Peter Wiles

In Defence of "Big Business"

IS large-scale business more or less efficient than small? The question has very many interesting ramifications. Our answer to it can affect our attitude to trade union organisation, diocesan and parish boundaries, local government, Scottish nationalism, European Union, comprehensive schools, and the future of Icelandic literature. In being thus important to non-economists, it is not alone among economic questions, but it is perhaps distinguished by its essential simplicity and the ease of non-technical presentation. I shall begin by defining my terms and describing previous answers to the question, proceed to give my own, and conclude by drawing a few non-economical consequences.

Efficiency is best defined, not as the quantity of production per man, but as the average cost, including all overheads, of an article produced. Production per man obviously neglects machines (why not take production per machine?), interest, raw material wastage, etc. Clearly, the best measure is one that takes account of all possible "inputs," and this is the cost in money. It has certain disadvantages, but in a large number of observations these may be dismissed as random errors not affecting the result; and incidentally productivity figures show the same result anyway. Secondly, everyone knows that very small businesses are inefficient (and observation confirms this); what we really want to know is how medium and large businesses compare. Lastly, we suspend for the moment all judgement as to whether it is size that causes efficiency or efficiency, size. We must first obtain a simple correlation; causal analysis follows.

NINETEENTH-CENTURY economists held that large firms are more efficient than medium. It was not, however, this that interested them. Marx saw that very small businessmen—peasants, shopkeepers, and artisans—formed a different social class from the rest and were being ground out of existence by them. This was the Law of Capitalist Concentration, whereby the lower-middle-class entrepreneur, is beaten by the competition of the modern mechanised capitalist and sinks—Marx hoped—to a desperate and embittered proletarian, property-less state. As far as this directly concerns our question, it is right enough, though Marx's views cannot decently be mentioned even in passing without pointing out his one gross error in this field: he forgot that modern capitalism needs a salaried lower-middle-class so big that, if we add it to the vigorous and still numerous remnants of his own entrepreneurial lower-middle-class, we find that the whole group actually expands; the net effect of capitalism, then, is in the long run to deproletarise. Be that as it may, Marx, being interested only in social classes, seldom bothered his head with the relation of one capitalist to another. He did not analyse competition and monopoly among his capitalists, but if pressed he would undoubtedly have said that the larger the firm the more efficient, so that each trade ends in a monopoly. Left-wing economists have never shied away from this conclusion, which is welcome to them (unless they are anarchists) on every ground.

The more orthodox Marshall held the same view. If efficient entrepreneurs were immortal,

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he said, they would drive out all competitors and monopolise their line of business. Thus he not only believed that efficiency increased indefinitely with size, but also implied a view as to cause and effect; efficiency was cause and size effect. Actually, however, entrepreneurs, like Socrates in the syllogism, are mortal. There is no reason why their successors should also be exceptionally efficient, so monopoly does not often occur. Thus did Marshall save competition, which all right-wing economists have liked to do.

This analysis too has a flaw, and one much more germane to the issue than Marx's. First, if size were the cause of efficiency, and if, furthermore, ever greater size led to ever greater efficiency, even a mediocre entrepreneur, inheriting a business already large, could achieve with this initial advantage a monopoly. This possibility must be excluded before human mortality is accepted as a bar to monopoly. Secondly, a limited company is in any case not mortal. It recruits at least most of its managers by ability not inheritance, so that if it happens for any reason to be in a position to pay high salaries it can recruit ability, and become more efficient, and pay higher salaries, and recruit more ability. . . . Forgetting the managerial revolution, Marx mistook the class-structure and ownership-distribution of developed capitalism, and this was for his purposes a fatal error. For our more modest purposes, however, Marshall made the greater error, since the absence of a managerial revolution is essential to his argument about large and small business.

ORTHODOX 20th century economists have mostly found Marshall's admission—that competition would at any rate disappear if efficient entrepreneurs were immortal—too much for them. They have dropped the notion that efficient management causes indefinite growth at the expense of competitors, and have substituted a causal effect of size on efficiency. This, as we shall see, is in any case rather arbitrary, since causation is here clearly reciprocal. But more than that, they have postulated certain "dis-economies" of large-scale operation which ensure that a firm has an optimum size, growth beyond which again reduces its efficiency.

Now modern economists have not based their case on observation but on *a priori* speculations. Of these two are outstanding. One is the purely deductive "law of diminishing returns." This states that if one factor of production, say labour or machinery, is added in ever greater numbers to a fixed quantity of another, say machinery or labour, the fixed factor becomes a bottleneck. It is possible, doubtless, to squeeze more output through this bottleneck, but only at an ever increasing cost in the factor that is varied. Hence costs, even of both factors taken together, *must* eventually rise. And this conclusion can in fact be rigorously deduced from the premises in a manner to satisfy any analytic philosopher. Unfortunately, however, the premises are irrelevant to our purpose, for in the long run no factors of production are fixed in quantity.

The second "proof" that large firms are less efficient than medium appears to be more factual but is actually only a special case of the first. It is that it is much more difficult to manage a large firm and that *therefore* medium size is best. Now large-scale management is indeed more difficult, but the conclusion is an obvious *non sequitur*: the difficulty might be merely the obverse of certain offsetting advantages. Alternatively, the management can be said to be a fixed factor upon which the above "law of diminishing returns" operates. But then one must consider the possibilities of mechanising the routine operations of management and of decentralising the power of major decision. In other words, there is no good reason why management should be a fixed factor within the meaning of the act, and a verdict of non-proven must be brought in again.

FACTUAL comparisons of large, medium, and small firms are surprisingly numerous. I have found it possible to collect, simply from censuses of wholesale trades (U.S. Tariff Commission reports, sundry British white papers, etc.), three hundred and thirty-three such comparisons. The order of efficiency in these

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comparisons is: large, medium small, 76 per cent; medium, large, small, 15 per cent; other, 9 per cent. Mostly, however, there is little difference between medium and large firms. The advantage of large over medium is never so great as that of either over small.

It is instructive to give an example of the extreme dishonesty with which these figures, when not neglected, are sometimes treated. The Temporary National Economic Committee on the Concentration of Economic Power (a sort of Royal Commission set up by the U.S. Senate before the war) sets out the costs and sizes of firms in certain industries. As might be expected, life and statistics being what they are, there is no smooth progression in efficiency from the smallest individual firm to the largest. Here a small firm is lucky or well-managed, there a large firm unlucky or ill-managed. If the data are grouped into, say, five or six size-classes, they mostly fall into the 76 per cent set out above (and have in fact been included there). But if we concentrate on the largest firm of all, we seldom find it to be the most efficient of all. And this only-to-be-expected phenomenon, due solely to the random fluctuations thrown up by all statistics, is taken by the Commission as general proof that medium, large, small is the normal order of efficiency!

There is thus no question as to facts: large rather better than medium, medium much better than small. Of causes, it is possible to speculate very plausibly. First, where there is unrestricted competition—and that is not often —an efficient firm will drive out the inefficient, provided it wants to. Now businessmen are not all aggressive and indeed many (let us not guess how many) tend to stop working and worrying when their personal livelihood is assured. Nevertheless if the market contracts the inefficient will go to the wall, and that leaves only the efficient to grow and fill the market willy-nilly when it expands again. Also *some* businessmen are aggressive as well as efficient, and these will expand even in a stable market. Therefore efficiency often causes large size.

Secondly the facts clearly show that large size *need* not cause inefficiency. If there is any such tendency it is in fact successfully combated by the average large firm, though perhaps only because it has hired the very best managers (that being why it grew to be big). Personally I would go much further. When engineers make estimates of what a larger plant could do, given the market, it always turns out to be cheaper than production on the present scale. There are always specialised machines and methods which could save costs, but only if operated in the very largest scale. True, there are inventions—rotavators, electric power—which make things easier for small firms: but nobody said electric power made life *more difficult* for big ones, or that it was a handicap to have a holding so large you could *choose between* a rotavator and a proper tractor. I am therefore convinced that large size is *one* of the causes of efficiency, though evidently after some point of growth it has relatively little further effect. It must also be borne in mind that both size and efficiency might be the effects of some third cause: say the age and experience of the firm.

Now why have right-wing economists been so negligent, even dishonest, about this question? Obviously because they are liberals of the old-fashioned kind: the sort of man who in Britain has long hesitated before deserting the Liberal for the Conservative Party but has mostly done so by now; the sort that on the Continent fits very well into the Free German Party or the Belgian Liberal Party. This sort of liberalism—so strongly revived now in Europe—is mainly economic, not political. It shares with Marxism, indeed with most 19th century philosophies, the false thesis that the economic structure of society determines the political: "you cannot have controls without a political police." Such are the unspoken assumptions—now very greatly attenuated—of the orthodox Anglo-Saxon and Continental economic tradition. With very many scientific achievements to its credit—indeed it monopolises almost all the genuine achievements of economics—this tradition retains nevertheless its bias. The consumer must be sovereign, competition is good, private monopoly and state intervention are bad. If competition is

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not to yield to monopoly, medium firms ought to be more efficient than large. Therefore they are. Moreover upon consumer's sovereignty and competition rest, in some unexplained or half-explained way, not only economic growth and material prosperity, but also parliamentary democracy and the rule of law.

It seems to me that two of these four desiderata rest on nothing of the sort. Economic growth and material prosperity obviously depend upon efficiency, which means, whichever way the causation runs, that firms ought to be large (for either the efficient must drive out the rest, which means they must grow in size; or to be efficient at all they must first be big; or both). But what of the large profits, it may be asked, that monopolies make by restricting output? What of the way they mistreat the consumer and the potential competitor? Even admitting they produce more cheaply, do they produce the right things, or indeed enough of anything?

These are purely economic questions of little interest here. Enough to point out that the salaried manager of a public *or private* monopoly is quite unlikely to behave like a Victorian entrepreneur who has made a million. Rockefeller and Gould, or our own Hudson, were uneducated self-made men. The modern economic analysis of monopoly behaviour rests on the sociological error that a Wykehamist, the son of an Anglo-Indian civil servant, who gets a second in PPE at my College and goes into ICI as a management trainee, could become a Rockefeller. Free secondary education, heavy taxes, and the managerial revolution have rendered that type obsolescent.

Furthermore of all corporate profits at least two-thirds now go to the Inland Revenue (which must be accounted here a good use of profit), and of the rest about three-quarters go to re-equipment (which is certainly a good use). So even if monopolies really do earn excessive profits, it does not matter.

HOWEVER if material prosperity requires one set-up, perhaps liberty and human individuality require another. We have no reason to suppose that what makes us rich also keeps us free. An economy consisting of small firms cannot be controlled from one centre; there will be low taxation and little price control, or evasion and black markets. And this is in itself a contribution of some sort to political freedom. But how much of a contribution? When the Holy Office was chasing Jews and Protestants in Spain so hard that the most Catholic of bishops might be condemned for heresy if he spoke out of turn, Spanish industry was not beyond the craft stage and in many regions the Spanish soil was farmed by peasants. It is not recorded of the Tsar's Okhrana that it had less difficulty controlling thought in the Putilov works than in the peasant countryside. Venice was a town of small merchants, and so was Florence. Yet freedom never raised its head in the one, and only intermittently in the other. Instances could be multiplied indefinitely. There really is here a "lesson of history": only those dictatorships that aspire to control the economy find large firms convenient; those that content themselves with the control of thought, speech, and the press find a peasant or artisan economy no hindrance.

Perhaps, then, if totalitarianism can exist without economic regimentation, at least the reverse is not true? An economy of large firms, public or private, offers less resistance to schemes of government control, the argument would run—nay, it positively requires them, for private monopolies should not be left alone. But the sort of government that has such schemes is totalitarian in other matters too—like the Bolsheviks. Or the Swedish Social Democrats?—history does not record a government that, intending merely to control the economy, wound up by controlling thought as well. Many governments have, of course, set out to control both; and a few, totalitarian by intention only in politics, have found themselves forced also to control the economy: for instance the Jacobins. But no Social Democratic government has ever suppressed free speech.

The lesson of experience on this point is very clear and very consoling. Professor Hayek originated the phrase, "the Road to Serfdom," to describe the progressive totalitarianisation of

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a whole *society* by a government that only wanted at first to control the *economy*, but finds more and more human obstacles to this aim. No government has ever behaved like this. A democratic socialist government, faced with the alternatives, dictatorship or de-control, might conceivably wish to choose dictatorship, though even this is doubtful. But it could hardly do so, for a democratic government is *ex hypothesi* one that has not yet abolished democracy. The "human obstacles," resenting the controls, will normally take the obvious step against the threat of their retention through a superadded dictatorship: vote for the opposition. So the government's choice is not dictatorship or de-control, but to lose the elections or to de-control. Every single left-wing democratic government in post-war Europe has faced this choice, vacillated, and plunged for one or other disagreeable alternative. Not one has made the faintest attempt at a dictatorship. Naturally if democracy is not firmly rooted in the first place, there may be a different upshot. But then, so there would be whatever the complexion of the government, as the many capitalist dictatorships of Latin America demonstrate. There is, then, no traffic down the Road to Serfdom.

So it is simply not true that price controls, etc., destroy political freedom; rather does political freedom, if not abolished first, invariably destroy price controls. But if economic controls are no threat to political freedom, neither are the large firms that facilitate such controls. Again we have seen that private monopolies do not need quite that strict control once recommended; nor, of course, are anything like all large firms monopolies.

OR IS it that the large firms will not so much be the tool of despotism as themselves take over the government? This, the view of Marxists and trust-busters, seems to rest on the same outdated 19th century sociology. It would be ludicrous to suppose that the British government, dominated by trade unions and party caucuses, had anything to fear from the influence of its industrial giants, even the nationalised ones. Nor, in all seriousness, would I regret it if it were so; for clearly the managerial hierarchy of a modern trust consists of more reasonable and less rapacious men than either trade unionists or party activists. If improper pressure is to come from some quarter, let it come from this.

Moreover, it is false that the U.S. government has much to fear from its large trusts. The most unscrupulous and influential lobbies, which wangle legislation most flatly against the public interest, are the various associations of small men: the American Medical Association, the National Association of Manufacturers, the several trade and farmers' associations, and —of course—the trade unions. There is room for demagogues and low-browed activists in a congress of grocers or miners; such men rise to the top. But the American automobile industry consists essentially of three firms (soon, it appears, there will be only two); you cannot rant at a meeting of three well-educated men. And since these large firms are rich, they can afford to be generous with the government. For instance it is today the pressure of small firms that keeps U.S. tariffs so high. There can be no doubt the political atmosphere would be cleaner in any country if there were fewer small firms. Those who say the German cartels financed Hitler must prove their component units would not have done so in any case.

There are then no economic and few political objections to bigness. The really well grounded complaint is psychological. Men are prouder of their work in small factories, and are happier shopping at small shops. Indeed there is much evidence that the efficiency of labour, taken by itself, is greater in small working units; this, not managerial red tape, is the chief "diseconomy of large scale," which, perhaps unfortunately, all the other advantages of bigness more than offset. Thus for one cliché shot down there remains another standing: efficiency conflicts not with liberty but with personality. And this is of course extremely general. We could get more personal attention from the social services if we handed them over to churches and trade unions, but they would cost much more. It would ease the supply of ministers of religion if many town churches and chapels were suppressed and the parishes amalgamated; but the quality of worship

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would deteriorate. A large local authority can afford a good town clerk, but it loses the interest of its electorate.

But even here not all bigness is vicious. Australia has better orchestras than New Zealand. A small language provides a narrow literature: for not only do those who write in it lack contact with a sufficient variety of models, but those who read in it make up a market too small to buy every kind of speciality. *Ceteris paribus*, again, the citizens of small nations are frankly less interesting than those of large ones. Compare Frenchmen and Belgians, Spaniards and Portuguese, even Germans and Swiss. Between the petty pressures of Main Street and the anonymity of Megalopolis there is also little to choose.

COMPROMISES, therefore, of every kind are required, so that we may both have our cake and eat it. And these compromises should by no means be afraid of bigness. To revert to economic bigness, nationalisation is of course not one of these compromises. Logically it is entirely irrelevant to the question of scale, though most nationalisers have in fact a compulsive tendency to large scale. A public business of any size is like a private business of that size, and the distinction of size is more interesting and important than that of ownership.

Cooperation is an obvious way out, in agriculture at least. The farmer retains his formal independence and continues to perform on his own those operations that yield no economies of scale. The rest he devolves on to a central body of which he is a shareholder and governor. Thus where his own working morale is the most important element in production—e.g. care of livestock—he is personally in charge; and where mechanisation matters most—e.g. bacon curing—his factory takes over. But cooperation must not be confused with trade associations and cartels—those combinations of the weak, not to cure their own inefficiency, but to protect it against the desirable ravages of the strong. Nor does the existence of a good cooperative bacon factory exempt the farmer from the charge that he is personally inefficient, or that his holding is too small, or that its boundaries need altering. And all this applies with much greater force to factories and shops where the personal processes like livestock care are so much fewer, and those that benefit from mechanisation so much commoner. Here indeed we must question whether an industrial structure brought about by chance, inheritance and trade associations, being so inefficient economically, is quite generally speaking desirable at all. The possible economies here are, I suggest, so great as altogether to outweigh the depersonalisation that follows reform.

Two more consolations at least. Bigness is of course useless where the market is small. But in villages the market is highly local. A small seedy village grocer is more efficient *for the limited task he must perform* than a supermarket, whether in the village, where it would go bankrupt, or in the town, where it is too far away. There will always be a need for immensely many small businesses of this kind. Again, as we have seen, medium-sized businesses, though not actually more efficient, can often compete very well with large ones.

Secondly, high morale and personal pride are at least barely possible in large firms. Bata, for instance, successfully combined technical centralisation with psychological devotion: each minutely subdivided process through which his shoes passed was made a separate accounting unit, and to it the comparatively few workers on the process felt they belonged. Many other firms have tried co-ownership with success. One must be sceptical of all these devices: they have been recommended for decades, so if there is no catch in them why are they not more widespread? But at least they show that the full depersonalising force of large scale manufacturing can be mitigated. By reasonable social experiments, industrial man can make tolerable to his feelings that efficiency to which his appetites have condemned him.

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Walter de la Mare

The Cartouche

THE clatter of the mowing-machine from beyond the laurel hedge had ceased. An almost complete silence had fallen, the silence of the ended. Every daisy that during the previous week had ventured to lift its eager face to the sun, every skulking or audacious dandelion had been swiftly beheaded. For lawns are lawns. They are intended to follow the even tenor of man's way and not to indulge in the wild. The only sound that now interrupted the minute and steady click of Mrs. Millington's needle was the slightly rasping lament of a greenfinch, or the *whsst* of a swallow's wing, hawking low, stealthy as destiny, through the air of approaching evening.

Mrs. Millington's dark pretty head was stooping lower than appeared to be necessary over her sewing as she sat by the wide-open dark-framed window. The light cast up by the frilled linen pillow-case which she was mending paled the green reflected on cheek and brow from the sunlit leaves of the garden beyond and the intertwined bush of honeysuckle now languidly sweetening the sultry air.

The sun would soon be setting—as it had set the evening before; and the evening before that. The sun of all her yesterdays indeed. But with how many different kinds of adieu!—cloudless, ardent, of fair promise; indifferent, cold, obscure. Soon would come twilight, then deepening dusk, then night. And at night, although her heart then became more restless with longing, with hope reiteratedly deferred and with an ever encroaching despair, her mind and her thoughts were more closely her own.

Even now her eyes appeared to be intent on something a good deal further away than her needle. She had begun to think again; to feed upon memory. Then suddenly and not for the first time in these last few months, she had realised that thought itself *might* conceivably become audible. As if to make sure that this was not so, she glanced up stealthily into and across the room she was sharing—her husband's bookroom.

Two quite different tastes, two natures and ages and upbringing were revealed in its furniture, its colours, its very ornaments. The senseless-looking clock of black marble on the mantelpiece—whose hands never failed to circle unflinchingly over its face and to tell what the exact time was in its own small share of normal human affairs—had been a gift to her husband from an old bachelor and long-gone friend of his—a Dr.

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