

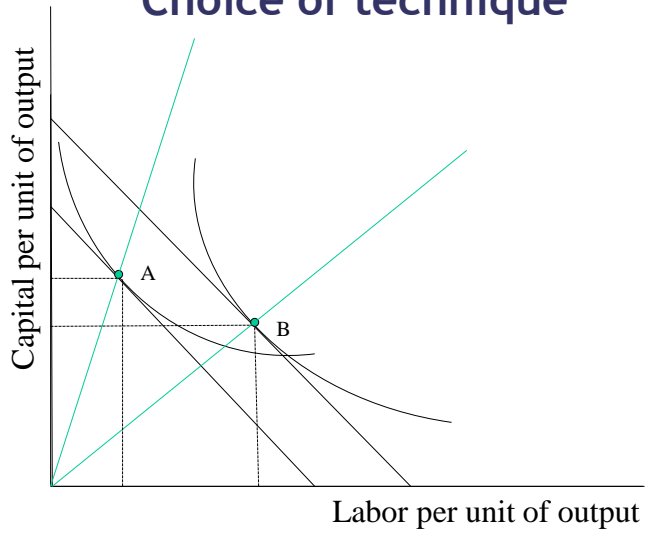
Development Policy
Lecture 11
Small is Beautiful?



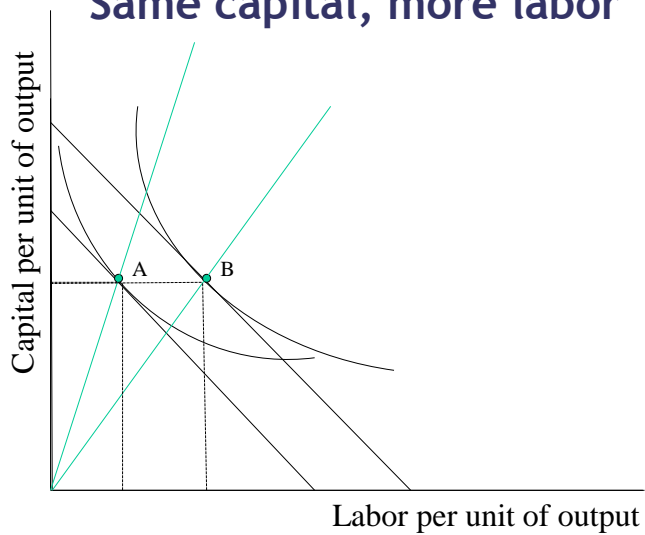
**Development Myth:
Small is beautiful?**

- Three claims about small enterprises
 - Small firms are more efficient
 - Small firms are more labor intensive
 - Small firms are more innovative than large firms

Choice of technique



Same capital, more labor



Firm size efficiency, India 1974-1977 (rupees, thousands)

Number of workers	Y/L	K/L	Y/K	W	WL/Y	(Y-WL)/K
10-19	3.84	8.81	0.44	1.53	0.40	0.27
20-49	4.06	8.47	0.48	1.71	0.42	0.28
50-99	4.42	8.68	0.51	1.97	0.45	0.28
100-499	6.57	14.46	0.45	2.75	0.42	0.26
500+	9.71	26.68	0.36	4.58	0.47	0.19

Source: Little, Mazumdar and Page 1987

Productivity in manufacturing and firms size, selected countries (500+ size = 100%)

Number of workers	India 1983	Philippines 1983	Thailand 1981	Korea 1976	Taiwan 1976
500+	100	100	100	100	100
100-499	71	71	74	71	66
50-99	53	48	59	58	52
10-49	40	41	36	40	51
1-9	28	10	28	32	54

Source: Snodgrass and Biggs 1996

Firm size efficiency, Korea 1968 (won, thousands)

Number of workers	Y/L	K/L	Y/K	W	(Y-WL)/K
5-9	196	296	0.66	63	0.45
10-19	248	375	0.66	83	0.44
20-49	259	388	0.67	84	0.45
50-99	315	387	0.81	92	0.57
100-199	553	380	1.45	102	1.18
200-499	607	520	1.17	125	0.93
500+	598	656	0.91	--	0.72

Source: Little, Mazumdar and Page 1987

Firm size efficiency, Thailand 1981 (baht, thousands)

Number of workers	Y/L	K/L	Y/K
0-9	22.5	85.6	0.26
10-49	29.2	67.7	0.43
50-99	46.6	77.6	0.60
100-199	51.9	87.6	0.59
200+	80.1	216.1	0.37

Source: Little, Mazumdar and Page 1987

Firm size and efficiency, India

Number of workers	Printing			Shoes		
	Y/L	Y/K	K/L	Y/L	Y/K	K/L
<5	8.92	4.86	1.84	5.23	14.28	0.37
5-9	12.15	3.51	3.46	5.61	29.87	0.19
10-24	14.18	3.26	4.35	5.67	16.20	0.35
25-49	14.56	3.51	4.15	6.30	13.13	0.48
50-99	11.59	1.24	9.35	--	--	--
100+	13.81	1.21	11.41	15.32	4.93	3.11

Source: Little, Mazumdar and Page 1987

Firm size and wages, India, rupees per year

Number of workers	Printing	Machine tools	Soap	Shoes	Power-looms
<11	2,364	2,172	2,664	--	--
11-25	2,436	2,316	2,832	2,256	1,140
26-50	2,604	2,700	2,964	3,000	1,428
51+	2,292	2,544	3,240	--	2,244

Source: Little, Mazumdar and Page 1987

Percentage of wages in largest employment group

Country	Year	10-99 workers	100-499 workers	500+
France	1978	83	86	100
Germany	1978	90	92	100
UK	1986	83	93	100
USA	1983	57	74	100

Source: Rachel Parker (2001) "The Myth of the Entrepreneurial Economy," Work, Employment and Society, 15:2, 239-53