

Small Business . . .

IN the conflict between private enterprise and socialism, attention is almost wholly concentrated on the principal protagonists, upon the representatives of "big business" on the one hand, and upon the advocates of socialism, on the other. The contest is viewed by the public as "the banks, the insurance and shipping companies, and the larger enterprises versus the Government." "Private enterprise" is taken to be synonymous with the big companies whose names figure prominently in the newspapers, and whose activities, because of their very size, invite interest and discussion.

In its pre-occupation with the principals, the audience overlooks the importance of the minor players on the stage. Amid the clamour which the Federal Government's banking proposals have evoked, and with propaganda concerning the advantages of socialism assailing the ears, attention is diverted from that section of the economy which has perhaps the most vital stake in the continuance of the free enterprise system, and which is certainly one of its most attractive features, namely, the sphere of business activity characterised by the term "small business." There can be no proper comprehension of the true nature of the free enterprise system unless the cardinal significance of "small business" in the economy is fully appreciated.

WHAT IS "SMALL BUSINESS"?

"Small business" is a somewhat vague term, that may be criticised for its lack of precision. Nevertheless, to most people, it conveys a sufficiently definite impression. If standards are required by which to determine whether or not any particular enterprise is "small business," we may say that any business which, in point of numbers employed, capital invested or annual turnover, is somewhat less than the average for the industry to which it belongs, falls within this category.

In many small businesses, the owner is also the manager. It is his capital, and perhaps that of his immediate acquaintances, which has financed the venture. The small business-

man is personally known to his employees, whereas the directors of the large enterprise are frequently known to their employees only by name, and sometimes not even by that. It is in small business that most of those desirous of "working for themselves" must serve their apprenticeship, and, in many cases, their whole productive lives. "Small business" includes the typical retail store, the pharmacy and the dairy, the small mill or factory, the myriad sales and service establishments of every kind. It includes all those who are self-employed, the industrial or advertising consultant, the public accountant, the dry cleaner, the radio repairer, the newsagency, the barber shop, the corner confectionery.

The overwhelming majority of business establishments are undeniably small. Even among factories, where the trend is towards larger and larger units, the small business is still an important force. More than half the persons employed in manufacturing work in factories having fewer than one hundred employees, and relatively small factories such as these account for 96 per cent. of the total number of all factories in Australia.

VALUES IN "SMALL BUSINESS"

"Small business" is an indispensable feature of the system of free, competitive enterprise. Indeed, it is not too much to say that the continuance of the democratic way of life is bound up with the survival of "small business." So long as small business exists, economic, and therefore political, power tends to be widely diffused throughout the community, and this wide diffusion of power is a safeguard of the rights and privileges of the private citizen. The chances of big business to continue under private auspices are very much dependent upon the existence of many virile smaller units, which are determined to retain the freedoms, the opportunities and the privileges of private enterprise.

Nor is big business the only group that owes a debt to its smaller colleagues. Small business offers the wage or salary earner an alternative to working forever for an employer. It

is the avenue along which the employee may strike out on his own, and, by utilising his skill and energy to the greatest advantage, capitalise to the full on his abilities. It offers him a measure of independence, which is invaluable as a builder of community morale. It is, of course, not easy for the employee to enter business on his own account without some capital, but the need for the venturer to have accumulated a certain amount of wealth before setting out on his journey eliminates many of those who would be doomed to fail. It places a premium on foresight and frugality, and ensures that the small businessman shall usually be a man of more than average ability, with a sense of social responsibility. He usually has a personal stake in his home town, and is frequently a mainstay in community projects. He is, in short, the stuff of which good citizens are made.

“Small business” has been called the seed bed of democracy. A statement by the Committee for Economic Development in the United States is worth attention: “Whatever its type or stage of growth, the small business is a manifestation of one of the basic freedoms . . . This is the freedom to enter or leave business at will, to start small and grow big, to expand, contract, or even to fail. This freedom to be enterprising is an aspect of the economic democracy without which our political democracy cannot exist.”

“Small business” contributes immeasurably to standards of enjoyment by providing local employment, striving even at the cost of great inconvenience to satisfy special needs, taking orders too small to warrant the interest of large firms, and remaining open at inconvenient hours in order to supply the wants of shiftworkers, housewives and holidaymakers. In all the countless places where small business is being conducted, new ideas are being tried out, innovations introduced, and attempts made to give greater customer satisfaction. It is absurd to imagine — as some socialists seem to — that permanent public servants in a regimented economy could cater in the same way or, for that matter, would even attempt to cater, for all the personal idiosyncrasies and wants of the individual customer. And it is equally absurd to think that they could promote even a small fraction of the technical advances which

have originated in small business and which have contributed so much to higher standards of living.

The great majority of the goods we use today originated in individual minds and were first developed by small business. Henry Ford, Thomas Edison and Lord Nuffield all started out as small business men; so, to take local examples, did Sir McPherson MacRobertson, Sir William Angliss and Sydney Myer.

INTER-DEPENDENCE OF BIG AND SMALL BUSINESS

Those who argue that it is impossible for small business to exist side by side with the industrial giants of today are curiously ignorant of the facts of modern capitalism. The growth of great industrial undertakings has been accompanied by the multiplication of small businesses, many of which have sprung up to cater for the special needs and problems created by big business. The big firm and the little firm, the big industry and the little industry—each needs the other. Many small businesses manufacture machine parts to designs furnished by the large motor car manufacturer, whose products, when sold, are, more often than not, serviced by relatively small garages. The large textile manufacturer is a customer of the independent dyer, the local welder and the small seller of miscellaneous supplies; and his products, after passing through the hands of further manufacturers and wholesalers, finally reach the public through numerous small retail houses. In some cases, big business is chiefly an assembler of the products of many small businesses. All types of business, big and small, are essential parts of modern private enterprise.

Small business continues to thrive, and keeps the big fellows on their toes. It promotes keen competition in price, design and efficiency. By its personal contact with its customers, and by its more intimate knowledge of their needs, it has an advantage over its larger competitors which they must take pains to overcome.

SOCIALIST OBJECTIONS TO SMALL BUSINESS

The socialists are not very fond of small business. Appalled at the sight of whole hosts of milkmen delivering milk to a few customers in each of many little streets, they exclaim that this is not how things should be done. There should be planning. The central planner should determine where each housewife should buy her milk and her bread. The socialist finds it hard to understand that people who have had experience of the zoning of milk and bread during the war should ever wish to revert to any other system. What matters it that the top of the milk should sometimes be covered with dust or the bread half-cooked and unwholesome? What matters it that the milkman and baker may sometimes be rude and discourteous? Surely these are low prices to pay for central planning! In any case, would not the housewife have the right to lodge a complaint by personally attending at the office of the Deputy Controller between 10 a.m. and 4.30 p.m.?

The socialists realise that the absorption of small business by the socialist state would be awkward, to say the least. It would be much simpler, from the administrative point of view, to absorb a few big monopolies. Because of its very nature, small business is not amenable to control by ever-expanding government departments. It constitutes a serious obstacle in the path of the advocates of more and more socialist planning.

It therefore becomes expedient for the planners to expatiate upon the wastes of small business, and indeed, one would be hard put to argue a case against them if small business were necessarily inefficient and uneconomic. This, however, is by no means true.

COMPARATIVE EFFICIENCY OF SMALL BUSINESS

The Committee for Economic Development in the United States recently assigned Mr. A. D. H. Kaplan, of the Brookings Institution, to conduct a comprehensive study of small business. In the book published as a result of that study, Mr. Kaplan states: "Available studies of the relative efficiency of large and small business are inconclusive if one seeks a defini-

tive generalisation. The break-even point and the maximum efficiency point vary as to size of firm from one industry to another. In the categories of business that permit cost comparisons over the whole size range, small units are found to be among the most efficient producers . . . The evidence on costs and profits tends to the belief that in this respect the highest average efficiency is attained by the business of intermediate size rather than by the largest unit in the industry.”

In many manufacturing industries, there is, of course, a minimum size imposed by the scale of operations required for the effective utilisation of certain types of machinery. It is also difficult for small businesses to make the most of the economies available through specialisation and mass production. In the small unit, errors of judgment of the principal executive are likely to have a relatively much more serious effect than in the big business. Conversely, a really able manager of a small business is in a much better position to bring about a significant increase in his profits than is his bigger counterpart. His operations are more flexible. While he is not usually in a position to provide the amenities and security possible to the large employer, he is able to take a much closer personal interest in his employees, and is thus in a unique position to invoke their loyal and enthusiastic co-operation. He has the tremendous stimulus of knowing that, in the main, the profits he makes will accrue directly to himself. He is generally in a better position to “get things done.” The big business cannot entirely avoid a bureaucratic tendency. A comment on this point by the Chairman of General Motors is enlightening: “In practically all our activities we seem to suffer from our great size . . . There are so many people involved and it requires such a tremendous effort to put something new into effect that a new idea is likely to be considered insignificant in comparison with the effort that it takes to put it across . . . Sometimes I am almost forced to the conclusion that General Motors is so large and its inertia so great, that it is impossible for us to really be leaders.”

The tendency towards extremes in small business, towards outstanding efficiency and hopeless inefficiency, towards great variations in profitability as between good and bad years, to-

wards rapid development and sudden failure, is bound up in the personality of the small entrepreneur. As Mr. A. D. H. Kaplan says, in discussing the reasons for small business failures, "The determining factor in discontinuances of very small business enterprises is not the business cycle so much as it is the personality, experience and ability of the enterpriser The vast majority of small business failures are directly traceable to the man who fails." This is a fact which the small business man is naturally reluctant to admit. He is nothing if not confident of his own ability. In a survey conducted on behalf of the Committee for Economic Development, in answer to the question as to what factors might have tended to handicap their growth, only one small business man in twelve mentioned the possibility of his own shortcomings. The factor to which failure is most often attributed is lack of capital, but a critical examination of the position reveals that, except in rare cases, something else is usually the cause. As a rule, the individuals who have failed have had control of as much capital and even more than they could efficiently administer.

AID TO SMALL BUSINESS

Small business does undoubtedly labour under certain grave disadvantages as compared with its bigger brother. While it is most important that steps should be taken to encourage the vigorous growth of small enterprise, however, it is equally important that those steps should not be such as to lessen the efficiency of private enterprise as a whole. It should also be borne in mind that "small business" is anything but a homogeneous mass, in which all units have identical interests. The small manufacturer, for example, is often much more closely identified in his interests with the large than with the small retailer. Measures proposed for the assistance of some small business men might well prove anathema to others; and any proposal must therefore be carefully considered to ensure that it will be in the public interest.

Small business is sometimes born weak, and sometimes has weakness thrust upon it; but there is much that can be done to remedy its weaknesses. As has just been observed, its princi-

pal inherent weaknesses lie in the field of management. Some owner-managers possess not more than a few of the talents requisite for the running of a business, and it is often not practicable for industrial consultants to handle their problems. Technical schools, and possibly universities, might give more thought to the training of owner-managers. Also, experts in the fields of costing, personnel, motion and time study, and market research, might endeavour to devise some means to enable groups of small businesses to obtain the benefits of expert knowledge on these subjects.

In the realms of financing, too, the small business is at a disadvantage. It is unable to raise capital on such favourable terms as its larger rivals, and crushing progressive rates of taxation encourage the investor to seek the safety of low but assured returns rather than the higher but riskier returns which small business may offer. Apart from a rectification of this position which might be brought about by taxation reform, some thought might profitably be given to the provision of capital by a special bank on the lines of the Industrial and Commercial Finance Corporation Ltd. in Great Britain. This organisation is a private enterprise, financed by a group of banks, having as its stated purpose the financing of small and medium-size industrial and commercial businesses, particularly where these do not have access to the Stock Exchange and investment bankers.

As it is clearly impossible for some small businesses to carry specialisation to the same degree as big business and to employ certain workers only on certain jobs, the relaxation of craft restrictions by the trade unions would be of considerable assistance to some small businessmen by allowing them greater flexibility in their employment of labour.

Steps should be taken to guarantee to the small businessman freedom of competitive opportunity. It should not be possible for a powerful competitor to force him out of business by unfair trade practices and uneconomic rate cutting. Discounts allowed by suppliers to large purchasers should be related to the benefits gained from the execution of large orders, and should not be merely a means of affording an unfair advantage to the large dealer.

The most likely avenue, however, along which progress may be made in the assistance of small and, indeed, of all business, is to be found in taxation reform. High rates of taxation are serious deterrents to the kind of financing that is most needed by small business—equity financing from internal or external sources. They fall with special severity on those with fluctuating incomes, which are unavoidable in many small businesses.

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The socialist displays a profound ignorance of the infinite complexity of the private enterprise system. He delights to deal in vast theoretical generalisations, as remote from reality as the stars from the earth. He fails utterly to comprehend that the immense variety of goods and services, which we have come to accept as a natural everyday dispensation, is made possible only by innumerable business undertakings, directed by men, who, under the stimulus of the profit motive, are bent on anticipating and satisfying whatever needs the public may have. There are literally thousands of individual businesses in Australia, anticipating and ministering to the needs of the consumer, thinking for him, working for him, inventing for him, vying for his favour. Can anyone seriously think that this close and unremitting attention to the wants of the consumer, the kind of attention which is seen at its clearest in the services provided by competitive small business undertakings, would be paralleled in a centrally planned economy on the socialist model?

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