

## From nothing to something? What does «post-globalisation» mean and how can we respond?

Charles Dannreuther,  
University of Leeds  
C.Dannreuther@leeds.ac.uk

### **ABSTRACT.**

150 – 200 words -

*Keywords:*

**THIS PAPER ARGUES THAT TO UNDERSTAND WHAT HAPPENED AFTER GLOBALISATION WE NEED TO EXPLORE THE SOCIAL AND ECONOMIC RELATIONSHIPS THAT SUSTAINED IT. TO DO THIS THE PAPER DEVELOPS CHANDLERS NOTION OF SCALE AND SCOPE TO EXAMINE THE PRE GLOBAL ERA AND THE COORDINATION OF RISK DURING THAT TIME. THE PAPER PROCEEDS BY EXAMINING HOW FINANCIALISATION RELIED ON THE ECONOMIES OF SCOPE FROM LENDING TO SMALL FIRMS BOTH AS A SERVICE BUT MORE IMPORTANTLY AS A SOURCE OF DEBT TO CONSTRUCT SECURITIZED ASSETS. THE SME WAS THE CORE SOCIAL RELATION DURING THE FINANCIALISATION PERIOD, NOT BECAUSE IT WAS ABLE TO COMPETE THROUGH FLEXIBLE SPECIALISATION BUT BECAUSE IT COULD SERVICE DEBTS. CENTRAL TO THIS CHANGE WAS THE INTRODUCTION OF NEW CONVENTIONS OF KNOWLEDGE MANAGEMENT IN BANKING. THIS DEVELOPED STATISTICAL REPRESENTATIONS OF SMALL FIRMS THAT COULD BE TRANSLATED INTO DEBTS READY FOR SECURITIZATION. THE PAPER OFFERS THIS AS AN EXPLANATION FOR THE SUPPORT OF THE CAPITAL MARKET UNION AT THE EU LEVEL BEFORE REFLECTING ON WHAT THIS TELLS US ABOUT THE EUPHORIC SUPPORT FOR SMES THAT EMERGED IN THE RUN UP TO THE CRISIS AND REMAINS WITH US NOW.**

## A IS THERE A POST GLOBAL ERA?

Do we live in a post global era? Some of the larger forms of political organisation associated with globalisation, notably the EU, appear to have foundered since the financial crisis. Alternative forms of regional associations, like the BRICs, have emerged but failed to establish themselves with the same density of integration. Economically the high levels of growth associated with the expansion of global markets have diminished and seem to have heralded a “new normal” of low growth (Galbraith 2014). Militarily the post 9-11 unilateral world order has increasingly begun to take on a bi-polar character with Russian aggression in Ukraine. Even neo liberalism, the ideological underpinnings of hyperglobalisation, has not been implemented evenly ( & Snaith 2015).

Alternatively much of the global order has been retained unharmed. While the pace of global trade may have slowed or shifted in many ways the radical reforms that have accompanied the Atlantic crisis have only accelerated globalisation. TTIP negotiations are advanced (Gabe), the Eurozone crisis has accelerated spillover into fiscal policies and privileged supranational over domestic actors (JEPP neo F piece). The rejection of political elites by populist globalisation protestors can be traced to some time before the financial crisis (Taggart ). The centralisation of power by core elites on the precept of managing responses globalisation may have depoliticised frustration in society, but it did not remove it (Burnham, Bonefeld).

Globalisation was therefore not a given, nor a definable set of events or phenomena nor an inevitability. Rather it was a form of power that held sway for some considerable period of time with a series of liberal and cosmopolitan utopias, Third Way politics and then brutal finance backed austerity. To understand globalisation we need to unpack the societal relations that it generated. It was the privatisation in the states, loosening of controls on corporations and increased individualisation of society that led to the uncertainties and contingencies that we describe as globalisation. We need to understand these changes so that we can understand how power was exercised through the distribution of uncertainties and risks that came with it (Dannreuther & Lekhi 1999).

Crouch begins from a new social risk perspective to unpick how post crisis nations in Europe have managed the distribution of uncertainty across classes (Crouch 2015). Just as access to capital allowed owners to protect themselves from the hazards of industrialisation by exploiting labour, so elites with surplus financial capital can convert ill specified uncertainties into manageable risks by investing in global markets. Crouch begins from the assumption that markets require flexibility and change to sustain the growth that guarantees real social mobility. But he also acknowledges that consumption and production need to be differentiated under capitalism so that consumption by workers is not affected by the vulnerability of producers. He explores this by place, and the global division of labour, and time, in the compromises between generations. From this he develops a typology of new forms of inclusive and exclusionary ways of balancing national labour insecurity with adequate levels of profit generating consumption.

The book is an outstanding achievement as it wrangles new categories of post crisis social risk governance from a wide range of data, including self employment and other forms of precarious work. It also rests on Regulationist assumptions in depicting the crisis as marking the end of a period of sustained growth moderated by now outdated institutional compromises. This is demonstrated by comparing data from 2000 with 2010. Yet there is little interrogation of the broader regime of accumulation that underpins the core dynamics of uncertainty and their social distribution nor explains the social tensions that distribute the risks unevenly between classes. This focus on structural power is a central part of our story.

To understand this we need to examine how the allocation of uncertainty has changed dramatically between Fordist and financial regimes of accumulation. In the following section

we use Chandler's distinction between scale and scope to show how risk performed different function in the distribution of uncertainty in ways that generated adequate levels of surplus to retain high levels of corporate return.

## **B. SCALE, SCOPE AND THE POLITICAL ECONOMY OF RISK (KNIGHT)**

Chandler's combination of the economies scale and scope to describe the emergence of the M form corporation helps us to understand how high levels of growth were realised in the C19th and especially C20th (Chandler). Economies of scale describe the reduction of unit costs through increases in volume, while economies of scope refer to the reduction in costs through greater diversity. The M corporation managed each to successfully capture market share and dominate the modern economy (Chandler XX). While literatures on the varieties of capitalism explain the political economy of national compromise, scale and scope explains how capitalism (rather than the national) was organised in a way that was profitable in the first place. This focus on capitalist process in redefining the relationship between classes was not always the focus of Marxist analyses despite his emphasis on a specific kind of production as prevailing over society:

“In all forms of society there is one specific kind of production which predominates over the rest, whose relations thus assign rank and influence to the others. It is a general illumination which bathes all the other colours and modifies their particularity. It is a particular ether which determines the specific gravity of every being which has materialized within it” (Marx )

Chandler explicitly rejected any analytical claims that extended to political or labour issues for his analysis but left it open for others to explore. Like Schumpeter and Chandler, and more contemporary political economists, Marx also does not over privilege production but sees it located in a broader social milieu:

“The conclusion we reach is not that production, distribution, exchange and consumption are identical, but that they all form the members of a totality, distinctions within a unity” (Marx)

This relationship between production and the broader totality of capitalist society is central to the Regulation Approach. The “distinctions within the unity” are often conceived as institutional modes of social regulation which allows analytical focus and rigour of the approach. The focus on production as the intellectual act of classification, rather than the material act of assembly, are of special interest in the work on conventions theory (classifying quality (Musselin & Paradeise 2005), fair trade (Renard 2003), developing markets (Fligstein) and attributing skills (Bailly 2012)). Interrogating conventions allows us to “denaturalise dominant constructs of competence or productivity” Bailly 2012: 12)

For Chandler it was only when the mass production technologies that delivered economies of scale were married with the marketing and distribution techniques that delivered economies of scope that the managerial corporation came to prevail (manufacturing, marketing and management made this the “M corporation”). It was the maintenance of throughput through the effective management of markets that allowed the benefits of mass production manufacturing techniques to generate the vast profits enjoyed by Standard Oil and its shareholders.

While Knight focused on the role of the entrepreneurial manager he is perhaps better remembered for his distinction between risk and uncertainty. He argued that as markets approached equilibria between demand and supply profit could be created by speculating on future behaviour. This could only be reliably done if there was a homogenous grouping from which statistically credible probabilities of prices and demand could be calculated. Managers

within the corporation could speculate on the future by extrapolating patterns of behaviour from the past. Like Chandler this would require a well organised corporation with expert (or competent) managers to coordinate the process. Like Chandler there were also economies of scale and scope to be realised in Knight's risk/uncertainty distinction. A production line that generated low unit costs could assume high levels of statistical accuracy. Calculating these unit costs would inform decisions about capital investment. The same applied to economies of scope investments in rail roads and marketing functions. The greater the homogeneity of the grouping was, the greater the predictability of demand and costs would be and so the greater the potential for securing the benefits of scale and scope. The degree of homogeneity in a grouping became a method for distinguishing between risk and uncertainty.

This explains the investment in the social institutions and welfare compromises that companies committed to in the golden years of capitalism. Economies of scale were organised by negotiating collective wage agreements with labour unions that enabled corporations to survive fluctuations in demand. Negotiating at the national level would reduce the costs of plant level negotiations realising economies of scale while the use of trade unions to also organise a range of other labour related activities (apprentices, working conditions, social events) offered economies of scope. Historically, in small scale societies the differentiation between goods and assets and the institutions that regulated and supplied them was limited. But as they grew gaps emerged in the assets available (schools) and in the supply of key public (security) and private (food) goods that necessitated the growth of the state. Industrial scale was accompanied by industrial society with its needs and institutions, hence the emergence of Fordism.

## C. ECONOMIC EXCLUSION UNDER FORDISM

The petit bourgeoisie were defined as peripheral to capital accumulation under mass production. Marx dismissed the lower strata of the middle classes because of their lack of capital and limited productive scale in the face of modern industry. Economically between the main classes the petty bourgeois socialism could only hope to inspire corporate guilds for manufacture and patriarchy for agriculture (Manifesto 26). They were destined to a "miserable fit of the blues" (Manifesto 60). This "miserable fit of the blues" took the form of a considerable body of the social support for national socialism in 1930s Germany (Childers 1983). Even before then much liberal and radical commentary has been dismissive of the petit bourgeoisie for its "egoism and narrowness of spirit" (Childers 1983).

But from the mid 1990s a body of work emerged that sought to unpack the reasons for this support. Crossick and Haupt revealed very ambiguous structural constraints to the development of a coherent class formation (Haupt and Crossick). The uncertainties of industrial transformation, local constraints and the social formation around the family impeded all contributed to the creation of a heterogeneous and disparate political group. They warn that

"the false perspective obtained by analysing 'a class' that appears to exist only at a time of extreme crisis, rather than recognising the fundamental functional division within it between entrepreneurs and workers" (Morris 1996:280)

The PB only appear to get their act together under times of great societal duress: the presence of an organised PB is therefore a signal of very bad times. Yet coherence had formed among the sector around the far right in the past, so under what conditions did this occur? The "social question" that characterised late C19th European politics was experienced as a drive for centralisation at the expense of the petit bourgeoisie.

"In Germany industry concluded the Stinnes-Legien Pact with the unions on 15 November 1918. Artisans therefore lost the political function they had enjoyed during

the Kaiserreich as a buffer between capital and labour. Then the formation of the Weimar coalition, including the Social Democrats, compounded this feeling of exclusion and encouraged a nostalgia for the more authoritarian days before the war when artisans had had a more secure political role and their socialist enemies had been kept firmly out of power". (Mckitrick 1996: 403-404)

A similar story was experienced in Sweden where competition with larger units weakened the closer ties between shop owners and their employees. The Swedish Model introduced by the Social Democratic party shared a common ideology with the unions, cooperative movements and larger corporations. Shopkeepers were "squeezed between different interest groups" (Eriksson 1996: 368). During the inter war years when economic and structural uncertainties prevailed, the petit bourgeoisie were therefore more politically exposed than the unionised workforce engaged in nationally significant production. Their recognition and valorisation by the state was in Germany less the product of political patronage and more in the pursuit of economic necessity (indeed PRO archive documents reveal that the UK's Ministry for Economic Defence spied on the German to see if it would work in the UK). Despite the ideology of self-sufficiency and liberalism that characterised many European petit bourgeoisie it was often state intervention, rather than self-organisation, that led to their effective representation in political life.

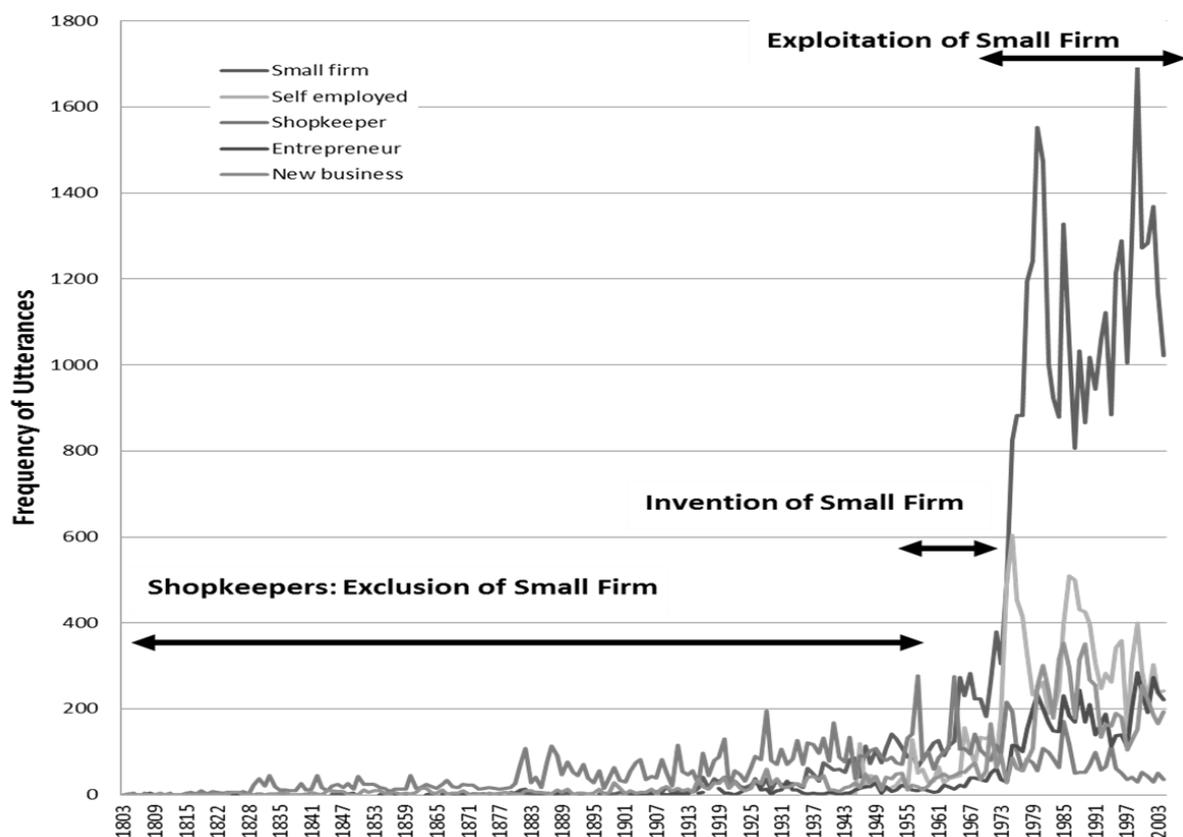
The artisan or self employed person was seen as a simple commodity producer working usually in an individual capacity and in local markets. They had limited labour, often fewer workers than family members, and so offered few opportunities for increasing profitability through capital investment or achieving economies of scale or scope. The uncertainty associated with these small firms was one of contingency. Undefined, unmanageable and individualist, the petit bourgeoisie inhabited a place where there was no universal truth because every experience was different. As if to make this point the most effective forms of credit supplies to small firms in post war Europe were the consequence of either direct state intervention or indirect financial market regulation (Zysman). Germany's KfW benefitted from Marshall Aid and used these funds to offer cheap credit to small firms. For economies with limited industrial growth national banks injected credit to small villages through local branches (as in France) and locally sponsored banks delivered credit to Italian small firms in the post 1945 period (Weiss). In these economies small firms were already regulated through corporations or through other state sponsored regulations that demanded specific skills to be able to trade. There was also a concern that the PB would lapse into fascism and so required political support (Weiss 1986). This allowed a certain level of common behavioural traits that regulated company behaviour and so enabled banks to manage the risk of investing in small firms. For banks in the UK the larger liberal market economy presented a gap for those seeking finance between bank loans and the equity markets. The main policy solution to this "Macmillan Gap" was to pool the risk of lending to small firms between banks in the Industrial and Commercial Financial Corporation. These loans were limited and unproductive.

But by the mid 1990s, the needs of society changed again creating a disjuncture between the goods and assets needed and those supplied by the state:

"In recent decades, however, an accelerating divergence has taken place between the structure of the state and the structure of industrial and financial markets in the complex, globalizing world of the third industrial revolution. There is a new disjuncture between institutional capacity to provide public goods and the structural characteristics of a much larger-scale, global economy. I suggest here that today's "residual state" faces crises of both organizational efficiency and institutional legitimacy. (Cerny 1995:598)

In this early piece on globalisation, Cerny refers to the concepts of scale and scope to explain the rise of regional trade areas in place of nation states, and the acceleration of corporate and financial market integration across the world. This ground breaking explanation of globalisation relied heavily on economies of scale in the emergence of regional trade areas with standardised market rules. A large literature emerged on the changing competences of public administration in the competitiveness literature, new public management literature and a wide range of practices designed to improve public sector performance through benchmarking and good practice. But there was only scant discussion of the political economy of scope.

Yet this was also a time of dramatic increases in interest in small firms (Dannreuther & Perren 2013). As the chart beneath shows synonyms for enterprise in UK Parliamentary debates spiked sharply from the 1970s. While many attributed this to economic changes that led to small firms the spike is too sharp, the speakers too few and too many from government (rather than MPs) and the range of issues to dominated by the concerns of the core executive.



From the period of the mid 1970s to the late 1990s Fordism transformed from a period of growth based on flexible specialisation to one dominated by a finance led regime of accumulation. The economies of scope enjoyed during the mass production era had relied on reducing labour costs through concerted labour market institutions, They had also relied on dependable mass production in consumer markets that competed over price rather than quality. But with more complex societies with differentiated needs, flexible forms of production line that enabled short batch specialised production and a shift in economic emphasis to services such as marketing, these labour market institutions were too inflexible to offer the economies of scope that matched labour with consumption. Flexibilisation failed to deliver high levels of growth but it did enable the breaking up of modes social regulation that had sustained accumulation under mass production around wage labour relations. For finance

to become fully established as a stable regime of accumulation society would have to evolve new forms of institution around social relations productive for finance.

#### D. REPRESENTATION, CONTROL AND ECONOMIES OF SCOPE

The main obstacle to realising economies of scale and scope is the issue of control. IT technology does not present problems for scale or scope as processing data on market behaviour benefits from huge mainframes (scale) and the same computer can do a little or a lot of calculations without any additional costs (scope). Nightingale & Poll demonstrated that despite investing over \$1billion a year in IT systems, Chase bank was unable to manage the complexity of its new trading technologies because of issues of control. Scale and scope were possible even in a service corporation, but only because the development of new capabilities in control allowed this to happen. Achieving “purposive influence towards a predefined goal” (ie control) requires “communication between processes” and a “feedback mechanism to guide and redirect future action” (Nightingale and Poll 2000: 121). In the language of politics this is representation.

There are two key forms of representation in traditional political theory: “principal agent” and “microcosmic” (Held 1991). In the former the principal (voter) delegates the representative function to a representative (barrister, politician, interest group) who channels their interest into the political sphere. The latter is like a photograph that attempts to capture a real or objective picture of the constituency and is most closely associated with statistical representations of groups. Both forms of representation are expensive. For the principal agent there are multiple checks and balances that delay the process of consultation. Before the first baby is kissed, constitutions must be drafted and codified, political parties formed (and their leaders chosen), generations of tradition and history must be referenced, focus groups consulted, interest groups entertained and all within a short and frenetic period of electioneering. Once in power, in a majoritarian system, there is then no obligation to comply with manifesto promises for at least the first half of the electoral cycle after which politics intervenes to distort economy and society at a whim. The costs of representation, and the uncertainties they present, are enormous in both the short and medium terms and in the end these costs are born by capital and so labour.

Microcosmic form of representation offers far greater opportunities for control. This is evident even if we ignore all the costs of organised political activity and labour strikes that may secure expensive egalitarian policies. Representation can be delivered more cheaply through surveys designed to address specific issues than expensive electoral campaigns. Auditors can use predefined methods and recognised standards to count the importance the value and the cost of new initiatives in ways that are far more predictable than the random outcome of elections. This enables significant economies of scale in representation. Microcosmic representation also allows for greater economies of scope. By reducing the role of the political agent to a supervisory one (Majone), technocratic decisions can prevail in the assessment of credible needs and voices. Accounting standards and procedures can deliver transparency by using techniques like cost benefit analysis, by defining performance criteria and by comparing these across different sectors of the public and then private sector (Henkel, Hood, Power).

#### E SCALE, SCOPE AND CONTROL IN SMALL FIRM FINANCE

Barclays had been interested in small business banking since the publication of the Bolton report in 1972. The bank’s Business Marketing Director took Barclays to market leaders in small firm finance sector in the late 1980s. Their research interest in small firms began with the government inquiries into small firm finance in 1986-9 but it remained a side issue in comparison to other sectors. Uncertainty caused by two environmental changes radically

altered Barclay's attitude to small firms. The Big Bang heightened competition in credit established markets, such as mortgages and personal banking, forcing Barclays to find new markets. And just as they were engaging with this new area of activity, the recession of the early 1990s contributed to a dramatic increase in the closure of small firms. Barclays suffered dramatically with their newly increased exposure to small businesses. £369 million was lost in 1991 from small firm debts going bad a significant proportion of Barclays losses for that year. Small firm failure was their greatest loss sector in the UK due to the severity and abruptness of the recession. An understanding of the small business market was therefore essential.

While structural changes occurring in the UK financial sector generated uncertainty for the bank, Barclay's decision to coinvest in a government sponsored research project on small firms (the ESRC's Small Business Initiative SBI) was based on a constellation of contingent factors, like the back office moving to Coventry and looking to build ties with Warwick University. The fit of the SBI was down to Barclays receptiveness. This eased the impact of the SBI in the development of capabilities, the uptake of particular categories, the use of new data and development of training packages.

Barclays engagement with the SBI was managed actively by a senior manager in Barclays and the bank's senior SME economist who circulated working papers to relevant parts of Barclays (eg risk areas, marketing etc). Their entrepreneurial behaviour stimulated engagement with the research, identifying specific individuals prepared to take time out to think about the issues. The reception within the organisation was therefore skewed by functional requirements and individual attitudes to new ideas. Later dissemination within the organisation became more systematic.

By the time of the SBI Barclays had data on small firms analysed by dedicated personnel. This enabled Barclays to extract more from their interactions with leading experts and to engage with the academic side of the research too. Barclay's senior SME economist had a PhD in industrial economics and experience in both the small business lobby and the DTI, where he had worked on placement in the first Loan Guarantee Scheme. Once the value of the SBI's research had been acknowledged, it became clear that there was a strong case for an in house SME research team. In addition to intellectual property issues, commercial data used by the bank needed translating or academics needed training, both of which added to the cost of using an external academic.

Institutions think through categories (Douglas 1987) and there were many examples of how the SBI's identification of a segmented small firm sector were acted upon by Barclays. The accounting categories developed on the small firm balance sheet were copied, as was the small unquoted company balance sheet in account analysis and, after changes in tax and company law, the principles were used by many of their customers. The segmentation of small business customers into lifestyle or profit orientated companies, managerial or family run were not well known in academia but became broadly used afterwards. SBI work on different types of finance was crucial in understanding that Barclays products competed not just with other banks but also with different products offered within Barclays. Barclays had owned leasing and factoring operations before the SBI but now that they could see the tradeoffs between products they could present finance packages to meet the needs of small firm customers. Rather trying to sell loans they examined how their range of financial products best fitted the customer's external finance requirement. This helped them realise economies of scope from their marketing.

With 20-25% of small business economic activity in England and Wales through its books, Barclays now had a survey size that far exceeded any academic sample. But sometimes an external view, or a technique developed outside that could be applied internally, would augment their representation of the customer view. SBI work on dividing sources of finance

between family and friends had been especially important in their segmentation of the market. These longitudinal surveys were qualitatively different to bank data and useful in two ways that the Barclays could not replicate. First it was politically independent. This helped the bank provide reassurance to potential critics of the banks financing of small firms through robust independently produced data. Second the data was a different sample. Internal banking data was arithmetically perfect and plentiful but could not answer certain questions. By starting at the level of the small firm questions like “Have you applied for a loan?” and “How many banks did you apply to?” provided a perspective that Barclays data could not disaggregate from its own data. This provided additional texture and independence of analysis that Barclays could trust.

The SBI also developed management capabilities on small firms through training. Barclays commissioned Warwick Business School to summarise the output of the project and design and deliver a training programme for business managers. Barclays employees involved in small business banking are still required to take *Understanding Small Business 1&2* (based on Storey 94). It ensured that staff had the practical understanding of small firms they needed (eg balance sheet, and lifestyle etc) all of which came from the SBI. The only significant change since was that online modules replaced the 10 day residential course. The SBI therefore represented an important stage in the development of the small business banking capability of one of the major players in small firm finance.

## F. CONTESTED RISK IN SMALL FIRM BANKING

Since Macmillan a key problem of small firm banking had been the information asymmetry that favoured the entrepreneur over the bank. With the volume of data and analytical technologies available to banks, and the new capabilities in management, the asymmetry had been all but inverted. This changed the nature of the Macmillan gap from a loan acceptance rate of 60% on established customers when the Bolton Committee report was published (1972) to an 80% acceptance rate overall by 2006 with more than 90% for established companies. This was better than the USA. The Macmillan Gap changed in size from what had been a massive sum in real terms to just £100-200k.

The Small Firm Loan Guarantee Scheme (SFLGS) demonstrated the importance of the SBI. When the Wilson committee was set up in 1979 there was a tangible finance gap which the SFLGS was meant to close by guaranteeing bank loans to small firms with insufficient collateral but good prospects. During the 2004 Graham review of the SFLGS the banks convinced Government that the nature of the gap had changed. With the amount of data now available on small firms, and the conceptual apparatus to analyse it, Barclays had a very good idea as to the risk element of an applicant. Whilst the customers’ security still has a role to play in the price of lending, amongst small loans in particular it has a much reduced or no role at all now in the actual decision to lend or not to lend. The SBI came right in the middle of the change in these ways of assessing credit worthiness.

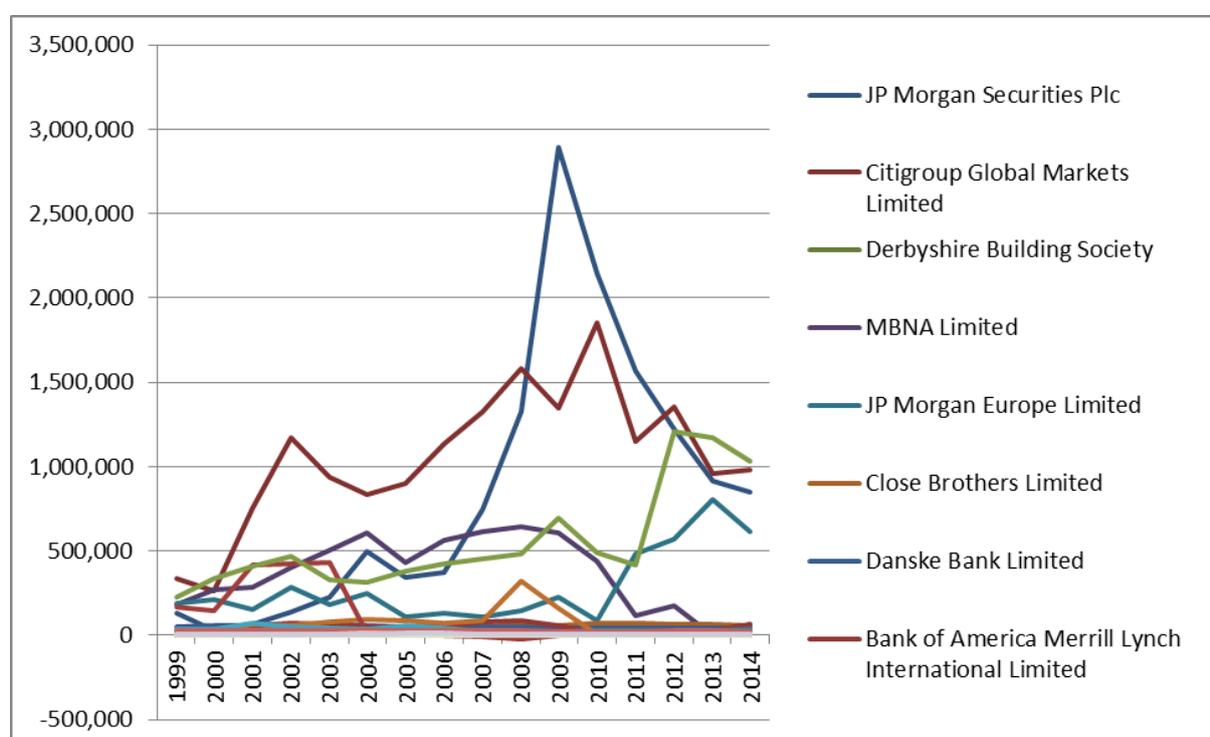
## G. FINANCIALISATION AND ECONOMIES OF SCOPE IN SME FINANCE

The shifting economies of scope that led to globalisation were in fact driven by changes in financial practices. While the Barclays case study above indicates how change in control took place in one country and in one bank, the shift in small firm finance was far more dramatic during this period. During the 1990s the widespread extension of credit scoring, similar to that described above, offered whole new income stream for banks. Small firm bank accounts did become more profitable for banks in the UK (even during the recession). But it was the ability to translate these debts into collateral that could then be securitized and sold for an

additional income stream that was vital to the evolution of finance as a dominant regime of accumulation. As Eisbeis observed in 1997:

“... credit-evaluation systems .. quantify the risks of small-business borrowers so it becomes possible both to value and to monitor the payment performance of portfolios of these assets so they can be securitized and funded in the open market. ... then the value of the traditional banking charter decline[s] ... and the door will rapidly open for non traditional suppliers of credit to tap this market” Eisbeis 1997

Small firms were no longer a liability which needed public insurance from to encourage lending. It had become a central opportunity for income generation for financial institutions. After the unstable years of SME orientated manufacturing growth in the 1980s and early 1990s the huge increases in wealth creation from credit scoring and securitization presented the SME as a whole new opportunity. Rather than representing a client to deliver services to, the SME became a source of collateral through which to generate speculative returns. The fees alone from these activities are extraordinary. Bankscope UK data shows net fees and commissions as increasing both before and after the financial crisis.



Like other sections of the petit bourgeoisie – homeowners with mortgages, people with loans for cars or breast implants – these heterogeneous middle classes were no longer peripheral to the regime of accumulation but pivotal. But their place in the production process was redefined by the technologies and capacities of the new banks. SMEs were not only producing goods and services that they sold to consumers. Their most important contribution to the accumulation process was to service debts that served as collateral for securitization. As long as they serviced these reliably banks could generate secondary more lucrative income from the fees derived from securitized asset sales.

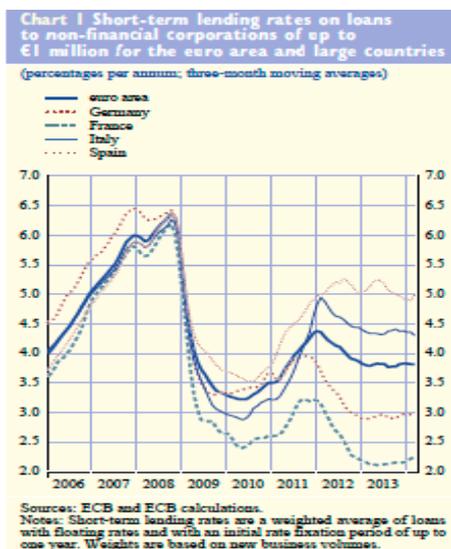
Securitization was entirely due to the economies of scope in lending to small firms and other parts of the petit bourgeoisie sector. The economy based on SMEs generating niche products in global markets, or innovating or offering services like marketing or legal support or nail polishing all play a vital role in the Financialised economy. But they could produce anything as long as they also produce debt.

## H. CAPITAL MARKET UNION

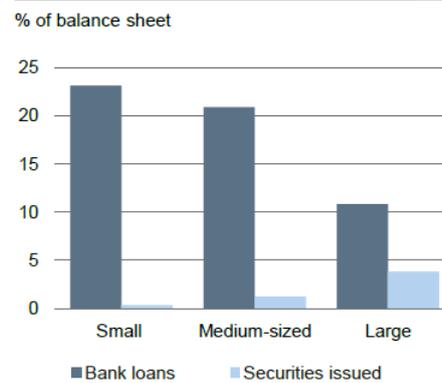
Recent calls for a CMU by the Juncker Commission and a wide range of financial elites (BoE to AFME) have placed special importance on the way that it will support small firms. Surveys of SME opinions have highlighted the primary concern is demand in the economy. But the second concern has been a common call for credit availability.

European SMEs are up to three times more likely to rely on bank finance than their US counterparts and significant variations in lending rates have emerged between core and periphery economies since the financial crisis (see chart 1 from ECB 2014:80). The ECB's solution to SME finance has been to promote the securitization of SME debt (EIB 2013; Coeuré 2013; Bank Of England/ECB 2014).

This aims to allow banks to lend more while complying with Basel III, increase competition between banks and kick start the EU's economy using private rather than public investment. The choice of this particular form of intervention is because of the lack of availability of SMEs to securitized issues (fig 6 DB 2014:5) and the relative abundance of this form of finance in the USA (fig 8, DB 2013:5)

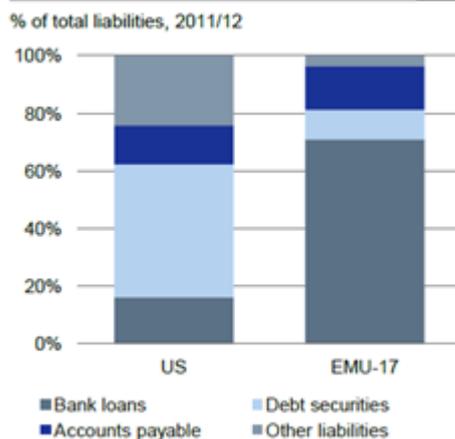


Limited market funding for SMEs 6



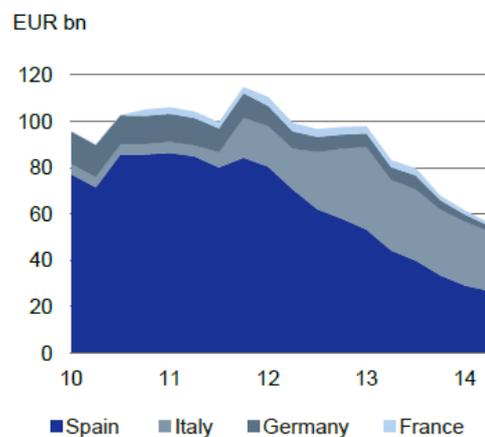
Countries covered are Austria, Belgium, France, Germany, Italy, Portugal, Spain and the Netherlands. Securities issued include bonds and other securities issued.

Bank versus capital market funding of non-financial corporations 8



Sources: Eurostat, Fed, DB Research

Outstanding amounts of securities backed by loans to SMEs 21



Sources: AFME, Deutsche Bank Research

But another explanation may be the falling

volume of sales of securities backed by SME deb (see 21, DB 2014:11) and the poor performance of the financial sector in comparison to its global competitors (fig 3, DB 2013:4).

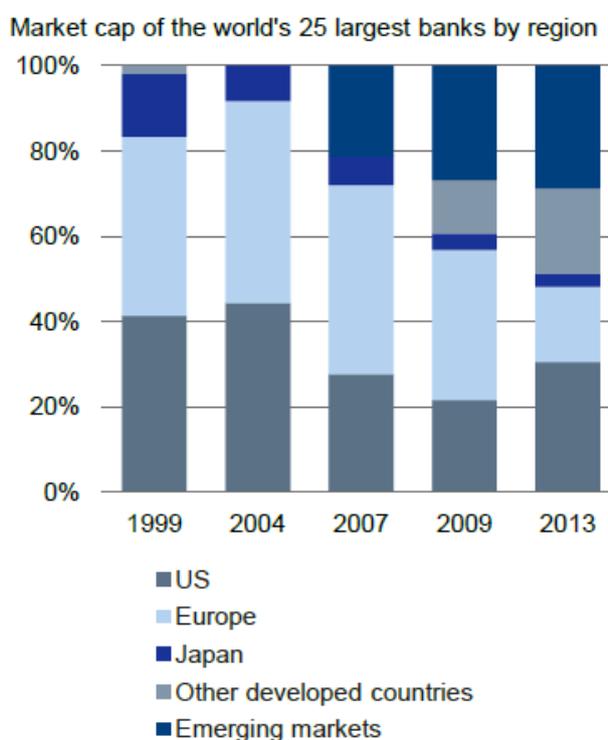
Asset securitization was a core component of the failure of the US banking system – indeed the name “subprime crisis” defines it in these terms. Furthermore these off book banking practice were largely unappreciated prior to the financial crisis, giving them suspicious term of “shadow banking”.

But rather than introducing greater safeguards to protect against these practices, the goal of stimulating SME ABS markets has led the ECB to reduce them.

Specifically the ECB has lowered SME ABS minimum rating requirements (in Dec 2011, June 2012, July 2013) lowered credit rating from 2xAAA to 2xAA in its Loan Level Data Transparency Initiative for ABS, reduced ABS (including SME ABS) “haircuts “ (2xAA from 16% to 10, 2xBBB from 26 to 24%) and so allowed banks to borrow, and so lend on, more for the same collateral.

Regulators have complained of poor transparency in fee structure, “incentive misalignment” and inadequate attention to risk origination (BIS 2011, Burne & Kuriloff 2015), while a range of papers argue that securitization leads to opacity (Cheng et al 2008; Petersen et al 2011; Ryan et al 2015). Securitization may be politically expedient, a lucrative industrial policy for the financial services and a jumpstart for the Capital Market Union, but it also appears to be a risky and improbable solution to the problem of SME finance.

European banks losing ground 3



As of mid-June each year

Sources: Bloomberg, The Banker, Thomson, DB Research

## I. FOR A REAL ECONOMY

The chart beneath attempted to capture the relationship between small firms and economic growth. Thurik’s U- shaped curve shows that self-employment is high in countries with low levels of per capita growth, low in countries where per capita growth is rising but low again in countries with high per capita growth. While there are indeed problems with data collation (much self-employment is in the informal or shadow economy, definitions are hard, and economists have tended to ignore self-employment) Thurik is able to provide a snap shot of this phenomenon from a range of sources. This shows that what had been understood to be an inevitable decline in the presence of the small firm in the modern economy has been reversed in a wide range of economies in the industrial and post industrial north.

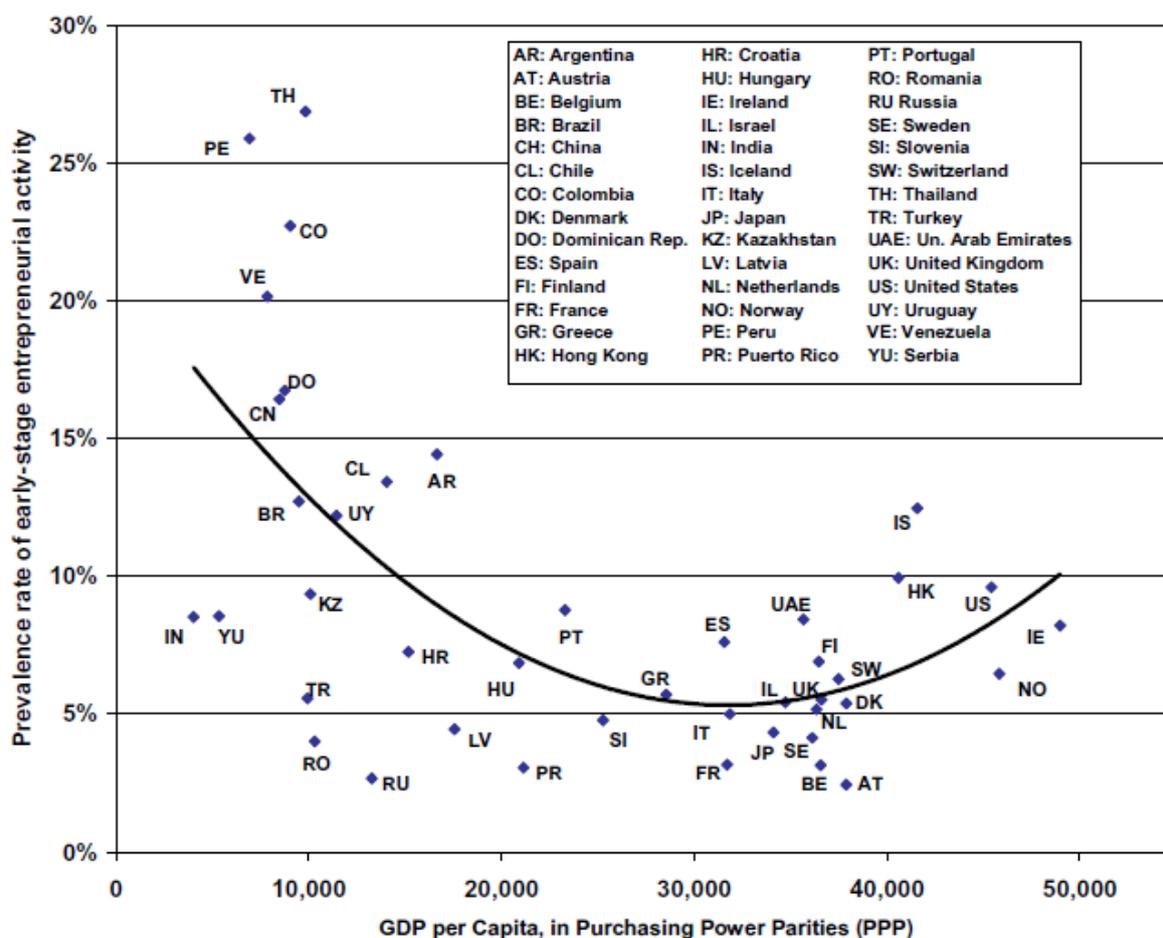


Fig. 3.3 The U-shaped relationship between TEA and per capita income (2007).  
 Source: Bosma et al. (2008).

In order to explain this dramatic shift in fortunes for the small firm, Thurik refers to a range of structural changes that may have contributed to this phenomenon. These include changing occupational preferences, a second industrial divide, changing consumer preferences and global forces. These arguments were extremely important in explaining the shift to post industrial economies in sociology, economics and political science in the late 1990s and early 2000s. Thurik argues explicitly that this heralds a new knowledge based, enterprise driven economic for Europe and appeals to policy makers to take heed.

But our analysis above implies something else may be the case. At the extreme right, on the upward curve of economies with high GDP per capita and high levels of early stage start up, are Ireland, the USA and Iceland. Each of these economies was decimated by the over extended lending practices of their banking sectors. In the post crisis economy, massive unemployment has rendered occupational preferences less important than getting any work. The closure of millions of small firms as consumer demand shriveled up has also rendered the second industrial divide hypothesis somewhat redundant. Most importantly for Thurik these theories all imply a transition from one form of economy to another (industrial to service, first to second industrial divide, material to post material consumers) but there is no explanation for this process. The U shape captures a geographical distribution on a curve. It does not explain why, or even demonstrate that, economies progress along it as a path. The economic development of states clearly does not always proceed in the same direction, as technology is incorporated differently, economic institutional arrangements vary and national resources and capacities are not always propitious. The claim that policy makers can promote policies that will bring all countries to the common destination of an entrepreneurial knowledge based economy is strained without this explanation.

## J CONCLUSION

Thurik's analysis is weak because its lack of analysis of structural power. Like Piore and Sabel the emergence of the small firm economy is presented as a product of society, but this is a society strangely devoid of power relations and inequality. A focus on structural power would highlight how one set of actors are privileged over another. Those who control technology, security, knowledge or capital enjoy a predisposition (or a position) that allows them to exert influence over those who do not (Strange). The use of structural change deployed by Thurik, Piore and Sabel etc describes changes in technology, consumer preference and occupational preference as if they were neutral values exchanged by equal transactions in the market place.

Any credible response to the crisis needs to hold a microscope to assertions that enterprise is good or that increasing indebtedness, by increasing SME access to finance, is going to increase the rates of growth in the EU economy. The finance does not exist to serve the SMEs, rather the SMEs are there to service the finance sector. This is based on an unequal power relation that promotes dangerous levels of speculation, undermines growth and disenfranchises vast swathes of society who are forced into the precarious life style of self-employment. There are such proposals such as the idea of a Foundational Economy or one that is feminist in its agenda, reflective of society and privileges the personal over the economic. But we might add that it is the process of scaling these up that presents the greatest challenges. The simplicity of capacity, scale and scope and the very principles through which organisations are managed need to be placed under much sharper and consistent scrutiny to ensure they do not take hold again.

REFERENCES TO COME

