

Dr. Karl-Heinz Narjes

CHECK AGAINST DELIVERY

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European Year of Small and Medium-sized  
Enterprises

1.

Lancaster House provides a fitting and illustrious setting for this conference, held to inaugurate the European Year of Small and Medium-sized Enterprises in the United Kingdom. It has always been a forum in which major policy initiatives have been discussed and in which many trend-setting developments have been boldly initiated.

There is currently a great need for such forward-looking policies. The United Kingdom, Europe, indeed the entire world are passing through a period of radical change.

We in the Commission therefore attach considerable economic and political significance to 1983 as the Year of Small and Medium-sized Enterprises. At this time of upheaval, the only survivors will be those who are fundamentally healthy and who show themselves willing and able to shoulder their own responsibilities, to adjust to changed circumstances and to move forward with the times.

all and medium-sized businesses are the healthy, aptable middle tier of the economy in your country too. The traditional industries of the nineteenth century, coal, iron and steel, have lost much of their former importance.

The timing of this conference could not therefore have been better, for after all we will soon be entering the fourth year of the most severe and most protracted economic crisis in the post-war period. The terms stagnation, stagflation and recession do not perhaps describe it adequately. 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 around 100 000 million ECU every year.

We are confronted with much more than a crisis in the economic cycle. We are on the threshold - if not already in the midst - of a fundamental change in growth sectors and demand structures, not to mention the behaviour patterns of individuals and the various sections of society.

Delayed adjustment processes, declining competitiveness on world markets, public sector shares of GNP which have risen to over 60 % in the average of the EC-countries are all indications of these undesirable developments.

Yet the misfortunes have not come like a natural disaster. Much of the crisis in our economies and our welfare states is of our own doing, reflecting a host of policy failings and errors.

The economic process was gradually cut off from the laws of the market and made subject to bureaucratic decisions. Private enterprise was discouraged and pushed back. The consequences were an erosion of profits and of firm's capital base, sagging growth, unemployment and an increasing decline in efficiency.

This was the delima facing governments and it became sharper as the 1970s progressed: on the one hand, increasing international interdependence of national economies in a successful system of free trade and open markets and, on the other, growing interventionism and government involvement in economic decisions at an increasingly detailed level. The two trends were on a collision course. Many governments tried to shake off the discipline of the free system, so as to preserve what they supposed was the necessary national freedom of action.

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 complacency, 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.

These efforts include defining what type of economic order we wish to have and a critical examination of existing economic structures.

We should draw confidence from the fact that, as a look at our economic structures immediately shows, the basic middle tier of our economy has, despite all the trials and tribulations we are facing, remained basically healthy and efficient. This middle tier is in most of the Member States provided by small and medium-sized businesses.

They have shown a remarkable continued ability, even in the turbulence of the economic crisis, 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 trade and industry 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 exercise 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 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. 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. We must stop preventing the dynamic elements in the economy from helping themselves.

For this reason, anyone who expects the small businessman's enterprise and dynamism to make a substantial contribution to the turnaround in the economy must 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.

It 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.

cial efforts are necessary to encourage 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 does not help people to start their own businesses or to expand existing ones, to put it mildly.

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Here I should like to take a look at the British economic scene. I believe that this can be instructive, since for some years now the United Kingdom has been pursuing a new economic policy with remarkable consistency.

It is well known that throughout the post-war period, output and productivity in the United Kingdom grew far more slowly than in most of the other developed countries. The world market share of manufactures was contracting steadily and significantly. A self-confident and well-organized workforce and the unions representing them were long able to enjoy privileges and immunities which were quite extraordinary by international comparison. It was easy to make relatively depressing comparisons between the number of workers needed in the United Kingdom and in other countries to produce the same products with the same machinery. Management was often criticized. Private industry had to bear the burden of a vast public sector. Government interference with the free play of market forces was the rule rather than the exception; it created artificial impediments to economic freedom and enterprise.

Since 1979, the British government has been tackling these problems energetically and on a broad front. It has switched to a forward strategy, determined to restore free market conditions. Some of the effects of this process have been very painful. But unfortunately this was unavoidable.

That this is the only right road is demonstrated by what has so far been achieved, despite all the heavy pressures, particularly on employment. And the results stand up to international comparison.

The most obvious symptom of what went wrong in economic policy in the 1970s was inflation.

Since then, the inflation rate in the United Kingdom has been cut to about one third. Public sector borrowing has been halved to 3 % since 1979 and seems to be on a continued downward trend.

Productivity in manufacturing has risen dramatically, by more than 14 % since the beginning of 1981 - quite an extraordinary phenomenon in a recession. A responsible attitude, readiness to take risks and initiatives, innovation and a high degree of adaptability on the part of small and medium-sized firms have all played a decisive part in this success.

One further element of course - and this contribution is perhaps not yet appreciated everywhere in the same way as in the United Kingdom - was described recently by the Chancellor of the Exchequer, Sir Geoffrey Howe, when he said that no country and no government could of itself create a more healthy, more competitive, more enterprising and more prosperous economy. This was a matter for firms, and there was a particular need here for the stimulating climate of freedom from any form of protectionism in the European Community.

Indeed that the establishment of a single market of continental dimensions, which is comparable in size to the American market and much larger than the Japanese market, constitutes a vital precondition for structural change and economic recovery. This broad basis is absolutely essential in the areas of technological development, financing and sales, if we are to hold our own against highly efficient competitors on the world market.

It should also be born 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 - indeed largely from the Member States of the European Community.

ould therefore be clear that small and medium-sized  
.....esses 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.

It would be inadmissible to say, though many people do so,  
that the European Community is no more than a large market,  
a customs union. The European Community also stands for a wide  
range of common policies which, quite apart from the  
highly political aspects of cooperation. - Just take  
the example of the Falklands crisis and of the gas  
pipeline embargo - are vital for economic prosperity and are  
of course also important for the continued existence of  
the internal market. This is sometimes overlooked.  
Harmonized economic and budgetary policies, competition  
policy, the policies to ensure regional and social balance  
and industrial renewal, the Community's wide-ranging  
financing activity and the common commercial policy -  
these are all key elements in the achievements of the  
European community and its importance for the dynamism  
and market efficiency of small and medium-sized firms.

This is not to say that we have already reached our objectives. In many respects, we are still a much longer way than we would like to be from achieving what would be in the interests of the European economy as a whole, and this is perhaps the time to make a few comments on doubts which are perhaps expressed more frequently in this country than in other Member States.

The United Kingdom is entering the second decade of its membership of the European Community. I believe that never since the time of Henry VIII had this great country had such close contractual ties with the Continent.

This is a unique process. It has direct consequences for each individual citizen. And it is only natural - and quite understandable - that the people of this country should still today be strongly aware of the paralleled nature of this process.

Has it paid off, will it pay off? I am a bit unhappy about the way the still not completely settled issue of the budget contributions has for far too long obscured the British public's view of European realities and of the real essentials. We have come closer to solving this technical, important, but not crucial problem. What is essential today is that, at a time of growing protectionist dangers, an open internal market of 260 million consumers - the largest, richest, most rapidly expanding free trading area in the world - should

contractually guaranteed. Economic statistics and in other countries such as the United States and Japan, fully appreciate this extraordinary potential and these development opportunities.

Anyone who is aware that United Kingdom exports to the Community have grown twice as fast as trade with the rest of the world even at a time of economic difficulties, that the Federal Republic of Germany has replaced the United States as the United Kingdom's largest market and that in 1980 the United Kingdom received 59% of direct United States investment, will readily appreciate the importance which the United Kingdom's membership of the Community has acquired today. This process has been slow to get going; it has taken time for the results to be felt. They cannot be too highly valued at a time of worldwide recession and contracting world trade, at a time when imports are frequently branded as a betrayal of one's country and when trading methods which really belong to the Stone Age are being resurrected.

Inventiveness in this field is quite unbelievable and apparently inexhaustible. We are experiencing an innovation phase - not unfortunately in free trade, but in obstacles and restrictions. Instead of thinning out, the jungle of national laws and administrative rules, which frequently have a clearly inhibiting aim, is becoming increasingly impenetrable and dense. And yet there is one thing going for the European Community: despite appreciable restrictions, the trip-wires of red tape have hobbled but not yet strangled the victim.

But this development is dangerous and we will do all we can to counteract it. The Commission has now made a fresh start on reinvigorating the European internal market. At its meeting in Copenhagen, the European Council "instructed" the Council of Ministers to take decisions by 30 March 1982 on the priority measures proposed by us. And a second package of measures is to follow at the end of June/July.

dash programme for introducing a forward-looking strategy for reinforcing and improving the internal market should help to preserve or restore a valuable asset of economic policy, namely the business world's faith in the large European market and in our will and determination to construct it.

The first item in the package is the proposal on Community certification procedures for imports; the delay in adopting this proposal is holding up the signature of about 20 draft directives on technical barriers to trade and another dozen or so on the establishment of greater freedom of movement.

Secondly there is the proposal on the improvement of the exchange of information on technical specifications and standards, where for some time there have been growing complaints about the protectionist effect of national measures; and thirdly there are the proposals on the simplification of frontier formalities within the Community. The situation is certainly serious if representatives of industry can say that it is easier to sell a machine in Singapore than in France.

We want the Council of Ministers to take rapid decisions. The Council must not be allowed to become a foot-dragging forum for hair-splitting discussion of marginal details. The twelve million unemployed looking on do not make an appreciate audience.

For small and medium-sized firms, which, it is generally  
and are increasingly preparing to sell and buy on an in-  
tional scale, the simplifications we are looking  
in our crash programme are of immediate  
interest, and actually more so than for large  
companies with all their facilities.

There is a branch of economic policy whose main function  
it is to maintain the economy's adaptability. That branch  
is competition policy. We know that not a few small and  
medium-sized businesses are finding it hard to hold  
their own against the weight of powerful competitors.  
Certainly, free competition has never been cosy in a  
changing world. But competition there must be. Lavish  
state aid schemes and state holdings are distorting the  
conditions of fair competition in many Member States.  
Many companies have thereby become virtually immortal.  
These methods are not compatible with the principle  
of free movement and the open market. In our  
approach to public aid 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 also propose to promote private industry's 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 on 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.

And since we are here in London, with its long tradition as a leading financial centre, let me close by mentioning another area in which we must make progress in the interests of small businesses. The Community market is not confined to the free movement of goods. Free movement of services and capital, and of course also of people, are involved too.

Paradoxically some of the Member States who are the strongest advocates of maintaining and developing the common market in goods are at the same time among those who have the greatest doubts when it comes to services. Free traders are apparently torn in different directions here. The Community market in services does not work yet. There are glaring barriers in the way of both small businesses and large businesses, particularly in transport, communications and finance.

Foreign insurers are not automatically admitted to other Member States. Engineers cannot work in complete freedom in all Member States. The Financial Times is printed in Germany and flown to London because the transmission of foreign stored data and printing plates is forbidden. Neither can the Financial Times use services hired by others to transmit its own information during the night, for example, because British Telecom does not allow rented services to be shared.

In the period before 1914, when London was the world's banker, or was assumed as a matter of course that Britain had to be open to imports so that the London Banks' foreign customers could earn the currency they needed to service their debts. This simple truth frequently seems to be forgotten by governments and the financial world today. The Commission has been putting forward proposals to get the European market in services moving.

Britain has a glorious past to look back on. It has achieved great things by its own efforts. Now is the time for self-confidence and self-reliance in unison with all the European partner countries. The contribution of the Year of Small and Medium-Sized Businesses should be to exert strong and clear pressure in the direction of concrete decisions. The guerilla tactics in international trade must not be allowed to develop into a pitched battle.

Work and quality must be made to pay once again. There is no alternative, if Mirabeau's saying still holds, that there are only three ways of living, to beg, to steal or to work.