

A Critique of SME-led Approaches to Economic Development

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Small and Medium Enterprises (SMEs) have had a privileged treatment in the development literature, particularly over the last two decades. Hardly any arguments are put forward against SMEs, even if development policies do not necessarily favour them and economic programs, voluntarily or not, often continue to result in large capital investment. Arguments for SMEs come from almost all corners of the development literature, and economic programs, particularly in the less developed countries (LDCs), tend to emphasise the role of SMEs, even if practical results differ from the rhetoric. Therefore, SMEs seem to be an accepted wisdom within the development debate.

However, there are at least six major problems related to this debate. First, the concept of SMEs is not clear as definitions are arbitrary and vary significantly according to different stages of economic development, economic structures and issues that the authors of the studies intend to address. Second, arguments for SMEs differ significantly between scholars and between policy makers, and have become too many to be of any practical use. Third, supporting SMEs has become a (static) development objective in itself, and often a panacea, rather than a means to achieve development goals, a stage in development of firms and industries, or an action that is derived from socially and economically specific processes of development. Fourth, it is not clear that SMEs are in fact the way to achieve the development objectives that SMEs rhetoric and policy orientation intends to achieve. Fifth, there are considerable differences with respect to the policies that are more likely (or less likely) to promote SMEs – and because definitions of, and arguments for, SMEs vary so much it is difficult to assess the relative merits and real utility of any such set of policies. Sixth, it is questionable that mainstream approaches to SMEs can capture the dynamics of the firms in any process of capital accumulation, particularly if such a process is integrated into the world economy. Moreover, policies oriented towards SMEs are not oriented towards anything in particular with respect to specific activities; hence, skills, productive capacities, types of economic linkages and development engines, markets, technologies, business services, information systems, labour and industrial relations, and so on, are not properly addressed from any specific point of view. It is also questionable that such approaches can be in any way consistent with mainstream theories about the “minimalist” and the “developmental” state.

The main aim of this article is to discuss and illustrate these issues, rather than attempting to solve them. The article argues that SME approaches are not good

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enough starting, analytical points to address development issues, particularly at firm and industry level, and that such approaches do not capture the dynamics of capital accumulation in any specific development process.

Critique of SME approaches

Definitions of SMEs vary significantly, usually in line with the scale of the economy concerned, its degree of development and the economic structures that are present. Studies define SMEs according to the number of workers employed, or according to the scale of operations of the firm. Taking the number of workers as the point of reference,² definitions of SMEs vary between a few and few hundred workers.³

The difficulty in defining SMEs within a reasonable range of common indicators raises three problems. First, the definition of SMEs is invariably relative to other economic indicators. This is true even for studies discussing SMEs in economies of similar status but different structures – for example, studies about Kenya and Mozambique, and about Taiwan and South Korea, define SMEs very differently, because what is medium and small in each economy depends on factors that are, some of them, exogenous to the defined small and medium firm. While in Korea anything smaller than a *Chaebol* (large conglomerate) could be small or medium, in Taiwan there were no *Chaebols*. Therefore, there is no universal concept of SME such that SMEs are an inadequate analytical tool for economic evaluation and policy making.

Second, if SMEs are so significantly differently defined, there is little hope for a common set of policies and analytical tools to be successfully developed to address the SME issue (if there is a SME issue). Additionally, if SMEs are not specifically defined with respect to far more decisive development goals (such as the type and nature of linkages and the engines of such linkages, the nature of industrialization, the type of technology and markets to be addressed, skills to be developed), then there is no set of policies that adequately addresses de SME issue. The promotion needs of trading and industrial SMEs vary significantly, as they vary between industries, specific economic structures and social and economic dynamics.

Third, large differences with respect to definitions of SMEs also depend upon the social and economic processes that are discussed in the studies. These processes vary, also very significantly, between the creation and mobilization of the so called “informal sector”, on one extreme, and the creation and mobilization of domestic capital, on the other extreme. The focuses of the studies vary between the dynamics of labour markets and the dynamics of technological innovation. Thus, the problems to be addressed are too many, very different, and it is not clear at all that SMEs are the best “peg” to help understanding and solving such dynamic processes.

² The definition based on the number of workers is slightly less sensitive to the type of activity than different definitions of the scale of operation, and it is a more straight forward statistic. Thus, it is more widely used to define SMEs than other indicators of the scale of operation.

³ See, for example, Cornia and Helleiner (eds) 1994; Cornia, van der Hoeven and Mkandawire (eds) 1992; Deyo (ed) 1987; Kiely 1998; Kitson and Michie 2000; Michie and Smith (eds) 1998; Stewart, Lall and Wangwe (eds) 1992; Weiss 1992 and 1989; World Bank 1994.

Thus, under these conditions it is not surprising that the list of arguments for SMEs is almost infinite. Such a list includes almost everything that development scholars and practitioners have to deal with: employment creation, democratic management, adequate technology and technological development, environmental issues, market flexibility, market fragmentation and proximity, competitive conditions in goods and factor markets, rent-seeking and political and economic (market) power, controversial (often very poor) debates about economies of scale and scope, questionable theories of consumer preference and choice, accessibility to domestic capital, sunk cost theories and their implications for the choice of scale, scope and technology, exploration of factor endowment based comparative advantages, creation and mobilization of entrepreneurial spirit, democratic capitalism... and so on and so forth.

The range of issues SMEs are expected to solve is, in itself, a problem. On the one hand, it reflects the wide range of reasons why the SME debate came about – from the believers of “small is beautiful” (appropriate technology, market flexibility, adequate environmental management, democratic management, etc.), to the critics of the (largely unsuccessful) large project approach to development of LDCs. Amongst the critics are those who focus on the pitfalls of soviet style central planning, fast capital accumulation and accelerated industrialization, as well as those who argue around the need to support small holders and peasant societies. Some of the critics are focused on a different issue altogether – that of the (apparent) conflict between domestic (small and medium) and foreign (large) capital. Other critics argue that SMEs are more in line with factor endowments of poor countries, thus more efficient, because they are less capital intensive and more labour intensive.

On the other hand, and related to the point mentioned above, SMEs are often presented as a panacea as they can solve every problem. SMEs are rarely seen as part of the problem, or at least as having some potential shortcomings and pitfalls. It is as if being small or medium would make firms not only better, therefore less hazardous, but also would make them capable of avoiding and solving the problems created by other types of firms. The nature of capitalist accumulation is barely discussed, and SMEs are often seen as capable of avoiding the excesses of capitalism by being and staying small. However, small capitalist firms only make sense within the specific context of concrete and real processes of capitalist accumulation, and thus are bound by the same dynamics as large capitalism. The nature of capitalist accumulation is one of avoiding competition through different means: innovation, growing large, mergers and acquisitions, product differentiation, combination of scope and scale, and so on. In a way, the rule of the game is to grow large, or become part of a large organization or large chain of production and value.

At this stage, it is important to acknowledge that any economy is made of many different types of institutions, including firms; that all such institutions are somehow related; and that the scale of any institution is only one amongst many issues to look at, and not necessarily the most important one. Actually, almost always scale is a variable determined by other factors.

Moreover, institutions are only one part of the economic process, the part that regulates and organizes the social and economic relationships between economic linkages and economic agents, and that is also influenced by the development of economic linkages and the interests of economic agents.

In relation to the above, there is no single institution or economic policy or organization that can address all, or most of, the economic problems, and that is more or less appropriate for any stage of development irrespectively of history, society and the dynamic relationship between linkages and agents. As any institution and economic organization, firms are social, economic and technical constructions, and it would be surprising if a blueprint for scale provides any useful direction for development irrespectively of the issues to be addressed and the social and economic conditions under which such issues are to be addressed.

It would not be too much to remember one rule of thumb often mentioned but easily forgotten or not fully understood: when there are too many reasons to do something, it might be that there is no clear reason to do it. Three relatively recent examples, in economic analysis and policy, come to mind when this rule of thumb is mentioned: large privatisation programs in LDCs, Washington consensus led structural adjustment and... development approaches based on SMEs. None of these three cases has yet succeeded to prove its worth, at least in a generalised manner.⁴

Thus, it seems that SME approaches miss the development lesson they are trying to learn from the experience, often unsuccessful, of the very large project approach – as the large project approach has shown, scale is not the most adequate analytical starting point.

Can SMEs deliver on their promises?

From the critique developed above, it seems that this article has a straight answer to this question: no! If SMEs approaches are ill defined and analytically inadequate, and if the arguments for SMEs are too many and hence not clear, it would be difficult to see how SME approaches could deliver on their promises. Furthermore, it would be impossible to assess the results in any meaningful way, because SMEs are expected to deliver almost on anything. However, this is not a fully adequate critique of the lack of power of the SME approaches to deliver on their expectations because it would miss some important information.

One of the major problems of having one (ill defined) tool of policy as a panacea is that the likelihood of conflicting and empirically unproven objectives emerging in the process is very high indeed. Conflicting objectives in SME approaches are many – for example, SMEs are more often defined by the small number of workers employed, but are expected to address the issue of massive unemployment; or are defined as being localised and closer to local markets but, at the same time, as being fully flexible to changing market and competitive conditions (which would have to address the issue of globalization). The very (most common) definition of SMEs by the (small) number of workers employed raises the possibility that these firms are actually

⁴ See, for example, Bayliss and Cramer 2001, Bayliss and Fine 1998, Castel-Branco 2002a, Castel-Branco and Cramer 2003, Cramer 2001, and Fine 2000, for a critique of privatization programs. See also, for example, Cornia and Helleiner (eds) 1994, Cornia, van der Hoeven and Mkandawire (eds) 1992, Fine, Lapavistas and Pincus (eds) 2001, Fine and Rustomjee 1996, Gore 1996, Stewart, Lall and Wangwe (eds) 1992, Stiglitz 1998 and 1996, for a critique of Washington consensus led structural adjustment.

capital intensive. This could come into conflict with the goals of employment promotion, exploration of factor endowment led comparative advantages, promotion of national entrepreneurship and adaptability to local market conditions and demands. Capital intensity would also raise the question of labour skills and training, which could undermine the goal of factor market flexibility.

Many small firms in the same industry are more likely to generate unproductive rent-seeking than if rents are allocated from the start on the basis of clear economic indicators.⁵ An example of an agro-industry in Mozambique may help to understand the issue.

The large cashew processing factories were all closed in the late 1990s as a direct result of the liberalisation of exports of raw cashew. It is often argued that these firms were technological and scale inefficient, such that they were seeking rents through protection against exports of raw cashew. Liberalisation finished rent seeking and opened the doors for smaller firms, more efficient technologically and in terms of scale, to emerge. One such smaller firm, which initially benefited from significant business support, was successfully started in the North of Mozambique and has been developing well. This firm processes less than 4% of locally available cashew nuts and thus has the possibility of selecting high quality cashew. Its owner even argues that exports of raw cashew are good for his business because it is mostly bad quality cashew nuts (the largest proportion of cashew nuts produced in Mozambique) that are exported raw. Hence, he needs not seek protection against exports of raw cashew. Because of the success of the firm, its owner is doubling the capacity of the existing factory and plans to start a new one. Initial investment is cheap because of the labour intensity of the project but mostly because of highly subsidised business support that is given – hence, local business people are starting to invest in this processing industry, and about five new factories are underway. Additionally, there are many smaller factories that are being built.

The success of all of them depends, amongst other factors such as technology and management, on the possibility to select and buy cashew nuts of high quality. Thus, supply of good quality raw material is crucial for the success of the processing plants. Cashew nuts have been collected mostly by small holders, and there is no systematic policy to change this. The government and NGOs see support to small holders as a way to address rural poverty and a series of other development goals, but there is no evidence that small holders can supply quality raw materials to the factories in the foreseeable future. The processing capacity that is being installed will absorb more than one third of current supply of cashew nuts – this will create extreme pressures for quality cashew and will bring back the pressure to reduce exports of raw cashew.

Without changing the supply conditions of raw materials, the processing industry will fail. Some industrialists have anticipated this problem and are investing heavily in plantations of cashew trees, thus reducing and eventually breaking the links with local suppliers, and avoiding the uncertainty of competition for raw materials. Only some investors will be able to follow this road, and they will tend to grow and dominate the industry. Very small processing plants will only function as satellites of the new

⁵ See, for example, Chang 1996 and Khan and Jomo (eds) 2000 about differences in institutional setting, social conditions and rent-seeking in Asia.

larger ones through subcontracting and will not be able to compete in the raw material market. Thus, the new larger firms will either seek rents in the form of protection, which will not be helpful in the long run, or will acquire rents through vertical integration of the industry. Most likely, there might be an interim period in which the two forms of rents are sought at the same time.

The very small processing firms will, most likely, pay an additional cost: they will compete for available cashew in the market, will sell to larger firms only the cashew of a given standard of quality, and will have to compete for access to the lowest layer of low quality market for the remaining cashew nuts. They will operate as a selection mechanism of the larger firms.

In brief the firms that are now starting as small and medium will grow large if they vertically integrate and use the very small firms as a selection mechanism. The very small firms will either disappear or remain in business as long as they are subcontracted by the new larger firms.

This example shows three important points. First, rent-seeking is not necessarily avoided by firms being smaller (or larger). Actually, a clear strategy to support vertical integration and successful entrepreneurs in the industry in exchange for aggressive and successful penetration of external markets, may accelerate employment creation, export growth and building of industrial efficiency, and minimise rent-seeking. Without a market for rents there is no rent-seeking. Second, industrial growth often involves some sort of fallacy of composition: what is true to one small/medium firm may not be true to many small/medium firms. Thus, if the scale of operations does not increase – either through internal vertical integration or some other form of industrial association, network of partnership – industrial inefficiencies will develop and, with it, rent-seeking may increase. Third, business support has to be directed at growth of firms and operations, and continuous industrial development (including the development of networks, regulation of subcontracts and promotion of vertical integration), or firms will not survive and industrial restructuring will yield a high social cost through bankruptcies and unemployment.

Thus, the issue is not whether small and medium firms are supported as such, but whether they are capable of growing and restructure entire industries in the process.

More generally, the issue is not whether firms start large or small, and whether each industrial operation should be organised on large or small scale. The literature on Taiwan and South Korea, for example, has shown that industrialization and technological development can be equally successful irrespectively of economic strategies favouring larger (South Korea) or smaller (Taiwan) corporations to develop. Of course, scale is not only a technical issue. It is also political, social and economic, and also depends on how interest groups interrelate between them and within the state. However, what matters most is that the organization of industries and economies is based on sufficiently large scale to generate dynamic growth – be it through a highly internalised and vertically integrated *Chaebol* (like in South Korea), or highly structured industries and industrial associations (more like in Taiwan).⁶

⁶ See, for example, Amsden 1989, Chang 1996, Wade 1990.

Anyway, in industrialising and industrialised economies, firms tend to grow. In the era of globalisation (born with capitalism), the growth of firms tend to include an international component. It does not really matter whether plant A belonging to firm Z is small. Is firm Z small? Is firm Z operating as a small firm?⁷ Is it not that plant A, belonging to firm Z, benefits from firm Z's production, trade and financial network and scale?⁸

Empirical studies about the SME versus large firm debate are often inadequate. Many suffer from selection bias, which results from a practical problem of sampling – SMEs chosen are frequently those that have managed to survive, rather than a random selection that would include the ones that disappear and may not even be known, by the researcher, to have existed. Others face identification problems – what is a SME? Is the plant/firm behaving like a small firm or only being defined as a small firm?

Many studies are confused by the lack of clarity and precision that surrounds the SME issue – groups of firms are defined by the number of workers employed and then their performance is compared irrespectively of technology, management, competitive conditions, business cycle and specificities of industries. One particular element in such confusing results is the very definition of performance indicators – these indicators are often very questionable and may even differ significantly from the goals that form the support basis in which the arguments for SMEs are set. For example, the performance of firms maybe compared with respect to returns on capital and other financial ratios (which are not part of the arguments for SMEs), rather than with respect to employment, democratic management, market flexibility and so on (which are part of the arguments for SMEs). Another particular element in such confusion is that performance of the firms is often compared without consideration to the fact that in order to exist, not to speak of being efficient, SMEs may actually depend strongly on large firms – for example, through the supplier network, subcontracting, access to finance or trade related supplier/customer credit, etc. Thus, the relative efficiency of SMEs may depend on a network of industrial linkages with other and larger firms.

Some studies define a group of firms as small and medium because of their initial conditions – for example, the number of workers employed when the firm started – and then continue to analyse the performance of the firm through time not considering that the initial conditions may have changed and firms that are successful may be those that have grown to become large, or have associated with others and thus are no longer small.

Finally, most studies compare SMEs and large firms on a one-to-one basis – for example, how much pollution a SME creates compared with a larger firm; how much demand pressure on raw materials, fuels, spares, equipment, etc; how much

⁷ Using mainstream economic terminology, one would define "...operating as a small firm..." a firm that takes as given the competitive conditions in the industry. Firms that internalize key complementary industrial operations, vertically integrate, associate and/or develop different sorts of networks and partnerships, are firms that change the competitive conditions and define them (or try to). Irrespectively of any subjective definition of scale, these firms do not operate as small firms, and thus cannot be said to be small firms. A practical example may help to clarify this point: would anybody argue that a bottling plant of Coca-Cola, anywhere in the world, is a small firm (even if the size of the plant is small according to the number of workers employed or any other arbitrary definition)?

⁸ See, for example, Fine and Murfin 1984, Kozul-Wright and Rowthorn (eds) 1998.

competition for labour and upward pressure on real wages and skills, etc. These comparisons are highly inadequate as to achieve the same economic results (for example, level of exports and production, level of employment, etc.), a lot more SMEs are needed than large firms. The question, then, is what happens when all of those SMEs are put together? For a given level of output achieved through one large firm, what is the relative impact of all the necessary SMEs on pollution, demand for raw materials, spares, fuels and equipment, labour and skills, etc?

Related to these issues, when the number of individual SMEs becomes large, existent technologies, skills and industrial structures may become obsolete. This may lead, simultaneously, to concentration of capital and productive capacities (or an end to the smallness of firms and reduction of the number of firms), as well as to a fall on marginal employment as demand for new technologies and reduction of the number of firm change competitive conditions and the social and economic dynamics of capital accumulation.

Thus, the existing analytical framework for the evaluation of the relative advantage (or disadvantage) of different types of firms defined by scale seems to be inadequate, because the debate, as such, is not focused on the fundamental issues, the dynamics of firms and industries in nowadays capitalist economies (developed or underdeveloped). A closer examination of the issues may actually show that SMEs are not what they seem to be, SME development goals may be conflicting and confusing, and that empirical studies may be unsound.

More fundamentally, though, whether firms are large or small, their performance cannot be adequately assessed independently of social, economic and technological pressures, and industrial dynamics and structures of which firms form an active part – and which influence and are influenced by firms through networks, partnerships, and internal (to the firm) industrial and global vertical integration.

Which focus for policy?

The focus of SME related policy depends on two major factors, namely whether promotion of SMEs is seen as a distinctive, central and legitimate goal of policy, and the role policy is understood to play in development.

The first question that seems to be important to discuss is whether policies should be developed to help SMEs or to help the starting and dynamic growing of “sunrise” businesses and capabilities, and the structural adjustment of “sunset” businesses and capabilities. This is not only an issue of semantics, but mostly of content and direction of policy. One thing is to support firms because of their scale; another is to support specific industrial capabilities, including firms and networks, to develop according to perceived opportunities, pressures and potential development linkages. One thing is to discriminate in favour of a particular scale of whatever firms emerge; another is to favour specific industrial capabilities, sets of linkages and required institutions (be it large firms or equivalent industrial organizations) irrespectively of the scale that may be achieved.

These different directions and focuses of policy have strong implications for the definition of the patterns of growth and development and the role of the state. They also respond to, and try to address, different pressures and problems. It might even be possible to combine elements of different approaches – for example, favouring the growth of networks and industrial associations instead of the creation of gigantic firms. What matters most is that the focus of economic policy is not put on ideological definitions of optimum scale, but instead on the fundamental economic and industrial capabilities to create, manage and develop; linkages to take advantage of; agents to mobilise and deal with; industrial and labour relations to develop; and what the political, social and economic implications of all such policies might be.

Mainstream, neo-liberal economic theories assume that SMEs reflect factor endowment based comparative advantages better than larger firms, are more market friendly and better for promoting competitive market conditions that lead to higher economic and social efficiency. Therefore, they argue that a minimalist state is better for SMEs. This means that the main role of policy is to remove market barriers (trade and administrative barriers), facilitate business operations, and provide a general enhancing environment in which SMEs may thrive.

However, if economic dynamics are not in line with the development of SMEs (as is the case in Mozambique, where large FDI projects linked with the minerals-energy complex of South Africa are dominant), the minimalist state approach may yet prevent SMEs from developing.⁹

Nonetheless, even such theories acknowledge that SMEs, particularly in LDCs, face serious market failure.¹⁰ Some even argue that addressing market failure – for example, market segmentation and information failure, failure in allocation of property rights such as in the case of public goods and externalities – is one crucial reason to promote SMEs.¹¹ In the case of market failure, policies become slightly more specific, typically involving the provision of, or support to, access to markets, technology, information, finance, training and infrastructures. According to such theories, policies to address these (and other) issues should be demand driven and market conforming, such that they help, rather than substitute, the market mechanism. As such debate fails to address exactly and precisely what problems are to be addressed, for what purpose and how, the role of SMEs in addressing market failure, or the set of policies to address market failure that prevents SMEs from developing, become blurred if not entirely ideological.

It is not surprising, thus, that many SME support programs are directed at firms that have a history of relative success, know what they need, and have the means to share a significant part of the cost of the supporting activity. These are not starting, sunrise businesses, nor adjusting, sunset ones.

⁹ See Castel-Branco 2003, 2002a and 2002b.

¹⁰ Of course, market failure is identified whenever economic predictions or mechanisms based on perfectly competitive models, or any model of neo-classical inspiration that is based on methodological individualism, fail to operate as prescribed by the theory.

¹¹ See, for example, World Bank 1994, 1993 and 1989, Stewart, Lall and Wangwe 1992, Stiglitz 1998 and 1996.

On the whole, most SME driven programs try not to have to address the more general dynamics of the economy, either because of the assumption that markets know better, or because SMEs are seen as a way to balance the power of more general dynamics; or simply because such dynamics are not understood.

An interesting example of this is the Mozambican industrial policy and strategies approved by the Council of Ministers in 1997. This document claims that the priorities of the Government of Mozambique (GOM) for industry are SMEs, national entrepreneurship and diversification of productive capabilities, output and exports. Only a couple of very vague paragraphs mention foreign direct investment (FDI) and the regional and international contexts of industrial development in Mozambique.¹² This document does not establish any instruments that would allow the government to implement its policies and mobilise the cooperation of the private sector, and the policies and strategies written have very little relevance given the general context under which industrial development takes place in Mozambique.¹³

As a result, between 1998 and 2002 some 40% of SMEs owned by national entrepreneurs have closed down, industrial investment is almost exclusively made by foreign owned or foreign associated firms, production and exports have become significantly more narrowly specialised, and the dynamic sectors of industry, with rare exceptions, are found almost exclusively amongst large, FDI driven firms. More generally, there is no strategy to address and provide a strategic framework to development of SMEs within the context of dynamic, large scale FDI. For example, Mozambican firms have consistently failed to take advantage of opportunities for industrial linkages to develop with large FDI based projects not only because they lack crucial capabilities, but also because there is no clear strategy to address such weaknesses. In very rare, individual cases, some Mozambican firms have managed to establish and benefit from such linkages, mostly because they either have associated themselves with foreign partners, or they are only affiliates of foreign firms. In any case, they do not work as small firms, because they tend to be the single firms operating in very specific markets. In other words, they operate as large firms with small or medium scale.

Private enterprise supports programs, mostly directed at SMEs, usually lack clear industrial strategies and clear sets of priorities in capacity building. Apart from providing training and some institutional facilitation to those firms that are interested, these programs have generally done little more. In most cases, it is not known what the real impact of training and institutional facilitation is, as most SMEs find it difficult to move from training and knowledge acquisition into real business practice. There are, obviously, some exceptions, such as the case of the cashew processing plants in the province of Nampula, which have not only received training but have also benefited from highly subsidised business services that include the making of business and financial plans, medium term technical assistance, technical support in the choice of, and even design, of technology and layout of the plants, access to equipment, etc.

¹² See GOM 1997.

¹³ See Castel-Branco 2002a, 2002b and 2003.

Generally speaking, and with due notice to rare and welcome exceptions, nobody (entrepreneurs included) really knows how to promote SMEs in Mozambique and what to do with them once they have emerged.

Concluding Remarks

This article has criticised standard approaches to SME driven development, with incidence on LDCs. The article has been focused on the issues that are considered at least controversial in the literature about SMEs. It has not tried to emphasise potentially less critical and less controversial issues that are also present in the literature, because the aim of the article was precisely to show what the majority of presentations in the seminar is not going to discuss: what is wrong with the SME approach to development.

The article is not making a case against SMEs and in favour of a different scale of firms. What the article is trying to do is to show that a scale approach is an inadequate way to develop and assess economic analysis and policy making, if discussed outside the political, social, economic and technological structures, pressures and dynamics that form part of specific conditions of development of specific industries and firms. Furthermore, the article also shows that scale has more than one economic meaning, such that the perceptions and the realities of scale may vary significantly, and may have very strong policy implications.

For those, on the left, who think that promotion of SMEs creates a fairer and more democratic capitalism, they should rather look at comparable working conditions, trade union organization, ability to implement (and also oppose) progressive labour legislation. They should, also, try to address not the scale of the firm but the nature of capitalist firms and the political, social and economic processes they are part of. In doing so, they should rather make the labour movement to rise to the challenges of monopolist and international capitalism, rather than surviving around the utopia that “small and national are more democratic”. For those on the right who think that SMEs are closer to factor endowment; and on the centre who think that SMEs would address pro-poor growth, be more adequate and avoid the excesses of large corporations, lets only expect that this article has given them some food for thought.

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