

Week 7. Entrepreneurial Failure.

Critically examine the following explanations for the poor performance of British industry before 1914: managerial structure, entrepreneurial failure, the state of demand, education and training.

Readings.

McCloskey, D. N., *Enterprise and Trade in Victorian Britain*. [Chapters 3 (McCloskey and Sandberg) and 4 (McCloskey)]. Chapter 3 appeared previously in *Explorations in Economic History* (1971). Chapter 4 has been reprinted in McCloskey, D. N., *Essays on a Mature Economy*. Chapter 3 summarises the debate on entrepreneurial failure up to the 1970s and how McCloskey *et al.* chose to rebut it. Chapter 4 contains a précis of McCloskey's classic work on the coal and steel industries.

Elbaum, B., and W. Lazonick, *The Decline of the British Economy*. [Chapters 1 and 3 (Elbaum)]. Chapter 1 outlines the institutionalist approach. Chapter 3 is a direct reply to McCloskey on steel.

Wiener, M. J., *English Culture and the Decline of the Industrial Spirit, 1850-1980*. [Chapters 1 and 7]. The latest restatement of the oldest hypothesis. [Available at the Radcliffe Camera].

Supple, B., 'A Review of *Scale and Scope: Dynamics of Industrial Capitalism* by Alfred Chandler,' *Economic History Review* (1991).

Sanderson, M., 'Technical Education and Economic Decline: 1890s-1980s,' *Oxford Review of Economic Policy* (1988).

ENTREPRENEURIAL FAILURE.

Demand Constraints.

1. Demand for various UK products (especially staples) went into permanent decline after 1870. This was due to changing endowments, foreign industrialisation and tariff barriers. (See Temin (1966) on iron and steel. Cotton competition from France and India – saturated high quality market, product lifecycle).
2. The initial downward thrust inhibited investment in new technology and created a downward multiplier. The atomised industrial structure and existing capital made any alternative response very difficult. (Elbaum, 1985).
3. Even innovative and strenuous attempts to retain market share were unsuccessful. (See Dintenfass (1988) on coal).

Entrepreneurial Failure.

1. Traditional allegations (since Victorian times) that businessmen were slow to take up new technology, under-invested in training, did not market very aggressively, were slow to spot new market opportunities, et cetera. (Levine, 1967).
2. More generally, it was perceived that British businessmen were ineffective descendants of the ‘original’ entrepreneurs. They preferred the Church and army to business; they valued gentlemanly pursuits; they sent their sons to conservative schools, et cetera. (Wiener, 1980).
3. Chandler discusses the different structure of US and UK industrial management – US has more professional managers, fewer owner-managers, M-form management and specialisation. (Williamson and transaction cost economics). But this has been criticised by Payne (1967).
4. This argument was rebutted by micro-studies of many industries which demonstrated underlying rationality. (McCloskey on coal and steel (1971); Sandburg on cotton (1974); Harley on steam ships (1971)). The only exception was Lindert and Trace on chemicals (1971).
5. One response was to highlight the distinction between managers and entrepreneurs. Managers optimise within constraints (e.g. they choose the optimal size of furnace); but entrepreneurs *alter* the constraints (e.g. they modify industry structure in order to permit larger furnaces).

The other line of attack came via institutional economics. Hence it may have been

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collectively rational for firms to merge but not individually rational (prisoner's dilemma). This has been used to make the other arguments more potent (e.g. the slow growth in demand for steel). The inter-relation of demand and supply structures (shipbuilding); the narrow gauge of UK railways.

6. The counter-arguments have emphasised the difficulty of merging (company laws) and the inevitability of decline (Saxonhouse and Wright).

Education and Training.

1. Sanderson highlights the reluctance of British firms to employ trained technical staff (chemists et cetera) and the failure of the educational system to provide science graduates. Secondary schools have also been much less science-orientated than their foreign counterparts (e.g. Germany).
2. However, the apprentice system was much more important in the UK (better established, backed by a larger industrial sector) and this only needed to be supplemented by night school. Expansion of technical education (1880-1900). But constrained by unions.
3. Is it better to be an innovator or an imitator (Nelson and Winter, 1982)? Is it important to invent the Solvay process or to get it working?

Possible Solutions?

1. Devaluation (not realistic).
2. Deflation (will not get at the cause of the problem – constrained demand and low worker productivity).
3. Tariffs – political suicide.