

# TRANSFER PAYMENT DIVERSION FOR SMALL BUSINESS DEVELOPMENT: BRITISH AND FRENCH EXPERIENCE

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Government programs in Britain and France allow the unemployed to receive transfer payments while they attempt to create their own employment through new small businesses. This study finds that businesses formed under those programs, even more than most small enterprises, generate only limited incomes and unstable employment for their proprietors. Also, program participants most in need of help in finding stable employment—those with the sparsest qualifications and resources—are precisely those whose businesses are most likely to fail. The authors therefore conclude that policy makers should not expect this approach, now under consideration by Congress, to provide major assistance to the disadvantaged or long-term unemployed.

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**M**OST government efforts to reduce structural unemployment seek to promote the absorption of the unemployed into established enterprises. Many employers, however, prove reluctant to hire disadvantaged job seekers even when encouraged with subsidies. Also, economically lagging localities are short of firms hiring anyone, and many of the newly employed in all localities enter low-wage positions with little employment stability and few opportunities for advancement.

In the 1980s, renewed emphasis on self-help among the unemployed and disadvantaged (Murray 1984) and praise for the role of private entrepreneurs in economic growth (Wanniski 1978) have

sparked interest in an alternative: assisting job seekers to create their own employment through new small enterprises. Congress has considered revising the unemployment insurance program to permit weekly payments to recipients who are starting their own businesses (U.S. Department of Labor 1986), and six states are planning a demonstration of the same concept for recipients of Aid to Families with Dependent Children (AFDC).

Programs permitting transfer payment diversion for small business development have been operated in France since 1979 and in the United Kingdom since 1982. This paper describes these efforts and utilizes survey data to estimate program outcomes and costs. Inferences are then drawn for the applicability of the approach in the United States.

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## The British and French Programs

The appeal of the self-employment concept in European countries reflects in

part the sluggish performance of their economies throughout the 1970s and early 1980s. Between 1970 and 1984, while the United States achieved net employment growth of 33 percent, Europe gained only one percent; and while unemployment in the United States rose from 4.8 percent to 7.4 percent, that in Europe rose from 2.5 percent to 10.8 percent. Unemployment of long duration is more pervasive in Europe than in the United States; in 1984, when 12.3 percent of the unemployed in the United States had been jobless more than twelve months, the corresponding figure was 39.8 percent in the United Kingdom and 42.4 percent in France. Among youth, the virtual locking-out of individuals from employment is more prevalent in Europe than in the United States (OECD 1985; Layard and Nickel 1986).

Facing these problems, policy makers in Europe were struck by research in the United States emphasizing the role of new small businesses in generating employment opportunities. For example, Birch (1981) estimated that businesses with fewer than twenty employees accounted for two-thirds of new job openings in the United States, a proportion far higher than the share of total employment represented by such businesses. Many Europeans interpreted such data to mean that increasing the formation of new small businesses was an important way to enhance employment growth. At the same time, it was thought that new enterprises would create pressure on unions and existing enterprises to become more productive. Supporting entrepreneurship would combat cultural traditions that encouraged capable persons to enter public service rather than business. And promoting entrepreneurship among the unemployed would generate employment opportunities where they were needed most and also offset work disincentives felt to be created by unemployment insurance and other transfer payments (Bolton 1972; Department of Employment 1985).

Two programs developed to advance these goals are the *Chômeurs Créateurs* (Unemployed Entrepreneurs) Program

(CC) in France, begun in 1979, and the Enterprise Allowance Scheme (EAS) in the United Kingdom, begun in 1982.<sup>1</sup> By the end of 1985, 234,610 persons had participated in the French effort and 139,000 in the British. Currently, the programs involve a fraction of one percent of the annual flow of unemployment in either country and yet 20 to 30 percent of new business starts (Ganguly 1985:67; ENA 1986:301).

The Enterprise Allowance Scheme is open to persons receiving either Unemployment Benefit or Supplementary Benefit (income-conditioned public assistance). Applicants must have been out of work (or under notice of layoff) for at least eight weeks and be between age 18 and retirement. They must demonstrate that they have at least £1,000 (\$1,520 in 1983) to invest in the business. In their applications, they briefly describe their proposed enterprise, but detailed business plans are not required, and the viability of the business is not reviewed. Once found eligible, a program participant receives a taxable allowance of £40 (\$61 in 1983) per week as long as his or her firm continues, for a maximum of 52 weeks. These payments are in lieu of Unemployment Benefit or Supplementary Benefit payments, for which a participant loses eligibility as soon as his or her business starts. Eligibility for other kinds of transfer payments—including family allowances, rent subsidies, and national health insurance—is unaffected by the change in status.

When the *Chômeurs Créateurs* program was started in France in 1979, it was open only to persons covered by unemployment insurance and involuntarily laid off or under notice of layoff. During 1984, eligibility was extended to unemployed persons who have exhausted their unemployment benefits and those entering the work force. As in the British program, evaluation of the soundness of proposed

<sup>1</sup> Eight countries have established similar programs more recently: Australia, Belgium, Finland, Ireland, the Netherlands, Norway, Spain, and Sweden.

businesses is not part of the eligibility process; the only requirement is that registration of the firm be documented. In Britain only new businesses are eligible for assistance, but in France benefits may be used either to establish a new business or to buy an existing one. In both programs, participation is voluntary.

The main benefit provided by the French program is a lump-sum payment received about two months after application. Until April 1984, this payment was determined by the worker's previous unemployment insurance contributions, capped at six months of unemployment benefits; unemployed persons with high previous earnings (for example, former managers) could receive as much as 90,000 FF (\$11,700 in 1983), whereas workers with lower prior earnings were entitled to as little as 5,000 FF (\$650). Since April 1984, the range of payments has been narrowed to 10,750–43,000 FF (\$1,398–5,590) and separated from prior earnings. Now it varies only by the length of unemployment (the sooner after losing a job the worker starts his business, the larger the benefit) and the type of benefit the recipient was previously receiving.

In addition to the lump-sum payment, participants in the French program receive social security coverage (including health, maternity, disability, and old age insurances, but not unemployment insurance) without payment of social insurance taxes during the first six months of business operations. In 1979, the average value of this benefit was estimated at 10,000 FF (\$2,400 in 1979). An additional payment is given for each job created by the business in addition to that occupied by the CC participant.

In the United Kingdom, the program is financed by general government revenues. In France, before April 1984 financing was through the unemployment insurance trust fund, and since then it has been through general revenues.

#### Characteristics of Program Participants

Tables 1 and 2 present data on the characteristics of the participants in Brit-

ain's EAS and France's CC, respectively. Although both programs draw some participants from virtually every segment of the unemployed, participation is not proportionally distributed among those eligible. In the United Kingdom, participants in the EAS from 1982 to 1985 under-represented women, workers under age 24 and workers over 55, and those unemployed more than a year (Table 1). In that sense, the program "creamed" those among the unemployed likely to have less difficulty in obtaining employment.

Women, younger and older workers, and workers experiencing long unemployment were even more under-represented, relative to all the unemployed, in France's program in 1982 (Table 2). Disproportionately represented in that program, on the other hand, were managerial, professional, and skilled workers: former managers, for example, comprised only 2.7 percent of all French unemployed, yet they accounted for 12.6 percent of CC participants.<sup>2</sup> The most typical participant in either program was a man in his middle thirties who had been unemployed less than six months.

How many businesses would have been created in the absence of assistance? In Britain, 33.5 percent of EAS participants surveyed in 1985 reported that they would have set up their businesses at the same time without the program, and an additional 17.2 percent reported that they would have gone ahead but with some delay (Table 1). Thus, about 50 percent of business starts would have occurred without program assistance.

For the other 50 percent of business starts, self-reports by the participants indicate that the program played a more major role in their decision. It may have

<sup>2</sup> Because of changes in program rules since these data were collected (workers are no longer offered higher CC benefits on the basis of higher prior wages), the representation of higher-level workers has declined. Between 1983 and 1985, unskilled hourly workers as a percentage of program participants increased from 7 percent to 36 percent (ENA 1986:302).

Table 1. Comparison of Participants in the Enterprise Allowance Scheme and Total Unemployed in Great Britain, 1982-85.

Characteristic	Percent of Program Participants <sup>a</sup>	Percent of All Unemployed <sup>a</sup>	Characteristic	Percent of Program Participants <sup>a</sup>	Percent of All Unemployed <sup>a</sup>
<i>Gender</i>			<i>Pretax Pay in Last Job (Annualized)</i>		
Female	22.3 <sup>b</sup>	31.2 <sup>c</sup>	≤\$6,300	20.8 <sup>d</sup>	
Male	77.7	68.8	\$6,301-9,500	41.8	
<i>Age</i>			\$9,501-\$12,600	24.4	
≤24	24.8 <sup>b</sup>	36.6 <sup>c</sup>	>\$12,600	13.0	
25-34	31.7	24.0	<i>Duration of Unemployment</i>		
35-44	21.9	15.0	≤25 weeks	47.7 <sup>b</sup>	42.8 <sup>c</sup>
45-54	13.4	13.3	26-52 weeks	25.5	16.9
55-64	8.2	11.1	1 year or more	26.8	40.3
<i>Location</i>			<i>Previous Benefit Amount (Annual)</i>		
London	10.5 <sup>b</sup>	12.6 <sup>c</sup>	≤\$2,700	73.0 <sup>b</sup>	
Southern	15.0	14.8	\$2,701-\$4,000	18.0	
South West	9.7	6.7	>\$4,000	9.0	
Midlands	16.6	17.3	<i>Business Plans</i>		
North West	18.4	14.1	Would have set up now anyway	33.5 <sup>b</sup>	
Yorks & Humberside	8.7	9.9	Would have set up within the year	17.2	
Scotland	7.9	11.3	Would have set up sometime	13.5	
Wales	6.9	5.8	Would not have set up	35.8	
Northern	6.3	7.5			
<i>Occupational Background</i>					
Managerial/professional	26.0 <sup>d</sup>				
Manufacturing worker	40.0				
Construction	10.0				
Other	24.0				

<sup>a</sup> Where distributions are reported for both program participants and all unemployed, they differ at the .001 level of significance, according to chi square.

*Sources:*

<sup>b</sup> Based on 1,047 firms joining the EAS in January or February 1985 and surveyed six months later (Allen and Slowther 1986:25-50).

<sup>c</sup> Data for 1985 (Department of Employment 1986:S8-S56).

<sup>d</sup> Based on 540 firms joining the EAS between January and July 1982, surviving at least one year, and surveyed after three years (Wood 1985:4-46).

done so by suggesting the self-employment option when it might not otherwise have been considered, or by providing financial support. Note, however, that the income transfers received by 73 percent of the EAS participants before joining the Scheme in 1985 amounted to less than \$2,700 per year, the sum they received under the EAS. That is, nearly three out of four EAS enrollees increased their short-term financial well-being by joining EAS even if their businesses never made any net income. Many in that group were young single persons living with their parents who were eligible in 1986 for about £27 (\$41) weekly under the Supplementary Benefit program but £39 (\$60) under the EAS.

### Characteristics of Program Businesses

Similarities between the EAS and CC programs are also evident in the businesses entered into by program participants (Tables 3 and 4). One pattern evident in both programs is the tendency of proprietors to invest only modest financial resources in their businesses (which were predominantly in services, construction, and retail commerce in both countries). In Britain, the median investment was slightly above \$1,500, with less than 10 percent of investments exceeding \$7,600. In France, about 40 percent of proprietors invested less than \$3,000. The smallness of the typical investment—which is not surprising, given the financially tenuous circumstances of many

Table 2. Comparison of Participants in the Chômeurs Créateurs Program and Total Unemployed in France, 1982.

Characteristic	Percent of Program Participants <sup>a</sup>	Percent of All Unemployed <sup>a</sup>
<b>Gender</b>		
Female	18.6 <sup>b</sup>	54.6 <sup>c</sup>
Male	81.4	45.4
<b>Age</b>		
≤24 years	15.2 <sup>b</sup>	42.0 <sup>d</sup>
25-29	22.1	
30-39	37.5	41.0
40-49	18.5	
≥50	6.7	17.0
<b>Occupational Background</b>		
Manager	12.6 <sup>d</sup>	2.7 <sup>e</sup>
Technician	6.4	2.7
Foreman	6.8	2.6
Skilled salaried workers	15.9	15.3
Skilled hourly workers	30.0	27.1
Unskilled salaried workers	17.0	21.3
Unskilled hourly workers	10.8	27.3
Other	.5	1.0
<b>Duration of Unemployment</b>		
<3 months	32.9 <sup>b</sup>	16.3 <sup>c</sup>
3-<6 months	23.8	16.8
6-<12 months	26.3	24.8
12-<24 months	14.8	22.8
over 24 months	2.2	19.3
<b>Program Benefit Level</b>		
<\$1,500	19.4 <sup>f</sup>	
1,500-2,999	44.4	
3,000-4,499	20.2	
4,500-7,499	10.2	
≥7,500	5.8	

<sup>a</sup> Where distributions are reported for both program participants and all unemployed, they differ at the .001 level of significance, according to chi square.

Sources:

<sup>b</sup> Based on 16,300 people joining the program between June and October 1982 (Lachaud and Denis 1983:5-13).

<sup>c</sup> INSEE (1985:61, 71).

<sup>d</sup> Ministère du Travail (1986a:95).

<sup>e</sup> Based on unemployed persons covered by unemployment insurance (Lachaud and Denis 1983:10).

<sup>f</sup> Based on 8,306 people joining the program between April and June 1981 and surveyed during the summer of 1982 (Bloch-Michel, Mayo, and Rognant 1983:59).

unemployed persons—limits the choice of enterprises undertaken and their likelihood of success.

A related finding is that program firms were typically very small. The median

Table 3. Characteristics of Businesses Founded Under the Enterprise Allowance Program, 1982-85.

Characteristic	Percent
<b>Proprietor's Financial Investment</b>	
≤\$1,500	46.0 <sup>a</sup>
\$1,600-\$7,599	45.1
≥\$7,600	9.3
<b>Industry</b>	
Services	29 <sup>a</sup>
Construction & construction trades	29
Retail distribution	18
Manufacturing	13
Other	11
<b>Annual Sales</b>	
<\$6,000	11 <sup>b</sup>
\$6,000-\$15,000	36
\$15,000-\$40,000	30
>\$40,000	23
<b>Proportion of Business Taken from Other Firms</b>	
≤10%	63.1 <sup>a</sup>
11%-50%	25.5
>50%	11.5
<b>Annual Net Income to Proprietor(s)</b>	
Loss	6 <sup>b</sup>
<\$6,250	34
\$6,250-15,500	44
>\$15,500	16
<b>Business Survival</b>	
Closed in first year	14 <sup>c</sup>
Closed in second or third year	34
Still in operation at three years	52
<b>Employment</b>	
Only proprietor	62 <sup>b</sup>
One additional employee	14
2-5 additional employees	11
More than 6 employees	5

Sources:

<sup>a</sup> Based on 1,047 firms joining the program in January or February 1985 and surveyed six months later (Allen and Slowther 1986:25-50).

<sup>b</sup> Based on 322 firms joining the program between January and July 1982, surviving at least three years, and surveyed after three years (Wood 1985:4-46).

<sup>c</sup> Based on 540 firms joining the program between January and July 1982, surviving at least one year, and surveyed after three years (Wood 1985:4-46).

annual gross sales for EAS firms was \$15,600, with only 23 percent grossing more than \$40,000 (Table 3). In France, 80 percent of program firms were organized as sole proprietorships (Table 4).<sup>3</sup>

<sup>3</sup> In the French program, which allows the purchase of existing businesses as well as the foundation of new ones, different types of workers

Table 4. Characteristics of Businesses Founded Under the Chômeurs Créateurs Program, 1982-83.

Characteristics	Percent
<i>Proprietor's Financial Investment</i>	
<\$3,000	41.2 <sup>a</sup>
\$3,000-\$7,499	30.2
\$7,500-\$14,999	14.0
≥\$15,000	12.8
<i>Industry</i>	
Services	30 <sup>b</sup>
Retail commerce	28
Construction & construction trades	22
Manufacturing	12
Other	7
<i>Legal Form</i>	
Sole proprietorship	80.0 <sup>b</sup>
Limited company	14.0
Corporation	1.2
Partnership	0.8
Cooperative	0.7
Other	2.6
<i>Origin of Business</i>	
New starts	78 <sup>b</sup>
Bought existing business	13
Bought bankrupt business	1
Professional Practice	8

*Sources:*

<sup>a</sup> Based on 8,306 persons joining the program between April and June 1981 and surveyed during the summer of 1982 (Bloch-Michel, Mayo, and Rogant 1983:59).

<sup>b</sup> Based on 37,468 persons joining the program during 1983 (Folques 1985:50-51).

Insight into why very small firms dominate EAS and CC initiatives is provided by Table 5, which reports the product lines of 232 businesses associated with 12 self-employment assistance programs in Great Britain during 1986. These firms concentrated in activities that can be undertaken without extensive personal or financial prerequisites.

Thirty-seven percent of the firms (top section of Table 5) were engaged in activities such as arts and crafts, chore services, and child care. Startup of such enterprises typically does not require extensive work experience, training, or

tend to undertake different types of enterprises. Nearly half of the purchases of bankrupt businesses were by skilled or unskilled workers, whereas about half of managers went into consulting or professional practices (Folques 1984:11).

formal credentials or licenses, nor does it usually require substantial "front end" financial investment for inventories, equipment, or working capital. Another 17 percent of the enterprises, primarily in retailing, required more substantial start-up capital but typically not extensive personal credentials. And 32 percent of firms—most involving skilled trades or technical services such as beauticians, auto mechanics, or business consultants—typically required personal skills or credentials but not extensive financial resources. Only 14 percent of the businesses (bottom section of the table) required both capital and personal credentials.

One consequence of this orientation is that sales for the majority of these firms (76 percent) were dependent on local consumers and local income (Table 5). Of the 24 percent with a broader market orientation (right-hand column of Table 5), virtually all were firms requiring substantial capital, personal credentials, or both.

To the extent that self-employment provides opportunities to low-income persons or to persons living in depressed regions, the communities in which many of these prospective entrepreneurs reside can be expected to share their problems of unemployment and low income. The local-market demand for goods and services is therefore limited for many program participants, and their chances of business success are correspondingly reduced (Bendick and Rasmussen 1986:110).

A second consequence of the predominance of local service and retailing firms is the tendency of new firms to compete against and displace existing firms in the same local markets. Table 3 reports estimates made by proprietors of EAS firms concerning the extent to which their sales took business from other firms, as opposed to offering products or services not previously available.<sup>4</sup> Two-thirds of

<sup>4</sup> This definition of displacement, of course, refers only to local substitution. Displacement at the level of the aggregate economy depends on the state of the macroeconomy. Such self-reported estimates of displacement are, of course, of limited validity, but no firmer estimates are available.

Table 5. Self-Employment Businesses in Great Britain, 1986, by Prerequisites for Business Development and Dependence on Local Economy.

Prerequisites	High Dependence on Local Economy		Lower Dependence on Local Economy	
	Description	No. of Firms	Description	No. of Firms
Few	Arts and crafts	25	Tour Guide	1
	Repairs/handyman	8		
	Furniture refinishing	6		
	Custom car building	5		
	Photography	5		
	Gardening/yard care	5		
	Light hauling	4		
	Chore services	4		
	Bands/entertainers	3		
	Catering	3		
	Child care	3		
	Home cleaning	3		
	Delivery services	3		
	Sports/recreation	3		
	General labor	2		
	Pet grooming	2		
In-home sales	2			
		86		1
	Percent of Total	37%		0%
Capital	Clothing retailing	13		
	Other retailing	10		
	Food retailing	7		
	Florists	3		
	Restaurants/clubs	2		
	Furniture retailing	2		
	Business supplies	2		
	Food preparation	1		
		40		
	Percent of Total	17%		
Technical Skills	Beauticians	9	Illustrations/displays	8
	Building trades	9	Technical consulting	5
	Vehicle repair	7	Machinery maintenance	5
	Equipment repair	5	Textile/fashion design	4
	Interior design	5	Software development	3
	Tailoring/dressmaking	5	Business consulting	2
	Typing services	3	Publishing	1
	Business services	2		
	Massage	1		
			46	
	Percent of Total	20%		12%
Capital and Technical Skills	Bakeries	2	Metal fabrication	10
	Printing	2	Fashion manufacturing	5
			Other manufacturing	5
			Film/record production	4
			Biotechnology	2
			Industrial trading	1
		4		27
	Percent of Total	2%		12%

Source: 232 businesses associated with twelve self-employment assistance programs visited by the authors in England and Wales, May 1986.

the proprietors said that displacement accounted for less than 10 percent of their sales; the remaining one-third said that displacement accounted for between 11 and 100 percent of sales. From such figures, the British government estimates displacement at 50 percent (Manpower Services Commission 1985): that is, one worker may be thrown into unemployment for each two drawn out.

### Benefits to Program Participants

How good are the jobs self-employment provides?

The general experience, both in the United States and in other industrialized nations, is that the self-employed tend to work longer than their wage-earning or salaried counterparts, receive lower wages, and be less well covered by private fringe benefits and public social security systems (Becker 1984; Fain 1980; Storey and Johnson 1986:38-47). In one recent study, median earnings for self-employed men were estimated to be 70 to 80 percent of those for male wage earners and salaried employees, and the corresponding figure for women was 40 to 70 percent. The workweek for self-employed men averaged more than 50 hours, compared to 35 to 40 hours for wage earners (OECD 1986:31).

The data on EAS firms presented in Table 3 reinforce those findings. Among businesses still in operation after three years, 40 percent generated annual incomes for their proprietors of \$6,250 or less, and 84 percent generated incomes of \$15,500 or less. These figures say nothing of unpaid labor by the proprietors' family members. Also, they represent incomes earned in the third year; earnings in earlier years are typically lower.

Such incomes can fairly be characterized as modest at best. In 1984, the average earnings of full-time male employees in Great Britain were £179 per week, or \$12,473 per year (Department of Employment 1986:S54). Only about 17 percent of EAS recipients still self-employed at the end of three years claimed to be earning this amount or more.

A more stringent question is whether these earnings are lower than the alternative incomes available to these individual workers. Table 1 provides data on EAS participants' annual pretax income in the jobs they held before they became unemployed. The median is about \$8,000, approximately the same as the median EAS figure, and the distributions largely overlap. Thus, many proprietors of EAS firms that survive at least approximately match their alternative opportunities.<sup>5</sup>

If many continuing program businesses pay their proprietors close to what they could earn from their market alternatives, then the key question is: What proportion of businesses survive?

The general experience, both in the United States and Europe, is that most new small enterprises are fragile and their closure rates high. This pattern seems to apply equally to firms started with transfer payment diversion. In France, estimates of the proportion of all new small firms ceasing operations within their first three years range between 19 and 24 percent; the rate varies among sectors, from 11 percent in manufacturing, to 29 percent in services, to 40 percent in construction (Le Marois 1985:77-78). The comparable figure for businesses under the CC is estimated at one-third (Le Marois 1978:78). Since many CC businesses are in the volatile services and construction sectors, these rates of closure seem approximately to match those for all small French firms.

Termination rates in the United Kingdom indicate similar experiences. Fifty-two percent of firms founded with EAS support in 1982 were still in operation three years later (Table 3). It has been

<sup>5</sup> Confirming this interpretation are data reporting the reasons for closure among EAS firms that ceased operations within three years of startup. The reason most frequently reported (by 42 percent of former proprietors) was low profits, with 74 percent reporting annual pretax profits of \$6,300 or less (Wood 1985:20). In these circumstances, it is likely that the proprietors either felt that they could do better in alternative employment or that they were better off, considering both income and effort, receiving public assistance—which provided less than \$4,000 per year for more than 90 percent of the participants (see Table 1).

estimated that about 10 percent of all small businesses in the United Kingdom cease operations each year (Ganguly 1985:26), a closure rate of about 30 percent over a three-year period. But this estimate is based on firms registered for administration of the Value Added Tax, firms, that is, with annual sales of £19,000 or more—a volume matched by less than half of EAS firms. In the absence of a more controlled comparison, it is reasonable to conclude that the survival rate of EAS firms is similar to that of other small enterprises.

Even if a business ceases operations, the grant diversion program that played a role in starting the business might still benefit the proprietor. The experience of operating the enterprise could enhance the worker's confidence or credentials and thereby increase the probability that he or she will be hired by someone else.

To examine this possibility, survey data were collected on the economic position of proprietors discontinuing EAS businesses after operating them for at least one year (Wood 1985, Table 4.5). Twenty-four percent went directly from their business to other work, and another 20 percent found new work within a year after ceasing operations. Among former EAS participants who became reemployed, two-thirds reported higher earnings in their new employment than in their EAS positions.

Some movement from unemployment to employment is to be expected, however, even in the absence of any program. For the three-month period starting in October 1984, for example, among all male unemployed workers in the United Kingdom, 26.6 percent of unemployed persons obtained employment (Department of Employment 1986:S40). Thus, the flow into employment shown by EAS enrollees is not observably higher than what might have been anticipated in its absence. This conclusion is strengthened by the consideration that EAS enrollees have somewhat better credentials, and therefore a higher probability of becoming reemployed, than the average unemployed person (Table 2).

### Opportunities for Other Employees

How many jobs do these firms generate in addition to those for their proprietors? Do they fulfill the expectation, mentioned at the beginning of this paper, of a high rate of job creation reported to be characteristic of new small firms?

Research on small firms in general supports the notion that they play a disproportionate role in the creation of job opportunities. On the other hand, this research reveals that such firms account for a disproportionate share of job losses as well. In France in 1983, firms with fewer than ten employees, which provided about 20 percent of existing jobs, generated 37 percent of all new jobs and 38 percent of job losses (Le Marois 1985:56; Madinier 1985). Furthermore, most job creation in the small business sector is accomplished by a small subset of firms. One survey of manufacturers in Great Britain estimated that half of the jobs created in this sector were in 4 percent of new small businesses (Storey and Johnson 1986:60; see also Treitz, Glasmeier, and Svensson 1981).

Data for the CC program conform to these same patterns. Of businesses surviving three years, about 25 percent create jobs in addition to that for their proprietor. One survey estimated that by the end of one year's operation those businesses had hired an average of 1.5 workers (Ministère du Travail 1986c:1). Another survey of CC firms in Lyon estimated that the average entrepreneur created two jobs in addition to his own after being in business two years and 3.5 after three years (Dossou 1984). The dominance of very small firms among program enterprises mirrors their dominance in the sectors in which they are engaged. For example, in France in 1983, 62 percent of all firms in the services sector had only one employee; the corresponding figure in commerce was 57 percent and in construction 50 percent (Le Marois 1985:62).

Parallel results are evident for the EAS. Among program businesses still operating

after three years, 62 percent provided employment only for the firm's proprietor, and only 6 percent employed more than six persons (Table 3); these data include part-time employees and family members who may or may not have been paid. From such data, the British government estimates that 100 surviving EAS firms generate 24 full-time and 44 part-time jobs in addition to their proprietors' jobs; all non-proprietor jobs were provided by 20 percent of surviving firms (Grayson and Duffy 1985:25).

#### Factors Associated with Business Success

If only a subset of program-sponsored firms survive and an even smaller subset contribute to job creation, is it possible to predict which are likely to succeed? If so, program performance might be improved by targeting these promising candidates.

A comparison of EAS firms still in business three years after receiving allowances with those no longer operating (Table 6) shows that firms with weaker prerequisites, in terms of both proprietor characteristics and enterprise characteristics, occurred in the latter group at disproportionate rates. Businesses were more likely to cease operations if their proprietor was under 30; did not come

from a professional or managerial background; had been unemployed more than one year; and had earned a relatively low wage before unemployment. Businesses were also more likely to fail if they were started with an initial investment of \$1,500 or less and if they were in the accessible services sector.

Confirmation of this pattern is provided by contrasting the failure rates in the EAS and CC programs. Firms in the British program, which were characterized by both a lower percentage of former managers and skilled workers and a lower average investment than firms in the French program (see Tables 1-4), suffered a substantially higher mortality rate over a three-year period—50 percent versus 33 percent.

The patterns are further confirmed by other French experience. In 1982, 71 firms about two years old were surveyed in the Nord-Pas de Calais region of France. Sixty percent of the founding entrepreneurs had been unemployed before starting their businesses. A comparison of firms that made a profit (before depreciation) with those that did not showed that the former tended to have been started by an entrepreneur who had experience in the activity of the business as well as in management and had completed an above-average level of education. In successful

Table 6. Characteristics Differentiating Businesses Closing Within Three Years and Those Continuing, Enterprise Scheme, 1982-1985.

Characteristic	Value	Percentage of Businesses:	
		Continuing	Discontinued
<i>Characteristics of the Entrepreneur</i>			
Age	Under 30	15	24*
Occupational Background	Not professional or managerial	71	80*
Duration of Prior Unemployment	>1 year	20	23
Weekly Income in Previous Job	<£80	17	26*
<i>Characteristics of the Enterprise</i>			
Proprietor's Initial Investment	≤£1,000	37	47*
Industry	Services	25	31
Effect of Allowance	Would not have started without	11	18*

Source: Based on 540 businesses joining the EAS between January and July 1982, surviving at least one year, and surveyed after three years (Wood 1985, Tables A2-A4).

\* Percentages differ at the .05 level of significance or higher.

firms, the employees were recruited primarily for their professional competence. The firms' equipment was adapted to employees' needs, and the firms produced accounting information regularly using a computer. Firms not showing a profit typically were short-funded and had troubled relationships with their banks. Their equipment was ill-adapted to their needs, and professional competence was not a priority when hiring employees (Lecocq 1984). Other surveys have also identified shortages of skills, experience, credentials, and resources as typically handicapping new ventures (Le Marois 1985:113-43).

Such findings carry important implications for the goals of programs such as the EAS and CC. To the extent that program participants are drawn from persons who have weaker preparation, and to the extent that these entrepreneurs enter lines of business with the fewest prerequisites, the resulting businesses are more likely to be unprofitable and short-lived. But persons with weaker prerequisites are precisely those who are having the most difficulty finding employment. Thus, programs face a tradeoff between economic objectives and social ones. They can maximize the extent to which they serve those hardest to employ, or they can maximize business survival, profitability, and employment generation.

This tradeoff is particularly evident in the experiences of those EAS businesses (about half) that would not have been established, according to their founders, in the absence of the transfer diversion program (see Table 1). Table 6 indicates that a higher proportion of firms whose existence was initiated by the EAS program ceased operations within three years than was true for firms that would have started anyway. This outcome is understandable in light of differences between the two groups that were evident at the start or during their operation. Only 38.6 percent of firms that would have started without program assistance began with \$1,500 or less in initial investment, compared to 48.8 percent of firms that would not have started without EAS assistance. During their first year, 17.1 percent of the

"self-starter" firms generated jobs for employees other than their proprietor, compared to 9.3 percent for the other group. And 31.5 percent of the "self-starter" firms generated net income for their proprietors in excess of \$8,000 per year, compared to 20.9 percent for the other group (Allen and Slowther 1986:33, 41, 43).

Thus, active recruitment by a program may expand participation, but only at the cost of engendering businesses with increased probabilities of failure. From experiences such as those described above, some observers have concluded that public efforts to assist entrepreneurs should not attempt to increase the number of business starts but instead should concentrate on reducing failures among those already operating (Storey and Johnson 1986).

How do the low survival rates affect the cost per net job created by the programs? Data relevant to estimating this cost for the EAS have already been presented: 50 percent of the firms would have started anyway; 50 percent of those that did start displaced other businesses; about 50 percent of the firms survived for three years; and those that did survive generated a fraction of one job in addition to the job for the proprietor. The British Manpower Services Commission estimates that taking one person out of unemployment via the EAS costs approximately \$4,400 (£3,340) (Grayson and Duffy 1985:25).

This figure does not include extensive operating supports and subsidies that many EAS enterprises receive from local government, agencies of national government other than the Manpower Services Commission, or private charities. These include free employee and entrepreneur training, technical assistance and counseling, wage subsidies, startup and operating grants, subsidized loans, and tax credits and tax holidays. Without a more complex accounting of these inputs, it is possible to make only rough comparisons between the cost per job claimed for the EAS and the cost per job for more traditional government efforts to create jobs in the United States, such as Urban Development Action Grants (UDAG), the Eco-

conomic Development Administration, the Small Business Administration, and Public Service Employment; the cost per job in such programs ranges from as little as \$3,500 to \$13,000 or more (Bendick 1982). Costs for the EAS fall somewhere in the middle of this range, as well as in the middle of the range of comparable programs in the United Kingdom (Manpower Services Commission 1985).

### The Role of Business Support Services

As part of efforts to reduce business failures, screening of business proposals might be made a prerequisite for receiving allowances. Likely failures might be identified before program resources, as well as individuals' psychological and financial resources, are invested. Additional support services, including management training, business counseling, referral and networking, and financing might also be provided to strengthen business ventures.

Officials in both the United Kingdom and France are reluctant to adopt a policy of extensive screening. One reason is that such a policy would transform what are essentially simple programs into more costly and complex ones. Furthermore, if screening is conducted in a directive manner, the judgment of the agency is substituted not only for that of entrepreneurs but also for that of the market; since general patterns such as those reported in this paper do not allow prediction of success with perfect accuracy, such directiveness may not be justified. And public agencies administering transfer payment programs are typically staffed by civil servants without business training or experience who are not equipped to provide the business analysis required.

The need for advice and assistance to entrepreneurs is well established.<sup>6</sup> Among

<sup>6</sup> This need is not confined to a firm's first months. Table 1 indicates that most EAS business failures occur in the second and third year of operation, particularly in the period following the end of program payments. Proprietors of 71 percent of EAS firms that ceased operations during their second and

the specific needs identified by one French survey were financial counseling and assistance in dealing with banks; marketing analysis; consulting on production techniques, management techniques, and staff training; information on the economic, legal, and tax environment; and a location in which entrepreneurs can share experiences (Le Marois 1985:113-43). In a British study, Wood (1985, Tables 5.1-5.2) presented a similar list.

Some provisions for meeting these needs already exist. In the United Kingdom, applicants for the EAS are required to attend one day of training on program rules and regulations that also includes an introductory discussion of business management issues. Staff from the local Job Center, the agency processing program applications and payments, are supposed to visit firms three months after commencement of the allowance and at this time may refer them to other sources of training or advice. For more extensive support, some assistance can be obtained (often for a fee) from banks, local professionals, Chambers of Commerce, the government's Small Firms Service, regional development agencies, local governments, organizations serving youth, women, or ethnic minorities, or Local Enterprise Agencies (a system of nonprofit entrepreneurial counseling services now numbering more than 300 nationwide).

France also offers a variety of public and private institutions that provide training and technical assistance to would-be entrepreneurs. A 35-hour course is required for all craft workers enrolling in the CC program. The Agence Nationale pour l'Emploi (ANPE) offers additional courses ranging in length from two days to ten weeks. Less than ten percent of CC participants, however, receive such specialized training (ENA 1986:304). Training and counseling are also provided by nongovernmental organizations, including a network of agencies called Boutiques de Gestion (management shops).

The provision of support services is

third years reported that they could have benefited from advice (Wood 1985).

generally associated with higher rates of business survival. For example, in France it has been estimated that business failure rates are 50 percent lower for entrepreneurs taking specialized management training than for the general population of entrepreneurs (ENA 1986:304). But it is not known how much of this reduction is due to a screening effect rather than to the skills and information provided. Training or counseling in which potential entrepreneurs confront in detail what is involved in self-employment often convinces many of them not to pursue the idea. A 50-hour course on starting new enterprises is offered by the ANPE in France; although presumably virtually everyone enrolling in the course has some interest in starting a business, only about one-third of those finishing this training proceed to do so (ENA 1986:313). If those who are dissuaded are disproportionately those who would face the greatest difficulties or bring the fewest resources to bear in starting a business, then this self-screening would enhance the observed survival rate among those starting businesses even if training had no effect.

In one survey of the EAS, 77 percent of proprietors of EAS businesses still operating after three years said that they had received advice, compared to 57 percent of those no longer operating (Wood 1985, Tables 5.1-5.2). Even in this case, however, the connection between business survival and support services is not definite, since firms that are more stable financially and are run by more sophisticated entrepreneurs may utilize outside services at higher rates. Somewhat less ambiguous information was obtained in a survey of British Local Enterprise Agencies, in which 10 percent of clients said that they would not have started without the involvement of the agency; 44 percent said that without the agency's involvement it would have taken longer to achieve what they had achieved; and 45 percent said that they thought the agency had had little effect on their actions or success (Geach and Mundy 1985:22-31).

### Lessons for the United States

Some American observers see the promotion of entrepreneurialism among the unemployed as a major new policy option—a way to serve disadvantaged and unemployed persons not successfully assisted by traditional employment efforts and to solve economic and social problems simultaneously (Friedman 1986; Corporation for Enterprise Development 1984). The British and French experiences discussed in the present study lend little encouragement to such hopes. The programs in those countries have succeeded in turning less than one percent of transfer payment recipients into entrepreneurs, and an even smaller proportion into successful ones. They cannot be said to have contributed greatly to solving either social or economic problems, let alone both.

In Britain and France, those among the unemployed for whom self-employment has served as a vehicle for economic self-sufficiency have for the most part been those with substantial skills and capabilities—low current income but high human capital. Successful self-employment carries not only many of the same requirements as regular employment but additional requirements as well. Programs such as Britain's EAS and France's CC are therefore subject to the same tradeoff between serving the hardest-to-employ and achieving high success rates for their participants as are traditional employment initiatives. They do not seem generally appropriate for the severely disadvantaged, the long-term unemployed, or young job seekers with little prior work experience. They might be expected to be of more value for recipients of Unemployment Insurance than for recipients of public assistance, but whatever group they target, they will generally succeed only with better-prepared persons—precisely those among the unemployed who are least in need of assistance.

Those public efforts that have demonstrated some effectiveness in achieving aggregate increases in employment have apparently concentrated on sustaining the

survival and growth of a subset of firms most likely to succeed and most likely to create jobs (Storey and Johnson 1986). But such firms generally have fairly demanding prerequisites in terms of proprietors' credentials and initial capitalization and are least likely to be started by recipients of transfer payments. The forms of assistance most needed by such firms generally are counseling and financing services such as are provided in traditional small business development programs. Transfer payment diversion plays at most a contributory role in this process; its

resources are predominantly assigned to increase the number of new business starts, most of which will not contribute to aggregate job growth.

These findings suggest that grant diversion for small business development should be at most a minor component of the spectrum of efforts to promote employment opportunities for the hard-to-employ. And for those to whom that approach is successfully applied, it will not be less complex, cheaper, or more cost-effective than traditional employment development efforts.

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