

# Position Paper

## **UEAPME<sup>1</sup> demands a European Growth Pact, which is coherent with the Fiscal Compact and integrates the needed Structural Reforms**

### **Fiscal consolidation and budget cuts are not sufficient to re-establish economic growth**

Many times throughout the current crises UEAPME and its member organisations have stated clearly that fiscal consolidation is a pre-condition for restabilising the financial markets and for solving the sovereign debt and trade balance problems. Furthermore, **UEAPME is convinced that the private sector has to be the driver for future economic growth and new jobs in Europe's economy** and that such a recovery will not happen without an implementation of the needed structural reforms in the different Member States, especially within the Eurozone.

However, and in spite of the many measures taken at European level and by national governments, our latest EU SME Barometer<sup>2</sup> and other forecasts show that the European economy and especially SMEs in the personal services and construction sector in almost all countries suffer from weak demand by private households (reduction of disposable income and increase in unemployment), companies (investments are put on hold) and public demand (spending cuts). This weak demand and the prolongation of the instabilities on the financial markets are the ingredients for the current economic downturn and brought the EU again on the edge of a new recession.

In dealing with this crisis, caused by various shocks and problems, it became more and more clear that the fiscal consolidation and structural reforms enforced by European and international institutions up to now are not sufficient to bring Europe's economy back to sustainable growth and to re-stabilise the financial markets. Therefore, the request for growth enhancing measures gained more and more support and has been put first on the European agenda by the European Commission in its Annual Growth Survey 2012, followed by the demand for a European Growth Pact by the new French President and representatives from many other Member States.

### **The Fiscal Compact and the Structural Reform Agenda must be accompanied by growth enhancing and growth supporting measures**

UEAPME supports the demand for growth-enhancing and growth-supporting measures. However, such a growth strategy has to accompany the fiscal consolidation and the structural reform agenda and may not replace them for different reasons:

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<sup>1</sup> UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

<sup>2</sup> [http://www.ueapme.com/IMG/pdf/120228\\_Barometer\\_2012H1\\_final.pdf](http://www.ueapme.com/IMG/pdf/120228_Barometer_2012H1_final.pdf)

- Most Member States do not have the fiscal room for manoeuvring to finance a growth package by additional debt.
- Therefore, future economic growth and job creation must come from the private sector. Private investments, but also private spending by households, need confidence in a prosperous economic development, for which regaining economic competitiveness is a precondition.
- Structural reforms are necessary for two reasons: to achieve mid-term fiscal stability and to achieve competitiveness by increasing productivity.

Therefore, UEAPME asks for a reorientation of the European economic policy approach, which has to be built on four pillars:

1. The Fiscal Compact to re-stabilise financial markets and to reassure confidence in public households and the banking system.
2. The Structural Reform Agenda to improve competitiveness by reducing burdens and costs for private economic activities, but also to reduce the structural deficits in the public households and the social security systems.
3. Growth enhancing and growth supporting measures to kick-start a positive economic development, especially in the “problem countries”, but also to improve the public infrastructure.
4. Reliable governance to ensure a coherent design and implementation of these three policies to ensure confidence in such an integrated policy approach.

## **The priorities of Crafts and SMEs in a future European Growth Pact**

UEAPME supports the creation of a European Growth Pact (EGP), if it is coherent with the other elements of the current crisis policy and if it includes the main priorities and needs of Crafts and SMEs in Europe. Furthermore, the EGP has to be in line with the EU 2020 agenda and must also be reflected in the up-coming Multiannual Financial Framework.

By nature, the concrete measures take in the framework of such an EGP will be different from country to country in line with their specific situations and needs. However, an EGP can only be successful if there is a strong commitment by all Member States as regards the general policy outline and priorities, combined with the willingness of all governments to implement the agreed policy at national level, if necessary against the resistance of the vested interests of different groups.

### **1. SME priorities as regard the Fiscal Compact**

One main aim of the Fiscal Compact from an SME point of view is the reestablishment of a functioning finance market, to ensure sufficient financing of the real economy and to reinsure the confidence in public households in order to reduce the fiscal burden created by high yields on public debts.

The main elements have to be:

- Mid-term reduction for structural deficits created by pension and health systems. Financial markets may accept higher short term deficits and debt ratios, if the budgets are sustainable in a mid-term view.
- Tax policy measures have to aim increasing competitiveness (fiscal devaluation, if necessary) and incentivise economic activities. Furthermore, it has to be ensured that taxes are paid as defined in the national taxation laws.
- Budget cuts should be targeted towards consumption rather than towards investment, which create higher multiplier effects and improve the growth potential.
- Any support measures from the European Central Bank have to be designed in a way to avoid mid-term inflationary pressure.
- Reforms of financial services, which stabilise the markets and provide rather incentives to finance real economy than financial speculation.

## 2. SME priorities as regard Structural Reforms

Structural reforms as formulated in the framework of the European Semester are the precondition for sufficient fiscal consolidation and for improving competitiveness. Europe will not achieve economic growth as long as these structural reforms are put aside by politicians.

The main elements have to be:

- National social security systems have to become financially sustainable, without undermining social cohesion.
- Europe's economy and especially SMEs depend on high quality public services, which have to be provided in a cost-efficient manner. Thus the efficiency of public administration has to be further improved.
- The organisation of many labour markets in Europe has to be strengthened on both the supply side (qualification, "make work pay", closing the gap between the effective and the official retirement age) and the demand side (flexibility, wages in line with productivity and supportive for job creation).
- The internal market, especially as regards services (energy, transport, patents, venture capital, services directive, public procurement etc.) has to be finally completed.
- The regulatory framework has to be strengthened by rigorous implementation of the key principles of the Small Business Act: "Think Small First" approach, high quality impact assessments applying the SME test, and cutting red tape.

## 3. SME priorities as regard growth enhancing and supporting measures

Fiscal sustainability and structural reforms are a necessary condition for economic growth, but may not be sufficient in deep crises such as the current one. Growth enhancing and supporting measures are necessary to kick-start economic growth and to improve the infrastructure for economic activities.

SME-specific measures should follow the commitments made in the framework of the Small Business Act. The main elements have to be:

- Public support for financial instruments for investments in form of guarantees, which have limited direct costs.
- Support for energy efficiency investments with financial instruments or fiscal incentives for a limited time.
- Public qualification guarantees for young people with a specific focus on vocational training and apprentices.
- A better matching between skills created by qualification systems and skills required by enterprises has to be achieved.
- Investments in infrastructure and qualification in general by mobilising private capital.
- Specific support of innovative companies and companies targeting new (international) markets.
- Ensure fair competition for smaller enterprises (late payment, access to public procurement, trade defence measures and IPR protection).

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