(^{572}\) (1993) work on the Japanese success record of transferring management techniques to new social environments supports the dual economy model suggestions. These two authors' empirical work has shown that, firstly, there is not such a homogeneous management form as Japanisation, not even within Japan itself, and, secondly, other market, cultural or labour relations factors must occur at the same time if such "Japanese" organizational policy is able to be accomplished. In fact, they have indicated that in Japan's post-war case, i.e. the period when Japanisation was introduced, Japanese radical unions were weak, and, at the same time there was a very small national market. Additionally, there was a systematic attempt by Japanese companies for work intensification and domination upon the local suppliers.

Furthermore, other analysts, such as Humphrey\(^{573}\) (1993), when he examined the Japanese subcontracting techniques' transferability to Brazilian industry, found that such a transfer was very problematic.

The above discussion, by stressing national disparity's crucial role in alternative forms of production's organization, personnel practices, industrial relations and ultimately of capital investments, appears to constitute a solid proof for the inadequacy of the free-market presumptions to explain current industrial restructuring.

Up to this point, we have tried to empirically explain that a competitive market model does not decide labour or industry's international structures. Instead, as Dual Economy analysts argue, markets are structured in given forms - the result not the cause of economic activity - derived from specific strategies aiming at market control that in real terms drives production to certain sectors or geographical areas in collaboration with governments and co-direction. The aforementioned evidence indicates not so much globalization as rather an increasingly intense competition between a few advanced countries associated by an uneven development in the global economy.

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Sally574 (1994) focuses her interpretation of the international enterprises' working on their political might. Sally quotes: "The implantation of TNCs in national policy networks invests them with political identity into their capacities to leverage advantage in international competition and cooperation" (p. 172).

In overall, the evidence suggests that so far the globalization process has been implemented via complex large industry strategies combining Fordism and flexible specialization organizational methods. Work organization methods of flexible specialization appear to be more compatible with regionalism and proximity activities of TNCs operating in Averitt's core economy. However, issues like labour costs and other comparative cost advantages are significant in the rise and fall of national/regional industries. This is of course compatible with Averitt's views on the conditions that initiate business in the periphery economy.

Additionally, there is a high degree of capital concentration in certain parts of the world economic blocs at the expense of the so-called Third World countries. Capital accumulation has been accrued in the hands of a few TNCs. The overall global picture points to a situation within which capital is not exploiting secondary economies but it rather marginalizes them by selective regionalization movements. Global empirical structure, allowing for countries' and regional disparity, suggests the subordinate role of the small industry majority to the TNCs operating in the core economy.

Chapter 6

Assessment of the Dual Economy Model and the EU’s SMEs Policy/Formula in terms of the Inclusion Issue

Chapter 6 is a link chapter that takes stock of the trends and policy-related results identified in earlier chapters. In Section 6.1 in order to decide whether the Dual Economy Model represents a validated explanation to inform EU SMEs responses to unemployment and social exclusion, the main questions addressed are: "Is the small firm sector as dependant and marginal as Averitt suggested?" and "Are the trends concerning polarization such as to confirm the success of the previous policy initiatives or to underpin our originally stated concerns?" Section 6.2 is concerned with an evaluation of the EU’s SMEs strategy in terms of its capacity to address social exclusion given the dependency and oligopoly confirmed in the "real world" structure by the Dual Economy approach.

6.1 Validity of the Dual Economy Model

In overall, the evidence we examined in the previous chapters cannot be said to be conclusive, but does suggest different firm’s conduct and performance depending on size, regional/national context, and industrial sector. When you balance this evidence with the labour market evidence, what may be tentatively concluded at this stage, is that a core and a peripheral labour market can be discerned. But this is only one part of the story. The other part is that Atkinson has shown how core economy firms can reduce the size of their core employment and thus reduce costs. This fact is enough to point out the validity of our concerns with the problems of the labour market degradation and subsequent increasing social exclusion. This fact also shows the explanatory power of the dual economy approach.
The "dual economy model", examining the various patterns of relationship between large and small firms at micro-, meso- and macro- level, the hierarchy of industries and production's technical system, offers a more coherent and realistic analytical framework of current diversified business organizations than that proposed by the free-market advocates. Such an explanatory approach provides a better basis for examining the complexity of the contemporary societal problems, namely unemployment or social exclusion and trends towards a further division of labour (see Chapter 4).

Global empirical evidence discussed in previous sections, also confirms that the Dual Economy model is a more systematic and creative way of analyzing current industrial restructuring than the free-market / flexible specialization models. In fact, Averitt's structural approach is descriptive in nature and its validity mainly appeared to rest upon its analytical use.

There is no doubt that Averitt's structural explanations do not offer ready-made solutions for small industry sustainability nor for reducing unemployment. However, Averitt explicitly provides a clearer framework for understanding firm's or industry's "real" behaviour under alternative market contexts than those who interpret industrial responses based only on the traditional perfect competition theory of the firm or its extensions and alternatives. Its model constitutes a more realistic context of reference for policy-makers wishing to address small industry and unemployment issues.

The Dual Economy framework also provides a "better fit" between current economic models and management systems realized in relationship management, Human Resources Management (HRM), strategic management and the management of mergers and acquisitions (see Chapter 3). Furthermore, this approach, by raising the issue of a hierarchy of production at a global level, challenges an overall version of the globalization thesis supported by the free-market paradigm. Based on data, it suggests that such global production hierarchies, in practice, cannot occur "naturally"; the so-called modern corporations and a consolidated institutional framework create them. Such institutional mechanisms of global regulation, ranging from financial assistance and incentive schemes to labour legislation and social security provisions in favour of the core economy, cannot do without state support (see Chapters 3 and 5 for details).
Indeed, empirical work discussed so far has shown that the Dual Economy model has captured the nation-states' crucial role in the creation of oligopolistic markets and in upgrading or downgrading the kind of production undertaken within the national borders of a country. The Dual economy model correctly recognizes the "double industrial evolution"\textsuperscript{575}, i.e. the simultaneous tendency towards large firms concentration and a fragmentation tendency across and within economic sectors that we are witnessing at present; the prospects are for this trend to continue (see Chapters 3 and 5).

The Dual Economy approach, supported by data, indicates that under the contemporary global environment, there are extremely limited opportunities left for the majority of small firms to be major direct participants in the international economy. Despite the free-market and to a lesser extent the flexible specialization school's unrealistically optimistic views - assuming a virtually independent small industry's role -, the Dual Economy Model merely recognizes the proliferation, in some sectors, of a periphery small industry. It then persuasively claims that the majority of the small industry operates in a subordinate relation to large firms. Indeed, the evidence examined in previous chapters shows large, oligopolistically concentrated firms in few key industries, being happy to contract out some production activities, however with no control or ownership dispersion (see Chapter 5).

Perhaps, the most conclusive evidence on the credibility of the dual economy model and its corollary outcome, that is the dual labour market development, is to be found in the global commodity chain\textsuperscript{576} development strategy. According to Gereffi\textsuperscript{577} (1994) there are two types of commodity chain, i.e. the producer-driven chains and the buyer-driven commodity chains. In the first case, production location is relatively stable and there is a trend for agglomerations within the First World countries, in particular in well-advanced areas. In producer-driven cases:

\textsuperscript{575} FN.: The term has been used by Dubois and Linhart(1994): op. cit. in C. Mako and P. Novoszath (eds.).

\textsuperscript{576} FN.: The term "global commodity chain" has been defined by Hopkins and Wallerstein (1986) in their work: "Commodity Chains in the World Economy Prior to 1800", Review 10, (1), p. 159. According to this definition (a global) commodity chain is "a (global) network of labour and production whose end result is a finished commodity".

"manufacturers making advanced products like aircraft, automobiles and computer systems are the key economic agents in these producer-driven chains, not only in terms of their earnings, but also in their ability to exert control over backward linkages with raw material and component suppliers, as with forward linkages into retailing" (Ibid., p. 219).

As regards the buyer-driven commodity chain notion, this relates to a more mobile production since such production is labour-intensive and hence, according to free-market advocates presumptions, is more likely to be transported in the Third World, or less developed EU regions.

However, Gereffi (1994) quotes:
"these same industries are also design and marketing-intensive, which means that there are high barriers to entry at the brand name merchandizing and retail levels where companies invest considerable sums in product development, advertising and computerized store networks to create and sell these items. Therefore, whereas producer-driven commodity chains are controlled at the point of production, control over buyer-driven commodity chains is exercised at the point of consumption" (Ibid.).

From the above it becomes clear that, on one hand, a core of persistent large firms forms in reality the current global economic basis that provides permanent jobs with the best pay and benefits, and utilizes the best skilled workers. On the other, a periphery small sector with unstable jobs relies its effectiveness on the support system made available to it. In such a context, both local and global socio-economic and institutional countervailing factors must come into play so that a SMEs policy to mark out the development of a small-firm economy and a welfare society for more EU citizens being able to emerge.

The discussion in the previous chapters has confirmed that large markets do in fact strongly favour giant firms at the expense of the small industry sector. Accordingly, globalization strategies and the constant search for innovation have indicated that the SMEs in isolation, allowing for regional disparity, cannot compete on equal basis with

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large firms. The small industry sales are in restricted markets, their retained earnings (if any) are trivial and they are highly sensitive in economic crisis that often lead them to bankruptcy. In the current oligopolistic global environment the role left to small firms has been evidently proven to be limited and highly dependent upon political attitudes, and socio-economic, institutional and local factors' consistency and support\textsuperscript{579}.

Is it justifiable then to assume that the small sector is as dependant and marginal as Averitt has suggested?

In fact, as it has been repeatedly and evidently stressed throughout this thesis, in contrast with giant industry, the population of small business is highly heterogeneous, encompassing extreme cases in either direction\textsuperscript{580}. The majority of small firms (especially the very small) are still shock absorbers for the economic cycle, but it would be misleading to suggest that small firms' expansion is a mere transitory and cyclical phenomenon\textsuperscript{581}. The industrial districts' phenomenon suggests that a viable, dynamic and socially desirable paradigm of small and medium-sized enterprises' development exist.

However, the industrial districts' phenomenon is itself also highly heterogeneous\textsuperscript{582}. The evidence shows a rich mix of alternative socio/institutional mechanisms supporting SMEs' development in such industrial areas. Some are based on family, neighbourhood, or political will, as it is mostly the case for example with the Italian industrial districts' model\textsuperscript{583}. In other cases, socio-institutional bodies, i.e. banks, trade associations, Chambers, Trade Unions or regional and municipal authorities mediate such local networks. This has been reported, for instance by Sabel (1989), for the industrial district of Baden - Wurttemberg in Germany\textsuperscript{584}.

Therefore, the successful performance of some industrial districts does not automatically mean that the industrial districts' paradigm is replicable in any region out of the blue or that the industrial districts' prototype can take over the tasks traditionally assigned to large firms. In particular, in the case of the successful Italian industrial districts a large number of necessary conditions are held responsible for their prosperous performance. According to evidence, these also involve the entrepreneurial spirit and ability, the flexibility of economic activity to utilize social resources and structures, cultural and political factors preserving local consensus on commonly shared values and the provision of a local pool of skill. Last but not least, the innovative interventionist role of local governments and local associations (producers, unions, consumers, etc) is assumed.

It appears that it is the combination of such conditions that has culminated in successful economic performance. However, it is ambiguous if similar patterns can be "dictated" or even encouraged by a "top down" administration of policy. Nurturing embryonic potential, where it is identified, may be the best we can do.

Therefore, there is no evidence from the data examined to suggest that any external force can automatically guarantee the success of such small business clusters. The free-market advocates' presumption that clustering produces cumulative benefits has been strongly challenged on realistic grounds. The example of steel in Europe and the United States, as well as cameras in Germany and textiles in many advanced countries have indicated that as production eventually becomes standardized, localization of an industry may well fade away. New industries may initially flourish in localized industrial districts, but as they mature they disperse (Ibid.). It is apparent then that such downsizing or firms' closure can cause considerable economic shock in the region wherein such clustering was situated and, most importantly for our discussion, at times they even create irreversible social costs. Such interpretations of the industrial nature and structure should shift policy attention beyond temporary small industry's booming.

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The main policy-goal then should shift emphasis on how to support sustainable and viable entrepreneurship away from State's coercive interventions or mainstream ideologies that, in reality, have been proven incapable of promoting a fair business environment\textsuperscript{589}.

From the above, we can say that the flexible specialization proponents are at best only partially correct. Disregarding large firms abilities for outsourcing or subcontracting, assumed a central role for small scale firms in the world’s welfare by virtue of their participation in inter-firm networks within which shared knowledge and information lead to shared development of innovation (Hirst & Zeitlin,\textsuperscript{590} 1989). In such a context, small firms have been conceptualized not as likely shock absorbers for large firms, as it is the majority of cases within the mass-production dualism, but rather as innovator problem-solvers functioning either independently or complementary to larger firms (Berger & Piore\textsuperscript{591}, 1981). This approach failed in understanding that the competitive pursuit of the small batches of customized and differentiated products involves almost any firm size. Thus, flexible specialization theorization and European policy-makers informed by such accounts have wrongly associated economies of scope with properties uniformly inherent within small-scale industry.

Furthermore, the empirical analysis in previous sections has confirmed that large firms have a unique and important role to play and, most often, SMEs have a dependent or, to a lesser extent, a complementary role\textsuperscript{592}. The apparent variety of enterprise profiles, restructuring responses and economic performance within any size category suggests that the attribution of inherent superiority to either large or small firms contradict present reality\textsuperscript{593}. Obviously, incidences of either firm-types in contemporary societies indicate that there are alternative opportunities for development in either direction.

\textsuperscript{589} F.N.: For this argument elaboration see Race Mathews (1999): "Jobs of our own", Pluto Press, Australia.
\textsuperscript{592} F.N.: See for instance Walsh (1991b), op. cit., p. 121 or Dicken (1992), op. cit., p. 144.
Evidence suggests that the main problem for small firm’s development is not being small but being isolated from institutions’ support and individualistic in conduct and performance terms. Therefore, no single policy package can offer a panacea type of solution, or a formula for national or super-national governments to pursue. There is no single policy recipe to ensure SMEs’ development, in the same way, as there should not be a single approach to all types of small firms. In fact, as many small firm scholars have suggested, for instance Pezzini and Brusco\textsuperscript{594} (1990), there are different kinds of small firms and different contexts so there should be different policies designed accordingly.

Even the industrial districts’ phenomenon itself, as we mentioned earlier, is far from homogeneous. There exist a wide variety of industrial districts inside and outside the Italian context with diverse origins and internal organization. Allowing for sectorial, regional or national variation, all the successful local constellations of SMEs meet two basic requirements. The first is the provision of common services, which are beyond the capacity of individual firms to supply for themselves (training, research, market forecasting, credit and quality control). The second is a mechanism to resolve the conflicts among local actors so that competition is not displaced from product and process innovation to sweated wages and conditions\textsuperscript{595}. The individual institutional solutions are bound to take the shape of the local, sectorial and national specificity (Ibid.).

However, deregulation and liberalization policies have proved incompatible with the creation of a complex institutional infrastructure at a local level\textsuperscript{596}. The encouragement of competition and the removal of constraints on the free working of capital, labour and product markets is likely to hinder the build-up of collective structures and relations based not so much on antagonism but rather on pooling of resources (Ibid.). Furthermore, the dynamic stereotype of small business’ development requires strong and autonomous local institutions capable of formulating effective policies tailored to


their needs. Such schemes also require reactive institutional changes as regulatory or legal reform of financial systems (there is always a case for more money need in business), training schemes (technological changes always need more properly trained employees) and political will. Also, under such entrepreneurial initiatives, work opportunity, employment security or career advancement will be always dependent on proprietors and management elite attitudes. Such suggestions do not seem capable of solving mass unemployed persons' problems.

Another point in support to the Dual economy approach is that the evidence explored in Chapter 3 indicates that “flexibility” arrangements have worked more in favour of employers than employees. Those employed in periphery “non-standard” forms of work appeared less likely to shift to permanent jobs. Most often, the unskilled or low-skilled have shifted to unemployment and social exclusion. Additionally, certain social groups at risk, by working in “non-standard” forms of employment, appeared to have no career opportunities. The case is not that uniformly conclusive for the high-skilled part-timers or those covered with fixed-term contracts. On the other side of the spectrum, as Atkinson’s explanations made clear, the employers – supported by regulatory state reforms – used “flexibility” for their own sake (for details see Chapter 3).

In fact, none of the accounts informing current EU policies addressed to social exclusion leave open the possibility for labour to be proactive in labour market interventions. They are more descriptive in nature and do not offer any fundamental solution to individuals’ economic or social rights. Some of them explain the failure of casual, occasional or limited policy-measures against EU central objectives, but overall they have had a disappointing impact on policies for improving European Union's labour market. The increased numbers in the long-term unemployment, youth unemployment, part-timers, etc. and, the subsequent dependency ratio’s growth in the European Union in the last twenty-five years or so, justify such an interpretation.

So, it appears that there is a need for an alternative conceptualization of the industrial reality that might produce a more effective but at the same time fairer productive

organization, and more justice in the power relations between capital and labour rather than those experienced so far. Such an approach, unlike the neo-liberals, should not simply assume that in the free-market context small industry might flourish in isolation and drive countries out of crisis. Furthermore, unlike the Social Democrats, such a perspective has little enthusiasm for State ownership or explanations based on central authority or local actors' strengths and weaknesses. Under such a new perspective, as Julian le Grande has suggested: "Unlike the social democrats, there is no special commitment to the public sector, to public expenditure or even to the mixed economy. Instead, this way incorporates a robust pragmatism: the best method is that which is most likely to promote the values of community, accountability and responsibility. What's best is what works". At the concluding chapter of this thesis we consider what the policy implications may be from such alternative forms of conceptualizing "world's realities".

6.2 Evaluation of the EU’s SMEs Policy Responses to Social Exclusion

In fact, it appears that it has been extremely difficult even for the Commission itself to evaluate the extent and distribution of the overall effect of the European Union’s measures in favour of SMEs. Empirical findings of relative studies indicate that the impact from EU measures in favour of SMEs varies from region to region and from sector to sector according to different governments’ involvement and national socio-institutional historical records\textsuperscript{600}. If this is the case, then the majority of the SMEs still have to anticipate more or less the same problems as those faced before the introduction of the EC’s initiatives, therefore the majority of them still remains in Averitt’s model terms in the secondary economy\textsuperscript{601}. For example, allowing for countries’ disparity, it appears that still exist financing problems mainly due to high interest rates or credit rationing (Ibid.). In addition to the above, difficulties in access to information because of the high cost and mistrust relationships in public procurement contracts make the SMEs burden even heavier\textsuperscript{602}.

In sum, there is still insufficient data available to EU authorities to measure accurately the effective participation of SMEs in programmes (for example, in the number of beneficiary SMEs classified by size). Accordingly, the impact of the programmes in terms of improvements in the SMEs performance or the number of jobs created or maintained is unsystematically assessed. A first ranked EU official explanation to this failure is to site as an excuse the complexities involved in the evaluation of the Structural Funds. According to this argument, the Commission’s reliance mainly upon data supplied by the Member States - responsible for the implementation and evaluation of programmes’ funding - deprives her from a comprehensive and credible assessment. A further obstacle to the Commission's accurate estimations of SMEs’ participation in such programmes relates to the differentiated duration of them. In fact, almost 70 per cent of the SMEs’ programmes last for more than five years. This long duration period

\textsuperscript{600} OECD (1998): op. cit.
\textsuperscript{602} F.N.: For the Greek case see, Demel Co. (1994): “The participation of SMEs in Public Procurement”, study undertaken on behalf of the Athens Chamber of Small and Medium Sized Enterprises.
creates, according to the EC, several monitoring problems. It appears that a credible accumulated evaluation cannot be accomplished without an integrated cooperation and support by national governments. Thus, it may be the case that, as Averitt's model suggests, the success or failure of any policy measure in favour of SMEs mainly rests upon national governments' interest, local factors' or intermediaries' cooperation, and support-systems' availability rather than market mechanisms in isolation.

Perhaps the clearest evidence in favour of Averitt's views about the critical role of governmental mechanism and socioeconomic conditions for SMEs' performance, is to be found in the following concluding remarks of the 1998 Commission's evaluation report:

"The only way to fulfil the potential of SMEs for job-creation, growth and competitiveness in the union will be to combine efforts and mobilize the various partners involved in the development of SMEs: the European institutions, the Member States, regional and local authorities, professional organizations and SMEs themselves."

However, given SMEs' and countries' disparity, to what extent such a wish is feasible at the EU level? Most crucial for our further policy evaluation, to what extent such a wish is pragmatic given the neo-liberals' values and principles prevalent in Union's strategies addressed to SMEs and social exclusion? It is to that sort of arguments that we now turn our attention.

In sum, the assumptions underpinning EU policies in the market-clearing era appear to be that:

a) unemployment and social exclusion are about a trade-off between the disadvantaged persons and inflation;

b) employment policy is driven by the individual in the place of the social;

c) societal organization is based on values such as self-help, freedom, individualism, competition and achievement is defined in individualistic terms.

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Such a conceptual framework of economy, industry and society - based on market-liberals' value-system - appears contradictory to almost any degree of support to the periphery system as understood by Averitt. Given the free-market advocates' commitment to an ideology of an open society, individualistic rules subsequently appear to have been pursued for the European societal organization. The demand for greater flexibility in the workforce have gradually brought about major changes not only at the micro-labour level, but also in many macro-industrial production aspects causing formidable problems from the point of view of labour solidarity and collective organization. For instance, the search for more flexibility in the labour market has replaced government intervention as well as labour market institutionalization (Boyer, 1989; Glyn et al., 1990).

Thus, Keynesianism's assumptions and the social democratic concepts that workers should bargain collectively to protect wages against inflation and collect a share of productivity growth gains have been completely challenged. Gradually, demands for wage flexibility appeared to have been paralleled to demands for more numerical flexibility in employment terms. Such an intellectual framework then has also altered employment policy in content and scope (Ibid.).

More specifically, according to the neo-liberal free-market theorists, European countries' commitment to employment's promotion through aggregate demand has virtually altered the wage-cost and, hence, private investment in a manner that increases the public deficit that is now claimed as constituting one of the major reasons for unemployment. At the other end of the spectrum, policies that aim at increased labour flexibility and labour mobility are considered as reducing unemployment. Furthermore, they are deemed as if they reduce the mismatch between vacancies and the unemployed. However, in terms of Averitt's model instrumental devices - associated by empirical support - most of the EU solutions offered as to policy measures towards reducing unemployment or enhancing job creation accept the picture of the peripheral economy.

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Therefore, it appears that such an evolution in the European economic and political thinking - more close to the free-market liberalism with a strong emphasis on voluntarism associated by alleged increased global competitive pressures - has challenged welfare State protectionism. Consequently, it has led to deterioration in standards for the socially excluded\textsuperscript{609}. European Union policy-makers have tuned the development of a "single" market based on deregulated economies and cuts in public spending (Ibid.). This transformation has been initiated with little regard to the wide differences between the member-countries concerning a number of factors such as the level of state interventionism, unemployment level or level of State welfare\textsuperscript{610}.

The transition period from Keynesianism to the market-clearing era can be summed up in the following quotation of the British scholar David Marquand\textsuperscript{611} (1997):

"Now the engines have gone into reverse... The de-casualization of labour, which a generation of trade union leaders saw as its life's work, has given way to re-casualisation - and in what used to be the middle class as well as the working class. Down-sizings, delayering, outsourcing and re-engineering haunt the suburbs as well as the inner cities, mocking the commitments and hollowing out the institutions, which were once the lodestars of the salariate". And Marquand concludes:

"Capitalism is off the leash. Not surprisingly, it is behaving much as it did before its tamers put it on the leash during the extraordinary burst of institutional creativity which followed the Second World War" (Ibid.).

The EU in order to meet the challenge of convergence of member states without endangering social peace and political consensus has used classical tools of Government economic intervention (monetarists or Keynesians). The "market substitution" measures, such as the EU information and cooperation policies (Info-Centres, BC-NET etc.) come in a historical moment when classical tools of statist intervention are seriously questioned at a political rhetoric level. There is no doubt that such responses


still remain a rather marginal form of intervention that corresponds more to the
specificity of EU's symbolic need for some policy, some Community presence in this
sensitive sphere of public opinion. At the strictly economic level, this is linked to the
whole problem of the distribution of the benefits arising from European integration in
general and from the internal market project in particular\(^{612}\). At a political level, all
these measures can be seen as gestures that constitute a response to specific pressures
from a socioeconomic group (i.e. SMEs)\(^{613}\).

Pressures are exerted either directly to the Commission or indirectly via the Economic
and Social Committee and the Council; in the latter case as a function of the national
governments' sensitivity. As opposed to sectorial demands (e.g. by farmers, textile or
steel producers) this lobbying has a rather horizontal character as it corresponds to a
whole socio-economic group encompassing a variety of activities\(^{614}\). It is consequently
grounded either towards general positive measures favouring the SMEs or towards
minimizing the likely negative effects of other EU policies related, for instance, to the
internal market. The EU's official reaction to such needs that are ideologically
described can thus be said to have not only a strictly economic but a symbolic - political
and public image dimension as well. The latter can occasionally acquire primacy over
the economic consideration stricto sensus\(^{615}\).

Therefore, the European Union policy-makers' responses to the social excluded
problems have been conceptualized and organized along the lines of the free-market
advocates' ideology. In fact, the European Union policy-makers have not taken any
direct form of employment or social policy action in favour of the marginalized groups
of our societies. Although a single comprehensive employment or social policy would
have affected directly the reproduction of the European citizens as human beings, yet
European policy makers have chosen to promote indirect measures such as a SMEs

\(^{612}\) FN.: On an evaluation of the overall forecasted economic benefits of the single market, see studies on
the cost of non-Europe: e.g.: European Economy, No. 35, March 1988. On the question of the distribution
of these benefits among regions and social groups, see Cutler, Haslam, Williams & Williams (Eds.).
\(^{613}\) Whitley, R (1992): "Societies, firms and markets: the social structuring of business systems", in R.
\(^{614}\) FN.: For further information, see for instance: -Schmidt, M.G. (1992): "Political consequences of
German unification", West European Politics, 15 (4), pp. 1-75.
the general issue of EC Corporatism, see W. Grant (1985): "The Political Economy of Corporatism",
London, Ch. 9.
strategic alternative. In fact, in recent years almost the only positive measure aiming to anticipate unemployment and social exclusion has appeared to be "training", retraining or alternative related schemes. Additionally, to softening the employment and low-level employment effects of global structural changes has been to impart broad and transferable skills.

All the earlier mentioned EU policy measures are of critical importance for Averitt's Dual Economy framework recognition. In a way they demonstrate how in practice, in the name of the free-market "interest" - equal to national - the Keynesian resolution has been absorbed by the planning system that used its power to control the nature and direction of the Keynesian type economic policies. Galbraith (1974) writes on the matter:

"What serves the technostructure - the protection of its autonomy of decision, the promotion of economic growth, the stabilization of aggregate demand, the acceptance of its claim to superior income, the provision of qualified manpower, the government services and investment that it requires, the other requisites of success - IS the public interest" (Ibid.).

Therefore, in Galbraith's terms, "As originally envisaged, the government would intervene with increased civilian expenditure of general public benefit, not covered by taxes, to offset the deficiency of aggregate demand. But following World War II..., government policy reflected closely the planning system's needs. Public expenditure were set at a permanently high level and extensively concentrated on military and other technical artifacts or on military or industrial development" (Ibid., p. 183). For all the above reasons Galbraith argues that the State's support to aggregate demand constitutes merely "an extension of the power of the planning system" (Ibid., p. 187).

At this point we should make clear that all the earlier paid emphasis on differences between small and large firms is indicative only of minor disparity in industrial organisation and business systems. Therefore, what appears to require a stronger concern is the misleading information of the EU's policy shaping and design. In fact, the focus placed by the EU on SMEs for development and job creation itself is wrong. This is primarily due to the fact that such a focus conveys an impression that, in the

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context of markets’ deregulation and liberalisation, there is no other way for national
governments to organise their industrial order. To put it in another way, it is suggested
there is no way to be internationally competitive, but to promote the model of a private
small business sector in "need". In such a context, as many researchers have
demonstrated, social relationships, roles and actions in the industrial sphere are
uniformly taken for granted and thus become justified and legitimate or illegitimate
despite national differences. However institutional rules and the national industrial
legacy that influence industrial organisation’s shaping - as well as the degree and way in
which Member Countries and social actors have been adjusted to current global changes
- differs widely.

In the concluding chapter, the implications of this chapter's assessment outcome for
public policies’ evaluation are discussed.

Chapter 7

Conclusions and Recommendations arising from this Thesis

In the preceding chapters we have tried to examine whether and to what extent the European SMEs strategy has been effective and appropriate in anticipating unemployment and social exclusion. Additionally, we have sought to evaluate such policies’ capacity to build up social capital that - independently from institutional or statist forces - might help SMEs to prevent deterioration in the living standards of the majority of the EU’s citizens at present and in the future to come. This evaluation effort has been based on the framework approach of two different accounts. These two contrasted in this thesis are namely Averitts’ Dual Economy model and the free-market paradigm.

As it has been demonstrated from the systematic “evidence-based” analysis we made, drawn upon Averitt’s Dual Economy model and its extensions, the issue we addressed appeared to be complicated and a difficult task in many respects:

First, this policy issue involves many definitional problems as regards the “key” concepts of our theme. The greatest difficulty being the discussed in previous chapters need for a context-specific and “relational” interpretation of small industry performance and social exclusion.

Second, from a methodological point of view, the evidence-based, industrial and political economy approach of the Dual Economy Model revealed a range of complex themes and issues necessary to be taken under consideration in such a policy’s evaluation. Furthermore, all this complexity – concerned with “key” variables of the main issue - had to be examined from a macro-, meso- and micro perspective in order for any approach to social problems to be a valid one. The Dual Economy model by incorporating all the above dimensions to its interpretation of the “real” world, managed to shed light on the inadequacies and ambiguity involved in current free-market policy interventions. As it has been discussed from the outset of this thesis, our policy-
evaluation logic is that any policy’s conceptualization and design should be on the basis of accounts that clearly understand present realities and serve to illuminate the nature and causes of the unemployed and social excluded problems. However, the evidence examined in the proceeding chapters demonstrated that social policies designed on the basis of the free-market paradigm involve assumptions and hypotheses that are “unreal” and ideologically driven. We are right then to conclude that free-market approach has robbed policy-makers from a better understanding of recent industrial changes and labour market’s restructuring.

Third, the evaluation itself of the outcomes of such policy interventions appeared to differ widely, depending on which group of interests participated in the design and development of a policy’s agenda and in turn was involved in such policies’ evaluation impact. To put but an example, as our investigation revealed in Chapters 2 and 6, up to now the EU has only employed a technocratic, “value for money” evaluation approach to SMEs policies in response to unemployment and social exclusion. In fact, the problems discussed in previous chapters revealed that the EU’s officials have a narrow and misleading understanding of "how", "why", and “for which groups” such programmes and measures work (if they work) in each member country. As discussed in Chapter 6, the EU’s great concern so far is only with performance’s measurement-standards that allow her to monitor and control the SMEs programmes against budget deficits or surpluses. Instead of multiple-criteria evaluation efforts to challenge explanations that do not help to improve the situation of the unemployed in realist qualitative terms, evaluation has been merely conceived as something done for its own sake. On the other end of the spectrum, the unemployed and the social excluded have been documented as marginalized and ruled out from any participation in policy shaping or impact evaluation (see Chapter 4). Our approach has shown that it is necessary for any policy evaluation to take into account policies’ impact on various groups of interest. In our case, the repercussions on employers – individual, shareholders, institutional investors, etc – managers, staff and social excluded themselves should be considered. In turn, in order to achieve a “bottom-up” policy-evaluation, all these groups should participate in such a procedure.

Fourth, the learning basis of the evaluation approach was not given the same significance by every account. The free-market paradigm and its subsequent evaluation efforts appeared to pay no attention to accumulative learning entailed from previous SMEs policy’s implementation so no policy’s improvements in terms of the objectives pursued were documented. Instead, the Dual Economy approach, digging out the non-easily visible central control of the central planning sector, appeared able to develop more aware and socially alerted policy-evaluators. In this way, the Dual Economy framework indirectly helps them to involve multi-goals integrated evaluation procedures that may be “for the better” of more disadvantaged groups of our societies.

From the aforementioned it is obvious that policy-evaluation is a highly confusing task and its outcome can easily lead to a superficial and one-sided view of their impact if real “key” variables in the outcomes are not measured or considered. The greatest contribution of the specific research is that it demonstrated that no evaluation framework can work in addressing social problems and needs if it is inappropriate to facilitate an understanding of the “real” world and inadequate to inform policy-learning of how to improve outcomes in public social responses. To such improving attempts for alternative public policy options our evaluation approach has led us. That is to say, it has pointed to an urgent need to address the issue: What is the alternative policy for public action within existing systems? Before moving on to this answer, however, let us first show, step by step, how our evidenced-based industrial and political economy analysis has helped us to demonstrate the superficial and unreal approach of the free-market advocates that informed recent EU SMEs policies in response to unemployment.

In fact, Averitt’s Dual Economy model led this research to place the SMEs in the wider industrial and socio-economic contexts, at national and global level. This instrumental device focused our analysis on the relationships, on the one side, between SMEs and large firms and, on the other, between SMEs and the national state, or SMEs and other socio-economic institutions. The statistical data and evidence-based work examined in turn, led this research to conclude that there is a high degree of SMEs dependency from large firms, national states, and various socio-economic institutions (see Chap. 3 and 5).

Additionally, Dual Economy emphasis on the way technological progress is used by large firms’ management turned this research’s attention to systematically examine empirical data on the quality of ends met by mainstream technological pursuits and
assess their social accountability. The outcomes of our analysis – based also on the instrumental devises offered by Atkinson and Braverman - pointed to an alienated technology entailed at micro level, instead of a “human technology”. Both at micro and macro level, application of new technological devices appeared as socially “undesirable” since the evidence explored emphasized their impact on control-intensification over labour force. Accordingly, such a focus on technological progress revealed intensification in labour’s fragmentation (see Chapter 4). Averitt’s strong concern with “key” industries and technological progress inevitably led this thesis to emphasize on empirical data that demonstrated a “hierarchy of production” in certain industries and regions driven by oligopolistically organized interests (see Chap.3 and 5).

Moreover, Averitt’s revised version of Dual Economy, focused our attention on the role that “concentrated” capital - in the hands of fewer than before proprietors - plays in the shaping of a more unbalanced power relation and uneven interconnection patterns between large and small firms than before the EU’s SMEs policy initiatives. This part of our research documented the decisive role of capital in the formation of power structure in favour of large firms at a micro-, meso-, and macro level (see Chapter 2, 3 and 5).

From the analysis we made it has become clear that not all SMEs, even those operating in industrial districts or within different social contexts in all countries or economic sectors, have reached the same level of effectiveness in terms of their capacity to create "real", stable jobs. Based on findings derived from well established research centres, our analysis reveals (see Chapters 2, 3 and 5) that the SMEs’ employment capacity is determined more from national or regional structural systems, their historical records, and individual firm's internal workings rather than from strategies at Union level. Also, it has been demonstrated that no business type, i.e. individual or shareholders one, or, alternatively, no conventional management values can in the long-term survive and flourish if there is no political will to maintain them.

Overall the direction of politico-economic and industrial change, despite persistent national diversities and complexities of the factors involved, as it is outlined in Chapters 2, 3, 4 and 5, has affected capital, labour and state interaction. In particular, there appears to be a marked power shift from labour to capital, and the state's role, despite manifestations made by the neo-liberals free-market advocates, has been strengthened
and even further centralized. Over the examined period, the State has actively participated in entrepreneurial policy implementation and assumed a leading role in decision-making that directed most of the profit-seeking SMEs to be concentrated in low-value-added business sectors and, ultimately, in the creation of secondary jobs.

Our analysis has also indicated that pre-existing institutional arrangements in Member States greatly determined the mode and speed of adaptation of national governments to current environmental pressures. Different degrees of national solidarity and availability of established channels, especially the way in which financial systems have been used to facilitate SMEs’ development, as well as legal and regulatory procedures, have greatly shaped SMEs policy-making. In this way, SMEs' employment-inclusion success at national or local level has, in turn, been affected (see Chapter 2).

Our empirical investigation has also demonstrated that the old way of governments' policy-making, allowing for countries' disparity, has not been touched to a great extent, but it has merely changed its form. Thus, in this period of deregulation and liberalization of markets, state still intervenes in the markets, but this time with less activation and participation of Trade Unions in national or European politics and, in particular, in the design and shaping of the employment policy. Most important, all this transformation in governments' interventions has been achieved at the expense of social negotiations and social dialogue. In general, in the recent twenty-five years or so social consensus appears to be weaker than in previous periods implying that the "working poor" have been left in a vaguer position than before as now great confusion about their future prospects exists (see Chapters 2 and 4).

In particular, our analysis revealed the following principal conclusions:

-The widespread hypothesis, from mid-70s onwards, about the entire SMEs employment-creating potential in the Union as a whole highly overstates their capacity. The empirical evidence reviewed in this study demonstrated that there is a lot of confusion concerning the statistical and methodological measurement of SMEs volatility so any generalization on the matter appears to be futile. This primarily suggests that "data sets" used by European or international established centres to identify firms or labour force behaviour have to be re-conceptualized and, in turn,
harmonized so that future comparisons on SMEs employment performance to be facilitated.

-Furthermore, whilst it is clear that some new and small firms have created a fundamental competitive advantage for some regions, at the same time, it is unclear how to create such clusters of production excellence in different socio-economic environments. Additionally, as evidence in our analysis suggests, it is not yet clear what is the share of such clusters of production excellence, operating in highly antagonistic environments, of national economic growth and employment creation.

-As our analysis demonstrated, in the highly liberalized and deregulated European Union member states, the SMEs alleged booming has failed to create a stable environment that would be able to generate jobs and reduce the "effective dependency ratio" expected by the EU policy-makers. In fact, the documentation in this research indicates that there is no "one best way" to combat unemployment and social exclusion in free-market era in the context of conventional economics and prevalent ideologies. Variety in the enterprise profiles, the restructuring responses to new globalized competition and New Technologies' pressures, as well as the economic performance within any size category, suggest no causal link between superior employment performance and the size of firms. For all the aforementioned reasons it appears that the SMEs’ inclusion potential is at best an open question, whilst the results of their policy-support over a quarter of a century, are clearly disappointing.

-Different capacity for strategic action among capital, labour and state, as well as different ways in which those three factors have historically interacted with each other have induced different SMEs’ performances in different Union member countries and different regions or local communities. In this transformation period, the production factor that has been documented to remain still as the most crucial is capital, exactly as it was during the Keynesian period. Furthermore, the concentration of ownership of the production factors has empirically reported as increased. From the analysis we made, especially in Chapters 3 and 5, it is obvious that the free-market entrepreneurial model, within which the EU's SMEs employment-inclusion strategy has been developed, is ideologically driven and based on business-leaders’ capacity that is individualistically motivated through short-term management practices and limited-democratic
administrative values. As we have discussed, such managerial value-systems, instead of generating creative interactions between small firms' population and societies, further promote labour polarization and social fragmentation (see Chapter 4).

- As regards the Flexible Specialization School of political economy, also stemming from a self-regulating markets theorization, it uses as a manifestation of the SMEs' employment generation capacity few industrial districts' performance. This approach, as our discussion in the proceeding chapters has shown, still stresses the SMEs quasi-inherent virtues as the neo-liberals' free-market paradigm. Proponents of this view disregard empirical evidence on industrial districts' heterogeneity and strong reliance on local government credibility and a preexisting climate of social consensus to arbitrarily suggest industrial districts' replication in different socio-economic structures.

- Our analysis indicates that Union's SMEs policy-makers - virtually assuming that we are witnessing a global and, at the same time, a post-Fordism or flexible specialization era, or flexible production system period dominated by small firms' proliferation - have failed to construct a systematic, analytical and comprehensive approach to industrial restructuring. Policy-makers have responded in an arbitrary and intermittent way to intense global competition and industrial challenges. The evidence-based outcome is a dichotomous labour market, consisting of a few "core", well-paid employees and a disproportionate large secondary, peripheral insecure market of low-paid workers (for details see Chapter 4).

- Furthermore, during all that transitory period, the myth of the collapse of governments' intervention in economic management or industrial policy has been proven also to be a dubious assumption. According to our research documentation, most governments of the Union's member-states still keep close distribution coalition with capital at the expense of social consensus.

- On the contrary, Averitt's Dual Economy Model, as it is extensively explained throughout this thesis, gives special emphasis on the distinctiveness of national socio-institutional contexts and the place individual firms have within them. In this way, it appears to recognize better and in a more correct way than the free-marketeers' paradigm, the factors affecting SMEs' conduct and performance and their employment-
inclusion capacity. From the first chapters of this thesis, we have tried to empirically demonstrate that there is a wide range of relationships either between firms or clusters of firms and institutions providing the factors of production. Capital as well as the form of interaction between capital, labour and government have been reported as playing a crucial role in the shaping of these relationships. Taking into account that deregulation and liberalization policies appeared insofar to entail weaker labour arrangements and being incompatible with the creation of a complex institutional infrastructure at local level, SMEs' destiny has been left to governments' good will. Accordingly, the possibility of granting them with more "breathing space" at local and/or regional level appeared to be in national or local authorities' discretion. Therefore, whether small firms are to benefit in the future from governments' facilitating structural arrangements depends greatly on strategic choices of national or regional actors concerned.

Based on the above experienced realizations, we can not commit ourselves to the "silo" mentality involved in the free-market paradigm. First, this framework appeared to proceed along a definitional confusion related to several concepts involved in the examined issues. Second, it is based on arbitrarily taken assumptions that view all firms' types as if they conduct and perform in a uniform way. Third, this framework neglects the crucial role of national states in determining different firm's types' performance. For example, although public procurement policies appeared to be highly in favour of large firms, free-market advocates avoid examining the impact of such interventions. Fourth, this approach emphasizes on explanations that are restricted to a micro-level of analysis within a perfectly competitive market-context. Without refuting this paradigm’s explanatory value for such markets’ conditions, the specific research has demonstrated that we can not accept a unique market model in the real world, as we can not accept a single explanation offered on various modes of interaction between various firms’ types and market structures. Fifth, the entire approach of the free-market paradigm lacks the merits of an evidenced-based account and neglects structural, existing arrangements. In this way, it diverts the attention of political actors from "real" present themes and issues and informs incorrectly policy-makers.

Instead, our empirical analysis comprehensively suggests that the indirect policy interventions - succeeded gradually the old Keynesian type of employment policies in the free-market period - allowing for countries' disparity, appeared to attribute their
results to a complex variety of economic, social and political factors of a national and international scale. This recognition led us to conclude that any evaluation on the European SMEs’ strategy as a whole becomes futile.

Therefore, as regards the SMEs numerical proliferation - as a means pre-selected by the European Union policy-making to combat unemployment and social exclusion - in general terms, has been proven ambiguous in nature and of limited effectiveness. Our analysis, based on empirical evidence, has shown that methods employed for achieving social equality at Union or national level are failing.

Little has been achieved after almost twenty-five years of policies' reform attempts in the field of social inequalities. Little has been accomplished from governments' change in interventionist form in terms of the Union's unemployment figures or in employment terms status. Little has been achieved in the field of social consensus. At present, the European Union societies are no more based on justice and stronger morality than before. In overall, the above realizations are tantamount to the recognition of Averitt's description of the secondary economy firm. Thus, it seems that the EU has accepted Averitt's explanations at the policy level and introduced measures for an entrepreneurial sector being "in need", but it was the rhetoric of the free market at the political level that never accepted this case.

The wrong targeting of the Union employment policy-making - as evidenced especially in Chapter 4 - reveals a widening inequality gap and prospects of a socially "just" society appear now more remote than twenty-five years ago, when Keynesian welfare provisions were in practice. As Keynesian type of policies are not any more feasible and the neo-liberals' SMEs strategy has resulted almost in a failure, the following question emerged:

What has been left as an alternative credible policy for alleviating unemployment and reducing socially excluded persons' problems? To this point we now turn.

The fact that the free-market EU's SMEs strategy, targeted to individualistic entrepreneurial initiatives, has failed to improve labour force employment status should

619 FN.: We must note that other means such as "training", innovation, or Information Technologies diffusion have also used by the Union as alternative policies for unemployment and social exclusion decrease. However, these factors have been touched only on surface in our study and thus their effectiveness remains to be explored in detail in a future study.
not mean that striving for a social reconstruction through complementary, alternative
types of entrepreneurial initiatives/policies is now less worthy. Although our analysis
has demonstrated that there is no ready-made, general formula for entrepreneurial
solutions to poverty eradication, we can still make some research/policy suggestions as
a first step towards the accomplishment of a more social equality. However, we should
make clear from the beginning that, ultimately, what there appears to be required is a
new political free-market cultural orientation. This means that there is a need for a
complementary, new ideological framework that may be able to generate alternative
entrepreneurial initiatives to the merely profit-seeking ones prevailed under present
circumstances. Those should pursue both profit and social goals and could be based on
wider social capital and local externalities' mobilization. Such a policy-informing
framework should be away from prevalent atomistic and highly antagonistic neo-
liberals' values and purposes (see Chapter 2). Such an ideological change towards
communal entrepreneurial options might be able to transform the existing long-standing
entrepreneurial dependency culture developed within Averitt's "planned sector" into
one that promotes independent enterprises and social initiatives for the benefit of more
European citizens. At the same time, such an option may channel new opportunities on
public policy experimentation without altering the existing institutional or regulatory
arrangements.

To put it differently, the EU policy measures in favour of the SMEs have been based so
far on "rational" reasoning for investing in national or local communities. Such
rationalization addressed "ordinary" companies, i.e. those operating under highly
individualistic, free-market profit-criteria. Such a policy-orientation has managed to
offer a strong argument-basis in favour of the free-market paradigm and World Bank
led structural adjustment programmes and diverted attention from alternative forms of
entrepreneurial initiatives that may generate social capital and spin-off social
externalities able to lead to small industry's independent development.

The EU policy measures in favour of entrepreneurial initiatives have been imposed
uniformly through a "top-down" approach as if all small business' organizations were
homogeneous and had the same degree of capacity to survive, grow and generate
sustainable employment. The Union, disregarding the heterogeneity and disparity
documented among small entrepreneurial initiatives, paid no attention to alternative,
likely decisive factors for business organizations’ independent effectiveness, such as value-led and democratic management activation. In this way, EU policy-making has engulfed its reasoning within a small industry’s pattern with short-term prosperity and temporal employment capacity notably the profit-seeking type. Instead, this thesis suggests that policy measures should address also alternative types of businesses able to survive with a long-run perspective and grow independently from institutional or state’s pressures. This seems to be the only way left to fostering small businesses’ employment capacity in terms of more stable jobs in the free-market era. What may be required then is merely national or super-national authorities’ moral support to smaller initiatives ensuring a fairer playing field against unfair practices by the planned sector.

Although such a policy-orientation needs to be investigated further, it seems worth trying for. However, the EU - lacking a solid, comprehensive framework, as a policy’s evaluation learning basis - appears to repeat constantly the same policy/objectives defaults. To put but an example, recently, at Union’s request, national governments have promoted - through contractual partnerships - the employment potential of firms that deliver social public services or act as a focal point for common interest groups\textsuperscript{620}. However, the employment-creation results of these firms, although still inconclusive, appeared to be also limited and temporal and to promote even further a “dependent” small firm’s culture. Unless such contractual partnerships can be interpreted in practice by all actors involved, i.e. enterprises or corporate bodies, in a creative way - as in the case of some successful Italian entrepreneurial initiatives - small firms seem never to be able to take their future in their hands (Chapters 2 and 3). Furthermore, the Union has provided general and unsystematic directions for corporate contracts with SMEs that operate with free-market, business criteria at the expense of social. Again the reigning "rationale" of investment decisions in such private-owned enterprises is to create increased value for the for-profit individual owners or shareholders. The EU’s efforts to create SMEs jobs through procurement policy have not effectively and adequately met their goal so far.

There is no doubt that investment’s flows, i.e. via corporate contracts’ generation, are crucial for any SME’s type survival and improvement. That is to say, since they are

\textsuperscript{620} F.N.: For further information see: Green Paper on Public Procurement in the European Union (XV/5576/96-EN).
labour intensive, any increase in their output presupposes an increase in "real" paid jobs. However, if these firms are to develop independently from what Averitt called the "planned" sector, it may not be sufficient for them to produce more. As the successful Italian entrepreneurial initiatives' record indicates, they should also increase their services' quality, or, in other words, improve their services' effectiveness. To the extent this can be achieved, the employment effects may be more creative rather than those entailed after merely an increase in SMEs' output levels. However, much policy provision at Union level is restricted to measures focused on recommendations to Member States to facilitate or coordinate the availability of financial resources at national or regional level, assuming financial resources automatically guarantee entrepreneurial spirit, quality and innovativeness and, ultimately, job creation (see Chapters 2 and 4).

As the outlined business records in our research indicated, there will always be a case for more capital, better-qualified resources availability, or less bureaucratic burdens for entrepreneurial initiatives, either individualistic or collective, to grow and mature. That is to say, policy/support to alternative entrepreneurial forms, i.e. joint entrepreneurial efforts, although it may guarantee little about the social ends achieved, at least, shifts the initiative to society itself. As Coady\(^{621}\) (1939) long ago has correctly recognized, such policy measures in favour of small firms, if applied, constitute "an important step towards the goal of enabling people to be masters of their own destiny". Yet, even more crucial requirements may stand for SMEs' autonomous development. It may be the case that if there is no clear model of entrepreneurial action and a constant support to it - for example by a strong multi-interests' leadership - political interests or, alternatively, antagonistic pursuits could easily interfere and in this way distract the external and internal democracy and mutuality\(^{622}\). All these are issues challenging a further research.

Thus, from the themes raised above, it may be that the availability of external resources, even associated with external ethical backing, are not enough to create socially just, long-term viable, independent entrepreneurial initiatives, able to eradicate poverty. It


may be required also a strong internal democratic entrepreneurial culture, able to "ensure a market-driven organization that remains in tune with its membership and ultimately controlled by the membership". However, this task is to be pursued also by future researchers.

Having discussed in the outset of this chapter our recommendations for a valid evaluation approach to policies addressing social affairs in terms of a range of conceptual and methodological issues, we now turn to actual policies' recommendations per se. Taking into account that this thesis' main objective is limited to the effectiveness of the SMEs strategy as an EU policy-tool to alleviate unemployment and social exclusion, our recommendations are selective and aim at opening more "breathing space" for SMEs so as to create more and better jobs. Furthermore, taking also into account our analysis' outcome that not all SMEs have the same capacity of employment creation and inclusion, we have methodologically grouped our recommendations for policy-actions as follows:

- Actions should be taken for more research on SMEs nature and different types of firms' conduct and performance since from the empirical outcomes of our approach becomes clear that they have not been understood correctly by the European Union policy makers. The research should be directed also to alternative forms of entrepreneurial initiatives.

- Actions should be taken in practice to raise active citizenship at national and local level so that the idea of a civil society, aware of respective employment problems for the society as a whole, can be developed. Such efforts should be approached with a clear view of the benefits to be derived for the entire active population from investments in communities and local partnerships and not as another discriminating and fragmentizing policy based on individualistic conceptualization of people "in need".

There is no doubt that the latter practical-goal is extremely difficult to be positively accepted by the wider society at present and involves the risk of being characterized as a "romantic" view since it requires a change in the neo-liberals entrepreneurial ideology and respective attitudes. However, changes in the European ideological mainstream of

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business initiatives seem to be the only way for arriving at social purposes such as a "just society" for the majority of EU citizens or a society with fewer people "in need". This is to say, as Jencks\(^{624}\) (1973) correctly explained: "The first step towards redistributing income is not devising ingenious machinery for taking money from the rich and giving it to the poor, but convincing large number of people that this is a desirable objective". Then, it remains to the main actors involved in entrepreneurial initiatives, i.e. entrepreneurs, multi-stakeholders, institutions, or national and local authorities to realize the recommended potentials throughout this thesis.

Overall, we have tried to show that during the last twenty-five years the enforcement in practice, by those in power, of the neo-liberals' individualistic values, principles and purposes has resulted in a majority of employers who are just profit seekers. In fact, capital appears to be the only leverage of economic and social relationships. However, at present, in almost every European Union advanced industrialized State, capital is in abundance though its cost makes the access to it restricted to a few hands. At the same time, most employees or subordinates who have learnt for such a long-time to be obedient to instructions, given to them by a bureaucratic hierarchy, reject any response that might put at risk their wages or income received as a reward for obeying the accepted rules. In our present individualistic societies, the neo-liberals or Social Democrats fierce propaganda has managed to develop citizens that are more afraid of the "poor" than compassionate about them. The well rooted dependency culture appears amongst the poor themselves to have no way to escape but in the transformation of the western individualistic entrepreneurial values to ones based on more trust and mutuality. Although such a culture requires a long-time to be developed, this thesis suggests such a research/policy direction since no other ready-made entrepreneurial solution to exclusion appears to exist.

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