

SPEECH BY MR. KARL-HEINZ NARJES,
MEMBER OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,
AT THE OPENING SESSION OF THE "EUROPEAN YEAR FOR SMALL AND MEDIUM SIZED
ENTREPRISES"

BRUSSELS, JANUARY 20, 1983

The Commission attaches considerable economic and political significance to the decision by the European Parliament and by the Economic and Social Committee to designate 1983 the Year of Small and Medium-sized Enterprises since it is a decision that is much more than a public relations exercise. The Commission has therefore welcomed it from the outset. Its timing could not have been better for after all we will soon be entering the fourth year of the most serious and most protracted economic crisis in the post-war period. The terms stagnation, stagflation and recession do not perhaps describe it sufficiently. It would be more appropriate to speak of a depression that has been averted in all Member States through enormous efforts and at substantial financial cost. For, if we add together all the public deficits in the European Community now financed by new borrowing, we arrive at a figure that easily exceeds 100 000 million ECU every year.

As a result, the public sector, which in some Member States is already carrying a burden that is verging on the unacceptable, is each year further encumbered in a manner that will significantly limit its room for action right into the last decade of this century even if we manage soon to pull out of the current crisis. The key indicators are familiar to you:

- sharply reduced, and in most cases halved, growth rates in the 1970s as compared with the 1960s;
- annual increases in the level of unemployment since 1973 - except for one year;
- rising rates of inflation in the Community until the end of the decade;
- a significant drop in private investment in all countries.
Profits are being squeezed and firms' capital base, which is so essential to their ability to weather a crisis, is narrowing.
As the economic situation deteriorates, Member States are faced with a growing redistributive burden, rising demands on the public purse and an increasing unwillingness of people to shoulder their own responsibilities.

In many countries, the impression has sometimes prevailed that, confident of continuing high growth rates, we could don our seven-league boots and reach the land of milk and honey. Even the radical upheavals in the external economy, such as the collapse of the Bretton Woods system, the two oil shocks or wildly fluctuating exchange rates, were not always interpreted as they should have been, that is to say as drastic warnings that countries should review the thrust of their own policies.

With my brief sketch of the situation I have sought to make it clear that in the current crisis we are confronted with much more than a purely short-term, cyclical problem.

Our domestic and external economies are in fact suffering from enormous structural dislocations and, not least, from practices that are in need of correction. Delayed adjustment processes, falling competitiveness on world markets, public sector shares of GNP which have risen to over 60%, and the multiple negative effects of inflationary money illusion are all indications of these undesirable developments.

On the other hand, the prospect of between 13 million and 15 million unemployed, the extreme strains placed on national social security systems and the fall in the value of money have meanwhile prompted all Member States to make efforts - in some cases considerable efforts - to rid themselves of complacent, opportunistic and superficial political behaviour patterns and attitudes that prevailed in the 1970s and to seek the fundamental corrections that are needed to remedy developments that have gone fundamentally wrong.

The efforts to be made include a critical look at existing economic structures. Such a look immediately reveals that in most Member States it is small and medium-sized firms that have shown a continued ability to adjust rapidly to changed market conditions and to be flexible in the provision of services and the manufacture of products. Their innovative ability is comparatively greater than that of many large firms. They create more new jobs and train more young people. And most of them pay profit taxes.

As businesses increase in size, business decisions become increasingly politicized, thus reducing their efficiency. Their profitability has been eroded, not least because they have been made subject to all the cumbersome procedures, deficiencies and absurdities of overcentralization and rampant bureaucracy. Where they are publicly owned and under direct public control, the danger of their becoming the plaything of day-to-day political decisions is particularly great.

Public opinion is frequently misled by such developments into believing that the fortunes of each of the national economies is identical with those of its politicized sectors. There can be no question of this, as a comparison of the figures shows.

More than 90% of all firms in the Community are small and medium-sized businesses. More than 60% of employees in the Community work in such small and medium-sized firms.

Such figures and trends are moreover comparable with those of our major competitors, the United States and Japan, and also with those of the newly industrializing countries in the Far East and in Latin America.

This admittedly drastic presentation of the situation will, I hope, show why we see the year of small and medium-sized enterprises not merely as a good public relations and image-building exercise and as an attempt to stimulate public interest in the situation and opportunities available in this vigorous sector of the economy, but as an expression of determination and as a call for a fundamental change in economic policy, as an expression of our desire to give a sustained and indeed irreversible boost to this the real dynamic sector of the European economy.

Our aim in so doing should be to achieve a reversal of trend and to set the sector on a new course. There is no need for us to waste time establishing perfect definitions. The conditions, trends and traditions of small and medium-sized businesses and the economic policy conceptions of this term have developed along very different lines in the various Community countries. Let us not try to fit them all into the same mould. The key factor is the personal performance of the entrepreneur and of his staff, which determines that of the firm. To this extent, the entrepreneur has much in common with the professions, with farmers and with other self-employed persons.

If the dynamic potential of small and medium-sized firms is to be released, they must, firstly, be set free from the fetters, obstacles, bureaucratic constraints and unnecessary burdens to which they are subject, and, secondly, equality of opportunity must be restored vis-à-vis larger firms on the market. A general point to be made here is that, whatever steps are taken to ensure the structural rehabilitation, regeneration and expansion of small and medium-sized businesses, such steps must not in any way be regarded as short-term economic policy measures limited in time, as a policy which may be followed by a relapse into the irresponsibility of the 1970s.

How else can we justifiably ask young people to set up in business and urge small and medium-sized firms to take on greater risks. The change in structural trend which Europe must bring about must be irreversible if it is to be successful.

The first step towards structural change is an improvement in profit expectations.

Anyone who expects the small businessman's enterprise and dynamism to make a substantial contribution to the turnaround in the economy must of course see to it that he can operate under appropriate conditions. The great task of economic policy today is to remove market logjams and to help strengthen business productivity and competitiveness. What this boils down to is the effective strengthening of the investment capability of the economy in general and small and medium-sized businesses in particular. There are whole libraries of useful recommendations on how to do this, but a sad shortage of specific decisions, either national or European.

The following moves deserve special attention. If taken, they would go a long way towards strengthening the competition principle and the general environment for the benefit of small and medium-sized businesses:

The growing bureaucratic interference by means of complicated legal and administrative rules and their extremely rigid application must be rapidly halted. This complicates decision-making processes or actually acts as a deterrent to investment. In every case it lengthens the costly delays before investment can start and thus increases the already numerous investment risks. Small and medium-sized businesses, with their limited professional and financial resources, are particularly vulnerable.

The investment environment must be made stable and more reliable and correspond to long-term needs. Anyone wishing to plan a number of years ahead must have a certain confidence in the stability of the legal and political environment, if he is to justify investment particularly in today's high-risk conditions. The fear of unexpected political change inhibits investment.

There must be less profit uncertainty, which is caused notably by short-term shifts such as changes in taxation or in wage and social security costs. The equity, profits, costs and taxes of small businesses must again be discussed openly, leaving aside all polemics. Even though costs vary sharply in the Member States, it must be a basic principle for all that the only remedy for declining profitability, falling equity ratios and falling investment is a lasting improvement in the profit situation.

Uncertainties surrounding the financing of investment projects must be removed. Apart from the problem of interest rates, which are still too high today, the general problem is the improvement of access to capital markets, not least in order to raise equity capital.

Special efforts are necessary to encourage the provision of risk capital for small and medium-sized businesses, especially for those aiming to go into capital- and technology-intensive production. The United States and Japan are apparently far ahead of Europe in this respect. The amount of venture capital on offer today in most countries in Europe falls far short of what is needed to help people to start their own businesses or to expand existing ones.

This poses the question of how Europe as such can contribute.

It is obvious that when we in the European Community formulate our policies and allocate our resources we do everything to improve efficiency and more specifically to encourage small and medium-sized businesses to be more effective on the markets and more adventurous in innovation. Our proposals to improve the environment for innovation, the European Investment Bank's financing activities and the use of the European Funds and of borrowed resources, in particular those raised by the new financing instrument, are examples of our commitment and our conviction that a policy for small and medium-sized firms can be implemented at Community level as well.

It seems to me, however, that what is really of crucial importance is our contribution to the construction of an internal market of continental dimensions. We cannot talk about strengthening competitiveness and at the same time shun or restrict internal European competition and so relinquish the opportunities afforded by a large market and by long production series that offer economies of scale. It should also be borne in mind that there is scarcely a branch of the small business sector in which 30, 40 or even 50% of the products traded are not imported. It should therefore be clear that small and medium-sized businesses too, with their highly sensitive cost situation, have a vital interest in seeing the European market flourish, together with the European economy as a whole.

Unfortunately, we have still a long way to go before this free economic area is fully established. In the depths of crisis, national protectionism is again emerging. Instead of thinning out, the jungle of national laws and administrative rules, which frequently have a clearly inhibiting effect, is becoming increasingly impenetrable and dense.

We sincerely hope that the decisions taken at the European Council meeting in Copenhagen will now be rapidly translated into concrete action on the part of the Council - this in the form of a first package at the end of March and a second at the end of June/July. By taking practical decisions, the Council will be able to restore a valuable asset of economic policy, namely the business world's faith in the large European market.

For small and medium-sized firms, which, it is generally agreed, are increasingly prepared to sell and buy on an international scale, existing obstacles are even more annoying than for large companies with all their facilities, and at times even have a prohibitive effect.

We are striving in the Community to achieve mobility of the factors of production across frontiers, that is free movement of persons, goods and services and freedom of establishment. The impetus this gives to competition, expressly enshrined in the rules of the Treaty with constitutional force, the ban on non-authorized aids and subsidies and the instruments for combating national protectionism provide the bases for free industrial and commercial activity throughout Europe which will strengthen the position of small and medium-sized firms.

I am aware that, in the present crisis, we are facing a stern test in this regard. Everywhere is feeling the pinch, and many bureaucrats simply cannot resist the temptation to re-erect frontiers, discriminate against or handicap other Europeans, impede imports, promote exports improperly and distort public tendering procedures. We are continually attempting with the instruments at our disposal - and these are purely legal instruments - to make Community law stick irrespective of the persons, firms, industries or Member States involved. Nor are we afraid of going to the Court of Justice. The many judgments which have gone in our favour and which have also been enforced prove that there is every hope of continuing the unifying process.

A particular cause of annoyance for many is the continued existence of controls and formalities at the Community's internal frontiers. A quarter of a century after the European Community was founded and 14 years after the customs union was established, the general public just cannot understand why the internal Community clearance procedures should still barely differ from customs procedures applicable to trade with third countries. All in all, these procedures increase the cost of goods to the distributive trades by up to 5%, in some cases by even more.

Given the aim of integration, application of traditional customs procedures at internal frontiers is an anachronistic relic of pre-Community times. The thesis that border formalities could not be simplified until after the abolition of other barriers to trade, and in particular until after the complete harmonization of indirect taxes, has long since become untenable. We hope for changes in this field.

We consider that, at least as far as goods which are subject only to value added tax are concerned - and this is by far the largest proportion of goods - it is already possible to organize both the collection of this tax and also the gathering of statistical information in such a way that an appreciable harmonization with the rules applicable to national goods traffic can be achieved. At the same time, customs documents could be replaced by the normal commercial invoices. The arrangements applicable to trade between the Benelux countries provide sufficient proof that these simplifications are in fact possible.

In our crash programme for more rapid establishment of the internal market, we have made concrete proposals for overcoming this unwarrantable situation at the Community's internal frontiers.

A Community analysis of the causes of the collapse and failure of so many small businesses over the last few years would certainly be useful here, precisely because in our approach to public assistance and our vetting of subsidies and State promotion measures of all kinds we are trying to widen the scope for craft industries and small and medium-sized firms. We do not want to see any privileged position maintained through the use of public funds: we want to give the more dynamic entrepreneur a fair chance.

We have not forgotten here that the fundamental considerations underlying any change of course in structural policy have not yet been fully discussed at national level or at Community level, and have certainly not been dissected in academic or public debate. Above all we have not forgotten that self-employed activity also represents a bit of freedom, and to the craftsman or small businessman provides a measure of self-fulfilment in an environment he can get to grips with.

This short address is not the proper place to lay a comprehensive action programme before you. But let me say that we are working on all identifiable problems within the purview of the Community, and propose to translate our assessments into concrete measures and decisions. In order to promote firms' capacity to innovate this means improving the patent system and facilitating access to the results of basic research and development. On financing we are drawing up proposals to the Council on ways towards Community financing for innovation in small businesses.

We are aware of the particular capital-raising difficulties experienced by those wishing to set up in business, whether they be craftsmen, entrepreneur/inventors or shopkeepers. We are studying ways in which we could improve advisory services and the development of managerial training. We know that self-employed activity is no guarantee of success in itself but that it only opens up an opportunity on the market.

The Rome Treaties are founded on competition and the free-market economy, and in this they are part of the continuous progress made since the French Revolution. They have not discarded the freedom to establish and carry on any trade or industry; they have strengthened it by providing the opportunity of a continental-scale market. He who opposes this development would have to be prepared to return to the narrowness of the guild system and the crippling environment of the State workshops. He would have to restrict his own freedoms, in the knowledge that our major competitors on the world markets would be overjoyed to see Europe give up the struggle and that our grandchildren would have bitter recriminations to make against him.

A new vitality and dynamism in the European economy has therefore become an essential condition for the continued existence of the free market economy itself. The contribution of the European Year of Small and Medium-sized Enterprises should be to provide a substantial impetus in the direction of concrete decisions. The situation is serious. Time is pressing. What else are governments waiting for?