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## **WORKING DOCUMENT N° 8**

on "Economic Exit Strategies : Financial and Monetary aspects, SMEs, Innovation and New Opportunities for sustainable growth"

Special Committee on the Financial, Economic and Social Crisis

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## Introduction

We are experiencing the most severe financial and economic crisis since the establishment of the modern international financial architecture. It has become necessary to view this moment of crisis through the prism of many decades of experience, and to apply the lessons learned from the successes and failures of our manifold socioeconomic endeavours. Our globalised economic order has evolved to contain elements that are under-regulated, unsupervised and unequal; and it has proven to be unstable and unsuited for the demands of the 21st Century.

The following is aimed to help in redefining a sustainable model for society, which is governed by the values of **freedom, solidarity and responsibility** and while upholding the concept of Social Justice and the responsibilities derived there from.

## Innovative SMEs as a driving force for EU recovery and future growth and welfare

The **social market economy** of the European Union is perhaps one of the greatest achievements of the Union. Nonetheless the social expenditures of such an economy require that the economy grows to sustain these expenditures. SMEs are the most nimble participants in an economy and sustainable economic growth relies on SMEs ability to recover and start growing, adding jobs and supporting the social expenditures of states through their tax contributions.

A healthy SME sector is the backbone of any healthy **free market economy** and it is this sector that contributes most to the labour market by creating jobs. One of the fundamental premises for a healthy SME sector is the existence of **competition**, of a level playing field. EU Competition policy must not be 'softened', if anything, it has to be strengthened and SMEs have to be put in a position where they can bring forth their concerns related to competition and expect a clear and timely resolution of any conflict that might arise.

One of the great achievements of the European Union is its **Internal Market** which allows for a fertile business environment throughout the Union whilst also benefiting the consumers. Nonetheless, SMEs face numerous challenges in operating in the Internal Market and often operate below their efficient scale. Especially at the micro level, SMEs need to be supported to be able to operate throughout the Internal Market, their access to information pertaining to opportunities needs to be brought up to the level where trans-European platforms can be established. Only then SMEs can explore business opportunities, can find complementarities and ultimately they can find the means to gain access to markets within the Union.

One of the existing measures defined by the EU is the **Small Business Act**, which contributes to the improvement of the SME environment. Implementation of the SBA is largely in the domain of Member States, thus monitoring by the Union has to be strengthened to ensure a timely and satisfactory implementation of the SBA.

Furthermore, this *Small Business Act* should be reviewed and be linked up with a **stronger social dimension** (*New Social Small Business Act*, mentioned by French designate Commissioner Michel Barnier at his hearing before the European Parliament). Creating the right competitive conditions for the economy to generate future jobs should service a greater social cohesion and reinforce society's tissues.

The **services directive** provides for massive opportunities for SMEs and its implementation is also in the domain of MS and it is proving to be one of the most challenging implementations. As the largest part of the SME sector of the European economy has moved towards service-provision, implementation of the Services Directive is crucial for future growth of SME's. Monitoring by the Union of the implementation of the services directive is of key importance.

**One-stop shop** needed for every administrative issue needed for SMEs.

Former Commissioner Mario Monti advocated a one-stop shop for the establishment of companies, which has been by-and-large implemented by member States. This needs to be taken further by establishing one-stop-shops for all administrative matters concerning SMEs.

The employees that provide the most added values by age group are those at the twilight of their working career and their loss from the labour market through retirement erodes the skills and the experience accumulated by them. Keeping citizens active and productive after retirement is among others in the economic interest of Europe. The loss of their expertise can be mitigated by engaging **senior citizens** to remain active through looser structures and networks based on their civic engagement and by linking them with economic actors and academia. SMEs can profit most from such a network of informal structures that can be consulted, as most SMEs find it hard to afford these services from the consultancies active in the economies. **Knowledge accumulated in senior citizens must be circulated to the benefit of all by the establishment of a network at the level of the European Union.**

Small and Medium-Sized Enterprises are **wealth creators locally**, both through their local contributions as well as through their employees. This sector is responsible for the largest proportion of employees in any market economy and in an economic recovery, they are also the first ones to start hiring again. To strengthen this position of SMEs as the key factors in creation of employment, their business potential has to be furthered, as well as job creation in this sector stimulated. **Providing for tax incentives and even subsidies for SMEs** to keep and to create jobs, although costly at first sight, actually creates value, as the contribution to GDP of individual employees dwarf both the costs of them being alternatively in the care of the state or the funds needed to be invested in supporting existing jobs. Needless to say that the higher skilled the job is, the larger the contribution to GDP. **There are more than 20 million SMEs in the European Union - thus if, in an ideal world, each of those could add a place of employment, it would mean an equivalent reduction in unemployment.** Only if a fraction of this can be achieved through support schemes both at the national and at the European level, it would have a tremendous impact on unemployment and, consequently that of growth. The Eurogroup needs to invest itself in an effort to **coordinate taxation** relative to SMEs of the MS as tax competition among Member States potentially damages SMEs and can destroy highly skilled employment.

Any SME policy of the European Union has to have an **external dimension**. With the fledgling EU External Service, new opportunities can be brought to fruition as regards the issue of market access. Market access would allow SMEs to augment their growth potential and to facilitate this, the Union can have an instrumental role, if the **new EU external service** is geared towards providing support for SMEs. In every external representation of the Union there should be a support structure for SMEs. Beyond market access, SMEs have to be supported in investing in the developing world, as this can create wealth locally and can act as

a catalyst for the aid provided to emerging countries.

**Innovation is the strongest engine of economic growth** and as such it needs to be effectively linked up with the economy, the principal beneficiary of innovation. So far, in administrative structures, the domain of innovation has always been a premise of the educational structures. Bearing in mind the impact of innovation on the economy, reflection is needed on perhaps an administrative adjustment where the domain of innovation pertains to administrative structures devoted to the economy and industry. **An organic link between industry and innovation and, consequently with education is highly desirable.** Innovators need to be at the forefront of investments at the European and national level. Since innovating start-ups, by definition carry a high risk/bankruptcy profile, an entire rethink of their financing and corollary activities is needed. Since these innovating start-ups are in the most difficult position when it comes to getting financing through the banking system, credit guarantee schemes need to be drawn up for specifically this segment.

New **partnerships between industry and academia** have to be established to further streamline innovation activities. In this respect, SMEs can gain significant research resources but the universities engaged in such partnership gain a fertile ground for the transposition of their research into real goods and services, not to mention that their graduates potentially gain employment with the companies concerned. New partnerships of this kind can be established via centres of excellence, innovation parks and both through physical and virtual networks among stakeholders. The Union can lend a helping hand in the establishment of the premises for such partnerships by providing the framework for these.

In an increasingly competitive global marketplace, the **EU needs to focus on some key areas where it can develop leading capacities through innovation.** Bearing in mind that the population at large of the Union is an ageing population, it is but sensible to ascribe special attention to the **healthcare sector.** The Crisis wreaked havoc in the automotive industry, yet the EU based manufacturers have weathered the downturn significantly better than their US counterparts. This presents a comparative advantage, as EU manufacturers are in a better position to **keep investing in R&D and stay in the lead by innovating and implementing the general trend of the greening of the industry.** The Union can contribute by both regulation and by funding assistance aimed at the development of eco-friendly vehicles, including those used in public transport networks. In parallel with the focus on the automotive industry, the EU should also focus on innovation in the so-called 'greening' of the European economy--renewable energy, second generation bio fuels, low-carbon production processes--e.g. the replacement of fossil raw materials in the production of plastics, industrial chemicals, building materials. With the price of oil off from the peaks experienced in the run-up to the financial crisis, focus on greening the economy should not be lost. **Synergies are significant between the automotive sector and the sectors mentioned beforehand.**

In this context, **new skills are required for the new jobs.** The most important skill would seem to be the ability to formulate complex solutions to new and unforeseen problems and the capacity to learn new and different skills throughout a lifetime. Somehow, we must find a way not just to supply more educational opportunities, but to create demand for those skills as well.

A long-term agenda should contain a **higher level educational attainment** within the EU. A persistent pattern of under-investment in education sector is not sustainable over time and will

deprive future generations of opportunities and EU of qualified workforce.

## **Looking at the Future: Trends and Opportunities**

Global community is at present challenged by having reached a stage, which offers an opportunity to either foster a process of sustainable development or lay the groundwork for the eventual destruction of the society itself, as we know it today. This stage applies to five areas: (a) climate change, (b) demographic change, (c) increasing urbanisation of society, (d) changing relationship of governments and international civil society organisations, and (e) endeavours to develop a global information society. All of them encompass change, not without embedded conflicts.

### ***(a) Climate Change***

Recent reports from the United Nations on global warming bear out the need to take vital measures to effect a major adjustment to the negative effects of the present development. The environmental activist and former Vice-President of the U.S.A., Al Gore (2009), supports “that many scientists are now warning that we are moving closer to several ‘tipping points’ that could make it impossible for us to avoid irretrievable damage to the planet’s habitability for human civilization.” Urgent action is needed in spite of resource constraints.

### ***(b) Demographic Change***

Demographically there are almost 500 million people worldwide over 65 years old and for the first time in history this age group outnumbers children under 5. While aging is the result of advances in the medical and economic fields, it is **important to promote labour force participation and boost incentives designed to encourage people to stay in the work.** Low birth rates, rising life expectancy and a continuing inflow of migrants force us to create the right conditions for sustainable societies.

### ***(c) The Urbanisation of Society***

The United Nations estimates that in 2008 for the first time in the history of mankind, more than 50 percent is living in an urban environment. This evolution has impact on the quality of life and the use of resources (food, access to water and electricity).

Imbalances are created as the trend to lower fertility rates is more prone than in an agricultural one and urban populations are further projected to grow quickest in the poorest countries. Of the three billion world-wide living in cities, it is estimated that one billion live in a slum environment.

We cannot afford to wait and therefore architects and city planners must engage together in efforts to improve living conditions.

Furthermore, **local and rural communities have to be fostered as they provide for opportunities in relation to the economy at large, employment and community building.** To this end, regional markets have to be stimulated and there need to be local structures meant

to assist with the implementation of decisions from the European and even the Global level. Through these structures, another dimension can be added to the dialogue between policymakers and those concerned by policies. **Providing support for these communities also provides an avenue to tackle exclusion through the reinforcement of the community tissue and thus augmenting its absorption capability.** Exclusion is at the base of the problem of poverty and although we must not turn away from poverty, it needs to be realized that increased inclusion exponentially reduces poverty.

#### *(d) Relationship of Governments & International Organisations to Civil Society Organisations*

A change has taken place, and is still in progress, in the attitude and approach of Governments and International Organisations such as the European Union towards CSOs, which is signalling a partnership approach in the search for sustainable development. The impact of CSOs within EU sponsored, up to the present day, has strengthened this trend. Accredited representatives of CSOs are also invited to make oral presentations and submit written statements, which become official documents.

#### *(e) The Information Society*

The Information Society is also challenged to contribute to a sustainable development. Beyond existing participation inequalities in different parts of the globe, **information technologies have the potential to mobilise large parts of the society and help emerging new type social movements.** Well- informed citizens get networked in the "global village" and are thus enabled to seek out local solutions in global challenges. This is due to the notion of knowledge as the capacity to act and the ability to make the right decisions for a sustainable world.

### **Recommendations**

- Strengthening the social market economy avoiding competition restrictions
- Full use of Internal Market capacities and new business opportunities throughout EU for SMEs
- New Social Small Business Act
- One- shop- stop for every administrative issue for SMEs
- Establishing a European seniors consultancy network
- Tax incentives and subsidies for SMEs
- Boosting employability by "One SME- One Job" Project
- External dimension enabling SMEs to compete internationally, the role of the EU external service
- Innovation stronger linked up with industry
- New partnerships between business, science and university research
- Backing knowledge- based innovations on which EU's future depends on
- Demand led education system
- Promoting labour force participation and encouraging people to work and stay in the work longer

- SMEs as a tool for restoring the community economic and social tissue
- Devolving power to the communities: local implementation of global decisions
- Seeking out a proactive approach towards exclusion, which often responds to poverty
- Using the full potential of the emerging information society in order to engage locals in sustainable society planning

## **Conclusion**

Growth and prosperity are indivisible. Today, all states are far more closely interconnected than ever before as active participants in the modern globalised financial and economic system. This critical moment calls for prompt, decisive and coordinated action to address the causes of the crisis; mitigate its global impact; and establish mechanisms to prevent similar crises in the future. Today, we have to prioritize the required lines of action; and define a clear role for the European Union in the implementation of our coordinated approach **towards a sustainable social environment**.

EU's pursuit of profit and economic growth must be leavened by our collective responsibilities in the satisfaction of jobs creation, the realization of sustainability and the achievement of welfare. All these expressed in the form of a new *Small Business Act embracing a strong social dimension* and at the same time by remaining fully committed to development aid to the most vulnerable nations of the world.