Class. Industrial policy in the EU – European industrial policy for SMEs

IPS Course

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Outline

1. Difficulty of the first efforts to unify Europe
   OEEC, NATO, ECSC, EEC
2. From Rome to Maastricht to … Rome
   development of the EEC, the Economic constitution of the Union
3. The European economic policy decision-making
4. Industrial policy in the EU
5. European industrial policy for SMEs

References

History of EU integration process and European policy decision framework:

Book by J. Pelkmans, *European Integration. Methods and Economic Analysis*, Prentice Hall, London, third edition, 2006.

Chapters 2, 3

+ websites of the European institutions (Commission, Parliament, …)

+ information from Brussels' think tanks: CEPS (www.ceps.eu) or Bruegel (www.bruegel.org)

1. Difficulties of the first efforts to unify Europe

A. The first organisations for European cooperation

- The first concrete efforts to unify Europe are linked to the worsening of international relations after WWII and the Soviet Union threat.
- The first organisations for European cooperation are created in the period April 1948 to May 1949, i.e. The hottest period of the cold war...
- 3 fields of cooperation: economic, military and political

Economic field: Organisation for European Economic Cooperation (OEEC)

16 April 1948

- The creation of the OEEC is linked to the US financial aid of the Marshall Plan
- The 16 European countries which accept aid create a committee for economic cooperation with the aim of obtaining US aid as soon as possible
- The US condition their aid to the creation of a European economic cooperation organisation (formal cooperation of European countries better to face Soviet threat)
- This organisation is the OEEC, created on 16 April 1948 and which first President was a convinced Europeanist, Paul Henri Spaak (Belgium)

Military field: NATO

North Atlantic Treaty Organisation: 4 April 1949

- Already in March 1948, 5 countries (F, UK, Benelux) sign the Brussels Pact which puts together their military forces in case of attack
- Nato is created with 10 Member States (the 5 + USA, Canada, DK, NW and P)
- The NATO reveals the Soviet threat and the supremacy of the USA

Political: The Council of Europe

Political union: an old utopia

- From the 16th century: European unification proposed as a solution to the numerous European conflicts

  Example: Grotius (1625) proposes the creation of a "Society of the Nations"

  After WWI, new calls for political cooperation: Coudenhove-Kalergi proposes a paneuropean union which was created in 1923. There were also French proposals. However, the crisis of 1930s induces countries to close.

=> Failure due to strong nationalisms

The Council of Europe

Institutions:

- Consultative Assembly, nominated by national Parliaments, gives recommendations on the issues addressed by the Council
- Ministers’ Committee (foreign affairs) decides on the basis of the recommendations of the Assembly

Activity: still active today (47 members including Russia, Ukraine, Georgia, Turkey)

Deals with various questions, from human rights to culture and education, in the economic, cultural and scientific fields

Important result: European Convention on Human Rights (1950)

Its role in the European integration process is limited, due to limited power of its institutions

B. The ECSC

The creation of the European Steel and Coal Community by France, Germany, Belgium, the Netherlands, Luxembourg and Italy, represents the first concrete step of European integration.

France and Germany resume diplomatic relations and this facilitates this concrete step. Other converging interests between the founding countries are:

- All countries are led by Christian Democrat parties which are in favour of straight relations between catholic countries allied against communism: e.g. Spaak in Belgium, De Gasperi in Italy, Adenauer in Germany.
- Economic and strategic interests converge: e.g. France needs German coal from the Ruhr, while Germany wants to be freed from the control of the allied countries after the war

France proposes to pool "basic production and the establishment of a new High Authority, whose decisions will be binding on France, Germany and the countries that join them". In addition, "this proposal will lay the first concrete foundations of a European federation, which is indispensable to the maintenance of peace" (Jean Monnet, 1950). Thus France proposes to pool the whole German and French coal and steel production under a common authority.

Declaration of French Foreign Affairs Minister Robert Schuman 9 May 1950: proposes the creation of the ECSC as a concrete step toward European unification in order to ensure both peace and economic prosperity

Italy and Benelux countries accept to negotiate and the ECSC is created by the Treaty of Paris of 18 April 1951.

Quotes from the Schuman declaration:

- "World peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it."
- "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."
- "The pooling of coal and steel production... will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims."

ECSC Institutions

- High Authority: executive organisation of the ECSC, in charge of ensuring the achievement of the ECSC objectives; members nominated by national governments
- Council of Ministers (representatives of national governments); controls the activity of the High Authority and harmonises them with the activities of the national governments
- Consultative Committee: representatives of the coal and steel industries, trade union, other stakeholders. Makes recommendations to the High Authority (not binding)
- Parliamentary Assembly gives opinion on issues related to the sector
- Court of Justice with 7 independent judges

⇒ Supranationl principle:

- The High Authority has the power to decide and is independent from national governments
- Financing: the ECC is independent from Member States because its financing resources result from tax on coal and steel production

C. Creation and evolution of the Common market

Benelux countries take the initiative to re-launch the European economic integration process after creation of ECSC and some failed attempt of political Union. They propose on 20 May 1955 the Beyen-Spaak-Bech Plan to enlarge the common market to all prodcutive sectors

Meeting in Messina on 1 June 1955: start of negotiations

25 March 1957: Signature of the **Rome Treaty** which creates the European Economic Community (EEC)

Objectives of the EEC:

- Political: safeguard peace and freedom
- Economic: economic progress and growth stability
- Social: constant improvement in standard of living and occupation

Institution of the EEC

Political institutions

Executive power is divided between the European Commission and the Council of Ministers

European Commission: initially made of 9 Commissioners nominated for 4 years by Member States; Commissioners nominate the President of the European Commission for 2 renewable years. Three main functions: 1) proposes legislation (to the Council of Ministers); 2) ensures execution of the legislation; 3) Guardian of the Treaty

Council of Ministers: made of Ministers from the national governments (vary according to issues discussed: e.g. Agricultural Ministers for issues regarding this sector). The Council of Ministers decides on the basis of the Commission's proposals, with decisions made at unanimity or qualified majority, depending on the isses at stake.

Institutions of the EEC

<u>Consultative and control organisms</u>

European Parliament: initially made of MPs nominated by national governments; now MPs (MEPs) are directly elected (hence = political entity)

Economic and social Committee: made of representative of the socio-economic categories: entrepreneurs, trade unions, etc. Now also ONGs. It gives opinion on the Commission's proposals. = bridge between the Community and social partners.

Court of Justice (in Luxembourg, from 1958, and is common to EEC, ECSC and Euratom). 7 independent judges nminated by national governments for 6 years; examines 3 types of cases: Commission against Member States; European citizens against Member States and European Commission; antitrust

Institutions of the EEC

<u>Special Institutions</u>

European Investment Bank: receives funds from member States and finances projects aimed at developing backward regions or industries in need of restructuring or other activities linked to the "harmonious development of the common market"

European Social Fund: to promote occupaton and worker mobility in the EEC

⇒ CUSTOMS UNION

The common market for goods is rapidly realised with 2 measures:

- Elimination of tariffs and contingents (between 1958 and 1969)
- Definition of a common external tariff (arithmetic means of the tariffs used by Member States on 1st Jan 1957)

However, non-tariff barriers remain (see class on internal market)…

The different stages of economic integration:

- A classification of integration stages has been realised first by Balassa (1961), then extended by various authors (see book by Pelkmans)
- Countries sign different types of agreements, according to national preferences (economic or geopolitical interests)
- Agreements range from preferential agreements to economic integration (Balassa defines stages of integration from free trade area to total economic integration).

Stages of integration

1. **Preferential agreement**: organises privileged trade between different countries. For instance, non reciprocal advantages between developing and advanced countries
2. **Association agreement:** almost free trade but with exceptions
3. **Free trade area**: elimination of all trade barriers between countries of the area but not with countries outside the area (NAFTA, MERCOSUR, ASEAN); countries individually decide on external tariffs
4. **Customs union**: elimination of all trade barriers between countries of the area and definition of a common external tariff => trade policy becomes common (example: EEC 1957)

Stages of integration

5. **Common market:** trade union with elimination of NTBs so as to guarantee free movement of goods, services, people and capital. (EU until 1993)

6. **Economic Union**: common market with unification and coordination of economic policies

   European Union now.

7. **Total economic integration**: unification of all policies (monetary, fiscal and social). Setting up of a supranational authority which decisions are binding for the Member States.

Effects of trade unions:

i) Theories of customs union in static competitive models

(developed by Viner, 1950, extended by Gehrels, Lipsey, Johnson and Meade)

A customs union has 3 simultaneous effects:

1. Trade creation: due to replacement of inefficient national producers with imports from more efficient producers of other countries of the customs union
2. Consumption effect: prices decrease ad therefore consumption rises
3. Trade diversion: an efficient country outside the union loses market shares to the benefits of a country member of the customs union.

ii. Effect of customs unions in practice: the experience of the Union

European countries have gone through different phases of economic integration; only the phase of total integration is missing.

What have been the effects of integration between member states?

Trade has substantially grown among Member States

However, trade between member states essentially consists of trade of similar goods, not different goods

⇒ Intra-industry trade (explained by product differentiation)

⇒ EU trade = 2/3 of total trade of the MS

In the world, % of total world trade that can be attributed to intra-regional trade:

1948: 33%

2000: 49%

2. From Rome to Maastricht to … Rome

A. Development of the European Community

The European Community (EC) developed in three ways:

1. Deepening (of freedom of movement in the common market, of regulation and policies)
2. Widening (of its competencies and economic power)
3. Enlargement: of the number of Member States

Deepening and widening

The EC has developed much beyond what was scheduled in the Rome Treaty: its competencies have widened, thanks to different amendments to the Treaty and also addition of new Treaties: the Single European Act (1986); The Maastricht Treaty (1993); the Amsterdam Treaty (1997) and the Nice Treaty (2001), The Lisbon Treaty (2009)

This development has not been simple: many obstacles to the effective implementation of policies and regulations remain (see class on single market)

The Maastricht Treaty (MT) can be considered as the most important revision of the EEC Treaty.

The MT is important because it introduces:

1. Some measures aimed at reducing the "democratic deficit" = lack of direct representation of the European citizens in European institutions. Measures: co-decision power to the European Parliament + concept of European citizenship (voting right for European citizens with residence in Member State different from their State of nationality)

2. The European Monetary Union which is the ultimate step of economic integration

⇒ The next step can only be political union

Other measures introduced by the MT:

3. One very important principle in the European decision-making process: subsidiarity

4. The principle of safeguard of the “acquis communautaire” (in French in European jargon): what has been achieved cannot be cancelled => regression is impossible (this is fundamental for reciprocal trust of Member States and certainty for businesses on the single market)

5. Changing name: the European Economic Community becomes the European Union

The MT remains the main Treaty of the European Union, even if it has received different amendments since 1993:

- Amsterdam Treaty (signed 2 October 1997): amends and renumbers the EC and EU Treaties
- Nice Treaty (signed 26 February 2001), comprises measures to realise enlargement to CEECs
- Lisbon Treaty (signed in 2007 and ratified in the end of 2009): originates in the failed European Constitution project.

Enlargement

The number of Member States has risen through time:

- 1973: entry of UK, Denmark and Ireland
- 1981: Greece
- 1986: Spain and Portugal
- 1995: Sweden, Austria e Finland
- 2004: Czech Republic, Slovakia, Poland, Hungary, Slovenia, Lithuania, Latvia, Estonia, Ciprus e Malta.
- Bulgaria and Romania in 2007
- Croatia in 2013

Turkey is candidate for entry since 1964 and negotiations for membership started in 2004; lack of democracy and human rights' respect are main problems to Turkish entry.

BREXIT

On 29th March 2017 the UK formally started the process of exit from the European Union

⇒ Since 31 January 2020 The UK is out of the EU

⇒ Now the EU has 27 members

IMPACT?

Depends on the type of relationship the UK and the EU will establish (negotiations are ongoing until 31.12.2020):

- Norwegian model (membership of the European Economic Area): unlikely, would not give the UK the political flexibility required to justify Brexit.
- Model in which the UK trades with the EU on a most-favoured nation basis (OK for flexibility, but would lead to reduction in trade and investment)
- Swiss-style series of bilateral accords governing access to specific sectors of the single market or a comprehensive FTA.

B. The economic constitution of the EU

The Treaties define what can be called an economic constitution of the EU, in the sense of socio-economic objectives, means and instruments to reach them (common policies, decision-making of economic policies)

i. The economic constitution of the Rome Treaty (RT)

Economic objectives:

- Harmonious development of activities
- Constant and balanced growth
- Growing stability
- Growing rise in standards of living

First objective: the RT counts on market mechanisms to reach income convergence; no economic policy is specified to reach it; only the EIB contributes

Objectives are widely defined in order to leave interpretation margin.

The objectives emphasise social aspects: however, the RT does not provide any instrument of social policy at European level.

The SEA and MT change this by adding the notion of economic and social cohesion.

ii. The Single European Act (1986)

= a collection of amendments and additions to the RT

The main addition is a series of measures aimed at completing the single market:

1. Higher recourse to qualified majority in decisions on issues linked to the Single Market

2. Mutual recognition principle: simplifies European regulation, instead of harmonisation of regulation which is very lengthy and difficult (definition of a new European regulation which puts together all national regulations). Mutual recognition just says that a regulation adopted in a Member State must be accepted in other Member States. This principle has been defined by the European Court of Justice in a famous case of Cassis de Dijon in 1979 (see class on single market).

3. Social aspect: harmonisation of legislation on health and security at work; social and economic cohesion; creation of structural funds which merge and renew old funds.

The European Council (meeting of Heads of States) is codified in the SEA as executive authority although it had been operating since 1970.

iii. The Maastricht Treaty

Negotiated only three years after implementation of SEA

Signed in December 1991 in Maastricht (NL). After difficult ratification process (3 national referendum, call to the constitutional court in the UK and in Germany, 2 exchange rate crises), The MT entered into force in 1993.

The MT contains more deepening and enlargement than the SEA. While the SEA focuses on completing the single market, the MT represents a more important change: ultimate phase of economic integrations, namely monetary union.

Objectives: environmental protection and low inflation are added

EMU is most important addition of the MT.

EMU is defined, as well as criteria for entry into EMU, transition period, creation of the European Central Bank and the single currency (EURO). The main objective of EMU is price stability.

iv. The Lisbon Treaty

March 2007: agreement on a new Treaty in Berlin (50th anniversary of Rome Treaty) based on the proposals formulated in the European Constitution failed project (2004)

December 2007: signature of the new Treaty

Entry into force: 1 January 2010

The LT essentially unifies all the preceding Treaties; it is made of two fundamental Treaties: The TUE (MT essentially) and the Treaty on the functioning of the EU (RT essentially)

Aim: making enlarged EU function better

Other changes:

- Permanent President of the European Council (now Charles Michel, B)
- High Representative of the EU for foreign affairs and security policy (now Josep Borrell)
- Number of Commissioners reduced to 18 (not one per country) in order not to multiply DGs; however, there 7 vice-presidents of the European Commission, so that each Member State is represented in it
- Essentially clarifies competence of the European / national levels respecting the subsidiarity principle

C. The decision process of European economic policies

1. Institutions

Main institutions:

- The European Council (Heads of State): defines challenges and strategic orientation of the EU
- The European Parliament (elected by European citizens)
- The Council of the Union (governments of ms)
- The European Commission (engine and executive power)
- The Court of Justice (application of Community law)
- The Court of Auditors (ensures healthy management of EU budget)

Other institutions:

- The European Economic and Social Committee (already in EEC)
- The Committee of the Regions (express opinion of local and regional authorities on European policies)
- The European Ombudsman (deals with European citizens' complaints about European administration)
- The EIB
- The European Central Bank (European monetary policy)

+ some agencies such as the European Environment Agency, Eurofound, ...

2. A multi-level government

- The European system is a multi-level system. Member States are also part of the system.
- The European Council provides leadership and meets twice a year.
- Overall, the European decision-making process is complex. This is reasonable given the plurality and diversity of the Union (large and small countries, cultural and socio-economic differences, etc.).
- In multi-level systems some criteria are used to assign public functions to the different levels: in the EU an important criteria is the **subsidiarity principle**

Subsidiarity principle

- The starting point is simple and crucial. It would be an error to think that economic integration means that all functions have to be moved to the common level. This would not be optimal from a social welfare point of view. Even in countries there are different levels of government, form local to regional and national levels.
- There are cases in which policies are more efficient and effective if implemented at European level, others where local or regional levels are better. The subsidiarity principle provides a criterion to indicate at which level the policy should be defined.

The principle says that when national policies are neither efficient (reaching the objective at lowest cost and highest net benefits) nor effective (reaching the objective) and when the coordination of national policies is not possible or not optimal, then the policy should be adopted at European level.

Generally the cases where the European level is preferred are due to the presence of:

- externalities: a national policy has significant effects on other member states
- Economies of scale: fixed costs so high that it is better to share them at European level (e.g. Cost of development of satellites, airplanes, ...)
- Single market: any obstacle to the free movement of goods, services, persons and capital justifies action at European level.

Other cases exist, but they are not systematic: for instance, protection from macroeconomic upheavals.

3. Industrial policy in the EU

Industrial policy is mainly implemented at national level.

However, the European level has a fundamental role of coordination of national actions and definition of rules (regarding the single market).

Thus the strategy of industrial policy is defined at European level: member states jointly decide the strategy, namely general means and objectives, which each ms adapts to the country (for instance, the 2020 Strategy adopted in 2010).

Lisbon Treaty:

Industrial policy is essentially national competence. The Commission can help by coordinating national efforts, providing guidelines and reports on best practices and taking complementary actions in the fields where it has competence.

Industrial policy consists in ensuring "that the conditions necessary for the competitiveness of the Union's industry exist" (art. 173 LT)

+ importance of not impeding competition on the single market.

Economic integration and industrial policies

Economic integration requires an enlargement of the market which implies a change in the while labour division, at three levels:

1. firm: must adapt to new demand and supply
2. Industry: new specialisations are possible
3. Society: the set of productive sectors can change.

⇒ Significant structural change which implies failure of some firms (inefficient) and also firm creation

⇒ Need for industrial policies which accompany and ease changes:

- helping restructuring
- helping development of new sectors

Which industrial policies?

Industrial policy = policy aimed at favouring industrial restructuring and development

- Regional policy:

  some regions may be specialised in declining industries and have to restructure

- Social policy:

  Help to workers who lose their jobs; training

- Innovation policy:

  Development of new sectors

$\Rightarrow$ Industrial development policies

(dynamic perspective)

I. Characteristics of European industrial policies

1. **The single market as an industrial policy**
2. Single market = main industrial policy

How?

- Elimination of tariffs
- Elimination of NTBs (regulations, administrative procedures, etc.)

Why?

Because only a fully integrated market allows to draw all the benefits from economic integration (lower prices, higher variety, economies of scale)

2. Traditional industrial policy

= interventionist

= the state directly intervenes in markets

= often support to “national champions”

Problems: support to national champions creates obstacles to the single market; effectiveness of a national policy aimed at industries which have European markets?

⇒ The traditional industrial policy does not exploit the advantages of economic integration

⇒ As economic integration proceeds traditional industrial policy increasingly becomes ineffective: it does not favour restructuring on a European scale and impedes competition on the single market.

Traditional (interventionist) industrial policy ⬄ WWII to the early-80s

Industrial policy is national competence:

No legal basis for European industrial policy in the Rome Treaty

End 1960s = first signs of crisis of the mass production model (workers' strikes; emergence of Japanese producers)

3. Industrial policies in the 1990s

From the 1990s: need for new industrial policies

Why?

1. Diffusion of the flexible production system: large firms are not always the most efficient, SME systems can be competitive (industrial districts)
2. Globalisation: rising global flows of trade and FDI
3. Technological development: Fourth industrial revolution
4. End of the political bipolarism: transition of ex-communist countries, emergence of new powers

Consequence:

Substantial change in the competitive context of firms

Aspects:

- New competitors: emerging countries (low labour costs) and more efficient firms (e.g. Japanese firms with more efficient production systems)
- New demand: consumers ask for more variety (especially in mature markets); global products (sold all over the world: portable phones, computers, etc.) but also local products (consumers ask for personalised products)

Hence firms must adjust by realising structural changes

How?

- New production systems (SAP, modular production, now mass customisation)
- Frequent product renewal: higher knowledge content of products (and services)
- Internationalisation: organisation of global networks with division in all major world markets
- GVCs

Firms' structural changes are significant and difficult: knowledge management, organising world networks, relationships with other firms, absorbing new technology, and so on.

Hence

Firms themselves call for industrial policies

European Union:

Loss of competitiveness: technological gap with the USA and Japan and competition from emerging countries

=> Need for new industrial policies identified at both national and European levels

Definition of new industrial policy:

Bangemann Report (1990)

- Policy must provide the conditions for firm competitiveness (availability of resources, rules of the competitive game, etc.)
- The state should have a catalyst role in industrial development (essentially with public R&D and technological transfer)

Consequence: a particular competitive context in the EU

Firms operating on the European market therefore experience very specific conditions, in that there are both national and supranational rules and policies.

II. Competitiveness policy

From the Bangemann Report and all through the 1990s no industrial policy is mentioned but the preferred term is competitiveness policy or enterprise policy.

The term “industrial policy” has re-appeared in the publications of the European Commission from 2002.

Why?

- Industrial policies were associated with the interventionist policies of the 1960s and 1970s, which proved inefficient afterwards
- Liberal policies prevail in the 1990s
- However, with globalisation the need for industrial policy is increasingly felt

The European Competitiveness policy:

The EU has a Competitiveness Council.

Article 157, with title “Industry”, claims that the Union and its member states must ensure conditions for the competitiveness of European industry. For this purpose, their actions are aimed at:

(a) Speeding adjustment to industrial structural changes

(b) Promoting an environment favourable to firm creation, particularly SMEs

(c) Promoting an environment favourable to firm cooperation

(d) Stimulating effects of innovation, research and technological development policies.

Advantages

Of such a competitiveness policy:

- End of traditional industrial policies
- Formalisation and institutionalisation of the new approach in the Treaties
- Progressive approach (not regressive, i.e. defensive)
- This approach is market-based and not command-and-control and economic theory shows that the former approach provides higher incentives for firm and industry dynamism

Inconvenients

- Concept of competitiveness is rather vague: a firm's competitiveness is clear (competitive position relative to rivals on the market); but an industry's competitiveness??? (competition among industries?) a country's competitiveness (countries are in competition?) => risk that the concept be too vague and is taken to mean very different things
- Hence the European Commission nominated in 1997 a Competitiveness Advisory Group (directed by Alexis Jacquemin) which defined each year the priorities of competitiveness policy
- The competence in terms of competitiveness policy is essentially at national level

=> Use and effectiveness of a European competitiveness policy?

At the beginning of the years 2000 Chancellor Schroeder asks for a major attention to the manufacturing sector with the fear for de-industrialisation of the EU (manufacturing phases of the industries of EU countries going to lower cost countries)

⇒ The term “industrial policy” re-appears:

2002: COM(2002) 714 on “Industrial policy in an enlarged Europe”

2003: letters of heads of States Chirac, Schroeder and Blair to the European Commission calling for industrial policy

2004: COM(2004) 274 on “Fostering Structural Change. An Industrial Policy for an enlarged Europe”

And then communications in 2005, 2006, 2008, 2010, 2012

Three major aspects of the new European industrial policy:

1. Improving the regulatory environment:

   National and European programmes aimed at simplifying regulation

   Example: SLIM programme regarding regulation affecting business;

   BEST programme on benchmarking actions supporting SMEs.

2. Synergies between European policies which have an impact on industry

5 identified synergies to favour:

a) Knowledge (innovation, research, training)
b) Market functioning (taxes, competition policy)
c) Cohesion (regions and employment)
d) Sustainable development (Greening)
e) International dimension of industrial policy (favour FDI of European firms abroad)

3. Sector policies: adjust common policies to sectors' specificities

Consequence:

The new approach to industrial policy is not a return to old industrial policies

New industrial policy = providing an environment favourable to firm competitiveness and industrial development

The ultimate objective of industrial policy is economic growth and cohesion and social stability.

Roles of the different levels:

- European: rules, coordination and benchmarking
- National: capabilities (favouring the participation of individuals and firms to industrial development) and some specific rules

III. Industrial policy in the new century

Lisbon Strategy: 2000 – 2010

Strategy 2020 (Horizon 2020): 2010 - 2020

1. Lisbon Strategy

In 2000 European countries want to promote the competitiveness of European industry

Identified problems:

- Unemployment
- R&D and innovation lower in the EU than in the USA and Japan
- Lack of convergence of regional development in the EU
- Services still less developed than in the US, especially telecoms and internet.

6 actions decided at European level:

1. Development of the information society: eEurope Action Plan.

   = diffusion of internet in public administrations and services

   + competition in the telecom sector to ensure wide access to internet at low cost.

2. Creation of the European Research and Innovation Area

   - higher coordination of research between national and European levels

   - relationships between research centres and business

   - favour private research and start-ups with fiscal incentives

   - favour mobility of researchers in the EU

   - European patent

$\Rightarrow$ Definition of a strategic objective for 10 years (2000-2010):

"becoming the most competitive and dynamic knowledge economy in the world, with sustainable growth, more numerous jobs and higher social cohesion".

Strategy:

- Develop innovation and information society
- Modernise the European social model
- Good macro conditions with appropriate policy mix

3. Promote SMEs and firm creation
4. Completing the single market
5. Efficient and integrated financial markets
6. Coordination of fiscal policies

⬄ Each year the European Commission prepares a report assessing progress towards the Lisbon objectives

2005: reform of the Lisbon Strategy

Why?

Little progress towards objectives

How?

New objectives (less ambitious)

- Make Europe more attractive to investments and jobs;
- Make knowledge and innovation the keys to European growth;
- Design policies allowing firms to create new and better jobs.

Despite the 2005 reform, the Lisbon Strategy is generally considered a failure, because:

1. It is too wide, so much so that articulation into programmes was difficult;
2. Each country adopts own reforms without much interaction at European level;
3. UME: deficit constraints limit the possibility to implement Lisbon objectives;
4. Lisbon objectives too far from the priorities of new members

However, the need for industrial policy is felt and in June 2010 a new strategy is adopted, the

2020 Strategy = HORIZON 2020

“the exit from the crisis should be the point of entry into a new sustainable social market economy, a smarter, greener economy, where our prosperity will come from innovation and from using resources better, and where the key input will be knowledge” (COM(2009) 647/3, p. 2)

"By acting together on a common vision, we can make the whole more than the sum of its parts" (COM(2009) 647/3, p. 4)

This is true, but the common effort of member states remains limited

However, the European Union has always functioned with grand projects: the EEC for common economic progress and peace; the SEA and MT to end stagflation

4. European industrial policy for SMEs

The new approach to industrial policy based on providing the conditions for development and competitiveness is applied to the case of SMEs from the 1980s.

Why?

1. Why policies for SMEs

1. Supporting SMEs implies supporting job creation (most jobs are created in SMEs)

2. Crisis of large firms and competitiveness of industrial districts and clusters
3. All EU countries have many SMEs
4. SMEs have lower productivity, export propensity and revenue than large firms.

SMEs are important for the economic and social development of a country but they are weak

$\Rightarrow$ Policies to support them

First European policy for SMEs:

Action Programme for SMEs, 1986

Objectives:

1. Create a sufficiently open legal, administrative and regulatory context the development of SMEs (lengthy)
2. Accelerate upgrading and growth of SMEs con specific support for training, access to market information, cooperation between firms, access to financial resources.

Instruments: various

Focus: networking

⇒ This policy is formalised in the Maastricht Treaty:

Art 157: Industrial policy must

"promote an environment favourable to initiative and development of firms in the whole Community, particularly SMEs" (comma 1.4)

2. Characteristics of SME policy

=> Various integrated programmes exist, that define various general measures to reach objectives of the Treaties or defined in European Councils, such as the Lisbon Strategy.

=> European SME policy is essentially a framework policy which defines general principles and objectives and the main actions are taken at national and sub-national levels.

Networking is an important element of SME policy.

SME policy is horizontal, and has impact on all European policies which have to integrate the concern for SMEs:

- Innovation policy also deals with SMEs (favours research projects involving SMEs);
- Cohesion policy favours SMEs in various ways, e.g. clusters
- Environmental policy also takes SMEs into account;
- etc.

From 2000 the framework for European SME policies is:

The European Charter for SMEs

The Charter defines the European SME policy and 10 broad policy lines:

1. Education and entrepreneurship training
2. More rapid and less costly Start-up
3. Better regulatory environment
4. Supply of competencies
5. Better internet access
6. Better access to finance
7. Benefits of the Single Market
8. Technological capacity
9. Benchmarking between member states
10. Representation of SMEs' interests at European level

SMALL BUSINESS ACT

European Directive of 2008 aimed at promoting entrepreneurship, improving access to finance, reducing the regulatory burden and improving access to markets and internationalisation

Directive adopted in 2010 in Italy, with **regional responsibility for its implementation**

Among measures, **network contracts (contratti di rete)** are important: allow SMEs to formalise their collaboration, defined with specific objectives such R&D or internationalisation

SMALL BUSINESS ACT

Even today the Small Business Act represents the policy framework for SMEs in the EU

AIMS:

- improve the approach to entrepreneurship in Europe
- simplify the regulatory and policy environment for SMEs
- remove the remaining barriers to their development

INDUSTRIAL POLICY FOR SMEs IN THE EU:

Multilevel governance:

- European level: general principles, framework, some direct actions (e.g. European innovation project including SMEs; or through competition policy)
- Main competence: national
- Regional level: through regional policy implemented by Member States and/or European regional policy

ITALY: INDUSTRIAL POLICY FOR SMEs

Lots of projects using **European funds**:
http://www.regione.emilia-romagna.it/fesr/opportunita/2014-2020
(Regional operative programme in the European Fund for Regional Development)

Subsidies, tax breaks, financing for:

- Internationalisation of SMEs
- R&S in SMEs
- Setting up network contracts
- Creation of innovative SMEs (startups)
- Etc.

NEXT CLASS: EUROPEAN REGIONAL POLICY