ECONOMY

SMEs are Europe's backbone – Brussels must help them flourish

BY MAGGIE PAGANO / 11 OCTOBER 2019


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Whatever the outcome of the tortuous Brexit negotiations, there is one subject on which all Europeans – whether they are citizens of the European Union or not – can agree on. I am referring of course to all the start-ups, small and medium sized businesses across the continent. It is these 23 million small businesses that everyone agrees must be helped to develop and thrive if the region is to prosper.

What's interesting is that almost without exception when industrialists or politicians talk about these sectors, they refer to them as the "backbone" of their country. In the UK, it is the 5.6m SMEs which are the backbone.

German business leaders call their 3.5m SMEs, including their *Mittelstand* companies, the *Rückgrat*, the French have the more lyrical description – *la colonne vertébrale* – and the Italians call them the *spina dorsale*. And the Polish? Well, they are the *kręgosłupit*.

Never have these backbones been needed more. With growth slowing around the world, and in particular across the eurozone, Europe's entrepreneurs and small and intermediate-sized business leaders are needed more than ever to provide the jobs and growth of the future.

As well as being the backbone to their economies, small companies – often family owned – provide the glue of so many local communities. Not only do they hold together the fabric of small villages and towns, these small companies are more robust in times of crisis and they inevitably invest for the long-term.

The facts speak for themselves. Since the 2008 financial crash, for example, 80% of all new jobs in the UK have been created by SMEs. In France, 335,000 jobs have come from mid-sized companies over the period, more than a third of them in manufacturing.

Yet there is a problem at the top of Europe's political and policy-making hierarchy. Even though politicians – whether they be in the major capitals or in Brussels – say they know how critical SMEs are to their countries, in truth many of them ignore their cries for help. With productivity low across the continent, this attitude must change if Europe's small businesses are to compete with the world's bigger trading blocs like China and India.

The ambition sounds easy enough to announce – get rid of red tape, cut taxes, hand out a few tax breaks and let small businesses free etc. But it's not that easy to achieve, as I discovered listening to a fascinating debate between French, German and British small business leaders organised by the Club of Three and Cercle d'outre-Manche in London recently.

As Dr Bernd Atenstaedt, the chairman and CEO of German Industry UK, pointed out at the meeting, Germany's economics minister, Peter Altmaier, was forced into announcing a string of new measures for the country's *Mittelstand* after being stung by fierce criticism that he was only interested in helping big business.

But the criticism worked. In August, Altmaier came up with a new strategy to help Germany's entrepreneurs and medium sized companies become more competitive by offering tax breaks, reducing bureaucracy and launching a new campaign to help finance start-ups.

Finding a solution to Germany's skills shortage is another big problem for the country, says Dr Atenstaedt, particularly for its smaller companies as most young workers would prefer to work for giants such as BMW or Siemens. Encouraging refugees to become apprentices is just one of the ways the government is trying to help overcome the skills shortage.

By contrast, the big problem in France is less state interference and more freedom for private business. According to Frédéric Coirier, co-president of Meti – Mouvement des Entreprises de Taille Intermédiaire – and chairman of Poujoulat, the most important reform needed to boost small businesses in France is for taxes on assets to be cut drastically or abolished. Since the 1980s, when the wealth taxes were introduced by President François Mitterand, the number of intermediate companies has collapsed from 5,000 to 4,000. (Germany has around 12,000 of these mid-sized companies, the UK has 8,000 or so and Italy roughly the same.)

As three quarters of these intermediate companies are family-owned, the tax on the transfer of company shares was devastating. Coirier says that President Macron's recent decision to abolish most of the top wealth taxes on financial assets is starting to show positive signs, as are the more flexible labour laws which are being introduced. There's more to be done: France is still the highest taxed of all EU countries. Coirier says small businesses want to see other taxes on capital assets – also known as a production tax – reduced if not abolished.

He also had a warning for his European neighbours seeking help from their governments to boost enterprise: "In France we want less of the state involved in our SME sector. Be careful that you don't become like us and end up with more state interference."

Each country has its own wish-list for what can be done to boost small business growth. In the UK, Martin McTague, policy chairman of the Federation of Small and Medium-sized Businesses, reckons that improving apprenticeships for small businesses is vital and is talking to the new education minister about how vocational training can be improved for small businesses. In France, Coirier will keep lobbying Macron for more tax cuts while Atenstaedt hopes Altmaier will go through with his promises to Germany's entrepreneurial spirit.

And the best takeaway from the Club of Three? That, despite or in spite of Brexit, the business leaders of Europe's three biggest economies will continue working with each other to improve conditions for SMEs. Their next step should be to start lobbying the new Commission and MEPs in Brussels to make sure policy-makers don't pile on more rules and red-tape. That would really stiffen the backbone of the European economy.

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