economy," with big businesses at the center and small firms on the periphery. But in recent decades, economists and others have been revising their views. "As big businesses have faltered as engines of economic growth in America," Ohio State historian Mansel G. Blackford notes, "smaller firms have come to be seen by some as likely sources for economic rejuvenation."

Until the mid-19th century, small businesses were the norm in the United States, with thousands of them producing and distributing most of the country's goods and services. But by 1914, one-third of U.S. industrial workers labored in firms with 500 or more employees, and another third worked in companies with 100 or more. Yet small firms—by developing market niches or supplying goods to larger industrial firms—remained significant right up to the mid-20th century. Then, however, they went into a decline. The share of business receipts received by small companies plummeted from 52 percent in 1958 to 29 percent in 1979.

In the late 1970s and the '80s, small business experienced a resurgence. Of the 17 million businesses that filed tax returns in 1986, only 10,000 were firms employing more than 500 workers. Small companies were generating most of America's new jobs—by one estimate, 64 percent of the 10.5 million created in 1980–86. The shift of the U.S. economy from manufacturing to services undoubtedly played a part in this, as did the development of computer technologies, spawning everything from lawn-care companies to entrepreneurial software firms.

With the renaissance of small business, Blackford writes, some analysts began to argue that America's industrial future lies in getting away from standardized mass production and embracing instead "a system of flexible production by smaller companies linked together in industrial communities." Flexible production, said economist Michael J. Piore and political scientist Charles F. Sabel, in their best-selling *The Second Industrial Divide: Possibilities for Prosperity* (1984), is "a strategy of permanent innovation: accommodation to ceaseless change, rather than an effort to control it."

But Blackford sounds a cautionary note. Historical studies of small firms in Philadelphia's textile industry and Pittsburgh's iron and steel industry, he notes, "have shown that by developing market niches, using flexible production techniques, and depending on a highly skilled labor force, small businesses could compete successfully with much larger firms across the nation." But these studies, he adds, have also underlined the limitations of small business.

Earlier in this century, for example, independent textile makers in Philadelphia were unable to meet the growing demand from big customers, and many were forced to close their doors. Sometimes bigger is better.

Why There Was No Trickle Down

"Why Were Poverty Rates So High in the 1980s?" by Rebecca M. Blank, National Bureau of Economic Research *Working Paper No. 3878* (Oct. 1991), 1050 Mass. Ave., Cambridge, Mass. 02138.

During the prosperous 1960s, America's poverty rate fell from over 22 percent to 12 percent. This accomplishment seemed to bear out President John F. Kennedy's contention: A rising tide lifts all boats. Yet the sustained economic growth of the 1980s produced virtually no decline in the poverty rate. It stood at 12.8 percent at the end of the decade, about what it had been in 1980. Why was there no "trickle down" effect?

Northwestern University economist Rebecca Blank says the reason is that increased employment and weeks of work among low-wage workers during the 1980s were more than offset by declines in real wages. Whereas in 1963–69 the bottom tenth of the population enjoyed a $2 increase in weekly wages for every one percent rise in gross national product (GNP), in 1983–89 real wages for those at the bottom actually *fell* somewhat, despite the economy's growth. (For the top one-fifth of workers, by contrast, each one-percent increase in GNP meant a raise of $2.16 in weekly wages in 1963–69 and of $3.53 two decades later.) Blank attributes the drop in real wages for low-income workers to the decline of unions, technological change, increased competition from abroad, and the decreased demand for less-skilled workers.

This drop in real wages—not the increase in female-headed families or the cuts in welfare benefits made during the early 1980s—was behind the failure of "trickle-down" economics, Blank says. "Unfortunately," she concludes, "if the changing wage patterns of the 1980s continue into the future, economic growth can no longer be relied upon as an effective weapon in future wars against poverty."