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Author(s)	HAMADA, Yasuyuki
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# Small Business Policy in the United Kingdom

Yasuyuki HAMADA  
Associate Professor  
Faculty of Economics  
Hokkaido University

## Section 1. As a Part of the Employment Policy

It would be no exaggeration to say that a small business policy, as such, did not exist until 1971 when the report of the Bolton Committee was published. This report, which surveys the general condition of small business in the UK, defines a small business as a company with less than 200 employees. This was the first time such a definition was made in Britain, the last developed country to do so. Until this time, therefore, it was impossible to say how many small businesses there were.

Over the last fifteen years, the environment has totally changed to what the Financial Times has called the "enthusiasm for small businesses" (June 22, 1983). Actually, almost all policies were introduced after 1979 or 1980 and nowadays there is a great range of program to revitalize small entrepreneurship.

It is convenient to divide the period after the Bolton Report into two sub periods; 1971-79 and 1980-the present. The first period can be described as the dawn of the small business policy and in the second various small business policies were carried out in earnest. A clear milestone of this period, which we could call "era of enthusiasm", was the Wilson Committee presided over by the former Labour Prime Minister, Harold Wilson. Accordingly, for a brief overview of British small business policy it will be sufficient to examine the

second period.

Since 1980, under the Conservative Government, several epoch-making policies were implemented: including the setting up of the Unlisted Securities Market in 1981, the Loan Guarantee Scheme in 1981 and the Business Start-up Scheme in 1982 (later reformed as the Business Expansion Scheme).

The main purpose of this article is to evaluate small business policy in the UK and to pick out its fundamental features. If we compare British small business policy with that of other countries, we immediately recognise the first feature, that is, the close connection between small business policy and employment policy. However, this "marriage" seems to be a little bit strange, because there is a basic difference between them. Generally, small business policy focuses on "business" or "enterprise", whereas employment policy concentrates on the human factor. Both policies, of course, share some common ground, but here I would like to stress their differences. This is clearly demonstrated by the next simple fact that government agencies responsible for small business section and employment section are quite independent, the former belonging to the Ministry of Trade and Industry in both Britain and Japan, and the latter forming its own Ministry (Labour).

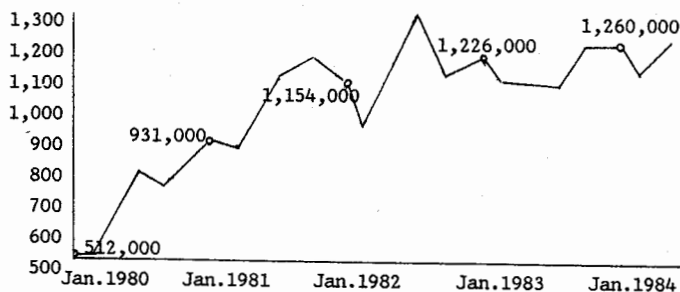
Why is the small business policy so tightly interconnected with employment policy in Britain? In order to answer this question it will be helpful for us to look at the present condition of the British economy. At the same time as the small business policy was being formulated, unemployment was rising dramatically and the general state of the economy was worsening. In addition, the budget was in serious balance. Under these conditions, the ideal policy was to reduce unemployment without spending more money. If unemployed people were to start their own businesses, this dream could be realized

very easily, therefore, creating new self-employed businesses. This appeared to be just the way to combat the biggest problem of the British economy, namely unemployment.

According to the latest information announced by UK Business Conditions, The Royal Bank of Scotland at the end of April, the number of unemployed was 3,201.8 million and accounted for 13.2 per cent. Furthermore this figure includes three serious problems; youth unemployment, a high rate of long-term (over one year) unemployment and regional differences in the unemployment rate.

Fig.1 quoted from "the Sunday Times" shows the recent

Fig.1 Unemployment of Workers under 25 Years of Age  
(Thousand)



Source: *The Sunday Times* , 1984, Dec. 10.

trend in youth unemployment (less than 25 years old), by which we can see over one million youngsters have had "nothing to do" since 1981.

Long-term unemployment (over one year) has been at a high level (estimated 1.2 ~ 1.3 million) which seems to be very serious when we consider the total population of Britain (about fifty million).

In addition to these gloomy statistics, we have to note that some regions are suffering from disproportionately high rates of employment, over 25% and sometimes as high as 30%. This condition, to some extent,

stems from inflexibility of the labour movement as compared with those of other countries (Fig.2).

Fig.2 Unemployment Black Spot Worst 10



Southerland	22.1%
Irvine	25.7%
Cumnock & Sanquhar	23.4%
South Tyneside	25.5%
Sunderland	22.4%
Hartlepool	24.9%
Middlesborough	24.5%
Holyhead	22.7%
Cardigan	25.1%
Aberdare	22.3%

Source: *The Sunday Times*, 1984, Dec. 10.

Therefore, under the present conditions, any proposed economic policy must show some evidence that it will contribute to increasing employment. In other words, if policies are recognized as likely to be helpful in creating new jobs, the policies will stand a good chance of being implemented. The final and decisive criteria by which economic policies are judged is how many jobs they can create.

The small business policy has also been seen as another way of revitalizing the stagnant economy. So to speak, the small business policy has been sandwiched between employment and economic revitalization. British small business policy is like a coin with the word "employment" on one side and "revitalization" on the other. A brief comparison between this British coin and other countries' coins— (for Japan instance), will tell us very clearly that things are just the opposite as in those other countries.

Although the main component of modern capitalism has been big business, why does our society need a small business policy? In order to answer this fundamental

question, we need a sort of basic understanding of capitalism itself.

In my opinion, the aim of the small business policy is to recreate capitalism itself or to breathe new life into capitalism itself. Capitalism came from feudalism and according to the theory of Karl Marx, our future society will be based on some sort of socialism. However, very few people can be satisfied by the present condition of existing socialist countries. At the moment our society has no future or no exit, and we cannot, of course, go back to feudalism. In this severe condition one possibility is to return to the starting point of capitalism, in other words, to recreate capitalism all over again.

As V.I. Lenin, the leader of the Russian Revolution, indicated in his famous book, "IMPERIALISM" capitalism can be divided into two periods, free-competition and the age of monopolistic capitalism. In the first stage, small businesses were the main actors and among them there was severe but also very fruitful competition, which is always a source of energy for society. To put it boldly this energy is now being lost. If we are not satisfied with the present condition, in which we can see a lot of problems, and also reject the notion of a transformation to socialism, the last card left for us to play is, "Return to the Starting Point of Capitalism". It is not out of place here to quote a part of presentation by Mr. David Tripper, who was an active Small Business Minister in those days.

"During the 1950's we looked more toward the development of large firms as a source of economic growth and as an essential ingredient to competing in the world market". However, this expectation was not realized satisfactorily and to make matters worse, what big businesses created was not economic growth but a rise of unemployment, so it is quite natural that the British Government changed its attitude toward small business dramatically.

Mr. Tripper continued;

"But we can now see the change taking place. The value of entrepreneurs is now recognized and they are encouraged". (The Speech by Mr. David Tripper at the European Bankers' Small Business Conference in 1984)

To some extent I understand this feeling, but assuming we need to encourage entrepreneurship, who should be encouraged by whom? Anyway we have to return to our main argument.

What I hope to prove here is that small business policy has been, to a large extent, implemented as a part of employment policy, and this is the most notable characteristic of British small business policy. It also explains the enthusiasm for a small business policy, which has been regarded as a cheap and effective employment policy: Mrs. Thatcher wants to see:

"a get-up-and-go, instead of a sit-back-and-wait-for it Britain. This means creating a new culture, which breeds a new generation of men and women who create jobs for others instead of waiting for others to create jobs for others instead of waiting for others to create jobs for them"(The Speech of the Prime Minister at the Small Business Bureau Conference in 1984).

In spite of some exaggeration as is usual in a political speech, we can feel something of a new attitude, as well as a degree of expectation toward small businesses. However, to avoid misunderstanding, we should note an important fact here. Some people say that a new era of small businesses is coming to replace the long continued big business age which has lasted since the beginning of the twentieth century. But this view is, in my eyes, not free from a sort of political propaganda which seems to be essential for Mrs. Thatcher to maintain her present Government. She must offer something to unemployed people and self-employed people. But anyone who has studied economic history must admit that the basic structure of our present economy must be defined as a big business system and this will never change so long as capitalist society continues to exist. After a long recession since the oil crisis in 1973, Britain as a

capitalist society needs something to stimulate its stagnant economy, that is, an entrepreneurship originally based around a small business. In other words, today's capitalism needs to take a restorative to cheer itself up and the activeness of small businesses seems to be the best medicine for its chronic disease. One can see clear evidence that society has been losing its fundamental energy and the economic development on which we have enjoyed a long-lasting prosperity since World War II.

#### Section 2. The Amalgamation with Venture Boom

We must not overlook another factor, which exercises great influence on small business policy in Britain. At the time as small business policy was launched in Britain, American-style venture capital crossed the Atlantic. Before 1979 there were several financial institutions which we could call venture capital, for instance, the Chartered House and Technical Development Trust (recently a part of 3i Group). But their activities were "hands off", i.e. they never took part in the day to day management of the enterprises. On the contrary, American-style venture capital companies have "hands on" approach to their clients, and two capitals of this style started in Britain in 1980: Venture Founders Capital and Rainford Venture Capital, which became a band wagon of the boom since then.

In order to find the reasons for this venture capital boom, it is useful to look at the changes which have recently taken place in the financial structure of Britain. Since the second oil shock, "the divorce" between huge banks and major businesses became very widespread. Under the stagnant economy some big businesses, which used to be good customers of big banks, were very negative toward new investments. At the same time, other profitable industries, such as automobile and electric companies became able to finance their expansion



from their retained earnings. Consequently, they did not need bank finance any longer. A typical example of the latter in Japan is Toyota Motor Co., they have been not only a no-bebt company but also a big bank by themselves, because they have been lending huge amounts of money, mainly to the members of their group. Toyota's income from financial activities was almost the same as the total profit of Kyowa Bank in 1983. So it is hardly an exaggeration to call the automaker "Toyota Bank".

As a result of the divorce, which is very common in many developed countries as well as in Japan, big banks have been facing an excess of lendable funds, so they need to find new outlets.

Generally speaking, there are three possible outlets. The first one is the field of international finance, where British banks have been predominant in the past, but American and Japanese banks have recently begun to enter and pose a major challenge. Table 1 shows that the total assets of Japanese banks located in London were about twice of their American competitors. Because of severe competition, this field is gradually becoming a less profitable business than in previous periods. The Report

Table 1  
Foreign Banks, Market Share

	million			
	Sterling		Foreign Currency	
	Deposits(%)	Advances(%)	Deposits(%)	Advances(%)
U.S. Banks.....	12,992( 6.4)	7,808( 6.2)	83,810(17.6)	24,091(20.1)
Japanese Banks...	10,599( 5.2)	3,878( 3.1)	151,721(31.9)	23,521(19.6)
Other Foreign....	28,937(14.3)	14,091(11.2)	140,592(29.6)	35,652(29.7)
Consortium Banks..	1,840( 0.9)	684( 0.5)	13,385( 2.8)	6,209( 2.7)
	54,368(26.8)	26,164(21.0)	389,510(81.9)	86,473(72.1)

Figures in brackets are percentages of the total for all British banks

Source: The *Financial Times*, Oct. 7, 1985.

of the Bank for International Settlements comments as follows; "British banks' share also declined last year and on one method of counting Japan is now the biggest

international bank lender after aggressively grabbing market share." (The Guardian, May 10, 1985)

The personal loan seems to be another solution but an essential requirement for entry into this field is a well developed computer system and in this area British banks are late-comers. Now they are very keen to catch up to U.S. banks competition with other financial institutions, for instance, building societies, will become more severe in near future. Since the 1970's, building societies have been the biggest deposit takers in the U.K. The dramatic

Table 2  
Distribution of Deposits between Banks and Other Institutions  
m. Dec.

	Percentages of total in brackets			
	1962	1971	1976	1980(Sept.)
<b>Banks</b>				
London clearing banks	7,168	10,779	21,760	36,198
Scottish clearing banks and N. Ireland banks	886 (5.4)	1,348 (4.0)	2,929 (4.2)	4,972 (4.1)
Other banks in UK	431 (2.7)	2,994 (8.9)	8,635 (12.5)	18,042 (12.3)
<b>TOTAL BANKS</b>	<b>8,485</b> (52.5)	<b>15,121</b> (44.8)	<b>33,324</b> (48.2)	<b>59,212</b>
Building societies	3,510	12,176	26,271	47,334
Local authorities	662 (4.1)	1,300 (3.8)	2,868 (4.1)	6,121 (5.0)
Finance houses	202 (1.3)	548 (1.6)	317 (0.5)	1,244 (1.0)
<b>Total</b>	<b>16,148</b>	<b>33,773</b>	<b>69,196</b>	<b>122,802</b>

- Note: 1. For 1962, "current and deposit account"; subsequently sterling deposits of UK non-bank residents.  
2. Including National Giro.  
3. Coverage of series increased in 1976.

Source: Committee of London Clearing Bankers' Stage 1 evidence to Wilson Committee, Table 1 and *Financial Statistics*.

expansion of their share of total deposits, which was supported by a favourable tax incentive program, stands in sharp contrast to the decline of clearing banks. All the

above factors contribute to the recent tendency for big banks to move into mortgage finance as well as small business loans and this detail can be seen in Table 2 and 3 very clearly.

At any rate, British bank's ability to create new business in the fields of international finance and personal loans does not look very easy due to competition with foreign banks and other domestic institutions. Compared with above two, the third outlet seems to be very hopeful and attractive because there is almost no competition. This is small business finance.

Table 3

	Deposits with Banks	Deposits with Building Societies
1977	21018	31710
1978	24174	36609
1979	30357	42442
1980	36598	49617
1981	40286	56699
1982	50007	66993
1983	52499	77243
1984	56594	90365

(unit: £ million)

Source: Central Statistical Office

The general condition of the small business finance varies greatly from country to country. For instance, in Japan, there are several kinds of financial institutions serving only small business. In addition, Japanese big banks are already engaged in small business finance. We can observe that their commitment to small business has been rising dramatically since the second oil shock. Table 4 shows that over 50 per cent of their total lending goes to small businesses (this figure includes personal loans as well). As a result the competition between big banks and other small-finance institutions is getting increasingly serious and some of the latter group are now in a very critical situation.

The condition in Britain is quite different and is

Table 4

Year	Whole Banks			City Banks		
	Balance	Rate to Total Lending(%)	Variation to previous Year	Balance	Rate to Total	Variation to previous Year
1955	11,730	36.3	1,913	6,043	32.1	1,562
1960	26,712	31.5	4,194	12,915	26.5	1,780
1965	59,172	30.3	7,055	26,161	23.8	3,159
1970	132,566	32.4	18,320	56,986	25.4	7,469
1975	50,467	38.9	32,178	165,502	34.2	13,485
1977	523,268	48.0	63,588	250,458	43.5	30,296
1978	600,629	50.4	77,361	288,571	46.3	38,113
1979	651,148	51.0	50,519	312,057	46.3	23,486
1980	693,126	50.5	41,978	331,340	46.4	19,283
1981	763,412	50.4	70,286	366,153	46.7	34,813
1982	842,805	50.5	79,893	406,832	47.3	40,679
1983	957,573	51.9	114,768	465,107	49.1	58,275
1984	1,100,135	53.0	142,562	536,687	50.7	71,580
1985QI	1,100,135	53.0	43,647	536,687	50.7	21,993
QII	1,143,361	52.8	3,446	541,900	50.8	5,213
QIII	1,143,361	53.6	46,672	564,323	51.6	22,423

Source: *Kinyu*, Dec. 1985 (Journal of Japan Bankers' Association)

also quite satisfactory for the major banks. When they started the small business finance, in many cases, they were welcomed with a red carpet by small businesses and they got very warm support from government or local authorities. Apart from ICFC (the Industrial and Commercial Finance Corporation, founded in 1945), there are no specialized financial institutions and small business finance has remained a pending issue known as "the Macmillan Gap".

One obstacle to small business finance in the U.K. is the tradition of adhering strictly to the notion of "the gearing ratio". Britain has a long history of being "traditional" and this is also true of British big banks. We will now consider how British banks were able to enter small business finance in spite of their long traditions.

According to the statistics announced by DIT, there are over one million businesses in the U.K. and almost all of these can be classified as small businesses. If big banks want to approach them, the first task is to select

their clients among the huge number of small businesses. But this is easier said than done, because in addition to their number, the ups and downs of small businesses are too rapid to follow. In this sense, it was quite natural that the banks launched consulting and advisory services for small businesses as the first stage.

Barclays set up its business advisory service in response to the 1971 Bolton Report on small businesses, it started operating in earnest in 1973. Lloyds set up a similar service in 1976. Such advisory services play the role of an antenna, procuring useful information and channeling their funds to promising small businesses. The traditional attitude of banks toward small businesses has been rather cool or conservative, therefore in many cases they have been very reluctant to practice this new business by themselves. Very often they chose the way of lending funds indirectly, through their subsidiaries or venture capitalists investing funds in new enterprises. Of course, there is considerable variety among the four major banks. National Westminster is keen to do small business finance directory and they launched a new type of special loan, the Business Development Loan. On the contrary, Midland has been promoting their small business loan through their subsidiaries.

Table 5 presents a bird's eye of the small business loans developed by big four banks.

Table 5

		£	
Barclays	Business Development Loan	5,000	- 500,000
	Business Start Loan	5,000	- 100,000
	Basis Loan	250,000	- 2,500,000
Loyds	Asset Loan	5,000	- 25,000
	Enterprise Loan		over 25,000
	Business Loan	2,000	- 500,000
Midland	Small Business Loan		under 15,000
	Business Development Loan		over 15,000
NatWest	Business Development Loan	2,000	- 500,000

fnote f

Asset Loan and Enterprise Loan were integrated into Business Loan in May of 1985.

Among these loans NatWest's Business Development Loan is worth explaining more because it has the longest history since 1971 and also since it has only issued the publicly available statistics.

Table 6 shows the number of customers as well as total sum of these loans by industry. It is very clear that the service and distribution sectors form the lion's share, 29% and 46% of total respectively.

Table 6.  
Current Portfolio of Business Development Loans  
(by Industry)

	No. of Loans	Principal '000s
Agriculture	2,743	36,810
Water & Energy	38	479
Manufacturing	12,034	152,086
Distribution	45,248	615,731
Transport	5,493	40,780
Financial	260	5,473
Other Services	34,205	383,595
Miscellaneous	2,499	18,600
Construction	4,177	75,294
Total	114,282	1,328,848

Source: National Westminster Bank

Judging from Table 5 and 6, we are obliged to say that the traditional attitude of big banks toward small businesses, once very cool, is now changing and on the surface, the pace of small business finance is picking up dramatically. However we cannot overlook the background of this revolution. Why did the banks develop these new types of loans? It seems the big four banks changed their mind suddenly, in accordance with Mrs. Thatcher's hope to get small business's support. But we cannot, of course, expect banks to act out of charity or innate benevolence. They are doing their business amidst the severe competition, that is Capitalist society, therefore, they must seek their own merits which will promise them to produce a profit. What is the merit in the case of these "soft" loans? Here we must mention the so-called, "Hard

Core", about which British bankers have been complaining for a long time. Traditionally, British banks have lent their money to businesses in the form of overdrafts, even in the case of fixed asset loans, and accordingly a certain amount of money was constantly on loan to business. In principle, the balance of overdrafts should be relatively small and temporary, but in Britain this phenomenon was very common, and people call this constant balance of overdraft, the "Hard Core".

It was not a major problem when banks gathered deposits mainly in the form of current or 7 days notice accounts because interest rates paid to depositors were very small and fit well with the over draft rate, which seems to be the best way of borrowing in terms of convenience. However, since 1980, as a part of the "financial revolution" imported from the U.S., many new types of deposits were introduced and main characteristics of them are the combination between the liquidity of current account and the high interest rate of term deposit. In order to pay such high rates banks must now demand similarly high rates from their clients and in the eyes of bankers, the overdraft is no longer appropriate for their business. This is the main reason why they rushed to start new types of loans and this analysis is supported by Table 7, which clearly shows incredible high rate.

It is hard to imagine how any institution could offer to pay such a high rates -- often above 20%.

Table 7  
Interest Rates for Business Development Loans

Term	Flat Rate (%)		APR (%)	
	with Collateral	without Collateral	with Collateral	without Collateral
1 - 5 years	8	9	16.5	18.3
6 - 10 years	9	10	15.9	17.5
11 - 15 years	10	11	16.9	18.3
16 - 20 years	11	12	16.6	17.9

Source: National Westminster Bank.

Big banks are in a better position than small businesses to take the initiative, as is the case worldwide, so the move from overdrafts to new types of fixed-term loans is actually proceeding surprisingly smoothly.

We thus arrive at the confluence of two streams, small business finance and venture capital boom. Since American-style venture capital crossed the Atlantic in 1979, the number of such firms has been increasing and reached one hundred by the end of 1984. This is an indication of the "Venture Capital Boom", which is still continuing.

According to the financial times, the United Kingdom is now the biggest venture capital nation in Europe. Total investment amounts about 3.1 billion ECU, which is equal to five times of Netherlands (the second-place). The Economic Progress Report published by the treasury quotes the speech of the Chancellor as follows:

"In the long term I believe this expansion of the venture capital market is of the highest significance. Many of the new companies which have been established will be major employers by the end of the century.

And a bid later this report said;

There are now over 100 venture capital funds, investing approaching 300 million in 1984 and growing fast...

Even in a wider international context the British venture capital industry looks impressive. Already it bears comparison with the U.S. where venture capital has been well-established for some considerable time. In the first half of 1985 over £150 million was invested here. As against \$1.3 billion in the U.S. In terms of proportion of gross domestic product in the two countries the British figure is the higher. A comparison with other European countries is at least as striking. The U.K. now accounts for two thirds of the total venture capital investment throughout the European Community.

Space does not permit us to explain the business of venture capital in detail, but the first step is to select the client and invest funds, mainly in the form of equity. Several years later, equities are sold on the market



realizing a capital gain. Therefore, the most important prerequisite to a venture capital industry is a well designed equities market, a stock exchange market. But the traditional stock markets have been available only for big businesses. A very limited number of small businesses are able to list their shares on the market every year, for instance, in Japan just 10 in 1984.

However, after years of knocking, the heavy door of the stock exchange market is starting to open gradually. As a typical and striking example, we must take note of NASDAQ, whose remarkable development can be seen in Table 8. This American market is already well known and needs no introduction here. Instead, we would better to take a brief look at The Unlisted Securities Market in Britain. USM was launched in 1981 as a specialized market with only eleven stocks.

The Financial Times has presented very useful figures and tables describing the present condition of the USM, so

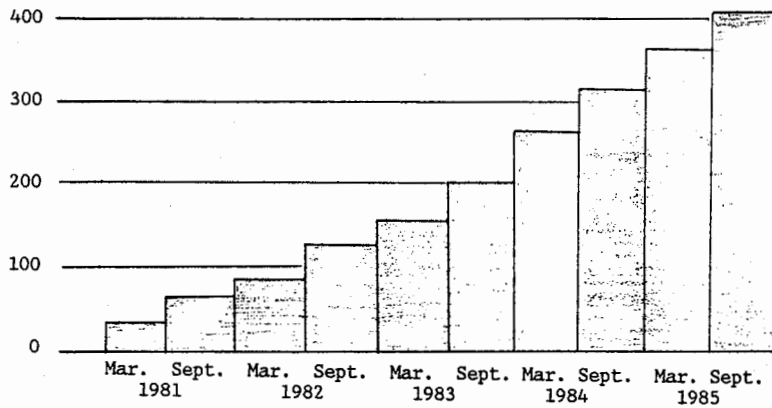
Table 8  
Development of NASDAQ

Year	Number of Companies	Annual Share Volume (in millions)
1984	4,097	15,159
1983	3,901	15,909
1982	3,264	8,432
1981	3,353	7,823
1980	2,894	6,692
1979	2,543	3,651
1978	2,475	2,762
1977	2,456	1,932
1976	2,495	1,684
1975	2,467	1,390
1974	2,463	1,180
Percent Increase		
1974-1984	68.2%	1,185%

Source: NASDAQ Fact Book 1985

it also is convenient for us to reproduce some of them. Fig. 3 shows the very steady growth of USM: the number of companies whose stocks are traded in this market reached 400 by the end of Sept. 1984.

Fig.3 Companies Entering The USM



Source: *Financial Times*, January 27, 1986

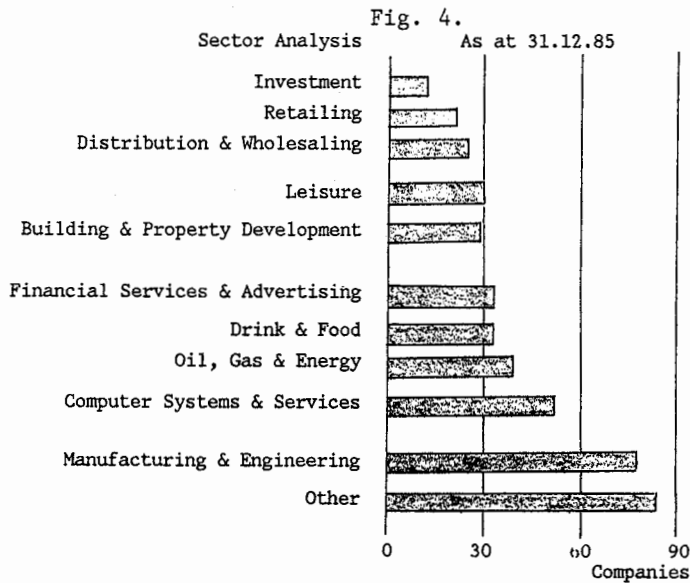
Table 9 presents the total funds raised by USM

Table 9  
Money Raised by USM Issues  
Raised on Entry

1980	Q4	6.2	4.8	11.0	--	11.0
1981	Q1	0.8	1.4	2.2	--	2.2
	Q2	12.2	13.5	25.7	--	25.7
	Q3	6.6	5.2	11.8	5.6	17.4
	Q4	5.7	22.6	28.3	0.6	28.9
1982	Q1	2.0	4.1	6.1	28.1	34.2
	Q2	10.8	1.1	11.9	--	11.9
	Q3	15.1	20.3	35.4	1.6	37.0
	Q4	9.5	13.3	22.8	7.8	30.6
1983	Q1	1.6	7.0	8.6	3.0	11.6
	Q2	36.9	31.5	68.4	14.8	83.2
	Q3	13.3	35.6	48.9	7.1	56.0
	Q4	27.0	32.7	59.7	29.1	88.8
1984	Q1	21.9	25.1	47.0	15.0	62.0
	Q2	18.3	35.8	54.1	15.2	69.3
	Q3	15.8	11.4	27.2	9.7	36.9
	Q4	19.6	11.5	31.1	7.0	38.1
1985	Q1	12.0	17.1	29.1	41.2	70.3
	Q2	23.8	31.3	55.1	38.4	93.5
	Q3	21.9	30.6	52.5	21.5	74.0
Total		281.0	355.9	636.9	245.7	882.6

Source: *Financial Times*, January 27, 1986.

issues. Although we can see a rapid growth both in terms of the number of companies and the total amount of money a glance at Fig. 4 (the List of Sector Analysis) shows a clear imbalance by industry, (for instance, the computer industry occupies a disproportionately large share. This explains the fact that fluctuations of stock prices have been very wide in the USM, as a result, which is not appropriate to "widowes". The collapse of Acorn Computer Co. was a symbolic accident which came to represent the dangerous character of the USM. However, we cannot deny that the USM has been contributing to sustain "the Current Small Business Fever" in this traditional country, and other Europe countries are just starting to come up with the NASDAQ European edition.



Source: *Financial Times*, January 27, 1986

Small and promising new firms are known as "ventures" in Britain as well as in Japan. The point must be made, however, is that new ventures do not constitute the majority of small businesses and indeed rather are few in number. Therefore, the policy for new ventures should not be the main small business policy. However, under the

venture boom, new venture policy has been regarded as if they were major one. Furthermore, other policies, which were originally designed for "non-venture" ordinary small businesses, are gradually changing into "venture policy".

As a typical example is the short history of the Loan Guarantee Scheme. LGS was established in 1981 as a three-year pilot scheme to guarantee bank loans to small businesses, but this scheme has now actually been suspended because of its sizeable deficit of £60 mil. Originally this scheme was organised as a self-financing program with premiums paid by small businesses forming a fund to be used to compensate bank loans in case of failure, but this original idea was not to be realized through bank's "generosity". Actually, banks expanded government-guarantees to very suspicious clients to which they would never lend without this scheme, and some critics regard this matter as "an abuse by banks".

Finally, Government announced two points of reform, first premiums were raised from 3% to 5% and second, guarantees were reduced from 80% to 70%. This does not represent a meaningful reform, however, and is little more than a lot of the expence of small businesses, many of which were now excluded. It is not an exaggeration to say, "LGS is almost dead at present". Under present conditions, only high-profit companies can apply to LGS. In other words, LGS has changed its original objective of "promotion of small businesses generally" into a special assistance policy only toward small high-profit so called "venture businesses".

Under the budget of 1986 LGS was restored dramatically as a centrepiece of the small business policy. Government announced that the premium paid for the government guarantee was halved from 5 per cent to 2.5 percent.\* We can point out next two as a background of this dramatical change. First, the Department of Employment took responsibility of the small business

\* The Financial Times, April 1, 1986.

policy from the Department of Trade and Industry last autumn (1985). This shows clearly that small businesses are considered as a main job creator. In fact, according to a study by the Small Business Research Trust, the small business sector created between 800,000 and 1.1m jobs over the past six years.\*\* In addition jobs created by the LGS cost the taxpayer only 700 each, it is more cheaper compared with 5,000 to 7,000 per head annual cost of unemployment benefit. The second factor stems from the political world, where a general election will be held next year, and in order to keep present government Mrs Thatcher is obliged to carry out some effective measures to reduce high unemployment rate in a short time.

In other words, small business policy has been absorbed into the venture boom. This is the second feature of British small business policy and also a main reason for the present enthusiasm for small businesses.

Let us examine another reason why these quite different streams converged. Along with other economic policies, small business policy is facing cuts in its budget. This is a sort of universal trend under Mrs. Thatcher, whose slogan is "small government" and inevitably a small budget means strict competition between policy targets. What is the criteria of selection? In order to answer this question, we must remember both sides of the small business policy "coin": job creation and revitalization of the British economy. The next question is what sort of business will create new jobs in a short period and also make a contribution to the technical innovation that will be needed for "the second industrial revolution". In fact, the answer is not as easy as had been anticipated, and policy makers did not have enough time to consider it, due to the urgent pressure of several serious economic problems. In the end an easy and very superficial answer was selected; that is, to promote the creation of new ventures. Consequently, almost all

\*\* Quarterly Survey of Small Business in Britain, 1985, Vol.1, No.4.

attention has been concentrated on new ventures and small business policy is likely to become more selective because companies that can be called new ventures are very limited. Briefly speaking the selectiveness, which was created under the strict budget condition, joined with the selectiveness of the venture boom.

Although small business policy should be more generous and should be open to any line of businesses, they have in fact become more selective as a result of its convergence with the venture boom.

It is necessary to say a few words about the small business owners as a group because their condition has had an influence on the strengthening of the selectiveness of policies. Until the mid-1970's there were almost no lobby groups for small businesses and even now, relatively few of them are organized. This means that the small business policy has been practiced not by small businesses but by other groups. Who are they? Who have been the supporters of small business policy? Here we can see a little bit shocking answer, the main promoters of small business policy are very often big businesses. Let us site some examples.

When Pilkingtons closed one of its factories in St. Helens, the company needed to find some way to promote small business in order to absorb unemployed workers and in order avoid getting a bad name as a destroyer of the regional economy. Almost a similar situation occurred in the case of ICI and British Steel. These companies are very keen to create new jobs, not inside their company, but outside. In order to do so they spent money (small, compared with the savings gained from the closure of their unprofitable factory) to establish counselling centres or to send some persons (specialists of small business management) to small business centres. The Confederation of British Industry can be seen as a pressure group of big businesses but they also have a special section treating

small business problems. If we take a look at the short history of enterprise agencies we can find more evidence. In 1979, London Enterprise Agency (LENTA) was established with the cooperation of big business. Since then its number of agencies has been increasing and now there are over two hundred agencies in the U.K. These cases indicate that the main promoter of small business policy is big business rather than small business, and this is the other factor which has been making British small business policy more selective. We should next consider the result of the combination of small business policy with the venture boom.

We have discussed the unhappy story of the Loan Guarantee Scheme, which was designed for the many small businesses who suffer from a shortage of collateral, but in the course of the venture boom, changed into a scheme devoted primarily to new ventures. This is also, to some extent, true of the Business Expansion Scheme. When the Government allowed investment trusts to take part in this scheme, the BES began to lose its initial purpose and turned into a means of special assistance for "new ventures". Ironically, this transformation of the BES has brought it great success. According to a special report published recently, under this scheme over £80 million was invested in 1983-84 and more than 4,000 new jobs were created. ("The Operation and Effectiveness of the Business Expansion Scheme", published by the Small Business Research Trust, in 1985).

The most striking feature of the BES was its favourable treatment by the government, which can be seen from the total amount of tax allowance granted through the BES amounted £40 mil. in 1983-84. The Loan Guarantee Scheme had been actually abolished until April 1986, due to deficits amounting to £60 mil. for three years. However, the BES costs £40 mil. for only one year. Why has the British Government been so generous to this one program? In my view, one of basic aims of the BES is to

prevent the outflow of investment to foreign countries, especially to the U.S. The Venture Capital Journal estimated that only one tenth of the total venture capital funds collected in the U.K. went to domestic businesses. The BES is clearly an inducement to stop this lamentable outflow.

The venture capital boom has also exercised a great influence on training courses designed for small business management. There are many kinds of such training courses and it is clear that there are more courses aimed at promoting new businesses compared with similar courses in other countries. In Japan, training courses are mostly designed for existing businesses. This is a remarkable difference between the two countries. Clearly, "new business course" is the result of the strange marriage between the venture boom and employment policy in the formation of small business policy.

Finally, we must note a strange phenomenon. During the four years of the venture boom, the number of unemployment has been increasing, and to make matters worse, the rate of youth unemployment is very high. In spite of the slogan of "creating jobs", we can see that this has not happened in practice. The rise in unemployment is not, of course, solely due to the ineffectiveness of the small business policy, but people have become suspicious of the job-creating ability of the present small business policy. Already some people are aware that "new ventures" do not always create new jobs and sometimes actually reduce jobs by using high technology. We have an analogy here with the story of "The Emperor's New Clothes". If some courageous and honest man says, "The Emperor is naked, no clothes" what will happen next?

The small business boom has been supported, to a great extent, by the venture boom, but it has been accompanied by problems. The stagnation of the U.S.M.,



caused by the crisis of Acorn Computer finally bought by Olivetti, could lead to the collapse of the whole venture boom, then the total structure of the small business policy will lose one of its pillars and will be in a great trouble. In that case the fundamental philosophy should be reexamined in order to create genuine policies.

#### Notes

- 1) Small Firms, Report of the Committee on Inquiry on Small Firms, 1971, London, HMSO.
- 2) The Financial Times described it as "an enthusiasm era of small businesses". (The Financial Times, June 22, 1982)
- 3) Committee to Review the Functioning of Financial Institutions.
- 4) The Economist.
- 5) The Financial Times, Dec.3, 1985.