DER MITTELSTAND MACHT MOBIL:
THE TRANSNATIONAL MOBILIZATION OF SMALL AND MEDIUM-
SIZED ENTERPRISE INTEREST ORGANIZATIONS IN THE
EUROPEAN UNION

By

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Abstract

This thesis argues that the increased economic importance of Small and Medium-Sized Enterprises (SMEs) has had the important *political* effect of engendering an enhanced system of support for a neoliberal vision of the European Union through the transnational organization of SME interest organizations (SMEIOs). It is demonstrated that the increased economic importance of SMEs in the global and European economies, aided by state interventions to promote this sector, have together created a favourable opportunity structure for SMEIOs. The network of SMEIOs operating at the EU level demonstrates strong support for neoliberalism. This case study forces us to consider not only the relative importance of the transnational political mobilization of SMEs vis-à-vis larger enterprises, but also the systemic bias within international political economy research which emphasizes the constitutive role of large firms in the reproduction of neoliberalism.

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Table of Contents

	Abstract	ii
	Acknowledgements	iii
	Table of Contents	iv
	Abbreviations and Acronyms	v
Introduction:	Mittelstand Macht Mobil	1
	The Argument of the thesis	2
	Definitions and Theoretical Tools	4
	The Organization of the Thesis	11
Chapter One:	The Scholarly Context	14
	Section One: The Braudelian Imaginary	15
	Consequences for Scholarship	22
	Section Two Neoliberalism at the EU level	29
	Neoliberalism as Philosophy	29
	Neoliberalism as an Historical Process	
	Which is Contested	32
	Institutional Manifestations at the EU level	37
Chapter Two:	The SME Sector is Politically Empowered	40
	Section One: The SME Sector in the Global Economy	41
	State Interventions	48
	Section Two: SME Promotion in the EU	53
	The Historical Evolution of	
	EU SME Policy	54
	The Initiatives of the Enterprise	
	Directorate General	58
	SMEIOs Empowered	68
Chapter Three:	The SME Sector is Transnationally Organized	76
	The Genealogy of Organized	
	Business at the European level	77
	The Classic, 'Mixed' Business	
	Interest Organizations	78
	Big Business Splits Off	81
	The Flood of 'Pure' SMEIOs	84

Chapter Four:	SMEIOs Show Strong Support for Neoliberalism	X
	Section One: SMEIOs and Support for Neoliberalism	91
	Enthusiastically Supportive	91
	Defensively Aggressive	96
	Selectively Cautious	99
	Market Pressure and Vociferousness	102
	National Variation	106
	Section Two Possible Consequences	108
	Future Potentialities	110
	SMEIOs, LSEs, and Neoliberalism	113
Conclusion:	The Market Economy and IPE	117
	Consequences for IPE	119
	The Significance for Our	
	Understanding of Neoliberalism	121
	Organized Business and Social Welfare	123
	Bibliography	127
	Scholarly Literature	127
	Government Publications	137
	SMEIO Publications	139
	Appendix A Official EU SME Definitions	141
	Appendix B EU Member States	142
	Appendix C Differentiating Employment by Enterprise Size and Nationality	143
	Appendix D Differentiating the Number of Enterprises by Nationality	144
	Appendix E Output Measurements	145
	Appendix F European Commission Staff Consulted	146
	Appendix G Interview Methodology	147

Abbreviations & Acronyms

APEC	Asia Pacific Economic Cooperation
CEA-PME	European Confederation of Associations of Small and Medium- sized Enterprises
CEDI	Confederation of Skilled Crafts and Small Businesses
CORDIS	Community Research and Development Information Service
EC	European Community
ECB	European Central Bank
EEI	European Enterprise Institute
EIB	European Investment Bank
EIC	European Information Centre
EIF	European Investment Fund
EMU	European Monetary Union
EPP	European People's Party
EP	European Parliament
ERT	European Round Table of Industrialists
ESBA	European Small Business Association
ETUC	European Trade Union Confederation
EU	European Union
Eurochambres	Association of European Chambers of Commerce and Industry

DG	Directorate-General within the European Commission
IPE	International Political Economy
LSE	Large Scale Enterprise
MAP	Multi-Annual Programme for Enterprise and Entrepreneurship
MRA	Mutual Recognition Agreement
NSM	New Social Movement
OECD	Organization for Economic Cooperation and Development
PACE	Programme d'Appui à la Compétitivité des Entreprises/ The Support Programme for Enterprise Competitiveness
SEA	Single European Act
SME	Small and Medium-sized Enterprise
SMEIO	Small and Medium-sized Enterprise Interest Organization
SME Union	Small and Medium Entrepreneurs Union of the European People's Party
UNICE	Union of Industrial and Employers' Confederations of Europe
UNIDO	United Nations Industrial Development Organization
UEAPME	European Association of Craft, Small and Medium-Sized Enterprises
WTO	World Trade Organization

Introduction

God has forsaken you small capitalists. The sun of the small capitalists is setting. It will never rise again. Nor is it in your power even to make it stand still. You are perishing, and you are doomed to perish utterly from the face of society. This is the fiat of evolution. It is the world of God. Combination is stronger than competition.¹

- Jack London, *The Iron Heel*

Some syllogisms within political economy have a hard time dying. These words that Jack London put into the mouth of his protagonist, Ernst Everhart, in the revolutionary socialist adventure story *The Iron Heel* (1904) speak to an assumption which still prevails. The sector of small and medium-sized enterprises (SMEs) is popularly assumed to be doomed to relative extinction, as capitalism evolves to a state of greater concentration and power. Today, this popular assumption is compounded by the belief among scholars within international political economy (IPE) that, when it comes to analyzing the political reproduction of neoliberal world order, we should set our focus to the heights of oligopoly, to examine the political activity of transnational corporate power. This thesis does not intend to directly challenge these assumptions; clearly large scale enterprises (LSEs) command a tremendous amount of power in the global political economy. What this thesis does attempt to do is challenge an assumption within IPE that LSEs *alone* constitute the active supporters of neoliberalism within the business community. If we are to understand holistically the political reproduction of neoliberalism, we should strive to understand the political orientation of the SME community, which effectively constitutes the vast majority of business enterprises. By

¹ Jack London, *The Iron Heel* (New York: McKinlay, Stone and Mackenzie, 1924), p 132.

situating such an analysis at a supranational level of governance – namely the European Union level – we can observe how a social force popularly assumed to be banal (if not extinct), that of the ‘petit bourgeoisie,’ exerts important pressures within the largest, arguably most important experiment in supranational governance of our time. Hence, the concrete objective of this thesis is to demonstrate that SMEs are engaging in a form of transnational political activity that is increasingly important to, and perhaps implicative in, the process of neoliberal globalization. Such a concrete objective has a more abstract, contextual intention: to give us pause when considering the relationships between the different ‘layers’ of the economy and the position of these layers within competing political-economic projects. More specifically, this thesis hopes to inspire scholars within the IPE community to rethink the relationship between the layer of ‘the market economy,’ where oligopolistic market and political power is absent, and organized support for a neoliberal political-economic project. In conducting such an investigation this thesis aims, to quote Hirschman, “not to resolve issues, but to raise the level of debate.”²

The Argument of this Thesis

The central argument of this thesis is that with the increased economic importance of SMEs, a transnational structure of interest representation for SMEs has emerged at the EU level, one which shows support for neoliberalism. The increased importance of SMEs to developmental strategies in the EU has meant that SME interest organizations (SMEIOs) are well positioned to potentially influence the debate on the future of Europe.

² Hirschman was referring to the study of intellectual history in this regard. See Albert O. Hirschman, *The*

Such a case study should give us pause when considering the bias within existing IPE scholarship in which the *political* role of SMEs, and their organizations of collective association, are neglected.

This thesis draws from a review of scholarly literature on the subject, an examination of official EU policy documentation, and interviews conducted with representatives of SME interest organizations (SMEIOs) claiming to be representative of SMEs at the European level. In addition, for the purposes of gaining broader insights into the mechanisms of the ‘SME renaissance’ and the general context of SME organizing, interviews were conducted with representatives of the European Commission, as well as representatives from a variety of cross-sectoral business interest organizations that operate at the EU level – big business groups like the European Round Table (ERT), and ‘mixed’ groups that represent both SMEs and LSEs, such as UNICE and Eurochambres.

It is important to underscore here that this thesis does not attempt to prove that SMEs are having a necessarily observable, concrete impact on European integration. That would entail another research design, another set of field investigations, and another year. Rather, this thesis points out that SMEs, due to their mobilization and their vociferous support for a neoliberal EU, should be considered seriously as political actors alongside other social forces in the European polity. This is meant to be both a remedy to a deficiency within the literature on European integration and a reminder to the discipline of IPE that neglecting an analysis of 99% of firms in the economy as political actors might risk missing important bastions of political support for neoliberalism, and important political dynamics *between* that 99% of firms and the remaining 1%. The title

Passions and the Interests: Political Arguments for Capitalism Before its Triumph (Princeton: Princeton University Press, 1977), p 135.

of this thesis, ‘Der Mittelstand Macht Mobil’ is taken from an event of the mass mobilization of German SME owner-managers, which in 2002 took to the streets in Berlin to protest labour market inflexibility and administrative burdens. Roughly translated to English, it means ‘SMEs Get Mobilized.’

Definitions and Theoretical Tools

Before engaging in this investigation of SMEIOs in the EU, we must first lay down some theoretical tools and define more precisely what is meant by an “SME.” Moreover, we must also ask How will SMEIOs be conceptualized? And in what kind of political context will an investigation of SMEIOs be examined?

This thesis adheres to the official EU definition of SMEs dating from 1996, which includes firms with less than 250 employees and less than €40 million in annual turnover or less than €27 million in annual balance sheet total (See Appendix A).³ While this definition is clear, it is important to note that individual EU member states, other international organizations, and scholarly studies on SMEs all adhere to different definitions of what constitutes an SME.⁴ Consequently, when the SME sector and SME

³ This definition has changed on January 1st, 2005 – see Appendix B. See European Commission Enterprise Directorate-General, *The New SME Definition: User Guide and Model Declaration* (Brussels: European Commission, 2003), p 14.

⁴ For example, Greece adheres to a definition of SMEs as less than 50 employees (and has no alternate cut off for turnover), while for Austria it is less than 250 (identical with the EU definition), while the Austrian SME qualification for turnover is 50 million Euros (as opposed to 40 million at the EU level). Countries outside the EU maintain their own definitions as well. For example, Canada defines SMEs only in terms of turnover, whereby an SME is a firm with less than 500,000 CDN in turnover. Australia defines SMEs as firms with less than 200 employees. Japan defines SMEs differently depending on whether or not they are involved in manufacturing or services, as does Korea. This has caused a variety of problems for international organizations such as the OECD. The EU, however, had adapted its statistical capabilities such that it has adopted the aforementioned definition (after much deliberation) in spite of different national definitions. See Andreas Lindner, *Conference Presentation: A First Analysis of Statistical Strategies Regarding SMEs* at the Bologna Process - Workshop on Improving Statistics on SMEs and Entrepreneurship, Paris, 17-19 September 2003. Available online at http://www.oecd.org/document/38/0,2340,en_2649_33715_2789222_1_1_1_1,00.html.

policy are discussed outside the EU context, this definition is relaxed out of necessity. Some EU studies also alternate between aggregate data on the EU 15, EU 19, and EU 25, although since the research in this thesis was undertaken after the EU enlargement from 15 countries to 25, any mention of aggregate data in the EU considers the EU 25 unless otherwise noted (See Appendix B for a reference guide).⁵

It is important to recognise that most EU SMEs don't come close to the upper threshold of the official EU definition. The vast majority of firms in the EU fall under the category of 'micro' and 'small' enterprises. The average number of employees within SMEs in the EU is 7, although this varies considerably across EU member states (See Appendix C).⁶ The number of SMEs also shows considerable national variation (See Appendix D).

The EU definition is composed of 'microenterprises' (less than 10 employees), 'small enterprises' (less than 50 employees and less than €7 million in annual turnover or less than €5 million balance sheet total), and medium-sized enterprises (less than 250 employees and less than €40 million in annual turnover or less than €27 million balance sheet total).⁷ This definition changed slightly on January 1st, 2005, not in terms of

⁵ On 1 May 2004, 10 new member states joined the European Union. These were: Malta, Slovenia, Hungary, Lithuania, Slovakia, Poland, Czech Republic, Estonia, Latvia, and Cyprus. For a description of the different EU country compositions, see Appendix A.

⁶ "On average, a European enterprise provides a job for 7 persons; this measure of enterprise size varies between 3 in micro enterprises and over 1 000 in LSEs. So, the typical European firm is a micro firm." See European Commission Enterprise Directorate-General (in association with KPMG, EIM Business and Policy Research), *2003 European Observatory of SMEs No. 7: SMEs in Europe 2003* (Luxembourg: European Commission, 2004), p 26.

⁷ Like the general threshold differentiating SME from LSEs, these categorizations also are measured by turnover. Microenterprises have a turnover of less than 2 million Euros, while for small enterprises it is 10 million Euros. Like with the general threshold definition, whichever category is reached first defines the status of the firm as micro, small, or medium. See European Commission, *The New SME Definition*, p 14. Since the literature review and interviews for this thesis were undertaken, the EU has again changed its definition, this time widening its financial criteria, but keeping the employee count the same as before. Microenterprises, which previously had no financial ceiling to comply with, are now limited to a turnover or balance sheet total of €2 million. Small enterprises now have ceilings of €10 million for both turnover

employees, but in regard to turnover and balance sheet thresholds (with some additional adjustments to partnership agreements); nevertheless, the research herein was conducted using the 1996 version (see Appendix B for a comparison). According to research carried out by the European Commission in 2003, 92% of firms in the EU15 are microenterprises; 7% are medium-sized enterprises; 1% are medium-sized enterprises; and .25% are LSEs.⁸ Microenterprises employ 30% of the population, medium-sized enterprises employ 17%, and medium-sized enterprises employ 13% of the population in the private sector (leaving LSEs with the remaining 40% of employment).⁹ Within the 10 new member states, SMEs contribute 72% of the share of total employment.¹⁰ According to the European Commission, there are 23 million enterprises in the EU25 - 99% of all firms in the formal economy – and these firms employ 75 million people (about two thirds of all employment in the EU25).¹¹ Clearly, as these numbers show, SMEs comprise a significant portion of business activity in the EU.

This thesis investigates the organization of and political support within the SME sector as a whole, and as such we need to conceptualize how this social force is understood. By invoking the moniker ‘SMEs’, the attempt here is not to connote the enterprises in their entirety (i.e. with all employees and their attendant interests and views considered), but rather to signify the owner-managers of these enterprises.¹² The study of

and balance sheet. The turnover ceiling for medium-sized enterprises is €45, while their balance sheet ceiling is now 43 million.

⁸ European Commission, *2003 European Observatory of SMEs*, p 33.

⁹ Ibid.

¹⁰ In these new EU member states, an even greater share of employment is in microenterprises - 40% of total employment, according to a 2002 study. See European Commission Enterprise Directorate-General, *Industrial Policy in An Enlarged Europe: Statistical Elements in Support of the Communication on Industrial Policy in An Enlarged Europe* (Brussels: European Commission, 2002), p 28.

¹¹ See European Commission, *The New SME Definition*, p 51.

¹² While the study of working conditions for those who labour within SMEs is important, it will not be examined here.

SMEIOs operating at the EU level thus amounts to a study of the transnational organizing of a particular owner-manager class within Europe.¹³ Like all classes, how the SME community organizes itself, and how it deliberates politically, is a function of both its organizational capacities and opportunity structures. Through their research on transnational social movements in Europe, Marks and McAdams provide a useful theoretical framework which is applicable here. Following the social movement theory of Tilly,¹⁴ they see the formation of institutions of supra-national European governance and the structure of interest representation surrounding it as *mutually constitutive*; thus, each force conditions the other. Correspondingly, Marks and McAdams highlight two factors which together determine the influence of groups at the EU level. The first factor is what they call “EU opportunities,” which denotes “the relative structural access a group has to EU institutions, and the general policy receptivity of the Union – particularly the Commission – to issues salient to the group.”¹⁵ The second factor that determines the influence of groups is their “internal organizational constraints,” which considers the aptitude for a group to become mobilized transnationally to respond to the opportunity structure the EU sets out for it.¹⁶

¹³ Just like all classes, however, the class of SME owner-managers may often have only indirect linkages to institutions. Just as in sectoral business associations, big business associations, and most labour unions, SMEIOs are not necessarily staffed by the class they represent, but are staffed by professional lobbyists and bureaucrats who work on behalf of a class or sector. We explore this issue in more detail in Appendix G, which discusses interview methodology.

¹⁴ See Charles Tilly, *From Mobilization to Revolution* (Reading: Addison-Wesley, 1978).

¹⁵ Gary Marks and Doug McAdam, “Social Movements and the Changing Structure of Political Opportunity in the European Union” in Gary Marks, Fritz W. Scharpf, Philippe C. Schmitter, and Wolfgang Streeck (eds.) *Governance in the European Union* (London: Sage Publications, 1996), pp. 95-120; p 103.

¹⁶ Using some insights from Stephen Krasner, they remind us that in the context of the transnational mobilization of groups, “the link between political opportunity and movement response is not at all reflexive. To the extent that a movement is wedded to the existing political order, i.e. is oriented toward a national system of law, a national system of membership incentives or belief structures, etc. so we would expect to find powerful sources of resistance to institutional adaptation.” See Gary Marks and Doug McAdam, “Social Movements...”, p 103.

Such a framework is useful for the purposes of this thesis because it highlights not only the importance of the *agency* of social forces seeking to exert influence on European integration, but also the *environment* in which they are situated. A study of SMEIOs acting at the EU level should thus investigate not only SMEs as business interest organizations in and of themselves, but also should examine the EU policy environment that might affect the organizational and deliberative power of this group. Consequently, research into how the economic and policy environment may increase the importance of SMEs – and thus aggrandize the representatives of SME interests – is crucial.

Given that the principle objects of study here are SMEIOs, this thesis departs from the majority of research on European integration, which focuses little on non-state social forces in the forging of contemporary political change, and which tends to emphasize the role of individual member states, or other states in the global community. In this regard, we can concur with Caporaso and Sweet when they point out that “a great deal of importance occurs around and between what governments do”¹⁷ and once more with Marks and McAdam when they state that “State executives play a major role in policy-making, but they do so in the context of a multi-level polity that encompasses actors above and beyond the state.”¹⁸ Furthermore, as Underhill emphasizes, important contributions can be made to our understanding of European integration when we relax the standard state-centrism of international relations theory and embrace an understanding of the roles placed by other organized interests.¹⁹ As Gabriel and

¹⁷ James A. Caporaso and Alec Stone Sweet, “Conclusion: Institutional Logics of European Integration” in Alec Stone Sweet, Wayne Sandholtz, and Neil Fligstein (eds.) *The Institutionalization of Europe* (Oxford: Oxford University Press, 2001), pp. 221-236; p 224.

¹⁸ Gary Marks and Doug McAdam, “Social Movements...”, p 119.

¹⁹ See Geoffrey R.D. Underhill, “From Ships Passing in the Night to a Dialogue of the Deaf: The Contribution of International Relations Theory to Understanding Organized Business,” in Justin Greenwood and Phillippe C. Schmitter (eds.) (New York: St. Martin’s Press, 2000), pp. 20-38.

Macdonald have pointed out, this has been a challenge to many scholars focussing their attention to the ubiquitous terrain of ‘civil society,’ especially because many investigations of non- state actors often ignore or underplay the mobilization of business-oriented civil society groups.²⁰ Jacek has explored the role of organized business in regional contexts, and has argued that business interest representation plays a very important role in influencing the ‘low politics’ of how decisions are made, and how institutional trajectories are influenced.²¹

When studies of European integration have relaxed a state-centric approach, it is often in studies of European-wide social movements, or in studies of organized business activity which focus almost exclusively on the mobilization of LSEs. Both neglect to investigate the mobilization of SMEs and their representative organizations. Thus, while some scholarship acknowledges the important role played by LSEs in constituting contemporary Europe, we might do to better understand the business community *as a whole*. As Underhill points out, IPE can also benefit from an analysis of the interactions of shifting socioeconomic alliances.²² Accordingly, this thesis analyses the transnational political representation of SMEs alongside the transnational political representation of LSEs.

²⁰ As they point out, “In order to fully understand the implications of globalization for political action and identity, it is important to examine the “transnational associational life” of business groups, and the ways in which the identities, discourses, and strategies vis-à-vis the state adopted by these groups are shifting in the current period.” See Christina Gabriel and Laura Macdonald, “Of Borders and Business: Canadian Corporate Proposals for North American ‘Deep Integration’” *Studies in Political Economy* Vol. 74 (Autumn 2004), pp. 79-100; p 82.

²¹ See Henry Jacek, “Introduction” in Justin Greenwood and Henry Jacek (eds.), *Organized Business and the New Global Order* (New York: St. Martin’s Press, 2000), pp. 1-19.

²² In this regard, Underhill emphasizes the utility of the “neo-gramscian approach” in IPE, which puts “more emphasis on the politics of interacting and indeed organized socioeconomic coalitions, and the shifting alliances they [form].” See Geoffrey Underhill, “From Ships Passing in the Night ...”, p 35.

This thesis understands the project of European integration as embodying a struggle between different visions of political community, and it aims to identify SMEs as important actors within these competing visions. Broadly speaking, two visions for the EU wrestle for supremacy: a vision for Europe that is inspired by neoliberalism, and another vision inspired by European social-democracy. There is no shortage of discussion on this dichotomy within academic literature, especially since this particular ‘struggle’ within the EU cuts through the heart of so many other metanarratives within political economy. Such a struggle has many names: Crouch and Streeck call it the fight between unfettered capitalism and institutional capitalism;²³ Rhodes and Apeldoorn call it the contest between the Anglo-Saxon model and the Rhine social market model;²⁴ Hooghe and Marks describe it as the contest between neoliberalism and regulated capitalism.²⁵ Within this literature, most authors allude to the dominance of neoliberalism amongst the two competing visions for Europe, and as such this thesis examines the relationship between SMEIOs and this neoliberal tendency.

By showing the current structure of SME interest representation organized at the EU level, and by showing their attitudes towards a ‘neoliberal EU,’ we can acquire better insight into how non-state social forces such as the SME community might influence competing visions of European integration. A key assumption within this thesis is that the realization of a more neoliberal EU – and the subsequent displacement of a competing, ‘social EU’ – depends on the support for neoliberalism within the many competing social

²³ Colin Crouch and Wolfgang Streeck, “Institutional Capitalism: Diversity and Performance” in Colin Crouch and Wolfgang Streeck (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (Thousand Oaks: Sage, 1997).

²⁴ Martin Rhodes and Bastiaan Van Apeldoorn, “Capitalism versus Capitalism in Western Europe” in Martin Rhodes, Paul Heywood, and Vincent Wright (eds.), *Developments in Western European Politics* (New York: St. Martin’s Press, 1997), pp. 171-189.

forces that act within the EU. Schmidt's study of neoliberalism in Europe shows that the realization of neoliberalism in the EU is dependent upon a 'coordinative phase of discourse,' in which ideas about a policy program and institutional selectivity are imagined and legitimated by actors who congress with the state. In the coordinative phase of discourse, in her configuration, "policy ideas are articulated, developed, and deliberated; (this phase is) where the cognitive arguments about the programme's necessity are hammered out and the normative arguments, objectives, and ideals are sketched out."²⁶ Actors in the polity who are supportive of neoliberalism and who have an institutionalized relationship of communication with the state (in this case, the European Commission) thus help to strengthen the legitimation for a neoliberal vision for Europe.

The Organization of This Thesis

This thesis is structured into four chapters and a conclusion. Chapter One considers the existing disciplinary bias within IPE, which focuses on the political agency of LSEs, and thus seeks to contextualize this thesis within the broader body of IPE scholarship. Here it is argued that a 'Braudelian imaginary' exists within IPE, which has caused scholarship not only to focus on the political agency of LSEs, but to suggest by implication that, as inhabitants of the 'market economy' layer, SMEs are somehow fundamentally different in their support for, and importance to, neoliberalism. Because neoliberalism is at the heart of this thesis, this chapter also defines and elaborates what is meant by neoliberalism at the EU level.

²⁵ Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration* (New York:

Chapter Two discusses the increased economic importance of SMEs, and argues that a variety of factors have combined to create an ‘SME Renaissance’ within the global economy, as well as in the regional economy of Europe. This chapter begins by highlighting a number of structural factors in the global economy that have been advantageous for SMEs, and also emphasizes the importance of state strategies to promote SME development. The chapter goes on to illustrate concretely in the EU context what this means by describing the various attempts within the European Commission to promote SME development. The need to properly co-ordinate and legitimate SME policy has meant that the Commission has had to draw organized SME representative groups close to the Commission, giving SMEIOs privileged points of access, thus highlighting the close state-private sector relationships that constitute the ensemble of political authority.

Chapter Three illustrates historically how SMEs have become organized at the EU level. The chapter begins by locating the current configuration of SMEIOs in light of a lineage of business interest representation that began at the very beginning of the European project. It emphasizes the mobilization of SMEIOs at the EU level as a response to the opportunity structure offered by specific EU policy efforts, and describes how the particular diverse network of SMEIOs came into being.

Chapter Four investigates qualitatively the support amongst the EU SMEIO community for neoliberalism. The results of the interviews conducted reveal that the current configuration of SMEIOs is, on the whole, supportive of neoliberalism, albeit in interesting and complicated ways. This chapter also explores some of the possible

Rowman and Littlefield, 2001).

²⁶ Vivian Schmidt, *The Futures of European Capitalism* (Oxford: Oxford University Press, 2002), p 233.

consequences of the support amongst the EU SME community for neoliberalism, and emphasizes that these implications are likely amplified in light of the legitimacy concerns of LSEs.

Finally, Chapter Five concludes with a reflection on the implications of the case study of SMEIOs in the EU for IPE research in general, and effectively brings the discussion full circle, returning to the scholarly context described in Chapter One. Not only does the case study of SMEIOs in the EU cause us to question the utility of the Braudelien imaginary within IPE, it also forces us to rethink our understanding and critique of neoliberalism.

Chapter 1

The free market is the mortal enemy of capital accumulation.²⁷

- Immanuel Wallerstein, *The End of the World As We Know It*

The current phase of economic globalization has come to be characterized increasingly not by free competition as idealized in neoclassical theory, but by *oligopolistic neoliberalism*: oligopoly and protection for the strong and a socialization of their risks, market discipline for the weak.²⁸

- Stephen Gill, *Globalization, Market Civilization, and Disciplinary Neoliberalism*

Cox argues that “ontology lies at the beginning of any enquiry.”²⁹ Thus, one could argue that the way in which we conceive of the structures of power within the global political economy – what they are and how they behave – is central to developing a holistic understanding of our current situation and the potentialities for transcending the current limitations of that situation. Rather than attempting to construct a new ontology, this thesis seeks to contest an existing ontological narrative about the political reproduction of neoliberalism. It is necessary to sketch such a scholarly context before moving on to the more concrete analysis of SMEs within the EU in the forthcoming chapters. This chapter is divided into two sections for this reason. The first section addresses the disciplinary bias in IPE regarding firm size, and posits the existence of a ‘Braudelian imaginary’ within IPE, influenced by the French historian and political

²⁷ Immanuel Wallerstein, *The End of the World As We Know It* (Minneapolis: University of Minnesota Press, 1999), p 63

²⁸ Stephen Gill, “Globalisation, Market Civilisation, and Disciplinary Neoliberalism” *Millennium* Vol. 24, No. 3 (1996), pp. 399-421; p 405

²⁹ Robert W. Cox, “Towards a Posthegemonic Conceptualization of World Order: Reflections on the Relevancy of Ibn Khaldun” in Robert W. Cox and Timothy Sinclair (eds.) *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), p 144

economist Fernand Braudel. The second section explicates what is meant by neoliberalism, and elaborates on how it is manifested at the European Union level.

The Braudelian Imaginary

Above the enormous mass of daily life, the market economy cast out its nets and kept the network alive. And it was usually above the market economy itself that capitalism prospered. One might say that the economy of the entire world is a succession of different altitudes, as in a relief map.³⁰

There are two types of exchange: one is down-to-earth, is based on competition, and is almost transparent; the other, a higher form, is sophisticated and domineering. Neither the same mechanisms nor the same agents govern these two types of activity, and the capitalist sphere is located in the higher form.³¹

- Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*

What might be called a ‘Braudelian imaginary’ exists within the discipline of IPE, which orders the way that we think about capitalism and neoliberalism, as well as the way we think about their political reproduction. The rough characteristics of this Braudelian imaginary should be laid out here, because it is this concept that this thesis critiques; moreover, it is within this context that this thesis hopes to make a contribution. In this section, it is argued that the Braudelian distinction between ‘the market economy’ and ‘capitalism’ extends to an understanding of the political importance of these ‘layers’ of the economy, depicting ‘the market economy’ as politically quiescent and ‘capitalism’ as politically active, reconstituting the world with its power. Put differently, *an economic taxonomy of how the economy is classified leads to a political ontology of how capitalism is reproduced*. One of the consequences of this Braudelian imaginary is that IPE

³⁰ Fernand Braudel (translated by Patricia Ranum), *Afterthoughts on Material Civilization and Capitalism*. Baltimore: John Hopkins University Press, 1977), p 35.

reinforces its 'top heavy' bias in the sense that the political deliberation of large firms is emphasized in the political reproduction of global capitalism, with the result that the political significance of SMEs is made invisible and deemed insignificant beyond the national level. It is thus the aim of this thesis to show that, at least in the case of understanding the support for neoliberalism in the European Union, moving beyond the Braudelian imaginary can provide insights into our contemporary period: by recognizing that SMEs are important political actors in the political reproduction of neoliberalism and that, by extension, the market economy is not as it is imagined to be. However, this section does not seek to prove that such a bias exists by means of extensive literature review, but rather to sketch a conceptual trend that this thesis hopes to countervail.

In his magnum opus *Civilization and Capitalism*, in which he conducts a wide-ranging economic history of the world between the 15th to 18th Century, Braudel delineates three tiers or 'layers' of the economy. The top layer, which he calls 'capitalism' is dominated by large oligopolistic firms, who often possess access to state power, engage in international exchanges and speculative behaviour, and receive exceptional profits. This layer is inhabited by LSEs. The second layer is the 'market economy,' where one would find local and national-scale markets, regularized exchange in an environment of free competition, and fair dealing. This can be considered the layer where SMEs reside. The bottom layer consists of all of the economic activities outside the market and outside direct state regulation. Braudel calls this realm of routine and custom that of "material life." Subsistence agriculture, reciprocal relations of exchange, and production embedded in kinship all inhabit this layer. Importantly, Braudel did not only use these distinctions to analyse the worlds of the 15th to 18th Century; he also

³¹ See Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 64.

projected these into the conditions of the late 21st Century.³² While we will not discuss the implications of the ‘layer’ of “material life” here,³³ what we are concerned with is the basic taxonomy between ‘capitalism’ and ‘the market economy,’ whereby, in Braudel’s words, “At the top come the big monopolies, while underneath them competition is confined to small or medium-sized concerns.”³⁴

Braudel’s conception of a multi-layered economy helps us to conceptualize important cleavages within the economy. As an economic taxonomy, then, it is useful: General Motors is not an SME, nor is my neighbor’s vegetable garden. In this regard, we can agree with Helleiner’s celebration of the usefulness of the basic Braudelian taxonomy for IPE, as well as his argument that we should “understand the changing relationship between each of these three levels of economic life.”³⁵ Additionally, however, the aforementioned conceptual taxonomy corresponds to a *political ontological understanding* of how these spheres behave vis-à-vis the rest of the polity, which has implications for how scholarly research and political activity are conducted. An economic taxonomy thus leads to a political ontology. In Braudel’s own words, “It is in the end at the political level that the distinction – to my mind beyond doubt – between capitalism in its various guises and ‘the market economy’

³² As Braudel would later admit in his Lectures at John Hopkins University after the completion of the three volumes of *Civilization and Capitalism*, these distinctions are not completely clear cut: “Please do not expect me to draw such a clear-cut distinction as: water below, and oil floating on its surface. The actual economic situation is never built upon simple foundations. But it should not be too difficult to accept my statement that there are at least two possible forms (A and B) of the so-called market economy, forms that can be discerned with a bit of care, if only through the human, economic, and social relationships they generate.” See Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 49.

³³ While this thesis will not investigate the later of “material life,” the author has examined this aspect of Braudel’s taxonomy on our understanding of capitalist development in separate work. See Kevin Young, “The Other Side of the Market: social governance in neoliberal world order and the economy of passive mitigation” in *Alternate Routes: A Journal of Critical Social Research* Vol. 20 (2004).

³⁴ Fernand Braudel (translated by Siân Reynolds), *The Wheels of Commerce: Civilization and Capitalism 15th-18th Century Volume 2* (London: Phoenix Press, 2002), p 629.

³⁵ Eric Helleiner, ‘Braudelian reflections on economic globalisation: the historian as pioneer’ in Stephen Gill and James Mittelman (eds.) *Innovation and Transformation in International Studies* (Cambridge: Cambridge University Press, 1997), pp. 90-104; p 103.

takes on its full significance.”³⁶ This slippage to a layered political ontology is evident in Braudel’s own comments on the implications of his conceptual layering. Such a slippage is also evident in many works of social science which make use of Braudel’s economic taxonomy or emulate it.

Braudel’s depictions of the different layers of the economy are coloured by rich imagery that are suggestive of how we should relate to these ‘layers.’ Braudel remarks that the market economy “spells liberation, openness, access to another world. It means coming up for air.”³⁷ However, “above this layer, comes the zone of the *anti-market*, where the great predators roam and the law of the jungle operates.”³⁸ While the market economy is depicted as economically dynamic, it appears politically quiescent.³⁹

The slippage from a layered economic taxonomy to a layered political ontology is evident in Braudel’s comments on the ways in which the market economy and capitalism differed with regards to their structures of governance; with how they influenced the world. While in the market economy “trade was regulated, law-abiding, transparent,”⁴⁰ the firms populating the layer of capitalism “avoided transparency and control.”⁴¹ Capitalists were “helpers or exploiters of the state,” and they knew “a thousand ways of rigging the odds in their favour.”⁴² Importantly, it was the size of enterprise that defined

³⁶ Fernand Braudel (translated by Siân Reynolds), *The Perspective of the World: Civilization and Capitalism 15th -18th Century Volume III* (London: Fontana Press, 1985), p 628.

³⁷ Fernand Braudel, *The Wheels of Commerce*, p 36.

³⁸ Fernand Braudel, *The Wheels of Commerce*, p 230.

³⁹ While politically quiescent, Braudel is careful to stress the *economic* dynamism of the market economy. In *The Wheels of Commerce*, Braudel emphasizes the economic importance of competitive markets, their changing character, and their ability to change and evolve to changing circumstances. See Fernand Braudel, *The Wheels of Commerce*, pp. 26, 138, 224, 227-228, 229.

⁴⁰ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 51.

⁴¹ Ibid.

⁴² Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 57.

the layer of capitalism for Braudel.⁴³ Not only does large firm size confer economic advantages (the possibility of conducting international trade, of accessing large amount of credit and thus sustaining large projects and with longer time horizons), it confers structural advantages vis-à-vis the governance structures in which capitalists found themselves in various contexts.⁴⁴ Unlike in the market economy, capitalists were able to change the framework conditions in which they operated: because they supplied the large cities, for example, capitalists “prompted the authorities to close their eyes or at least relax controls.”⁴⁵ Capitalism implies a constant tension with regulation in the polity, and this is intimately related to the scale of enterprise: for Braudel, the longer the supply and exchange chains of capitalists become “the more successful they are at freeing themselves from the usual regulations and controls and the more clearly the capitalistic process emerges.”⁴⁶ Thus, one can see that “capitalism” constantly tries to “free itself from the rules imposed upon the traditional market”⁴⁷; capitalists were “deliberately working to rid themselves of the administrative constraints and supervision” which accompanied the public market.⁴⁸ At one point, Braudel even calls capitalism “the *countermarket*.”⁴⁹

⁴³ Importantly, capitalists could also be financiers, and thus not necessarily the owners/managers of large firms per se. Even so, they typically involved large-scale *investments*.

⁴⁴ Braudel stresses that Capitalists were “both *sufficiently informed* and *materially able* to choose the sphere of [their] action.” See Fernand Braudel, *The Wheels of Commerce*, p 400.

⁴⁵ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 53.

⁴⁶ Ibid.

⁴⁷ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 52.

⁴⁸ Fernand Braudel, *The Wheels of Commerce*, p 412.

⁴⁹ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 52. Interestingly, at one point in *The Wheels of Commerce*, Braudel hints that smaller merchants who are able to subvert market pressures, and thus able to maintain ‘plenty of comfortable little monopolies’ at local levels, might be appropriately called ‘micro-capitalists.’ However, in the same passage, he stresses that such practices of small merchants were typically aided by the layer of capitalism: “If some minor fraudulent, or at any rate unlawful practices succeeded for a while in escaping prying eyes and establishing a profitable monopoly, this generally meant that they went beyond the local market and were in the hands of well-organized groups provided with capital.” See Fernand Braudel, *The Wheels of Commerce*, p 414.

Within IPE, Wallerstein's appropriation of Braudel illustrates the Braudelien imaginary at work most vividly. For Wallerstein, the distinction between the market economy and capitalism represents a methodological reversal of significant proportions: it has turned "everything upside down."⁵⁰ Capitalism, on the other hand, is represented as *the anti-market*, just as it is with Braudel.⁵¹ The Braudelien imaginary is active in most world systems theory (itself founded by Wallerstein), and is indeed popularly scattered throughout many works of critical IPE.⁵² The dualistic separation of the market economy from capitalism can also be found within Green political economy,⁵³ as well as some works within the field of post-Marxist political theory⁵⁴ and post-structuralist critical theory.⁵⁵ Critiques of the Braudelien imaginary have been limited, and are only

⁵⁰ Immanuel Wallerstein, *Unthinking Social Science*, (Philadelphia: Temple University Press, 2001) pp. 207-217.

⁵¹ Ibid.

⁵² Eric Helleiner, for example, uses Braudelien 'layers' to work through his thinking about currency spaces. See Eric Helleiner, "Think Globally, Transact Locally: Green Political Economy and the Local Currency Movement" *Global Society* Vol. 14, No. 1 (2000), pp. 35-51; p 41. Randall Germain has also used a Braudelien perspective to understand finance. See Randall D. Germain, *The International Organization of Credit: State and Global Finance in the World-Economy* (Cambridge: Cambridge University Press, 1997); Randall D. Germain, "The Worlds of Finance: A Braudelien Perspective on IPE," *European Journal of International Relations* Vol. 2, No. 2 (1996), pp. 201-230; Randall D. Germain, 'Globalization in Historical Perspective', in Randall D. Germain (Ed), *Globalization and its Critics: Perspectives from Political Economy* (MacMillan Press, 2000), p 82. Other works in IPE that use an explicitly Braudelien perspective are Paul Langley and Mary Mellor, "'Economy', Sustainability and Sites of Transformative Space' *New Political Economy* Vol. 7, No. 1 (March 2002), pp. 49-65; Giovanni Arrighi and Jason W. Moore "Capitalist Development in World Historical Perspective" in Robert Albritton, Makoto Itoh, Richard Westra and Alan Zeuge (eds.) *Phases of Capitalist Development: Booms, Crises and Globalization* (New York: Palgrave, 2001), pp. 56-75.

⁵³ Many green political economists, and Green political parties, for that matter, celebrate the SME and SME development as an alternative to 'grey' industrial development. A significant exposition of such (small)market-friendly Green political economy literature can be found in Jerry Mander and Edward Goldsmith (eds.), *The Case Against the Global Economy and For a Turn Toward the Local*, (San Francisco: Sierra Club Books, 1996) See also Eric Helleiner, "Think Globally, Transact Locally..." See also Marylyn Waring, *If Women Counted: A New Feminist Economics* (San Francisco: Harper and Row, 1988).

⁵⁴ J.K. Gibson Graham, for example, alludes to the various segmentations of the actually existing structure of production in the United States, and makes some rather Braudelien characterizations of small-scale producers, which she labels as non-capitalist. See J.K. Gibson-Graham, "Waiting for the Revolution, or How to Smash Capitalism while Working at Home in Your Spare Time" in *Rethinking Marxism* Vol. 6, No. 2 (1993), pp. 10-24.

⁵⁵ See Neal Curtis, "The Other Ground Zero" *Situation Analysis*. Issue 3 (Spring 2004), pp. 36-50.

indirect.⁵⁶ Perhaps one of the reasons why the Braudelian imaginary goes unquestioned is because of the Marxian assumptions of many scholars. For example, in outlining a “critical research agenda” for IPE, Stephen Gill comments that “the concentration of capital has proceeded very much along the lines anticipated by Marx, and thus must be central to any explanation of the present global transformation.”⁵⁷ Similarly, within the European integration literature, Jürgen Bieling and Schulten’s study of economic restructuring in the EU emphasizes capital concentration as the dominant force, without attempting to understand the significance of what may lie beneath.⁵⁸

By implication, the Braudelian imaginary insinuates that the “market economy” of SMEs does not raise questions about the political deliberation of this group: it is oligopoly – capitalism, as it is understood in the Braudelian sense – and its corresponding political power that we should be concerned about, not the market itself. Correspondingly, Braudel strongly rejected Lenin’s claim that capitalism grows organically from small-scale commercial production,⁵⁹ and indeed argued that endowing

⁵⁶ One of the most prominent critiques has been through the Marxian debates regarding the origin of capitalism. For example, Ellen Meiksins Wood and Robert Brenner have argued strongly against world systems theorists and many others that the institutionalization of “market imperatives” are what distinguish capitalism from earlier political-economic forms. The work of both Brenner and Meiksins Wood, however, continues to emphasize the awesome structural power of large firms in the *political reproduction* of capitalism. SMEs, their role and influence, are not discussed; thus while these scholars their emphasis on the inseparability between market imperatives and capitalism, a ‘big capital’ vs. ‘labour’ narrative remains. See Robert Brenner, “The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism.” *New Left Review*. 104 (July/August 1977):25-92; Robert Brenner, *The Boom and the Bubble: The US in the World Economy* (New York: Verso, 2003). Ellen Meiksins Wood, *The Origin of Capitalism* (New York: Verso, 2002) “Global Capital, National States.” In *Historical Materialism and Globalization*. Mark Rupert and Hazel Smith (eds.). pp. 17-39. (New York: Routledge, 2003). Ellen Meiksins Wood, *Empire of Capital*. (New York: Verso, 2003).

⁵⁷ Stephen Gill, “Globalisation, Market Civilisation...” p 403.

⁵⁸ Hans-Jürgen Bieling and Thorsten Schulten, “‘Competitive Restructuring’ and Industrial Relations within the European Union: Corporatist Involvement and Beyond” in Alan W. Carfruny and Magnus Ryner (eds.) *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe* (New York: Rowman and Littlefield, 2003), pp. 231-259; p 235.

⁵⁹ See V.I. Lenin, *The Development of Capitalism In Russia*, (Moscow: Progress Publishers, 1964). The most significant chapter regarding this debate is Chapter III (p 191-251), in which Lenin argues that the

the market economy with autonomy means “giving birth spontaneously to capitalism and the bourgeoisie [...] Wherever there is small business and freedom of trade, capitalism appears.”⁶⁰ Braudel stressed that what he most regretted was “the refusal in both the capitalist world and the socialist world to draw a distinction between capitalism and the market economy” which unreasonably led to attaching the “misdeeds of capitalism” to the formal economy as a whole.⁶¹ In consequence, Braudel argues, social efforts to regulate the economy should focus on constraining the powers of large firms with significant market and political power, hence Braudel’s admiration for the Prague Spring program of “socialism at the top, but freedom and ‘spontaneity’ at the base.”⁶² In the everyday life of citizens, Braudel comments, “public hostility is accurately and rightly directed at the top.”⁶³

Consequences for Scholarship

The Braudelian imaginary has consequences for how scholars and students of IPE understand the reproduction of neoliberalism. Thus far, IPE research that focuses on the political reproduction of neoliberal world order concentrates upon the transnational organization and deliberation of large, typically multinational firms and transnational managerial classes. Gill’s research focussing on American hegemony and the birth of “disciplinary neoliberalism” through his examination of the Trilateral Commission has an

differentiation of the peasantry is exacerbated under the increased commercialization of Russian agriculture, making way for concentration and wage-labour relations emerging.

⁶⁰ See Fernand Braudel, *The Perspective of the World...*, p 678.

⁶¹ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, p 115.

⁶² Fernand Braudel, *The Perspective of the World...*, p 623.

⁶³ Fernand Braudel, *The Perspective of the World*, p 629.

elite-centered, LSE focus.⁶⁴ Van Der Pijl illustrates the historical socialization of transnational capitalist elites.⁶⁵ Sklair emphasizes the constellation of large capitalist interests in the reproduction of neoliberalism.⁶⁶ Even when IPE scholars attempt to achieve a ‘deeper’ understanding of production and social reproduction, as in the case of Gill and Bakker’s joint research, there appears to be no attempt to envisage the role of firms *other than* LSEs. For them, the neoliberal globalization simply means “creating a global political economy hospitable to the neoliberal frameworks of accumulation favoured by transnational corporations and large investors that dominate world trade, investment and finance.”⁶⁷ When holistic “critical reflections on IPE” are asserted, such as the civilizational critiques of Cox, ‘elites’ are often cited as the agents to reproduce neoliberalism, or to expand and deepen ‘Empire.’⁶⁸ Strange has commented that, especially in neo-Gramscian critical IPE, scholarship has focused on “elite agency and the efforts of the ‘transnational managerial class’ to embed its economic dominance politically.”⁶⁹ Strange’s critique, while lucid, identifies the remedy to IPEs elite-agency focus as a fixation on organized labour, not on examining the role of the rest of the business community outside of LSEs and elites.

The literature on investigations of the neoliberalism of European integration mirrors this ‘top heavy’ bias within the more general, global IPE research. The existing

⁶⁴ Stephen Gill, *American Hegemony and the Trilateral Commission* (Cambridge: Cambridge University Press, 1990).

⁶⁵ Kees Van Der Pijl, *Transnational Classes and International Relations* (London and New York: Routledge, 1998).

⁶⁶ Leslie Sklair, *The Transnational Capitalist Class* (Oxford: Blackwell, 2001).

⁶⁷ Isabella Bakker and Stephen Gill, “Global Political Economy and Social Reproduction” in Isabella Bakker and Stephen Gill (eds.) *Power, Production and Social Reproduction* (New York: Palgrave Macmillan, 2003), p 5.

⁶⁸ See Robert W. Cox, “Beyond Empire and Terror: Critical Reflections on the Political Economy of World Order” *New Political Economy* Vol. 9, No. 3 (Sept. 2004), pp. 307-323; pp. 308-309.

studies on organized business activity focus almost exclusively on the activity of LSEs; for example, they focus on the influence of the European Round Table of Industrialists (ERT) and the AMCHAM-EU.⁷⁰ The political ontology of Bieler's study of globalization European integration is symptomatic: the social forces examined are diverse, except when it comes to the examination of the business community, which is disaggregated as "capital" in its national and transnational fractions, where "capital" signifies LSEs.⁷¹

The consequence of this narrow focus has been to understand European integration as an "agency-driven process of embedding the hegemony of international capital determined by a political partnership between the ERT, European political elites, and the European Commission."⁷² The closest suggestion in the European integration literature that the SME sector may support neoliberalism comes from Hooghe and Marks. Stating that "the neoliberal project is a minority project", Hooghe and Marks stress that neoliberalism has "broad roots among strategically placed political and economic elites." These include:

leaders of British and European national companies; industrial associations, including a majority of members of the peak business confederation (UNICE); financial interests (e.g., central banks and international finance); think tanks; pro-business strands in the German Democratic and Free Democratic parties, and other liberal and conservative parties on the continent (including those elements of the centre and right in France); and opinion leaders (e.g. The Economist).⁷³

⁶⁹ Gerard Strange, "Globalisation, Regionalism and Labour Interests in the New International Political Economy." *New Political Economy* Vol. 7, No. 3 (2002), pp. 343-370; p 343.

⁷⁰ For example, see Bastiaan Van Apeldoorn, "Transnational Agency and European Governance : The Case of the European Round Table of Industrialists," *New Political Economy*, Vol. 5, No. 2 (2000), pp. 157-81. Or, see Appeldoorn's book: Bastiaan Van Apeldoorn, *Transnational Capitalism and the Struggle for European Integration* (New York: Routledge, 2002).

⁷¹ Andreas Bieler, *Globalization and Enlargement of the European Union: Austrian and Swedish Social Forces in the Struggle over Membership* (London and New York: Routledge, 2000), pp. 10-11.

⁷² Gerard Strange, "Globalisation, Regionalism...", p 349.

⁷³ Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration...*, p 130

While we might note here the vague reference to “industrial associations,” and to the mention of UNICE, there is no suggestion that SMEs are incorporated here. While UNICE is a ‘mixed’ business interests organization – and thus represents both SMEs and LSEs,⁷⁴ there is no reason to believe that Hooghe and Marks are referring to SMEs within that mix. Their analysis of support for a neoliberal EU remains, like the others, elite-centered, stressing LSEs, and seemingly animated by the Braudelian imaginary.

Virtually everywhere, it would seem, the Braudelian imaginary carries with it a scholarly authority and a popular authority that remains largely unproblematicized.⁷⁵ This disciplinary bias is not only because IPE has a macro-level bias, but because the extent of the research that investigates the political importance of SMEs is extremely limited. Existing literature on the political agency of SMEs casts its eye toward the local and national levels, but very seldom on any structure of governance beyond these levels.⁷⁶ The few scattered works on SMEs in the EU compare transnational SME organization

⁷⁴ Although UNICE is popularly perceived to be an LSE organization first and foremost.

⁷⁵ Of course, we are not the first to allude to a problem with the narratives associated with IPE’s top-heavy bias. For example, Suzanne Bergeron has argued that a particularly strong narrative exists within IPE scholarship that politics is completely overcome with the power of big capital, thus destroying the imaginary potential for political agency in the process: “the power of global capital is described as nearly absolute: a force that squashes, radically transforms, or replaces all local alternatives with universal markets and cultural products produced by Disney, McDonald’s, and other transnational corporations.” Suzanne Bergeron, “Teaching Globalization Through a Gender Lens” *Review of Radical Political Economics* Vol. 36, No. 3 (Summer 2004), pp. 314-320; p 315. J.K. Gibson-Graham has issued similar warnings, problematizing the fact that what is considered meaningful political agency involves a political confrontation of colossal proportions, which risks harbouring meaningless and unsuccessful most attempts at social change. See J. K. Gibson-Graham, “Waiting for the Revolution...”. Amory Starr might disagree. For Starr, the perception that global institutions merely cater to the dictates of large multinational corporations and financiers provide a clear oppositional target for those challenging the neoliberalization process. In this view, oligopoly provides a catalyst to contestation, and so, in a sense, top-heavy narratives have a great political utility. See Amory Starr, *Naming the Enemy: Anti-corporate Movements Confront Globalisation* (London & New York: Zed Books, 2000).

⁷⁶ For an excellent review article, see F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism” *Annual Review of Sociology* Vol. 11 (1985), pp. 181-207. For the Marxian debates on ‘the petit bourgeoisie’ see Nicos Poulantzas, *Classes in Contemporary Capitalism* (London: NLB, 1975), and Erik Olin Wright, *Class, Crisis and the State* (London: NLB, 1978). Timothy May and John McHugh have documented the importance of small business policy across all political parties in the UK. See Timothy

and deliberation to that of LSEs, and subsequently depict SMEs as weak, under-resourced, and unorganized.⁷⁷ Such limited studies, often embedded as sections in larger research, do not emphasize the changing political importance of SMEs; as well, they do not attempt to show the relationships between SMEIOs and LSE representative organizations.⁷⁸ There exist no scholarly attempts to understand the approach of SMEIOs toward neoliberalism as it is manifest at a regional level of governance such as the EU. These absences in the European integration literature represent a gap in our knowledge about the social forces that shape the direction of Europe, considering the fact that 99% of all businesses in Europe are SMEs, and that together these businesses represent two thirds of total employment (a fraction greater than in the USA or Japan, which contain a larger share of employment in LSEs than in the EU).⁷⁹

The Braudelian imaginary has important implications for the way in which the reproduction of neoliberalism is understood and critiqued – both in the academic world and in popular political activity. Perhaps one of its most important consequences is that the fundamental neoliberal critique of political economy is met with relative disengagement. When proponents of neoliberalism emphasize the welfare-maximizing effects of competitive markets and the need to circumvent public demands for the social

May and John McHugh, “Small Business Policy: A Political Consensus?” *Small Business Policy* Vol. 77 (2002).

⁷⁷ See, for example David Coen and Charles Dannreuther, “Differentiated Europeanization: Large and Small Firms in the EU Policy Process” in Kevin Featherstone and Claudio M. Radaelli (eds.) *The Politics of Europeanization* (Oxford: Oxford University Press, 2003), pp. 253-275; Charlie Dannreuther, “Discrete Dialogues and the Legitimation of EU SME Policy” in *Journal of European Public Policy* Vol. 6, Issue 3 (September 1999), pp. 436-457; Helen Wallace and Alistair Young, “The Single Market” in Helen Wallace and William Wallace (eds.) *Policy Making in the EU* (Oxford: Oxford University Press, 1996), pp. 125-156; p 145.

⁷⁸ See, for example Justin Greenwood, “Organized Business and the European Union” in Henry Jacek and Justin Greenwood (eds.) *Organized Business and the New Global Order* (New York: St. Martin’s Press, 2000); and Justin Greenwood (ed.) *The Effectiveness of EU Business Associations*. (London: Palgrave and Ernst and Young Association Management, 2002).

regulation of the economy, critics of neoliberalism rebut (both in the academy and in popular protest) “What market? All we see is capitalism á la Braudel: concentration; oligopoly; the *anti-market*.” Critiques of neoliberalism’s emphasis on free markets thus focus on the hypocrisy of the notion of the ‘free market,’ critiquing it as an imaginary, fundamentalist vision.⁸⁰ In this regard, there appears to be a return to the Marxian notion that “free competition, the key word of our present-day economists, is an impossibility.”⁸¹ What this disposition has meant is that the vast majority of critical engagements with neoliberal claims amount to *contesting neoliberal ontology, not neoliberal political economy itself*.⁸² Neoliberals assert the infallibility of a competitive, free market economy; their critics do not challenge their claims as such, but instead assert

⁷⁹ European Commission Enterprise Directorate-General, *The Enterprise DG: Activities and Goals, Results and Future Directions* (Luxemburg: European Commission, 2004), p 16.

⁸⁰ See, for example David Held’s engagement with Hayekian political economy and his subsequent critique of neoliberalism’s assumptions about free markets which, according to Held, don’t take into account the primacy of oligopoly and “the distorting nature of economic power in relation to democracy.” See David Held, *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance* (Stanford: Stanford University Press, 1995), pp. 244-246. For a more popular (i.e. best-selling) account, see, for example Joseph Stiglitz’s critique of ‘market fundamentalism’ in Joseph Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton and Company, 2002); or, a similar critique can be found in George Soros, *The Crisis of Global Capitalism: Open Society Endangered* (New York: Public Affairs, 1998)

⁸¹ Karl Marx (Translated by Martin Milligan), *The Economic and Philosophic Manuscripts of 1844* (New York: International Publishers, 1964), p 223.

⁸² This paradigm has manifestations both within pop-IPE and within scholarly work published in academic journals. Consider, for example, the extent to which critiques of neoliberal globalization are lambasted with disparaging remarks on formal modelling using rational agent models. Neoliberalism is considered somehow to be associated with an abstract notion of ‘*Homo Economicus*.’ For example, see Linda McQuaig, *All You Can Eat: Greed, Lust and the New Capitalism* (Toronto: Penguin, 2001), pp. 34-35. This and other associated critiques of neoliberalism are weak because they neglect to consider the great ontological divergences between neoliberal thinkers such as Von Mises and Hayek and the orthodox Neoclassical economics establishment. For a more scholarly manifestation of this disposition within international political economy, see Paul Langley and Mary Mellor, “‘Economy’, Sustainability and Sites of Transformative Space.” Langley and Mellor critique neoliberal assumptions about human nature, what constitutes ‘the economy’ and its social embeddedness as *the* problem, or at least the constitutive problem, within neoliberal political economy. It is neoliberalism’s “ideological and totalising claims” which have “come to define contemporary common sense representations of ‘economy’” which is seen as the principle problem, and correspondingly this is what is critiqued. In their own words, “...the neo-liberal claim that economy is socially or ecologically disembedded is a mystification. The neo-liberal assertion that human nature conforms to the behavior of ‘economic man’ is...unsubstantiated (p. 50).” It is perhaps coincidental, perhaps instructive, that Langley and Mellor take a ‘Braudelian’ perspective on IPE, and their critique utilizes Braudel quite intensely.

that their market idols are merely spectres belonging to a past out of which capitalism has long since evolved.⁸³ Perhaps one of the consequences of this attitude is that the development of critical scholarly knowledge about the political reproduction of neoliberalism remains underdeveloped. The layer of ‘the market à la Braudel’, and by implication the world of SMEs, remains unexplored terrain in terms of its political importance.⁸⁴ To understand the social forces that reproduce neoliberalism, it is thought, one must understand where social power is concentrated – at the top of the commodity chain, at the height of oligopoly.⁸⁵ This thesis casts its eyes lower, effectively to the terrain of ‘the market economy’ inhabited by SMEs, and seeks to examine the extent and character of their social power, and in turn to explicate the role of SMEs in the reproduction of neoliberalism. It does so not to argue that the political role of SMEs is ‘more important’ than LSEs, but rather to address a critical gap which will assist in a more holistic understanding of the reproduction of neoliberal world order.

One important question remains in this chapter before a more concrete discussion of SMEs in the EU can commence below: namely, what is meant by neoliberalism? This is an important issue because subsequent chapters examine SME support for neoliberalism within a certain institutional context, that of the EU. While neoliberalism has many contextually variable manifestations, theorizing its manifestation at the EU

⁸³ There are perhaps a variety of reasons for this, several of which will be taken up in the conclusion. On the one hand, the strength of such narratives in IPE and politically economy more generally are a direct consequence of the fact that Marx –and many problematic narratives about teleological firm concentration – still provides an intellectual framework for so many scholars. Relatedly, it is worth acknowledging the fact that Western *Marxism* grew up in a time (the Post-War Bretton Wood era) and a place (Western Europe, North America) where *monopoly capital* was the dominating subject of theoretical analysis.

⁸⁴ To be sure, the existing economic literature on the economic importance of SMEs is rich, and grows richer as the economic importance of SMEs grows – it is the *political-economic* corollary of this that is lacking.

⁸⁵ There is no doubt whatsoever that substantial social power lies at the top layer of the economy – amongst the LSEs and financial interests that Braudel would call the ‘capitalist payer.’ To neglect it in any holistic

level takes some elaboration. In the following section, we will discuss neoliberalism and its manifestations in the EU, and thus elaborate on an important conceptualization for this thesis.

Section Two: Neoliberalism at the EU Level

Now that we have established the context in which this thesis hopes to engage, we can specify more precisely what we mean by neoliberalism, and how it is manifested at the EU level. This section will first examine neoliberalism as a philosophy, and then it will examine it as an historical process within the EU which is contested. Finally, this section examines the broad institutional manifestations of neoliberalism. The purpose of this section is not to provide an exhaustive account of the intricacies of neoliberalism, or an extended discussion of its merits or shortcomings, but rather to review this phenomenon so that the case study of SMEIOs in the EU can be better understood.

Neoliberalism as Philosophy

Neoliberalism within Europe draws from an economic and political philosophy about governance and regulation. As such, it may be broadly defined as a doctrine (a way of conducting political life) and a discourse (a way of thinking and speaking about political life) whereby the traditional separation in capitalist societies between the political and the economic is further entrenched by a belief in the supremacy of market-directed processes facilitated by states but guided by the aggregation of private interests.

attempt to understand contemporary political predicaments is imprudent at best; indeed the operation of the global economy and its political reproduction would become incomprehensible.

This thinking was initially promoted by clandestine groups such as the Mont Pelerin society,⁸⁶ but its most famous public advocate was Frederick Hayek, who promoted institutionalizing or ‘locking in’ legal frameworks that provide a framework for economic activity and prevent purposeful intervention into economic (and social) evolution.⁸⁷ Institutionalizing the coordinative benefits and disciplining forces of competitive markets through recourse to the presumed rationality of the individual is considered the most efficient and socially equitable way of organizing economic life. Consequently, the capacity for citizens in liberal democratic societies to ‘deepen’ the democratic project into the economic sphere is severely restricted, and thus neoliberalism remains at odds with a spirit of social-democracy, where citizens aspire to achieve democratic control over the economy through strategic intervention to achieve particular goals.⁸⁸ As Larner has pointed out, neoliberalism often engenders a process of identity reconstruction whereby citizens are replaced in political discourse by consumers, and thus economic identities end up “usurping those associated with social citizenship.”⁸⁹ While neoliberalism has various manifestations depending on its institutional context,

⁸⁶ On the significance of the Mont Pelerin society and its role in the advance of neoliberalism as a philosophy, see Susan George, “A Short History of Neoliberalism” in Walden Bello, Nicola Bullard, and Kamal Malhotra (eds.) *Global Finance: New Thinking on Regulating Speculative Capital Markets* (London: Zed Books, 2000), pp. 27-35. Another excellent resource is Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and The Marketplace That is Remaking the Modern World* (New York: Simon and Schuster, 1998).

⁸⁷ Hayek’s work spans several decades, but his most influential work is his earliest, *The Road to Serfdom*, written in the 1940s. Hayek’s work developed and was elaborated into what might be called ‘constitutionalist’ liberalism in the 1970s. Consequently, the most systematic treatment of Hayek’s neoliberalism can be found in his three volume work *Law, Legislation and Liberty*. See Friedrich A. Hayek, *The Road to Serfdom*. (Chicago: University of Chicago Press, 1994); Friedrich A. Hayek, *Law, Legislation and Liberty Vol. 1: Rules and Order*. (Chicago: University of Chicago Press, 1976); Friedrich A. Hayek, *Law, Legislation and Liberty Vol. 2: The Mirage of Social Justice* (Chicago: University of Chicago Press, 1976); Friedrich A. Hayek, *Law, Legislation and Liberty Vol. 3: The Political Order of a Free People*. (Chicago: University of Chicago Press, 1976).

⁸⁸ As any observer of European politics will note, this has not stopped many national political parties ‘socially-democratic’ in name (e.g. the SPD in Germany under Schröder) to institute neoliberal policies.

⁸⁹ Wendy Larner, “Neo-Liberalism: Policy, Ideology, Governmentality” *Studies in Political Economy* Vol. 63 (Autumn 2000), pp. 5-27; 19.

Helleiner's claim that neoliberalism "has emerged as the dominant economic ideology across the world" is astute.⁹⁰

Within Europe, such a philosophy is a difficult 'sell' to many populations politically acclimatized to decades of social-democratic institutional endowments.⁹¹ In such a climate, neoliberalism manifests itself not as an all-out attack on "welfarist" institutions as it has in the USA and the UK, but often as a critique of 'rigidities' and 'over-regulation' of the economy. At the EU level, this expresses itself in the discourse of European competitiveness vis-à-vis the rest of the world, particularly the USA and East Asia. It is not that the influence of neoliberalism emphasizes regional competitiveness *per se*, but rather that competitiveness is to be achieved through an intensification of market discipline on citizens and public goods and services, which effectively means surrendering many of the achievements of social democracy to the logic of capital. The 'form' of state thus changes, and in this regard Cox's comments regarding the "internationalization of the state" in the neoliberal period are very relevant here.⁹² As an economic and political philosophy, neoliberalism recommends a multitude of changes to the regulatory frameworks that govern political life. While these changes are contextually diverse, they often involve scaling back existing practices of labour market regulation, instituting schedules of aggressive supply-side economic stimuli (such as reducing the level of personal and business taxation to stimulate demand), and generally treating regulatory measures which 'distort' the natural equilibrium of the

⁹⁰ Eric Helleiner, "Think Globally, Transact Locally...", p 35.

⁹¹ These include, for example, the socialization of costs for health care provision, education, and broad-reaching labour and environmental standards. It is important to note that this is, on the whole, more true in Continental Europe than it is in the UK and Ireland.

⁹² While Cox's comments in this regard were referring to nation-states, the same might be said of an emerging supra-national governance structure such as the European Union. See Robert W. Cox,

market with great suspicion, if not outright hostility. As Helleiner remarks, in general neoliberals “seek to narrow the possibilities for various kinds of political intervention in the domestic economy through deregulatory initiatives.”⁹³ Since the project of European integration means establishing a new set of relations *between* states, neoliberalism also entails enacting inter-state policies to

intensify competition among national governments to cut corporate taxes, reduce government regulation, and increase labour market flexibility in order to attract inward investment. For neoliberals, a Europe-wide social policy, tax policy, or cohesion policy is undesirable because it constrains market competition.⁹⁴

Neoliberalism as an Historical Process Which is Contested

Neoliberalism as a philosophy should be contrasted to neoliberalism as an historical process in Europe, one which has been contested at least since the 1980s when neoliberalism and European integration became intimately linked. The acceleration of European integration in the 1980s was itself a time of deregulation which moved steadily, albeit very unevenly across different national political economies. As a response to the various crises of Keynesianism, deregulation spread from the US to Britain, and from there to the continent. It involved “a more or less forceful, and more or less successful, attack on the accumulated “rigidities” that more than three decades of “mixed economy” had installed.” The dismantling of these “accumulated rigidities” was difficult when carried out through the national context alone. Consequently, “the proven inability of

Production, Power and World Order: Social forces in the Making of History (New York: Columbia University Press, 1987), pp. 253-265.

⁹³ Eric Helleiner, “Think Globally, Transact Locally...”, p 35.

⁹⁴ Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration*, p 109.

governments to deliver on employment, and their growing unwillingness to try [...]”⁹⁵, culminated in a ‘Euro Malaise’ that was eventually tackled through the ambitious Single Market Program which begun in 1986. Particularly influential in this development was the Thatcher government of the UK, which was “committed to neoliberalism, while other governments sought institutional change” in other ways.⁹⁶ The political economy debate within Continental Europe altered “as neoliberalism came into competition with the Old Christian/Social Democratic consensus.”⁹⁷ The national-level efforts to tackle existing ‘accumulated rigidities’ under the European Community (EC) framework of the 1980s was insufficient; a new, more ambitious European project had to be created.

The acceleration of the European integration process since the launch of the Single Market program in 1986, the subsequent development of the Internal Market, and eventually the European Monetary Union (EMU) convergence process that followed meant a further entrenching of neoliberalism.⁹⁸ Thus, one could argue that the European integration process can be seen as running in tandem with a process of neoliberalization; Holman and Van der Pijl have even argued that “in the course of the 1990s, European integration has become the vehicle of neoliberal deregulation at the member-state level, particularly the deregulation of labour markets...a new political wave in favour of deregulation” has come to the fore; a neoliberal Europe has “the explicit purpose of

⁹⁵ Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism: Organized Interests in the Single European Market” *Politics and Society* Vol. 19, No. 1 (1991), pp. 133-164; p 148.

⁹⁶ Michael Newman, *Democracy, Sovereignty and the European Union* (New York: St. Martin’s Press, 1996), p 36.

⁹⁷ Helen Wallace, “The Institutions of the EU: Experience and Experiments” in Helen Wallace and William Wallace (eds.) *Policy Making in the EU* (Oxford: Oxford University Press, 1996), pp. 37-70; p 53.

⁹⁸ Andreas Bieler, *Globalization and Enlargement of the European Union*, p 161.

dismantling the so-called European social model along neoliberal lines.”⁹⁹ Helen Wallace has commented that neoliberal “ideas and market-emphasizing social and economic policies have put pressures on the development of collective policies of redistribution.”¹⁰⁰ Hazel Smith has argued that even the seemingly social-democratic ‘gains’ won for labour in the European integration process – such as those embodied in the Social Charter – are simply a way for ‘capital’ getting what it wants.¹⁰¹ Similarly, Stephen Gill has argued that the process of European integration has constituted a form of “new constitutionalism,” which prevents “future governments from undoing the commitment to a disciplinary neoliberal pattern of accumulation.” The overall institutional structure of the EU is thus designed to “reconstruct the terms through which political action and regulation action are deemed possible in a capitalist society.”¹⁰² The Single European Act (SEA), the Maastricht Treaty, and especially EMU institutionally ‘lock in’ a neoliberal orientation within the EU. Similarly, Andreas Bieler has commented that “neoliberalism is firmly entrenched in the EU via the Internal Market and the EMU convergence criteria [...]”¹⁰³

While a great deal of critical IPE scholarship portrays the process of European integration as one running in tandem with a process of neoliberalism, the above

⁹⁹ Otto Holman and Kees Van Der Pijl, “Structure and Process in Transnational European Business” in Alan W. Carfruny and Magnus Ryner (eds.) *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe* (New York: Rowman and Littlefield, 2003), pp. 71-93; p 71.

¹⁰⁰ Helen Wallace, “The Challenge of Governance in the European Union” in Helen Wallace and William Wallace (eds.) *Policy Making in the EU* (Oxford: Oxford University Press, 1996), pp. 3-36; p 20.

¹⁰¹ Hazel Smith, “The Politics of ‘Regulated Liberalism:’ A Historical Materialist Approach to European Integration” in Mark Rupert and Hazel Smith (eds.) *Historical Materialism and Globalization* (New York: Routledge, 2002), pp. 257-284.

¹⁰² Stephen Gill, “A Neo-Gramscian Approach to European Integration” in Alan W. Carfruny and Magnus Ryner (eds.) *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe* (New York: Rowman and Littlefield, 2003), pp. 47-70; p 65. See also Stephen Gill, “European Governance and New Constitutionalism: Economic and Monetary Union and Alternatives to Disciplinary Neoliberalism in Europe” *New Political Economy* Vol. 3, Issue 1 (March 1998).

¹⁰³ Andreas Bieler, *Globalization and Enlargement of the European Union*, p 161.

characterizations constitute, by themselves, a monochromatic and limited reading of the European integration process as a whole. The process of European integration has been contested in many different directions by many different social forces. Social democratic parties, trade union congresses, and NGOs have attempted – with some success – to influence the European integration process to include more socially protective policies and to build up a more social-democratic institutional character within the EU. The Social Charter put forth in 1989, the Employee Works Councils Directive of 1994, and their final manifestation in the Social Chapter/Social Policy Protocol within the Maastricht Treaty represent efforts to institutionalize social democratic traditions at the European level, and should be understood as the result of important social struggles. Resistance has also come from particular nation states, and from certain prominent figures within nation-states. In this regard, one cannot forget the anti-neoliberal, neo-Keynesian attempts of Lafontaine within Germany, or Lionel Jospin’s comments that if there is nothing to control market forces, they “will threaten our very idea of civilization”¹⁰⁴ Considering such resistance, we are reminded of Jacques Delors’ justification of the Single Market Programme as something not simply to facilitate the accelerated flow and accumulation of capital, but more importantly to create a new political potentiality – a new “organized space” at the European level, which would allow for the regionalized *regulation* of European capitalism “in line with European social

¹⁰⁴ Jospin demanded an ‘economic government’ to coordinate economic taxation and wage policies and provide a counterbalance to the European Central Bank. See Mark A. Pollack, “Blairism in Brussels: The ‘3rd Way’ in Europe since Amsterdam” in Maria Green Cowles and Michael Smith (eds.) *The State of the EU: Risks, Reforms, Resistance, and Renewal* (Oxford: Oxford University Press, 2000), pp. 266-291; p 277. On Lafontaine in Germany, see Magnus Ryner, “Disciplinary Neoliberalism, Regionalization, and the Social Market in German Restructuring” in Alan Carfuny and Magnus Ryner (eds.) *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe* (New York: Rowman and Littlefield, 2003), pp. 201-231.

democratic and Christian democratic traditions.”¹⁰⁵ Whether or not the recent problems associated with ratifying an EU constitution are associated with this is an open question. It is without a doubt, however, that struggle over the EU’s character will continue no matter what constitutional ambitions may be ratified or rejected, as the case may be. Like in any polity, the strength of the various visions for political community depends on the existence of the given framework of social support amongst a variety of actors.

Hooghe and Marks’ study of multi-level governance in the EU stresses that while it is fragmented and uneven across national contexts, support for “regulated capitalism” at the EU level generally comes from broad alliances of Christian democratic parties, social democratic parties, organized labour, and environmentalist coalitions acting at the EU level.¹⁰⁶ As Hooghe’s study of the employees of European Commission has pointed out, there continues to exist a considerable struggle from within European Commission’s staff, with many bureaucrats expressing a preference for, and seeking to promote, a “regulated capitalism” for a more ‘social’ Europe.¹⁰⁷ While the resistance to a neoliberal Europe is varied and uneven, both in its sources of support and in the actual instances where struggle can be fought out, it is certain that the vision for a more neoliberal Europe faces concerted contestation.

¹⁰⁵ Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration*, p 127.

¹⁰⁶ See Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration*, pp. 134-136. This is not to say that the Left in many places isn’t divided. As Hooghe and Marks point out, Leftist nationalists highlight the EU’s democratic deficit, the corrosive effects of regime competition, and the prospect that European identity will never be sufficient to sustain a European welfare state.

¹⁰⁷ Liesbet Hooghe, *The European Commission and the Integration of Europe: Images of Governance* (Cambridge: Cambridge University Press, 2001).

Institutional Manifestations at the EU level

Despite the fact that neoliberalism in Europe is contested, as a formal structure of governance the EU retains a particular institutional bias, one which gives a certain path dependence to its neoliberal foundations since the SEA. Neoliberalism at the EU level should thus be understood in light of the *selective evolution* of its institutional endowments. Streeck and Schmitter have argued that within the context of growing market integration in the EU, the lack of a proportionate growth of regulatory institutions means that “integration and deregulation become the same thing.”¹⁰⁸ European institutions become a “supranational policy regime limited to market making.”¹⁰⁹ Similarly, for Marks and McAdam, the main thrust of European integration “has been in creating a European-wide economic space rather than regulating that space through coherent social policies or building strong supranational institutions of Economic governance.”¹¹⁰ In other words, a political-economic separation is guaranteed by an *institutional atrophy* at the supranational level. Part of this, as Scharpf has pointed out, is the consequence of decision-making procedures within key EU institutions, procedures which exert a systemic bias in favour of ‘negative integration,’ which provides a path dependency in favour of a more neoliberal Europe.¹¹¹ As economic competencies transfer to the supra-

¹⁰⁸ Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism...” p 142.

¹⁰⁹ Wolfgang Streeck, “Neo-Voluntarism” A New European Social Policy Regime?” in Gary Marks, Fritz W. Scharpf, Phillippe C. Schmitter and Wolfgang Streeck (eds.) *Governance in the European Union* (London: Sage Publications, 1996), pp. 64-94; p 88.

¹¹⁰ Gary Marks and Doug McAdam, “Social Movements...”, p 108.

¹¹¹ Because European integration must everywhere and always be an agreement *amongst* nation-states, some forms of integration come more easily than others, regardless of the support or lack thereof for neoliberalization. Fritz Scharpf’s conceptualization of negative and positive integration helps to highlight this. Negative integration, which measures increased market integration by eliminating national restraints on trade and distortions of competition, should be understood in contrast to positive integration, in which common European policies are crafted to shape the conditions under which markets operate. For Scharpf, negative integration is made easier because of the way in which decisions are made within European institutions. The institutional, path dependant bias of negative integration was already contained in the

national level, institutional capacity for economic regulation remains underdeveloped, and the result is a strong neoliberal bias within the existing institutional arrangement:

[...] part and parcel of the pooling of sovereignties under the Single European Act and of the political deals that made it possible is a redefinition of the relationship between the Community's "domestic" institutions and "the market" under which the latter stands to gain unprecedented freedom from intervention by the former. The mechanism to accomplish this, and a powerful reassurance for business that supranational sovereignty will indeed be used exclusively for the *external reassertion of*, as opposed to *internal intervention in*, the European economy, is "negative integration" through pre-emption of national regulatory regimes without a simultaneous supranational restoration of regulatory capacity.¹¹²

Similarly, for Hooghe and Marks, the question of the neoliberalization process within Europe is also considered in terms of institution building, or the lack of certain *kinds* of institution building, as regulatory competencies are being transferred from the national to the supra-national level:

The *neoliberal* project attempts to insulate markets from political interference by combining Europe-wide market integration with minimal European regulation. The neoliberal project rejects democratic institutions at the European level capable of regulating the market, but seeks instead to generate competition among national governments in providing regulatory climates that mobile factors of production find attractive.¹¹³

The idea is to create a mismatch between economic activity, which is Europe-wide, and political authority, which for most purposes remains segmented among national governments. By regulating competition and monetary policy at the European level, neoliberals wish to minimize national barriers to trade. By resisting the creation of a

founding laws of the Treaty of Rome. "From this foundation, liberalization could be extended without much political attention, through interventions of the European Commission against infringements of Treaty obligations and through the decisions and preliminary ruling of the European Court of Justice. By contrast, positive integration depends upon the agreement of national governments in the Council of Ministers; it is thus subject to all of the impediments facing European intergovernmental policy-making. See Fritz W. Scharpf, "Negative and Positive Integration in the Political Economy of European Welfare States" in Gary Marks, Fritz W. Scharpf, Philippe C. Schmitter, and Wolfgang Streeck (eds.) *Governance in the European Union* (London: Sage Publications, 1996), pp. 15-39; p 15.

¹¹² Streeck and Schmitter refer to the adoption of mutual recognition practices as the way that the internal market is defined and governed, which "for all practical purposes amounts to a subtle form of deregulation." See Wolfgang Streeck and Phillippe Schmitter, "From National Corporatism to Transnational Pluralism..." p 149.

¹¹³ Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration*, p 123.

supranational Euro-polity, neoliberals minimize the capacity for Europe-wide regulation of economic activity.¹¹⁴

Proponents of neoliberalism at the EU level thus favour not only particular policies (e.g. a particular directive that is 'market enabling' and represents a weakening of social regulation of the market), but also a certain institutional evolution of the EU itself (e.g. that it should discipline states into tax competition that would enable more market-based competition, and simultaneously prevent the introduction of new social and environmental regulation that would 'distort' the market).

Now that this chapter has examined both the scholarly context in which this thesis hopes to engage, and has articulated a broader definition of neoliberalism, we can move on to a more specific focus on SMEs. The next chapter will discuss the increased economic importance of SMEs in the global economy, their subsequent importance for state strategies, and the concrete attempts by the European Commission to promote SME development.

¹¹⁴ Liesbet Hooghe and Gary Marks, *Multi-Level Governance and European Integration*, p 129-130. Hooghe and Marks' conception of the neoliberal project in Europe is more sophisticated than Streeck and Schmitter's in that the former conceptualize competing institutional trajectories within the European institutions and the wider discourses of European politics. For Hooghe and Marks, two projects have been competing for realization at the European level since the 1980s; on the one hand there is a neoliberal European project, and on the other there is an attempt to achieve a European-level 'regulated capitalism.'

Chapter 2

The principle aim of this chapter is to illustrate the nature of the political-economic environment in which SMEs increasingly find themselves, especially in Europe. While the 'market economy' may be a harsh, competitive place, when its usefulness in the global economy increases, and political institutions promote and aggrandize it, the SME sector becomes not a spectre from a distant past, rather a valuable sector of the economy, and thus more valuable politically as a result.¹¹⁵

This chapter is divided into two sections, which serve to frame the political-economic circumstances that SMEs in the EU face. Section one, which takes a global perspective, highlights the factors which have led to the 'SME Renaissance.' A number of structural changes in the global economy, as well as the purposeful intervention of states, have produced an environment favourably disposed to SME sector development. Section two describes the materialization of this global trend in the regional political economy of Europe, pointing specifically to EU-level initiatives to promote the SME sector as a development strategy. This chapter concludes by arguing that the need to properly co-ordinate and legitimate SME policy has meant that the European Commission has had to draw organized SME representative groups close to the Commission, giving SMEIOs privileged points of access.

¹¹⁵ It is important to note here as a matter of clarification that references here to the SME sector in the global and European economies refers to the sector as a whole, and not to the fate of individual SMEs. Consequently, changes in the global economy or state policies that assist the SME sector may offer adverse consequences for individual SMEs. It is the whole we are concerned with here – not the individual parts. As is well acknowledged in the SME literature, and as is confirmed within the data on SMEs in the EU, there is a high degree of 'business death.' But because the sector is continually regenerated with 'business births,' the net affect is often that, while there might be volatility in the composition of existing SMEs, the sector as a whole remains robust. The *net* birth rates of SMEs is always significantly lower than the *gross*

Section One: The SME Sector in the Global Economy

There is ample evidence that the share of small business manufacturing in Western economies has started to rise. Large firms have been downsizing and restructuring in order to concentrate on “core business” again. In the meantime the entrepreneur has risen from the dead.¹¹⁶

- Martin Caree et. al., *Economic Development and business Ownership: An Analysis Using Data of 23 OECD Countries in the Period 1976-1996*

Perhaps Schumpeter was more astute than Marx in acknowledging the constantly evolving characteristics of global capitalism.¹¹⁷ The analyses offered by both of these political economists on the subject of SMEs, however, are equally misleading. While Marx considered the ‘petit bourgeoisie’ to be destined for extinction, Schumpeter predicted the ‘entrepreneur’ would become institutionalized within large firms.¹¹⁸ For Marx, who posited a “law of the centralization of private property,”¹¹⁹

Multilateral accumulation necessarily turns into unilateral accumulation. Accumulation, where private property prevails, is the *concentration* of capital in the hands of a few, it is in general an inevitable consequence if capital is left to follow its natural course, and it is precisely through competition that the way is cleared for this natural destination of capital.¹²⁰

number of SME birth rates. See European Commission, *Industrial Policy in an Enlarged Europe: Statistical Elements in Support of the Communication*, p 29.

¹¹⁶ Martin Caree, André Van Stel, Roy Thurik, and Sander Wennekers, “Economic Development and business Ownership: An Analysis Using Data of 23 OECD Countries in the Period 1976-1996” *Small Business Economics*, Vol. 19 (2002), pp. 271-290; p 272.

¹¹⁷ Joseph Schumpeter, *Capitalism, Socialism and Democracy*. (New York: Harper Publishers, 1975), pp. 82-83.

¹¹⁸ See Karl Marx, *Capital: A Critique of Political Economy* (New York: Random House, 1906), p 835. “It is comparable only with a system of production, and a society, moving within narrow and more or less primitive bounds. To perpetuate it would be, as Pecquer rightly says, “to decree universal mediocrity” ... It must be annihilated; it is annihilated. Its annihilation, the transformation of the individualized and scattered means of production into socially concentrated ones, of the pygmy property of the many into the huge property of the few...forms the prelude to the history of capital.” See also Joseph Schumpeter, *Capitalism, Socialism and Democracy*, pp. 131-142.

¹¹⁹ Karl Marx, *The Economic and Philosophic Manuscripts...*, p 223.

¹²⁰ Karl Marx, *The Economic and Philosophic Manuscripts...*, p 85.

The natural tendency of capital concentration within the capitalist mode of production would thus mean the immanent demise of the SME sector, whose members lose the competitive economic battle with LSEs on account of their weaker economic capacities. Although for different reasons, Schumpeter expressed a similar teleological understanding of the fate of SMEs. He argued that because capitalist enterprises tend to “automatize progress,” they make themselves superfluous:

The perfectly bureaucratized giant industrial unit not only ousts the small or medium-sized firm and “expropriates” its owners, but in the end it also ousts the entrepreneur and expropriates the bourgeoisie as a class which in the process stands to lose not only its income but also what was infinitely more important, its function.¹²¹

Until the 1970s, both of these observations were extremely influential upon, and generally unproblematicized by, political economists. Scholars at that time inspired by Schumpeter, such as Galbraith posited the continued relevance of capital concentration in creating a bureaucracy of innovation,¹²² while Marxian scholars such as Baran and Wright pointed to the self evident “steady dwindling” of the petty bourgeoisie.¹²³ Since then, however, while capital concentration appears to continue,¹²⁴ the economic importance of SMEs has reversed its earlier course – SMEs occupy an increasingly

¹²¹ Joseph Schumpeter, *Capitalism, Socialism and Democracy*, p134.

¹²² See John Kenneth Galbraith, *The New Industrial State* (Boston: Houghton Mifflin, 1967).

¹²³ Baran actually forged a critique of Schumpeter based on Marxian assumptions: “Schumpeter’s daring and dashing entrepreneur is now a legendary figure from a distant past – if not from the mythology of capitalism – or is to be found only in the demimonde of business [...]. See Paul A. Baran, *The Political Economy of Growth* (New York: Monthly Review Press/Prometheus Paperback, 1957), pp. 76-77; Erik Olin Wright, *Class, Crisis and the State*, p 34. Wright would later take back this assessment of what was called initially the ‘traditional petty bourgeoisie’ (named so by Poulantzas) in his work on sectoral development in the USA with George Steinmetz. For a concise analysis and defence of this position, see George Steinmetz and George Steinmetz and Erik Olin Wright, “Reply to Linder and Houghton” *American Journal of Sociology* Vol. 96, No. 3, 1990, pp. 736-740.

¹²⁴ Erica Schoenberger, “Oligopoly is Alive and Well: notes for a broader discussion of flexible accumulation” in Georges Benko and Mick Dunford (eds.) *Industrial Change and Regional Development* (London and New York: Belhaven Press, 1991), pp. 85-101.

important role in the economic development of capitalist societies.¹²⁵ The OECD reports that SMEs account for over 95% of enterprises and 60-70% of employment in the OECD countries on average.¹²⁶ We might be reminded of Braudel's useful layered taxonomy, whereby

Capitalism (both past and present, with phases which are monopolistic to a greater or lesser degree) never entirely eliminates the free competition and market economy from which it has grown (and upon which it still draws) but continues to exist over and alongside them.¹²⁷

How can the increasingly important role of the 'market economy' of SMEs in the global economy be explained? There seems to exist a twofold explanation: on the one hand, structural changes in the global economy have increased the importance of SMEs in capitalist accumulation; on the other hand, SMEs have benefited from purposeful state intervention to promote the SME sector. The ascendance of the 'market economy,' in the Braudelian sense of the word, is thus a product of both the functional utility of this 'layer' in the global economy, and the numerous state efforts to aggrandize it.

A great deal of SME growth has been linked to the demands of larger firms in the global economy to utilize more flexible and responsive supply chains. The heightened flexibility demands of 'Post-Fordist' or 'Toyotist' production networks commonly associated with increased international competition in the neoliberal period of the last 25 years has in some cases offered advantages to SMEs, which are often regarded as having "a capacity for continual innovation and flexibility".¹²⁸ It is undoubtedly true that the

¹²⁵ Martin Caree, et. al., "Economic Development and Business Ownership...", p 272.

¹²⁶ See (online) the text from The Second OECD Ministerial Conference on Small and Medium Enterprises: <http://www.oecd-istanbul.sme2004.org/role.htm>.

¹²⁷ Fernand Braudel, *The Wheels of Commerce*, p 577.

¹²⁸ David Held, Anthony McGrew, David Goldblatt, and Jonathan Parraton. *Global Transformations: Politics, Economics, and Culture* (Stanford: Stanford University Press, 1999), p 260. See also Peter Cabus, "The Meaning of Local in a Global Economy: The 'Region's Advocacy of Local Interests' as a Necessary

lack of significant economies of scale and scope within SMEs often restrict their competitive position vis-à-vis LSEs. However, it is also widely acknowledged that “SMEs have competitive advantages over LSEs when it comes to flexibility and responding to needs in small market niches.”¹²⁹ As Martinelli and Schoenberger have pointed out, this doesn’t mean that LSEs are completely inflexible,¹³⁰ but it does perhaps suggest new opportunities for SMEs.

In what would appear as a paradox to Marx or Schumpeter, the continued resilience and growth of the SME sector can be seen as a consequence of the tendencies toward *capital concentration* in the global economy. Capital concentration doesn’t necessarily destroy the SME sector; as Bechholfer and Elliot point out, there is evidence that they stimulate it by pushing the excess labour created in the restructuring process into the SME sector.¹³¹ The dispersed and decentralized nature of global supply/production chains has enabled a special place for many SMEs in industrialized contexts. In this regard, “some SMEs are incorporated into either producer-driven global networks, in which large MNCs (multinational corporations) centrally organize production by subcontracting components manufacture across the globe...”¹³² Increasing disintermediation within production processes has thus led some to believe that LSEs

Component of Current Global/Local Theories” *European Planning Studies* Vol. 9, No. 8 (2001), pp. 1011-1029; p 1012.

¹²⁹ Per-Anders Haynes and Elisabet S. Hauge. *SMEs and Co-operation* (Luxemburg: European Commission, 2005), p 13.

¹³⁰ For Martinelli and Schoenberger, the notion that LSEs are “ill equipped to handle” the increased demands for flexible specialization is questionable, given that “may be able to achieve flexibility without relinquishing many of the key attributes that have traditionally set it apart from the small firm, including large scale financial resources, market power, and enhanced geographic mobility.” See Flavia Martinelli and Erica Schoenberger, “Oligopoly is Alive and Well...”, p 118.

¹³¹ F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism”, p 201. They note: “It is virtually impossible to assess accurately the scale of this activity, but it is certain that the fragmentary evidence grossly underestimate its extent....Economic recessions often provide the impetus for would-be new recruits to venture into the precarious world of independent business.”

¹³² David Held, et. al., *Global Transformations: Politics, Economics, and Culture*, p. 256.

have simply been outsourcing some of their traditional functions that they once performed internally. Reynolds argues that SMEs have attained competitive advantages through the economic globalization process because of the dual character of structural change in the global economy.¹³³ On the one hand, what he calls ‘consolidation’ and ‘upsizing’ (which can be understood as capital concentration) has been advantageous for some SME sectors, and on the other hand, SMEs have also benefited from what he calls ‘disaggregation’ and ‘downsizing.’

The tendencies toward ‘consolidation’ in the global economy have been advantageous for some SMEs in that increasingly they are able to “niche-out” a place for themselves within the production processes of LSEs which are gaining a larger share of the market.¹³⁴ For Reynolds, technical improvements as well as greater institutional harmonization have meant that both communication amongst firms, as well as the ability of large firms to co-ordinate and control production, has increased.¹³⁵ Consequently, this has also increased the capacity for LSEs to utilize SMEs in their processes of co-ordination and control. This depiction of inter-firm cooperation is similar to that portrayed by Acs and Yeung, who argue that “small and large firms are globalization partners.”¹³⁶ This is especially true for countries with a history of institutionalized

¹³³ Paul D. Reynolds, “New and Small Firms in Expanding Markets,” in Zoltan J. Acs and Bernard Yeung (eds.), *Small and Medium-Sized Enterprises in the Global Economy* (Ann Arbor: University of Michigan Press, 1999), pp. 15-23; p 21.

¹³⁴ Paul D. Reynolds, *ibid.*

¹³⁵ Paul D. Reynolds, *ibid.*

¹³⁶ See Zoltan J. Acs and Bernard Yeung, “Conclusion: Small and Medium-Sized Enterprises in the Global Economy,” in *Small and Medium-Sized Enterprises in the Global Economy* (Ann Arbor: University of Michigan Press, 1999), p 166. This argument is also made in Zoltan Acs and Randall Morck, et. al. “The Internationalization of Small and Medium-Sized Enterprises: A Policy Perspective,” in *Journal of Small Business Economics* Vol. 9 (1996), pp. 7-20.

supplier relationships between LSEs and SMEs, such as Japan, and Germany.¹³⁷ Some also contest the idea that SMEs are reliant on larger firms for the internationalization of their activities, and emphasize their structural independence.¹³⁸

Greater institutional harmonization, as well as a decline in the technical costs of engaging in contractual arrangements with subcontractors, suppliers, and consultants has meant that SMEs can gain advantage through a more characteristically Post-Fordist, dispersed network of production.¹³⁹ Thus what Reynolds calls ‘disaggregation’ has meant that SMEs are better able to eschew reliance on formalized hierarchical structures to “reduce transaction costs and opportunism in economic exchanges.”¹⁴⁰ The increased division of labour made possible by extended global outsourcing chains has not only been advantageous for SMEs in capturing these markets, but has also been useful for SMEs as consumers of business services.¹⁴¹

Another reason which is cited for the continued presence and growth of the SME sector has been the more ‘business-friendly’ regulatory framework for business that neoliberal restructuring has brought forth. In this vein, the global infrastructural

¹³⁷ On the German example, Louis Amoore has commented that “The interdependencies between large export-oriented firms and small and medium-sized enterprises (SMEs) tend to foster shared innovation strategies and closer supplier relationships. See Louise Amoore, “International Political Economy and the ‘Contested Firm’ in *New Political Economy* Vol. 5, Issue 2 (July 2000), p 183-205; p 191. See also Stephen Gill, “Reflections on Global Order and Socio-historical Time,” *Alternatives*, Vol. 16 (1991), p. 307.

¹³⁸ Tomás O. Kohn, “Small Firms as International Players,” *Small Business Economics* Vol. 9 (1997), pp. 45-51.

¹³⁹ Reynolds is also keen to remind us that “Some economic sectors may respond in both ways, consolidating the marketing and distribution of products, disaggregating the production process. The global firms in the automobile industry seem to reflect both tendencies – disaggregation of production, consolidation of distribution and marketing.” See Paul D. Reynolds, “New and Small Firms in Expanding Markets”, p 21.

¹⁴⁰ Paul D. Reynolds, *ibid.*

¹⁴¹ For example, a plethora of new firms (and specializations within larger firms – for example, Microsoft’s Business Solutions, which targets SMEs) have arisen to assist with administrative tasks, bureaucratic burdens, and in some cases financial assistance for SMEs. See, for example, Microsoft’s Business Solutions Website: http://www.microsoft.com/BusinessSolutions/global_opportunities.msp.

conditions which 'big capital' has worked so hard to produce offer new possibilities for SMEs to capture markets, explore new commercial opportunities and, as Castells suggests, "to sell everywhere."¹⁴² In their study of SME growth in the OECD countries, Caree et. al. suggest that the "deregulation and privatization movements" that "have swept the world" have been a crucial factor in promoting the SME sector.¹⁴³

For Held and McGrew, it is "...undeniable that infrastructural conditions have facilitated a globalization of the business enterprise beyond the confines of the giant MNC."¹⁴⁴ The regional economic integration within the EU is an interesting case in point. One study by Reynolds has concluded that the creation of larger market areas has been advantageous to the SME sector as a whole.¹⁴⁵ For example, after the Single European Act of 1992, which established a more regionalized market for commerce in the European Union states, SMEs' shares of sales, value-added, and employment increased. In this discussion, one must also recognize that the trends towards deregulation and privatization have also benefited certain SME sectors, in that they have dominated the creation of new businesses in sectors 'shaken up' by such restructuring.¹⁴⁶ Some statistical studies also point to a correlation between periods of unemployment and

¹⁴² Manuel Castells, *The Rise of the Network Society* (Cambridge: Blackwell Publishers, 1996), p 95, Cited in David Held, et. al, *Global Transformations: Politics, Economics, and Culture*, p 256.

¹⁴³ Martin Caree, et. al., "Economic Development and Business Ownership...", p 274.

¹⁴⁴ David Held, et. al., *Global Transformations: Politics, Economics, and Culture*, p 257.

¹⁴⁵ While it is undoubtedly true that the more 'business friendly' regulatory frameworks of the neoliberal period have had some advantages for SMEs, there have undoubtedly also been countervailing tendencies to this which should be acknowledged. The increased global mobility of capital, for example, usually offers few new opportunities for many SMEs which tend to be much more locally 'rooted.' The economic volatility associated with the increased mobility of capital may have adverse consequences on SMEs. Likewise, most SMEs in the OECD countries could care less about the opportunities to exploit labour market price differentials in different parts of the South, whereas this has been a key to the accumulation strategies of large enterprises. The manifold structural problems associated with the greater liberalization and globalization of finance has offered few benefits to SMEs.

¹⁴⁶ Martin Caree, et. al., "Economic Development and Business Ownership...", p 274.

SME sector growth almost as an interrelated structural transformation.¹⁴⁷ Relatedly, the “popular perception of increasing uncertainty and instability in the wage and salary sector” has provided a “push” for the unemployed to establish their own businesses in some developed countries.¹⁴⁸

In sum, a variety of factors related to structural change in the global economy have led to the increased importance of SMEs within capitalist societies. Despite the importance of these various factors, the impact of purposeful intervention into the economy by states designed to promote the SME sector cannot be neglected.

State Interventions

Legislators opinion-makers, and those who implement public policy have, mainly since the mid 1970s, sought to arrest the commonly observed decline of the small, independent business elements and often pinned quite extravagant hopes on a renaissance of small business activity.¹⁴⁹

- F. Bechholfer and B. Elliot, “*The Petite Bourgeoisie in Late Capitalism*”

Like most transformations of capitalism, the growth of the SME sector has not been something that has happened automatically, without purposeful state intervention. Broadly speaking, SMEs have been promoted both in order to facilitate capitalist accumulation and as an employment generation strategy. While there are many

¹⁴⁷ See Zhengxi Lin, Janice Yates and Garnett Picot, “Rising Self-Employment in the Midst of High Unemployment: An Empirical Analysis of Recent Developments in Canada” in *Statistics Canada Business and Labour Market Analysis No. 133* (Ottawa: Statistics Canada, 1999), pp. 1-29; p 12. What some have observed as a growth in the SME sector, especially it’s lower, ‘microenterprise’ tier, has been contested as simply a counter-cyclically induced growth in self-employment. Such a debate existed within the American Journal of Sociology in the 1990s, when George Steinmetz and Erik Olin Wright’s research on what they claimed was the ‘reversal’ in the fortunes of the petty bourgeoisie in the late 1970s and early 1980s in the United States. See Mark Linder and John Houghton, “Self-Employment and the Petty Bourgeoisie: Comment on Steinmetz and Wright” *American Journal of Sociology* Vol. 94, No. 3, pp. 727-735; George Steinmetz and Erik Olin Wright, “Reply to Linder and Houghton.”

¹⁴⁸ Zhengxi Lin, et. al., “Rising Self Employment...”, p 13.

endogenous changes which occur at the level of ‘the market,’ if we look closely there has been a considerable degree of state intervention. This is just as true within the OECD countries as it is in the developing world. For example, it is revealing that eighty percent of the World Bank’s programs involve direct financial assistance to SMEs globally.¹⁵⁰ Malaeb has documented the rise of SME discourse in development policy, emphasizing that the SME programs and SME language in development organizations has been centered around poverty alleviation.¹⁵¹ Many newly industrialized countries, such as Taiwan and Singapore, have had aggressive SME promotion policies as part of their national strategies to build industrial capacity.¹⁵² In some of the poorest parts of the world, such as Vietnam, small-scale enterprise development is seen as a great hope for poverty eradication.¹⁵³ The OECD itself has been an avid SME promoter, as is the Asia Pacific Economic Cooperation organization (APEC).¹⁵⁴

Within the OECD countries, SME promotion has been regarded by many states as a tangible way to encourage ‘industrial districts,’ to produce ‘business innovation

¹⁴⁹ F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism”, p 182.

¹⁵⁰ Thorsten Beck, Asli Demirguc-Kunt and Ross Levine, *SMEs, Growth, and Poverty: Cross-Country Evidence*, (Washington: World Bank Group, 2003), pp. 1-46; p 1, footnote 1.

¹⁵¹ Makram Malaeb, *The Rise and Demise of SME Discourse Within Mainstream Development Theory – History and Lessons* (MA thesis dissertation), (Ottawa: Carleton University, 2002), pp. 105.

¹⁵² In Singapore, for example, concerted government action took place in the 1980s to develop the SME sector as part of its industrialization strategy. Acknowledging that SMEs lacked both the capital and technological capacities to compete in international markets, the Singapore state sought to intervene with intentional support and market intervention. See John Hobson and M. Ramesh, “Globalization Makes What States Make of It: Between Agency and Structure in the State/Globalization Debate” *New Political Economy* Vol. 7, No. 1 (2002), pp. 5-22; p 17.

¹⁵³ Ian Livingstone, “Agriculture, Small Enterprise Development and Poverty Eradication in Vietnam” *Journal of the Asia Pacific Economy*. Vol. 5, No. 3 (2003), pp. 173-189; p 187.

¹⁵⁴ See, for example, see OECD, *Enhancing SME competitiveness: the OECD Bologna Ministerial Conference* (Paris: OECD, 2001); OECD, *Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Executive Summary of the Background Reports* (Paris: OECD, 2004). APEC’s organized business interest organization, the APEC Business Advisory Council, is especially enthusiastic about promoting SME development. See Henry Jacek, “Introduction”, pp. 9-10.

clusters,' and to promote innovation and economic efficiency more generally.¹⁵⁵ SME development is increasingly seen as 'great hope' for building economic capacity and building 'sustainable communities.'¹⁵⁶ Heavily industrialized countries have made SME development a "centerpiece" of economic competitiveness strategies.¹⁵⁷ Excitement about the important role that SMEs can play within industrial districts heated up in the late 1980s and early 1990s, especially given the competitive economic dynamism within SME-dominated European regions, such as Baden-Württemberg in Germany and the 'Third Italy' in several Northern Italian regions.¹⁵⁸

Particular states have also sought to promote the SME sector as a strategy of employment management, subsidizing self-employment assistance programs and promoting existing SMEs through tax cuts and assistance programs. This has been especially true since Birch's 1981 study of SMEs generating the majority of new employment in the USA, and Storey and Johnson's study in the UK, which subsequently

¹⁵⁵ There is some interesting evidence that the objectives of employment generation and economic efficiency are contradictory. The SME sector is promoted for employment stimulation reasons because of the simple economic fact that SMEs tend to be labour intensive; but the fact that it is labour intensive also can lead to inefficiency. Because SMEs are equated with the values of flexibility, competition, and entrepreneurship, using SMEs as an employment generation strategy is thus not regarded as contributing to allocative inefficiency in a 'Keynesian' fashion. Yet there is some evidence that, at least in the Canadian context, SME growth has led to a productivity drag on the economy. See John R. Baldwin and James Chowhan, "The impact of self-employment on labour-productivity growth: A Canada and United States comparison," in *Economic Analysis Research Paper Series* No. 016 (Ottawa: Statistics Canada, 2003), pp. 1-59. See also the Canada-US comparisons of the decline of small plant manufacturing productivity in John R. Baldwin, Ron S. Jarmin, and Jianmin Tang, "*The Trend to Smaller Producers in Manufacturing: A Canada/US Comparison*," in *Economic Analysis Research Paper Series* No. 003 (Ottawa: Statistics Canada, 2002), pp. 1-30; especially pp. 21-23.

¹⁵⁶ Judith Tendler and Mônica Alves Amorium, "Small Firms and Their Helpers: Lessons on Demand" *World Development*. Vol. 24, No. 3 (March 1996), pp. 407-426.

¹⁵⁷ For example, the economic program of the newly nationally elected SPD of Germany "made it quite clear from the outset that catering to the needs of small innovative business enterprises was the centerpiece in their economic strategy." See Magnus Ryner, "Neoliberalism, Regionalization...", p 213.

¹⁵⁸ Wolfgang Streeck and Phillippe Schmitter, "From National Corporatism to Transnational Pluralism...", p 153.

started a renewed interest in the economic importance of SMEs for states.¹⁵⁹ Bechholfer and Elliot have commented that in, in this context, “it was hardly surprising to observe among politicians a newfound enthusiasm for small enterprises.”¹⁶⁰ Since then, states began to experiment with SME promotion. In the context of Canada’s recession-inducing experiment with monetarist-inspired zero inflation targeting, one of the ways that excess unemployment was absorbed was through the promotion of self-employment and SME development.¹⁶¹ Post-communist states have used SME development to both facilitate their integration into the capitalist economy *and* absorb the transitory unemployment that ensued during industrial restructuring. In Russia, for example, SME growth is explicitly linked to “the restructuring of large enterprises and the financial system” which have surpluses of labour that cannot otherwise be absorbed;¹⁶² thus, unemployment more generally has often meant that people have been “pushed into entrepreneurship.”¹⁶³ The same has been the case in countries like Poland, and especially in the former East Germany.¹⁶⁴ Within such contexts, we also cannot disregard the fact

¹⁵⁹ David L. Birch, “Who Creates Jobs?” *The Public Interest*, Vol. 65 (Fall 1981), pp. 3-14. Birch’s study was controversial and was later ‘moderated’ by the study of Davis, Haltiwanger and Schuh’s study in 1996. See Steven David, John Haltiwanger and Scott Schuh, “Small Business and Job creation: Dissecting the Myth and Reassessing the Facts,” *Small Business Economics* Vol. 8, Issue 4 (August 1996), pp. 297-315. For a more extended discussion of such economic literature, see European Commission, *2003 European Observatory of SMEs*, pp. 15-16.

¹⁶⁰ F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism”, p 198.

¹⁶¹ Jim Stanford has argued that the Canadian “Government has promoted this trend with tax breaks and outright subsidies, as a relatively cheap way of dealing with the unemployment crisis.” Jim Stanford, *Paper Boom* (James Lorimer and Co., Toronto, 1997) p 142. According to Lin, Yates, and Picot, this program “has helped thousands of unemployed Canadians to start their own businesses since its inception in 1992. The number of unemployed receiving SEA benefits averaged sixteen hundred per month in 1992, steadily increased to the peak of over nine thousand per month in 1995, and declined somewhat since 1996. The creation of the program has undoubtedly contributed to the recent surge of self-employment.” See Lin, Zhengxi, Yates, Janice, and Picot, Garnett. “Rising Self-Employment...”, pp. 1-29.

¹⁶² I. Astrakhan and A. Chepurensko, “Small Business in Russia: Any Prospects After a Decade?” *Futures* Vol. 35 (2003), pp. 341-359; p 357.

¹⁶³ I. Astrakhan and A. Chepurensko, “Small Business in Russia...” pp. 356-357.

¹⁶⁴ While large East German industries were being dismantled, the processes of new-firm formation of Small- and Medium-Sized enterprises (SMEs) started to contribute to the economic restructuring of East German regions and other post-socialist countries through the creation of new employment opportunities.

that the institutional support for SME activity is much better established in the post-communist period than before.

The increased structural power of LSEs, particularly as manifested in their increased *geographical mobility*, has also been an important influence on state strategies to promote SMEs. The increased mobility of (physical) capital has led many governments to be wary of spending time and money on infrastructural development for potentially footloose large firms; the regional governments of France, for example, have promoted SME clusters in explicit response to the increased mobility of capital.¹⁶⁵ One theorist has commented that “SMEs are perhaps the most reliable form of economic organization, in terms of tax returns and aggregate employment, when compared to the footloose, global corporation that dominates the European economy.”¹⁶⁶

In this section, we have briefly examined how structural change within the global economy has led to the increased importance of the SME sector, principally because of the increased demands for flexibility and increasingly business-friendly regulatory environments. We have also seen that states have sought to promote SME development for a variety of reasons, principally for economic development purposes and employment generation. The next section will investigate this ‘SME Renaissance’ as it has occurred within the EU.

Section Two: SME Promotion in the EU

See Bernard Musyck, “Institutional Endowment, Localized Capabilities and the Emergence of SMEs: From Mining to Recycling, the Case of Freiberg (Saxony)” *Entrepreneurship and Regional Development* Vol. 15 (October-December 2003), pp. 273-298; p 273.

¹⁶⁵ Interview, Olivier Marciset, Program Director, European Business Innovation Centre Network. Brussels: July 14th, 2004.

¹⁶⁶ See Charlie Dannreuther, “Discrete Dialogues...”, p 450.

I think there's an increased recognition of the importance of small business for creating jobs in particular...the decision makers know this, and they are very aware of this.¹⁶⁷

- *Interview, European Round Table Representative*

The European efforts to construct, at a regional level, an internationalization and intensification of SME activity to respond to national and regional goals of economic competitiveness in the global economy represents perhaps the most ambitious contemporary effort to stimulate the SME sector at the transnational level. It will be explored below by first alluding to a brief historical overview of SME development in the EU, then by a synopsis of the currently ambitious state of SME policy. This section concludes by noting that the Commission's policy ambitions have the important political effect of drawing SMEIOs closer to a position of influence within EU affairs.

It is important to note at the outset of this section that, while neoliberalism in the EU and neoliberal thinking may be in some ways related to the EU efforts to promote SMEs, the operative argument here is not that this approach or these sets of policies are by themselves 'neoliberal.' The point of this section is merely to show concretely how enthusiastic SME promotion has been, to briefly detail the concrete efforts, and reveal how this has politically aggrandized SMEIOs.

This section is the product of a review of both the academic literature on the subject of industrial policy in Europe, and the extensive official European Commission literature on particular initiatives and development approaches. To supplement the understanding facilitated through such text-based research, several European

¹⁶⁷ Interview, Dennis Kradler, Policy Strategy, ERT. Brussels: February 24th, 2005.

Commission representatives and contracted employees were consulted. Appendix F documents these individuals and their positions.

The Historical Evolution of EU SME Policy

In the history of the European Community/Union, there have been several stages that have led to the development of what can broadly be called EU ‘SME policy.’ Instead of reviewing this long and complicated history in full detail, this section will explicate briefly and specifically how SME policy has evolved. The point here is to show that policies targeting SMEs have become gradually more focused over time, and have assumed greater importance within the Commission.

In the late 1960s, influenced by Schumpeterian assumptions about firm size and competitiveness, Servan-Schreiber warned of the “American Challenge” that faced Europe from the industrial giants that characterized US industry.¹⁶⁸ The way to meet this challenge, it was thought, was to engage in an industrial policy which would ‘pick winners’ – which meant, more than anything else, to pick oligopolies. By the 1980s, this attitude began to change. Consistent with many other industrialized areas of the world, in the 1980s the European Community began to discuss ways in which to promote the development of an SME sector because of the perceived economic benefits of doing so. According to Dannreuther, this

in part reflected the broad societal and political changes in favour of the market and was characterized by the New Right’s reforms of national government and the Single European Act’s linking of institutional reform to the Single European Market Programme. SME

¹⁶⁸ J. J. Servan-Schreiber, *The American Challenge* (London: Hamish Hamilton, 1968).

policy was swept up not only in the rhetoric of neo-liberalism, but also in the very relaunch of the European project.¹⁶⁹

1981 was declared the 'European Year of SMEs' by the European Parliament.¹⁷⁰ In 1986, a Small Business Task Force was set up to promote SME development.¹⁷¹ According to studies by Danreuther, however, the policies that came out of this task force were extremely limited, and reflected a weak and generally uncoordinated stance on SME policy. At this time, the Commission was

forced to link new SME policies to established initiatives, rather than forging an independent direction for the policy within the constraints imposed by the member states. SME policy remained informal, unspecified and dominated by national legal orders, and at the edge of the EC's new legal order.¹⁷²

Such a lack of strong enthusiasm was perhaps not surprising, considering that the prevailing economic thought at the time still smacked of a strong Schumpeterianism: the 1988 Cecchini Report identified the economic gains from the creation of a single European market as largely accruing from increases in scale economies.¹⁷³ This uncoordinated approach to SME policy gradually began to shift in 1988, when the Commission released 'An Enterprise Policy for the Community.' This policy asserted the importance of SMEs, but generally emphasized 'enterprises' in general. It was specifically oriented in accordance with the ambitions of the Single Market Programme.¹⁷⁴ However, after the 1992 Edinburgh and Madrid Summits, the process of

¹⁶⁹ Charlie Dannreuther, "Discrete dialogues...", pp. 448-449.

¹⁷⁰ David Coen and Charles Dannreuther, "Differentiated Europeanization...", p 263.

¹⁷¹ Hans-Werner Müller, "How SMEs can Influence the Effectiveness of European Business" in Justin Greenwood (ed.) *The Effectiveness of EU Business Associations* (London: Palgrave and Ernst and Young Association Management, 2002), pp. 182-205; p 186. (Note: This chapter is an extended version of a speech made in September 2000).

¹⁷² Charlie Dannreuther, "Discrete Dialogues...", p 444.

¹⁷³ P. Cecchini, *The European Challenge, 1992: The Benefits of a Single Market* (Aldershot: Wildwood House, 1990). On the contextualization of this thinking, see David B. Audretsch, *Entrepreneurship – A Survey of the Literature* (Luxembourg: European Commission, 2003), p 46.

¹⁷⁴ Charlie Dannreuther, "Discrete Dialogues...", p 444.

consolidating and strengthening SME policy was further intensified. The release of documents such as the Commission's 'White Paper on Growth, Competitiveness and Employment,' symbolized an effort to see SME policy as part of broader strategies concerning employment and competitiveness.¹⁷⁵ It was in this report, also known as the 'Delors Report,' that "SMEs were identified as a major sector to target support at."¹⁷⁶ This more 'holistic' approach to SME policy represented a move away from approaching SME development as sectoral policy, and a major step toward seeing SME development as linked up with major strategies such as growth, competitiveness, and employment generation for the European economy as a whole.¹⁷⁷ Danreuther has noted that this period

represented an attempt to locate SME policy more clearly in the legal order of the EU by relating it to new primary objectives. European Council Declarations emphasized the role of SMEs in creating employment and developed specific links between SMEs and new policy goals, rather than depending on established policy initiatives. The Commission's response recognized the need to embed SME policy in the broader framework of the EU policy-making system...A sustained period of funding guaranteed the longevity of SME policy and allowed for the material definition of the policy. With finance came specific policy objectives and a set of control mechanisms that related the policy more effectively with the dominant legal order at the EU level.¹⁷⁸

Despite this enthusiasm for and increased focus upon SMEs, some scholars writing in the late 1990s commented that SME policy still "lacked coherence and appeared scattered rather than focused."¹⁷⁹ Similarly, others suggested that EU-level

¹⁷⁵ Ibid.

¹⁷⁶ Justin Greenwood, "Organized Business and the European Union", p 90.

¹⁷⁷ In Danreuther's words, this "resonated more strongly with the primary rules and institutions of the EU. SME policy was now constructed not as a sectoral policy, but through 'concerted actions' between policy-makers at different levels of policy-making." See Charlie Dannreuther, *Discrete Dialogues...*, p 445.

¹⁷⁸ Charlie Dannreuther, "Discrete Dialogues...", p 445.

¹⁷⁹ Charlie Dannreuther, "Discrete Dialogues...", p 439.

SME policy was ‘spreading the jam too thinly.’¹⁸⁰ “No coherent policy community has emerged in which shared goals are identified and pursued,” one scholar commented.¹⁸¹ This was surely to change as the next millennium began, with the Lisbon Agenda becoming a powerful narrative influencing the EU approach to SMEs.

The “Lisbon Agenda,” launched in 2000, has ambitiously sought to make Europe the most competitive economy in the world by 2010. As part of this strategy, SMEs saw their importance in European economic development skyrocket.¹⁸² At the Feira European Council, also in 2000, the “think small first” principle was endorsed as a policy change directed towards achieving the Lisbon goals, and in June 2000 EU Member States endorsed the European Charter for Small Enterprises.¹⁸³ The vast majority of current attempts to foster SMEs in Europe is articulated and justified with reference to the Lisbon Agenda. By 2001, it was very evident that SMEs were seen to lie at the heart of most Commission approaches to induce innovation through the promotion of industrial clustering, as well as through ICT projects; through technology transfer programs and monitoring; through financial intermediation; and through market interventions of all kinds.¹⁸⁴ The initiatives of the Directorate General for Enterprise since the advent of the

¹⁸⁰ N. Clay and S. Creigh-Tyte, “Public Policy Towards Small Firms: Spreading the Jam Too Thinly?” *Journal of European Public Policy* Vol. 3, No. 2 (1996), pp. 253–71.

¹⁸¹ Charlie Dannreuther, “Discrete Dialogues...”, p 439.

¹⁸² At the Lisbon European Council held in March 2000, the EU announced its “new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”

¹⁸³ See European Commission Enterprise Directorate-General, *Thinking Small in an Enlarging Europe: Communication from the Commission to the Council and the European Parliament* (Luxemburg: European Commission, 2003), p 2.

¹⁸⁴ European Commission Enterprise Directorate-General, *Building an Innovative Economy in Europe: A Review of 12 Studies of Innovation Policy and Practice in Today's Europe*, (Luxembourg: European Commission, 2001). This trend appears to be linked to Commission concerns about the sources of structural change in the global economy, namely the increased importance of service sectors and the ‘knowledge economy;’ what the Commission called ‘tertiarisation.’ See European Commission Enterprise Directorate-General, *External Services, Structural Change and Industrial Performance* (Luxemburg: European Commission, 2001), pp. 6-7. On the concerns of ‘knowledge networks’ of this period see Louis

Lisbon Agenda further testify to the EU's role as a "midwife" to the SME renaissance. A description of its efforts can help to better understand the nature of the SME renaissance, and set the stage for understanding its political corollaries.

The Initiatives of the Enterprise Directorate General

There are roughly 25 million SMEs...in the enlarged EU. They account for 99% of all businesses and represent two third (sic) of total employment, a significantly greater share in the EU than in either the US or Japan, both of which find a much greater share of jobs in large companies. It should be recognized that SMEs and crafts encounter proportionally more difficulties than large companies, for example in terms of coping with regulatory burdens, running cross-border activities, accessing finance, technology, information, etc. Policy therefore needs to lead to framework conditions favorable to SMEs, helping them to be more competitive and innovative, and able to compete in an economy that is more and more global.¹⁸⁵

- *Enterprise Directorate General of the European Commission*

Since 2002, the European Commission has attempted "to put industrial policy at the top of the political agenda of the European Union."¹⁸⁶ The Commission has cited several reasons for this, including the continued but often neglected importance of the manufacturing industry, as well as the "great concern" of boosting labour productivity in light of the "competitiveness gap" between Europe and the United States.¹⁸⁷ Although responsibility of meeting such Lisbon goals through a structured industrial policy falls within the purview of several Directorate-Generals (DGs) of the Commission, the principle DG responsible for overseeing industrial policy matters is DG Enterprise.

Lengrand and Isabelle Chatrie, *Business Networks and the Knowledge-Driven Economy* (Luxembourg: European Commission, 1999).

¹⁸⁵ In this passage, the Commission defines SMEs as firms with under 250 employees. The new 2005 definition was not implemented, and data from the candidate countries likely wasn't yet fully available. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 14.

¹⁸⁶ Jean-Paul Mingasson, "The Industrial Policy of the EU for Small and Medium-Sized Enterprises" *CEFIC's General Assembly 5 March 2004* (Brussels: European Commission, 2004), p 1.

Although it is technically mandated to act in the interests of all enterprise, in its words, it “...pays particular attention to the specific needs and problems of SMEs.”¹⁸⁸ DG Enterprise has grown concurrently with the European ambitions to promote SME development. After the Single European Act of 1986, the European Commission established a new SME ‘Task Force’, which became a new DG (DG XXIII). By 1995, this New DG grew impressively to 90 statutory staff, and some 300 others (mostly contract staff).¹⁸⁹ This DG became DG Enterprise in 1999.

DG Enterprise cites the lower employment rate in the EU as a key factor in the growth gap, the productivity gap, and “very large income gap” between the EU and the USA.¹⁹⁰ In light of these differences, it seeks to increase the number of firms in Europe, and to create the conditions whereby they can innovate and grow.¹⁹¹ While there are several stated pillars of DG Enterprise industrial strategy,¹⁹² the main current running throughout DG Enterprise thinking has been to develop the European economy through “the improvement of the framework-conditions for developing entrepreneurial

¹⁸⁷ Ibid.

¹⁸⁸ Jean-Paul Mingasson, “The Industrial Policy of the EU...” p 4.

¹⁸⁹ Anne Stevens and Handley Stevens, *Brussels Bureaucrats? The Administration of the European Union* (London: Palgrave, 2001), p 168.

¹⁹⁰ See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 17, 32. There are also longer-term worries about the EU – East Asia gap. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 17. In high value added technology manufacturing sectors, countries such as China, and to a lesser extent, India, have recently been identified as industrial competitors. See European Commission Enterprise Directorate-General, *Fostering Structural Change: An Industrial Policy for an Enlarged Europe* (Luxemburg: European Commission, 2004), pp. 12-13.

¹⁹¹ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 17.

¹⁹² There are five central themes to the kind of industrial policy it seeks to promote: industry is still at the core of policy concerns (despite the recognized growth of the service sector); industrial policy must take into account the dynamics of the enlargement process; sustainable development (although the Enterprise DG assigns itself solely to micro-economic considerations of the economic pillar in this regard.); innovation and entrepreneurship are the “two key drivers of industrial competitiveness; finally, industrial policy must be sensitive to different sectoral differences see European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, pp. 9-10.

activities.”¹⁹³ The effort, in Braudelian language, is to ensure a thriving, well supported market economy as a means to achieving regional economic dynamism in the EU.

DG Enterprise produces proposals for legislation and supervises the resulting implementation within the EU member states; it also conducts analyses of the European economy and of specific sectors in order to influence debate on policy and legislation.¹⁹⁴ Furthermore, it encourages the member states to mutually reflect and work on national industrial policy, and provides financial and institutional support through the management of specific programs. DG Enterprise is also “involved both in the development of legislation and in implementing measures managed either jointly with, or by other departments.”¹⁹⁵ DG Enterprise also works bilaterally with non-EU institutions to facilitate a beneficial international environment for the increasing number of European SMEs which conduct business internationally.¹⁹⁶

¹⁹³ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, pp. 9-10. Without question, the extent of industrial policy which can be implemented at the European (as opposed to the national) level has been considerably limited thus far, and the Enterprise DG inevitably recognizes this. Since it is the responsibility of national, regional, and local authorities in EU member states to determine the bulk of the regulatory environment in which SMEs operate, the role of the Commission is therefore often limited to one of encouragement and stimulus. That being said, the power of the Commission to influence regulatory environments for business activity should not be downplayed (especially when it comes to cross-border issues). With a budget of €197,590,000 in 2004, there is much that the Enterprise DG *can* do (This figure excludes the costs associated with administrative expenses related to staff, buildings, etc. See European Commission Enterprise Directorate-General, *DG Enterprise 2004 Annual Management Plan* (Luxemburg: European Commission, 2003), p 12). This institutional power is of course compounded by the strong pressures which emanate from Brussels to individual member nation states.

¹⁹⁴ In its own words, the Enterprise DG “makes available numerous analytical tools and launches political initiatives aimed at raising awareness on particular issues, facilitating exchanges of experience, and provoking national authorities to make positive policy changes.” See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 16.

¹⁹⁵ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 11. By the end of 2003, for example, the Enterprise DG handled 476 directives and 185 regulations (about 30% of all internal market directives). See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 13.

¹⁹⁶ For example, it implements Mutual Recognition Agreements (MRAs) with Japan, Australia, Canada Switzerland, and the USA in certain industrial sectors. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, pp. 20-21. On a multilateral level, the Enterprise DG takes part in shaping trade policy with the World Trade Organization (WTO), and performs tasks related to the implementation of the Technical Barriers to Trade Agreement (a WTO regulation). See European

The principle initiative which DG Enterprise uses to rationalize its developmental policy goals is the Multi-annual Programme for Enterprise and Entrepreneurship, or the “MAP,” which is especially focused on SMEs. The MAP, with a budget of 450 Million Euros over five years, covers the 25 EU member states, the EEA/EFTA member countries, and candidate countries.¹⁹⁷ It has five pillars: to enhance growth and competitiveness in a ‘knowledge-based’ internationalized economy; to promote entrepreneurship; to decrease and simplify regulatory burdens on business; and to improve the financial environment for businesses, especially SMEs. 70% of the MAP budget is committed to financial instruments, 17% to facilitating networks, and the remaining 13% to policy development.¹⁹⁸ The MAP is designed to work towards the priorities set out by the European Charter for Small Enterprises and the Action Plan for Entrepreneurship, and does so through three separate sets of interventions into the European economy: through various financial instruments, policy, and network facilitation.

Financial intermediation is at the heart of DG Enterprise attempts to promote SME development, since it is perceived that “access to finance is one of the key problems

Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 19. It reviews the regulatory environment of third countries in order to spot obstacles to trade in goods so that it can notify the European Community of transgression. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 21. It also participates in all international trade negotiations and is regularly involved in giving support and advice in trade barrier regulation (For example, at the recent Doha Round of WTO negotiations, where it fought to simplify customs formalities and controls in international trade to “reduce disproportionate administrative charges” on behalf of SMEs. See European Commission, *Fostering Structural Change...*, pp. 36-37. The Enterprise DG also takes part in the international forums to strategize on policy. For example, the Trans-Atlantic Business Dialogue (TABD) program, whereby European and US CEOs “make joint recommendations to the highest levels of governments in the EU and US” includes an SME representative “responsible for providing input, and for recruiting participation from the SME community.” European Commission Enterprise Directorate-General, *Creating an Entrepreneurial Europe: The Activities of the European Union for Small and Medium-Sized Enterprises (SMEs)* (Commission Staff Working Paper), (Luxemburg: European Commission, 2003), p 106.

¹⁹⁷ For a budget breakdown, see European Commission Enterprise Directorate-General, *DG Enterprise 2004 Annual Management Plan*, p 14.

for SMEs.”¹⁹⁹ It sees the need to intervene “where there is a recognized weakness in market provision of debt or equity finance to small businesses,” and is committed to “leverage[ing] private sector finance in areas that are not well covered by capital markets.”²⁰⁰ The MAP budget for financial intermediation is used to promote lending by private financial institutions throughout Europe. It does so by leveraging funds through both the European Investment Bank (EIB) and the European Investment Fund (EIF).²⁰¹ This is designed to increase the willingness of private financial institutions to “take the commitment to invest in SMEs.”²⁰²

From the Commission’s perspective, the potential for impact through selective intervention in private financial markets is considerable. Indeed, €40-50 of additional loans reach the market for every one Euro spent on financial intermediation. Often this financial intermediation comes with an internationalist (i.e. pan-Europeanist) criteria attached to it, in addition to the criteria of high growth and high tech orientation.²⁰³

¹⁹⁸ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 22

¹⁹⁹ Interview, Emmanuel Berck, Promotion of Entrepreneurship and SMEs, Enterprise DG. Brussels: July 13th, 2004. Note: DG ECFIN acts as “authorizing officer” overseeing the management of the Commission-EIF relationship.

²⁰⁰ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 24.

²⁰¹ Outside of the MAP program, there is a separate initiative for Central and Eastern Europe (as well as Central Asia), the European Bank for Reconstruction and Development (EBRD). The EBRD SME finance facility “is designed to encourage the growth and development of SMEs by facilitating access to loans and equity operation with local financial intermediaries” in the EU candidate countries. See European Commission Enterprise Directorate-General, *European Union Support Programmes for SMEs: An overview of the Main Funding Opportunities Available to European SMEs* (Luxembourg: European Commission, 2004), p 10.

²⁰² Interview, Emmanuel Berck, Promotion of Entrepreneurship and SMEs, Enterprise DG. Brussels: July 13th, 2004.

²⁰³ There are rather specific criteria in this regard: for preferential access to finance for SMEs who want to expand research and development efforts, there must be an internationalist and co-operative dimension to the applicant group. For SMEs to access preferential financial treatment, there must be at least 5 SMEs co-operating as a consortium: there must be at least 2 countries, and at least 2 R&D performers. The Commission can also use their financial power in this regard to ensure that certain non-monetary policy goals are met in the SME sector. Some of the criteria for loan leveraging, for example, have been evidence of firm restructuring for environmental reasons. Interview, Emmanuel Berck, Promotion of Entrepreneurship and SMEs, Enterprise DG. Brussels: July 13th, 2004. In regards to environmentalist criteria, there are no such criteria specifying the need for internationalization of business activity.

They also provide seed capital, as well as risk capital to venture capital funds that are looking to invest in young SMEs with high growth potential. DG Enterprise has also set up round tables amongst bankers on issues related to financing SMEs.²⁰⁴

It is important to underscore the fact that beyond the DG Enterprise MAP program there is also an SME-centric strategy of financial intermediation at the EU level. Between 1998 and 2003, for example, the European Investment Bank (EIB) provided partner institutions acting as intermediaries for loans with a total of 45 billion Eurodollars. While not all of EIB funds are earmarked for SMEs, “SMEs represent the first priority of the global loan activity.”²⁰⁵ The EIB has worked with the Enterprise Directorate General since 1997 to create financial leveraging projects for European SMEs. In 2003, the EIF committed 2 billion Eurodollars in its guarantee schemes for SMEs.²⁰⁶ Another example of other European institutions working in tandem with DG Enterprise to promote SMEs is the EU Structural Funds Program, which allotted some 16 billion Euros to “SME-targeted projects” to be spent between 2000-2006.”²⁰⁷

There are three general policy tools which DG Enterprise, through the MAP program, uses to promote SMEs. First, DG Enterprise manages the Enterprise Policy Scoreboard, a monitoring instrument which assesses the performance of the 25 EU member states against 33 business environment indicators.²⁰⁸ Second, it provokes debate and encourages policy through highlighting “Best” actions. These projects are designed to “highlight and explain disparities in the performance of the Member States” in order to

²⁰⁴ See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 44.

²⁰⁵ European Commission Enterprise Directorate-General, *Creating an Entrepreneurial Europe*, p 56.

²⁰⁶ Patrick Liauzu, “Investment Partners in a Quest for Growth: Interview With EIF Chief Executive, Francis Carpenter” *Enterprise Europe* Vol. 15 (April-June 2004), pp. 8-9.

²⁰⁷ European Commission, *Thinking Small in an Enlarging Europe...*, p 6.

“incite rapid action from the laggards.”²⁰⁹ According to one DG Enterprise representative interviewed, this method of benchmarking “works because most countries are not very pleased...to be the last on the benchmark.”²¹⁰ Third, DG Enterprise produces annual implementation reports on the progress towards realizing the European Charter for Small Enterprises, highlighting good practices and discussing progress.²¹¹

One of the most interesting policy attempts at SME promotion – one that is gaining significant popularity as a policy strategy – is to encourage an ‘entrepreneurial culture’ in the EU. One of the manifestations of this for the Commission to publicly compare ‘best practices’ between countries as a means of pressuring member states to comply and improve.²¹² However, there is also an ongoing and ambitious attempt to promote ‘entrepreneurial culture’ through education policy. For example, DG Enterprise seeks to influence education policy in national curricula, intervening from primary through to higher education.²¹³ Such initiatives are viewed as crucial to regional competitiveness by DG Enterprise:

²⁰⁸ The Scoreboard is updated annually, and is seen as a tool to facilitate comparisons between the EU25 to the EU15, as well as analysis of progress toward the Lisbon goals.

²⁰⁹ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 24.

²¹⁰ Interview, Emmanuel Berck, Promotion of Entrepreneurship and SMEs, Enterprise DG. Brussels: July 13th, 2004.

²¹¹ While not a specifically Enterprise DG project, it is also noteworthy that a significant proportion of EU Structural Funds are targeted for SMEs. 16 billion Euros is the estimated amount allocated to SMEs from 2000-2006, representing 11% of the total Structural Funds budget. See European Commission Enterprise Directorate-General, *Creating an Entrepreneurial Europe...*, pp. 93-94.

²¹² European Commission Enterprise Directorate-General, *Final Report of the Expert Group “Education for Entrepreneurship” Making Progress in Promoting Entrepreneurial Attitudes and Skills Through Primary and Secondary Education* (Luxembourg: European Commission, 2004). This trend appears quite strong in regard to the new EU member states of Central and Eastern Europe, and a concern for candidate countries. See European Commission Enterprise Directorate-General, *Report on the Implantation of the European Charter for Small Enterprises in Acceding and Candidate Countries* (Commission Staff Working Paper), (Luxembourg: European Commission, 2004), (especially p. 10); See also European Commission, *Creating an Entrepreneurial Europe...*, p 25.

²¹³ See European Commission Enterprise Directorate-General, *Summary Report: The Public Debate Following the Green Paper ‘Entrepreneurship in Europe’* (Luxembourg: European Commission, 2003), p 15. At the beginning of the Lisbon process, a major European Commission conference on entrepreneurship was very focused on this issue of an entrepreneurial culture. See European Commission Enterprise

To release its full entrepreneurial potential, the EU must take serious steps to make Europe more attractive for business activity. But this alone is not enough to fuel the entrepreneurial drive: a more entrepreneurial mindset is needed. This means actively promoting entrepreneurial values and addressing the fear of risk-taking among the widest possible audience of potential entrepreneurs.²¹⁴

Like most structural issues regarding the EU's regional competitiveness, concerns over a lack of entrepreneurial culture in the EU are articulated in terms of the perceived strategic advantages (in this case, strategic *cultural* advantages) of the USA and "emerging Asian economies."²¹⁵ Furthermore, the concerns about entrepreneurial culture are especially pronounced in discussions about new EU member states;²¹⁶ for candidate countries, "building an entrepreneurial culture" is a principle challenge of economic development.²¹⁷ In this regard, Audresch has commented that the EU has moved beyond

Directorate-General, *Entrepreneurship for the Future – Final Report (published conference proceedings)*, (Luxembourg: European Commission, 2001). Since then, the European Commission and the Enterprise Directorate-General have focussed increasingly on the issue of 'fuelling entrepreneurial mindsets,' highlighting best practices and conducting specific studies and launching specific initiatives. For example, in a report on SME development in the Western Balkans, the lack of 'Entrepreneurship education' is noted, and existing efforts to encourage national competitions within the Balkan states for young people aspiring to be entrepreneurs is promoted. See European Commission Enterprise Directorate-General, *Report on the Implementation of the European Charter for Small Enterprises in the Countries of the Western Balkans* (Brussels: European Commission, 2004), pp. 8-9. For an overview of the Commission's attention to 'best' practices in regards to entrepreneurial culture promotion through education reform, see European Commission Enterprise Directorate-General, *Helping to Create an Entrepreneurial Culture: A Guide on Good Practices in Promoting Entrepreneurial Attitudes and Skills Through Education* (Brussels: European Commission, 2004).

²¹⁴ European Commission Enterprise Directorate-General, *Action Plan: The European Agenda for Entrepreneurship* (Brussels: European Commission, 2004), p 4.

²¹⁵ For example, in one document (which was also notably the product of consultation with SMEIOs), the Commission remarks that "recent data showed that Europe does not exploit its entrepreneurial potential. According to a 2002 Eurobarometer survey, Americans were involved in three times more new entrepreneurial ventures than Europeans. European firms grow at a slower pace and, in the 1990s, only one in twenty SMEs could be qualified as a "gazelle" as against one in five in the US. See European Commission, *Summary Report: The Public Debate Following the Green Paper...*, p 3. The final 'Action Plan for Entrepreneurship' which was developed out of this consultative process again articulated the lack of 'entrepreneurial' culture and attitudes as a hindrance to regional competitiveness that should be addressed through educational policies. See European Commission, *Action Plan: The European Agenda for Entrepreneurship...*, p 25.

²¹⁶ European Commission, *Summary Report: The Public Debate Following the Green Paper...*, p 15.

²¹⁷ European Commission Enterprise Directorate-General, *Thinking Small in an Enlarging Europe...*, p 4.

SME policy to “entrepreneurship policy,” because now policy efforts are more socially systemic.²¹⁸

The MAP also seeks to facilitate networking and co-operation among SMEs, their member states, and key institutions, in order to provide assistance to SMEs. It does this through several programs in which it is either directly financially implicated or involved in offering institutional support.²¹⁹ For example, the MAP provides operational grants to the EURO Info Centre (EIC) Network, which seeks to “provide enterprises with information and advice on matters related to the internal market and Community programmes.”²²⁰ Many of its networking efforts are designed to network SMEs or SME clusters which demonstrate a high levels of innovation. In this regard, DG Enterprise operates a web service called CORDIS (Community Research and Development Information Service) which offers extensive information on, and services to, innovation, and also produces publications on these issues. It also organizes the Paxis network of regions of excellence, which is designed to network regions within Europe with high degrees of innovation.²²¹

²¹⁸ David B. Audretsch, *Entrepreneurship – A Survey of the Literature*.

²¹⁹ For an overview of direct funding assistance programs, see European Commission Enterprise Directorate-General, *European Union Support Programmes for SMEs...*

²²⁰ The EIC was established both through the efforts of the Commission and “business support organizations” in direct contact with SMEs at the local level. There are 278 Centers in the EU and 13 EIC Correspondence members in Bosnia & Herzegovina, Switzerland, Egypt, Croatia, Israel, Jordan, Kosovo, Lebanon, Syria, Tunisia, Serbia, Montenegro and Chile. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 25. In addition to fulfilling information dissemination and networking purposes, the EICs have also become useful for policy development and research, and are considered “the backbone of the feedback mechanism to the Commission on the problems posed by the implementation of Internal Market regulations.”

²²¹ The Enterprise DG also manages the “Gate2Growth Initiative” which supports business networks in innovation financing, for example amongst venture capitalists, incubators, and amongst industrial liaison offices in public research organizations in order “to strengthen public-private links.” In conjunction with the Regional Policy DG, the Enterprise DG has established the Network of Innovating Regions in Europe (NIRE) initiative, which has the primary aim “to enable regions to access new tools and schemes for innovation promotion and to create an inter-regional learning process” amongst over 100 regional projects. The Enterprise DG has also established the SME Envoy, which is designed to enhance exchanges between SMEs and their representative bodies and act “as a visible contact point for businesses in relation to

In January 2006, the MAP will be succeeded by The PACE (“Programme d’Appui à la Compétitivité des Entreprises,” in English “The Support Programme for Enterprise Competitiveness”). The basic structure of the MAP will be continued, but the scope will be widened. There is much more financial intermediation planned “in the risk capital area with the aim of encouraging the leverage of private sector finance into areas that are now well served by the capital markets.”²²² There is also a new securitization instrument “designed to remove loan portfolios from banks’ balance sheets by packaging and selling them to institutional investors”, intended to ‘free up the banks’ lending capacity to SMEs.’²²³ There will also be an increased emphasis on proactive impact assessments of Commission legislation “in order to ensure that the “enterprise perspective” and effect on competitiveness is taken into account.”²²⁴

Judging from the breadth and organizational efforts of DG Enterprise within the European Commission, the efforts to promote an SME renaissance as part of the Lisbon goals are ambitious to say the least. Promoting SMEs is envisioned as a tangible way to enhance Europe’s international economic competitiveness. As we will see below, the way in which such policy ambitions are carried out within the Commission has led to a situation where SMEIOs have increasingly acquired privileged points of access.

enterprise policy issues of current interest...” See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 43 Finally, the Enterprise DG facilitates the networking of Innovation Relay Centres (IRCs), which is designed to facilitate technology transfer, stimulate technological take-up by new firms, and promote Commission research. The IRCs, found both in EU member states and also in six non-EU countries, represent the largest network in Europe for international technology transfer, and are aimed primarily at high-tech SMEs. (This includes the EU 15 plus Central and Eastern Europe, plus Iceland, Israel, Norway, Switzerland, Cyprus, and Malta. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 27).

²²² European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions*, p 56.

²²³ Ibid.

²²⁴ Ibid.

SMEIOs Empowered

The Commission has always tried to maintain a close association to organizations deliberating according to pan-European principles, in an effort to get them to organize on such a level.²²⁵ With the launch of the Single European Act in 1986, the organized interests seeking to influence European-level institutions increased starkly, focusing their attention on the European Commission.²²⁶ Since the launch of the Single European Act, the Commission has exhibited increasing permeability to business interest group deliberation. In his study of organized business in the European Union, Claveloux has commented on the power of this trend:

The frequent contact between the Commission and sectoral interest groups means the outside association is allowed onto the inside track, so it knows what proposals are in the pipeline and which Commission official is drafting them. These single sector associations, particularly the European federations, are often asked to give line by line analysis of texts before they even become draft legislation.²²⁷

This hyper-inclusiveness of outside interest representation has an important institutional history within the European Commission. After concerns arose of a European-level ‘democratic deficit’ in the early 1990s when the attempts at European integration were becoming more ambitious, the Commission began to make concrete changes in the way it integrated organized interests in general. The Sutherland Report of 1992 stated that the Commission needed to engage more with outside interests, and have a systemic and

²²⁵ Justin Greenwood, ‘Organized Business and the European Union’, p 79-80.

²²⁶ The Single European Act strengthened the powers of the European Commission, and also strengthened the powers of the European Parliament and removed the need for unanimity within the Council of Ministers for decisions related to the internal market. See Sonia P. Mazey and Jeremy J. Richardson, “Interest Groups in the European Community” in Jeremy J. Richardson (ed.) *Pressure Groups* (Oxford: Oxford University Press, 1993), pp. 191-213; pp. 192-193.

²²⁷ D. Claveloux. *Talking to the EC: Consultation, Lobbying and Openness: A Background Briefing for the June 15 1993 Conference at the Palais des Congrès in Brussels* (Brussels, Forum Europe, 1993), p 20. Reference is from Justin Greenwood, ‘Organized Business and the European Union’, p 91.

coordinated way of establishing dialogue.²²⁸ Also in 1992, the Commission specifically emphasized (through the Delors Report) that part of the Commission's strategy for fostering SME development was to maintain and build closer associations with SME interest organizations.

These changes had an important effect on the Commission's permeability to organized business representatives, which have subsequently been able to influence policy formation and ongoing dialogue. The Commission "specifically identified the importance of interaction with SME interest associations as a means to achieve the objectives of the programme."²²⁹ In the European Commission Staff Working Paper *Creating an Entrepreneurial Europe*, it is emphasized that

The Commission holds regular meetings with European business organizations, with particular emphasis on those who represent SMEs and have a horizontal approach. The purpose of the meeting is to generate a two-way information flow, i.e. the Commission informs the European business organizations on current issues, with a view to disseminating the information to their member organizations, and consults them on forthcoming initiatives.²³⁰

A more institutionalized relationship between the Commission and SMEIOs was established in 2001, known as the SME Envoy.²³¹ The SME Envoy was established in December 2001 "to supplement and facilitate dialogue with small business and the various representative organizations."²³² The Envoy is essentially an institutionalized point of contact between SMEIOs, individual SMEs with concerns, and the

²²⁸ See Justin Greenwood, *Representing Interests in the European Union* (New York: St. Martin's Press, 1997). See also P. Sutherland, *The Internal Market After 1992: Meeting the Challenge*, Report to the European Commission by the High Level Group on the Operation of the Internal Market (Brussels: Commission of the European Communities, 1992).

²²⁹ Justin Greenwood, 'Organized Business and the European Union', p 90.

²³⁰ European Commission Enterprise Directorate-General, *Creating an Entrepreneurial Europe...*, p 20.

²³¹ Ibid.

²³² David Coen and Charles Dannreuther, "Differentiated Europeanization...", p 270.

Commission.²³³ DG Enterprise comments that “to enhance the effectiveness of policy, SMEs should be consulted when drawing up legislation and policy that affects them. The role of the SME Envoy and the Interactive Policy Making tool (IPM) should be reinforced,”²³⁴ and so consequently “...the SME Envoy conducts regular dialogue through meetings and visits with SME representative, both at EU and national level (sic).”²³⁵ Thus, not surprisingly, official meetings between the Commission and SMEs increased by 2002.

The increasing closeness of organized business with the Commission has been further institutionalized by a practice within the Commission known as the “Open Method of Coordination.” First introduced at the Lisbon Conference of 2000, the Open Method of Coordination adheres to the subsidiary principles of the Commission.²³⁶ Such openness to outside interests can also be considered a manifestation of the lack of Commission resources, and thus a form of ‘coordinative dependence.’ The process of ‘social dialogue,’ both formal and informal, is deemed very important since “employers organizations are the closest to microeconomic reality.”²³⁷ DG Enterprise states that such

²³³ “The SME Envoy acts as a key interface with the SME community, considering their specific interests and needs in EU Programmes and legislation. The SME Envoy function united the diverse channels previously existing so that SME interests and needs can be identified at an early stage and highlighted to the relevant Commission services, so ensuring that their concerns are taken into consideration and that adequate and efficient measures are implemented.” See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions...*, p 33.

²³⁴ European Commission, *Summary Report: The Public Debate Following the Green Paper...*, p 6.

²³⁵ European Commission Enterprise Directorate-General, *Creating an Entrepreneurial Europe...*, p 19.

²³⁶ The OMC is heralded as “a process of voluntary co-operation and convergence by which participating states agree common aims, which are to be achieved by national actions. National experts, nominated by participating states, set European targets and indicators, and best practices for achieving these targets are analyzed and spread. In this way, member States are encouraged to progressively develop and improve their own policies.” Importantly, the OMC also means increased permeability of the Commission to outside interests of all kinds in how it co-ordinates policy and engages in dialogue. See European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions...*, p 24.

²³⁷ This statement was made by the Enterprise Directorate-General in a discussion of integrating new EU member states (in 2003, before the Eastern enlargement to the EU25) in the revised EU industrial policy framework. See European Commission Enterprise Directorate-General (Commission Staff Working Paper), *Impact of Enlargement on Industry* (Luxemburg: European Commission), p 19.

increasing permeability is instrumental in solving the knowledge problem and formulating policy.²³⁸ As Greenwood has commented, the Commission “remains chronically understaffed for the range of functions it undertakes.”²³⁹ Metcalfe has commented that this “management deficit” within the Commission has meant a form of “dependence upon outside interests”²⁴⁰ for constant input. Mazey and Richardson have argued a similar case, and maintain that the Commission is “dependent upon groups” to “provide Commission officials with technical information and advice.”²⁴¹ Streeck and Schmitter understand this process historically, as something that offered considerable payoffs to European civil servants:

Attracting a growing number of supranational lobbyists into the Community’s decision-making process was seen as offering important payoffs especially for the Commission. Cooperation with organized interests would not only provide civil servants with an indispensable input of detailed factual information in complex decisions. It also and above all was to bring about the socialization of powerful forces in European civil society into a world view compatible with that of European bureaucrats and with the requirements of continued spillover.²⁴²

²³⁸ By “knowledge problem” we refer to the problem of understanding what kind of policies to implement, how to implement them, in light of the importance of sectoral and country specific information. “Active participation in the process of Extended Impact Assessment on important legislative initiatives can be a valuable tool in this respect.” See European Commission, The Enterprise DG: Activities and Goals, Results and Future Directions..., p 11. In some new member states, such as Hungary, and in candidate countries such as Romania, the Enterprise DG has commented on the importance of SME formal lobbying and consultative structures for this reason. See European Commission Enterprise Directorate-General, *Report on the Implantation of the European Charter for Small Enterprises in Acceding and Candidate Countries* (Brussels: Commission staff working paper, 2004), p 17.

²³⁹ Justin Greenwood, *Representing Interests in the European Union*, p 34.

²⁴⁰ See L. Metcalfe, “After 1992: Can the Commission Manage Europe?” *Australian Journal of Public Administration* Vol. 51 (March 1992), pp. 117-130. Balancing this view, Justin Greenwood has commented that this may also ultimately limit access by private interests as hard-pressed Commission officials find it difficult to cope with an increasing quantity of interest representation.” See Justin Greenwood, *Representing Interests in the European Union*, p 34.

²⁴¹ Sonia Mazey and Jeremy Richardson, “Interest Groups and the Brussels Bureaucracy” in Jack Hayward and Anand Menon (eds.) *Governing Europe* Oxford: Oxford University Press, 2003, pp. 208-227; p 210. See Sonia Mazey and Jeremy Richardson, “Interest Groups in the European Community”, p 193.

²⁴² Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism...”, p 134.

While the Commission's hyper-inclusiveness of organized business interests can be understood in terms of 'coordinative dependence,' the issue of the Commission's legitimacy vis-à-vis the business community should not be neglected. In this regard, a further impetus for closely integrating organized business interests is to ensure that Commission policies remain legitimate within the business community, especially to SMEs, who are feared to be more easily alienated from EU institutions than larger, more resourced firms. In reference to the permeability to outside interests in general, Mazey and Richardson have argued that

the support of cross-national advocacy coalitions of groups is essential to the successful introduction of Commission proposals. These functional incentives to consult groups are buttressed by the Commissions political need to be able to demonstrate openness and thus enhance its own legitimacy.²⁴³

With reference to the legitimacy felt within the business community, DG Enterprise has expressed a need to be increasingly permeable:

We must keep abreast of their (sectors') evolution, their needs and their concerns through study and through continual interaction with the principal stakeholders. There is a constant risk that Commission decisions are perceived as taking insufficient account of the interest of stakeholders. Close dialogue with the social partners in the various sectors...is therefore essential in securing support and understanding for Community policies.²⁴⁴

SMEs will be encouraged to participate in the consultation exercise which precede legislation, so that their legitimate interests can be taken into account.²⁴⁵

The European Commission admonished in a communication in 2003 to the European Council and the European Parliament that "Europe must listen better to small

²⁴³ Sonia Mazey and Jeremy Richardson, "Interest Groups and the Brussels Bureaucracy", p 210.

²⁴⁴ European Commission, *The Enterprise DG: Activities and Goals, Results and Future Directions...*, p 11.

²⁴⁵ See European Commission, *DG Enterprise 2004 Annual Management Plan*, p 5.

businesses.”²⁴⁶ The Commission warned that “several countries still provide no opportunities for small businesses to express their interests and concerns. More needs to be done as a matter of urgency to give small businesses the opportunity to voice their views [...]”²⁴⁷ Thus, the institutionalized relationships between SMEIOs and the SME community at large has intensified due to the coordinative dependence on SMEIOs and the concerns of legitimating of EU policies and institutions:

Listening to SMEs is crucial at all levels of policy-making. Policy-makers should hold systematic and active dialogue with SMEs and their representatives and properly assess the impact of legislative initiatives on them. Also the relevance of existing legislation needs to be scrutinized. Within the Commission, the role of the SME Envoy could be strengthened.²⁴⁸

Due to an open consultation with both the general public and SMEIOs (motivated in large part by the Commission’s legitimacy concerns), DG Enterprise committed to “give SMEs a stronger voice in EU policy-making.”²⁴⁹ It committed “through the SME Envoy (to) intensify the dialogue between all Commission services and business organizations through more regular meetings;”²⁵⁰ and to “organize more effective dialogue with SMEs.”²⁵¹

To summarize the institutional relationship between the representatives of the ‘market economy’ and the European Commission, in the words of Coen and Dannreuther, “SMEs have been more actively supported in accessing the European Union than almost any other group.”²⁵² The consequence of such attempts at hyper-inclusivity has been that

²⁴⁶ See European Commission, *Thinking Small in an Enlarging Europe...* p 3.

²⁴⁷ Ibid.

²⁴⁸ European Commission Enterprise Directorate-General, *Summary Report: The Public Debate Following the Green Paper...*, p 20.

²⁴⁹ European Commission, *Action Plan: The European Agenda for Entrepreneurship...*, p 15.

²⁵⁰ Ibid.

²⁵¹ Ibid.

²⁵² David Coen and Charles Dannreuther, “Differentiated Europeanization...”, p 264.

“SME representative organizations have a louder voice, are listened to more, and are heard more.”²⁵³ Through the commonplace practice of consultation between DG Enterprise and SMEIOs, the creation of institutionalized relationships such as the SME Envoy, and the ‘Open Method of Co-ordination,’ we can thus observe that SMEIOs are deeply subsumed within what Vivian Schmidt called “the coordinative phase of discourse” – where “a policy programme is constructed, that is, where policy ideas are articulated, developed, and deliberated; where the cognitive arguments about the programme’s necessity are hammered out and the normative arguments, objectives, and ideals are sketched out.”²⁵⁴ In a similar vein, although his analysis lacks an appreciation for the role of SMEIOs in the EU, Greenwood has pointed out that the role of business interests plays an important role in EU affairs:

In ‘high-politics’ areas, business interests are just one amongst a multitude of players, although they do contribute towards a climate of ideas. But in ‘low-politics’ arenas, business interests can and do operate as players with monopolistic access to exclusive policy communities which progress the course of European integration.²⁵⁵

SMEIOs occupy a privileged point of access within the European Commission; as we have seen above, there is a mounting concern to promote the voice of the ‘market economy’ of SMEs and to foster institutionalized relationships between SMEIOs and the European Commission. If the SME community is indeed obtaining more importance and voice, what does this mean? What is the relationship between the organized representatives of the ‘market economy’ and competing visions for Europe? Before we can answer such questions, we need to explore how SMEs have become organized

²⁵³ Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

²⁵⁴ Vivian Schmidt, *The Futures of European Capitalism*, p 233.

²⁵⁵ Justin Greenwood, ‘Organized Business and the European Union’, p 97.

transnationally at the EU level, and thus how they have co-ordinated their efforts within the opportunity structure outlined above.

Chapter 3

SME issues have risen up the political agenda – both in the political process, but also in the media – and then, the representatives of SMEs would also have matched that...so there has been a growth...in the visibility and relative importance of SME representative organizations as a direct consequence of that...and also a reason *for* that...²⁵⁶

- Paul Skehan, *Eurochambres*

In the previous chapter, we discussed how the SME renaissance within the EU has been the result not only of important structural changes in the global economy, but also of purposeful intervention in the form of regional industrial policy initiatives that placed heavy emphasis on SME promotion. In this chapter, we examine the constellation of SMEIOs operating at the EU level that have arisen in response to such a political opportunity structure. We thus consider the organizational capacities of the formal representatives of the ‘market economy’ layer of SMEs. This chapter serves as a historical and empirical study of the constellation of SMEIOs operating in the EU and emphasizes that these organizations are embedded in a larger structure of business interest representation, composed of a variety of business interest groups, ranging from ‘mixed’ to ‘pure SMEIOs’ to LSE ‘big business associations.’ It serves as an important step forward in examining how the ‘market economy’ has become mobilized politically at the regional EU level, and thus helps to contextualize the qualitative analysis of SMEIOs and their support for neoliberalism, which is the subject of Chapter Four.

²⁵⁶ Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

The Genealogy of Organized Business at the European Level

Before discussing the observations that can be made from the interviews conducted, it is first necessary to briefly describe the historical process which launched SMEIOs into being. Additionally, it is necessary to know something about these organizations themselves, and how they relate to each other within the business lobbying community in Brussels. Like all constellations of interest organizations, SMEIOs emerge from a particular history, and can be best understood in a historical context of formal business interest representation at the European level which has undergone a double fragmentation as the European integration process has accelerated.

Business interest organizations have been organized at the European level since the beginning of the European integration process. Historically, business (as well as labour) organizations have dominated European-level interest representation, mainly because the process of integration has been driven for so long by economic issues.²⁵⁷ In correspondence with Haas' early neo-functionalist account of European integration, business interests have "sought and encouraged the progressive transfer of competencies from the national to the European level."²⁵⁸ As the European integration process has accelerated, business interest representation has diversified.²⁵⁹

²⁵⁷ See Jack McCormick, *Understanding the European Union: A Concise Introduction* (New York: Palgrave, 1999), p 139.

²⁵⁸ Justin Greenwood, 'Organized Business and the European Union', p 77.

²⁵⁹ It is perhaps important to note that while business in general has elaborated a large and diverse structure of interest representation, this structure is still limited, and perhaps strategically so. In this regard, Marks and McAdam have pointed out that "In most cases employers are able to block the possibility of transnational collective bargaining by simply failing to give their own transnational organizations sufficient

The Classic, 'Mixed' Business Interest Organizations

The cross-sectoral, 'mixed' business interest organizations operating at the European level should be understood in the context of their historical emergence after the Second World War. Between 1948 and 1957, approximately sixty European interest groups were created in response to the Marshall Plan designed to reconstruct Europe. In 1948, the French industry association brought fifteen other national associations together to form the Council of Industrial Federations of Europe (CIFE) with the aim of providing input into Marshall Plan activities to the Organization for European Economic Co-operation. After the European Coal and Steel Community was ratified in 1953, CIFE established a special subgroup to monitor the Europeanization process. In 1958, after the Treaty of Rome came into effect, this CIFE subgroup broke away and became UNICE (the Union of Industrial and Employers' Confederations).²⁶⁰ From its early years, UNICE's position toward the European integration process was defensive and reactive:

[...] the motivating factor behind UNICE's creation was not to promote the European customs union, but to create a defense mechanism against Commission activity." ...UNICE's initial organizing impulse was not to pursue a collective good, but to avoid a collective bad...UNICE was formed to gather information on and to monitor the development of the EEC.²⁶¹

The Treaty of Rome also initiated a pan-European association of chambers of commerce.²⁶² The early orientation of these organizations, and indeed the attitude of

authority over their national constituents." See Gary Marks and Doug McAdam, "Social Movements...", p 107.

²⁶⁰ Maria Green Cowles, "The Changing Architecture of Big Business" in Justin Greenwood and Mark Aspinwall (eds.), *Collective Action in the European Union: Interests and the New Politics of Associability* (London and New York: Routledge, 1998), pp. 108-125; p 110.

²⁶¹ Maria Green Cowles, "The Changing Architecture of Big Business", p 109.

²⁶² Organized mixed business associations were not the only organized economic interest group to congeal as a consequence of the Treaty of Rome. Groups of all kinds, such as COPA for agriculture (1958), COGECA for agricultural cooperatives (1959), BFEC for banking (1960), and GCECEE for savings banks (1963). Worker and consumer organizations operating at the European level emerged later, with the

business organizations in general toward the European integration process was one of great precaution. Consequently, the early structure of business interest representation at the European level “contributed little to the European policy debate and was perceived by Brussels policy-makers as reactive and destructive to the European initiative.”²⁶³ Thus the early activities of groups like UNICE and Eurochambres represented an attempt to

monitor and hopefully prevent the expansion of the integrationist policies in Brussels. French industry in particular envisioned UNICE as a defense mechanism against the High Authority (today’s Commission).²⁶⁴

Eurochambres and UNICE have long acted as the ‘official’ voice of business, alongside the lobbying activities of individual firms and specific sectoral associations. As Greenwood has commented, the large, cross sectoral business groups are among the best known of all interest groups working in Brussels.²⁶⁵ UNICE is often considered the more powerful of the two, and it has been credited with continuing to act “as a brake on the rapid expansion of social Europe.”²⁶⁶ Both UNICE and Eurochambres seek to incorporate the interests of SMEs into their perspective, as the vast majority of the businesses they represent are SMEs (The inclusion of SME issues has intensified in the recent past, and this will be discussed in Chapter Four). For this reason, they can be considered SMEIOs at the same time as ‘mixed’ business interest organizations, and thus maintain an ‘impure’ SMEIO status (See Appendix G). Both UNICE and Eurochambres have a long institutionalized relationship with European institutions, which sometimes

European Trade Union Confederation (ETUC) and the Consumer Federation, BEUC established in 1973. See Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism...”

²⁶³ David Coen and Charles Dannreuther, “Differentiated Europeanization...”, p 262.

²⁶⁴ Maria Green Cowles, “Large Firms and the Transformation of EU Business Associations: a Historical Perspective” in Justin Greenwood (ed.) *The Effectiveness of EU Business Associations*. (London: Palgrave and Ernst and Young Association Management, 2002), pp. 64-78; p 65.

²⁶⁵ Justin Greenwood, ‘Organized Business and the European Union’, p 81.

²⁶⁶ Justin Greenwood, ‘Organized Business and the European Union’, p 83.

means that in return for their privileged status they facilitate the implementation of European-level policies. Eurochambres, for example, has an agreement with the Commission to provide European Information Centers (EICs) within the premises of local Chambers of Commerce.²⁶⁷ UNICE works with the Commission to develop appropriate business development benchmarks across EU member states in order to facilitate the goals of the Lisbon agenda.²⁶⁸

Their longstanding history, and their ability to prove that they officially represent a wide spectrum of business interests, has earned both UNICE and Eurochambres 'social partner status' within the EU, meaning that they have formally privileged access to policy coordination and new initiatives of all kinds. UNICE has first level social partner status, while Eurochambres has second level social partner status.²⁶⁹ UNICE and Eurochambres have long been privileged business interest organizations, both in terms of their access to the policy-making process, and in terms of their authority in representing the interests of European business since the beginning of the European Community.

While the importance of groups like UNICE and Eurochambres has not diminished, their ability throughout their history to represent 'business in general' has been partially overshadowed since the 1980s by a *fractionalization* of the organized business community. Not every business class in Europe felt well represented, it would seem. This process of fractionalization has taken two different directions: large multinational firms founded their own European organization in the 1980s, and European-level SME organizations began to spring up and gain momentum around the same time, eventually coalescing in their present form in the late 1990s.

²⁶⁷ Justin Greenwood, 'Organized Business and the European Union', p 84.

²⁶⁸ David Coen and Charles Dannreuther, "Differentiated Europeanization...", p 268.

Big Business Splits Off

Big business was organized since the late 1960s at the European level, although to a limited degree. Business leaders from around Europe formed the Groupe des Présidents des Grandes Entreprises Européennes (the Group of Presidents of Large European Companies) in 1967. This group remained an informal “dining club, a fraternal group for CEOs and not an important interest group in Brussels”²⁷⁰; that being said, the value of informal ties should not be underestimated. As Van Der Pijl has noted in his study of the transnational socialization of capitalist classes (which, as was alluded to in the introduction, includes only large ‘capitalists’ in the Braudelian sense), networking amongst business leaders produces a common identity and will formation that is often articulated in the consolidation of power later on.²⁷¹ In her historical study of organized business in Europe, Cowles has commented that the Groupe des Présidents “gave company leaders from various EU member states the opportunity to socialize with one another [...] the organization did begin a dialogue between industry and the Commission that had been largely absent.”²⁷² In this respect, the Groupe des Présidents opened the door for European big business to organize themselves in Brussels after the economic pressures of the 1970s forged a fractionalization of the way that business conducted itself formally and politically within Europe.

Various factors combined in the 1970s to encourage big business to organize at the European level to better represent their interests. The collapse of the Bretton Woods

²⁶⁹ Justin Greenwood, ‘Organized Business and the European Union’, p 84.

²⁷⁰ Maria Green Cowles, “The Changing Architecture of Big Business”, p 115.

²⁷¹ Kees Van Der Pijl, *Transnational Classes and International Relations...*

²⁷² Maria Green Cowles, “The Changing Architecture of Big Business”, p 115.

order, the crises of Keynesianism, and an international political environment weary of transnational corporate activity²⁷³ encouraged European capital to get more active within European institutions. The interest of large firms increased in the 1970s when the Commission established programs directed at multinational corporations, and the European Court of Justice made a number of key rulings concerning competition policy.²⁷⁴

Seeking to shore up and improve their balance sheets, European big business began to pressure for greater access to European markets and an improved regulatory environment to enhance their competitiveness....A dissatisfaction with the national route of European policy making provided incentives for European big business to get organized politically at the European level.²⁷⁵

The increased momentum (and national ascension) of many social democratic movements in the early 1970s, which was articulated at the European level in the form of highly publicized Tripartite Conferences where labour groups, business, and the state were to engage in a “social partnership,” inevitably caused concern within the business community, especially amongst the larger firms that were always more implicated in neo-corporatist bargains than SMEs.²⁷⁶ Such a political environment, combined with the oil shocks of the 1970s,

convinced firms to seek transnational solutions, and in turn these interests exerted significant influences upon the perceptions of member states that national protectionism would inevitably lead to the loss of

²⁷³ Both the UN and the OECD proposed a code of conduct for multinational firms in the 1970s.

²⁷⁴ Justin Greenwood, ‘Organized Business and the European Union’, p 79. In particular, the ‘Vredeling proposal’ (to institute work councils at the European level) was perceived as a significant threat. Such proposals were viewed in an especially hostile light by large US firms, who viewed such new regulatory measures as a form of industrial espionage and were perceived to diminish US industrial comparative advantages. Subsequently, through the already established (but at that point political insignificant) node of the US-Belgian Chamber of Commerce, in 1985 the EU Committee of AmCham was formed, and it soon “developed the reputation in the 1990s as one of the most powerful business voices in Brussels.” See Maria Green Cowles, “Large Firms and the Transformation of EU Business Associations...”, pp. 67-68.

²⁷⁵ Maria Green Cowles, “The Changing Architecture of Big Business”, p 112.

²⁷⁶ On the context of this neo-corporatist attempt in the 1970s, see Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism...” pp. 138-139.

ability of European firms to compete in international markets.²⁷⁷

Groups such as UNICE and Eurochambres were important in the policy discourse of this period; nevertheless their presence and legitimacy was questioned by the big business community's demands for greater organizational efficiency and direct influence. Simply put, LSEs did not like the consensus and consultation processes of UNICE. In 1980, a group of large firms from within UNICE called the European Enterprise Group met in Brussels to discuss their interests within the European integration process.²⁷⁸ From the perspective of European big business, the reform of UNICE was unsatisfactory. Consequently, a new organization was founded in 1983, called the European Round Table of Industrialists.²⁷⁹ The creation of this business interest organization represents the first part of the fractionalization process - that of LSEs breaking off from the 'classic' model of mixed business representation.

The 'ERT' is composed of chief executives from 45 different large multinational corporations drawn from around Europe, and arose partly in response to the problems associated with the cumbersome methods which UNICE used to come to decisions.²⁸⁰

[...] the presence of ERT can be attributed to the frustration felt by multinational firms at the lack of effectiveness of UNICE and its inherently cumbersome nature, during the early 1980s, when an effective voice for big business interests was urgently required.²⁸¹

While Europe was supposedly 'sick' during the economic malaise of the 1970s, large companies began to mobilize in important ways in Brussels, creating new types of business associations, and

²⁷⁷ Justin Greenwood, 'Organized Business and the European Union', p 79.

²⁷⁸ Maria Green Cowles, "The Changing Architecture of Big Business", p 117.

²⁷⁹ The ERT was forged after a Commissioner, Etienne Davignon, produced more close ties between CEOs of large firms and the Commission in an attempt to coordinate solutions to industrial problems. See Maria Green Cowles, "Large Firms and the Transformation of EU Business Associations...", p 69.

²⁸⁰ Justin Greenwood has commented that "'in order to arrive at 'an opinion', UNICE has to seek to reflect the broad constituency of its members interests and positions, which are in turn often the result of compromises made at the national level.'" See Justin Greenwood, 'Organized Business and the European Union', p 82.

²⁸¹ Justin Greenwood, 'Organized Business and the European Union', p 83.

transforming others. In the process...the European Roundtable of Industrialists – played no small part in the launching of the Single Market program itself.²⁸²

The ascension of the ERT can be understood in the context of large European firms

struggling to overcome perceived competitive disadvantages in relation to Japanese and U.S. capital and that of state elites seeking to restore at least part of the political sovereignty they had gradually lost at the national level as a result of growing international interdependence.²⁸³

The creation of the ERT in the early 1980s should also be understood in light of the ‘Eurosclerosis’ and many economic problems afflicting Europe by the end of the 1970s.

The ERT is an invitation-only, highly elite think tank. It produces a massive quantity of high-profile policy critiques and suggests strong courses of action regarding the future of European politics, and has played a significant role in European public affairs ever since its formation.²⁸⁴

The Flood of the ‘Pure’ SMEIOs

The second fragmentation from the ‘classical’ model of European business interest organizations is the growth in business interest organizations which claim to exclusively represent SMEs at the European level. Some SMEIOs existed at the European level in the early 1980s, but their scope and influence were limited.²⁸⁵ For

²⁸² Maria Green Cowles, “Large Firms and the Transformation of EU Business Associations...”, p 67.

²⁸³ Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism...” p 148.

²⁸⁴ The ERT is “...in particular credited with bringing the completion of the internal market back onto the European agenda and thus with being one of the driving forces behind the re-launching of the European integration process.” See Bastiaan Van Apeldoorn, “The European Round Table of Industrialists: Still a Unique Player?” in Justin Greenwood (ed.) *The Effectiveness of EU Business Associations* (London: Palgrave and Ernst and Young Association Management, 2002), pp. 194-205; p 195. See also Maria Green Cowles, “Large Firms and the Transformation of EU Business Associations...”, p 69.

²⁸⁵ See Wolfgang Streeck and Phillippe Schmitter, “From National Corporatism to Transnational Pluralism...” p 137.

example, one group called the UEAPME (European Association of Craft, Small- and Medium-Sized Enterprises) was formed in 1979 “as the result of the amalgamation of various European trade associations and organizations of medium-sized enterprises,”²⁸⁶ but this group had little influence until the late 1990s. Coen and Dannreuther have argued that the lack of SME interest representation before the 1990s was the result “conflicting interest and competing national tradition,” and of the inability for the SME community to “present a unified voice.”²⁸⁷ While this partly helps to explain the lack of SME representation in the past, it is probably more important to emphasize the lack of a compelling opportunity structure for SMEs to organize at the European level. Once the opportunity structure for SMEs changed, SMEIOs began to truly flourish. It was not until the build-up to and eventual consolidation of the Single Market that SMEs got organized at the European level on a significant scale:

[...] until the creation of the Single Market, SMEs were not greatly affected by EU developments. It was a game for big industry and their representatives who were the key players in building up the European economic framework. [...] EU developments and policies began to directly affect SMEs.²⁸⁸

As was described in Chapter Two, the increased importance of SMEs in the late 1980s and early 1990s played an important role in giving SMEs a political footing at the European level. The acceleration of the European integration process in the early 1990s

²⁸⁶ Hans-Werner Müller, “How SMEs can Influence...”, p 189. (Note: This chapter is an extended version of a speech made in September 2000).

²⁸⁷ Coen and Dannreuther appear to take these assumptions to the present as well, as they articulated in 2003 that “In recent years, large multinational firms have established a strong EU presence and distinct business-government relationship in Brussels, yet question marks continue to exist over the ability of SMEs to coordinate European strategies.” While the comparison to the structure of interest representation representing LSEs is perhaps somewhat warranted, this shouldn’t discount the fact that SMEs have both a well formally integrated structure of interest representation and a diverse structure of interest representation at their service. See David Coen and Charles Dannreuther, “Differentiated Europeanization...”, pp. 260-261.

²⁸⁸ Hans-Werner Müller, “How SMEs can Influence...” p 186.

after the creation of the Single Market in 1986, the consolidation of European Union in 1992, and the importance placed on SMEs in the 1992 Delors Report, caused a change in the opportunity structure for organized business.²⁸⁹ Part of the political fallout of this development was a virtual flood of SME interest representation which was previously represented primarily through the ‘mixed’ business interest organizations of UNICE and Eurochambres; another consequence was that groups like UNICE and Eurochambres began to speak increasingly to SME issues.

In 1992, some 15 SME interest organizations claimed to represent the interests of SMEs at the European level. Each of these SMEIOs received a small amount of financial support from the European Commission.²⁹⁰ Reflecting a longstanding attempt to both ‘regulate’ interest organizations and interact as much as possible with ‘European’ interest organizations, the European Commission sought to organize a merger between two of the largest SME interest organizations. The Commission offered official social partner status to the UEAPME²⁹¹ and the EUOPMI (European Committee for Small and Medium-sized Independent Companies) in 1998 upon the condition that they would merge together (the new unit would be called UEAPME).²⁹² Armed with its official social partner status, UEAPME remains the most formally influential SMEIO at the EU level. The majority of other SMEIOs that exist are the remainders from this 1998 merger process. Despite their

²⁸⁹ The Single European Act formalized and strengthened the powers of the European Commission, strengthened the legislative powers of the European Parliament, and removed the requirements of unanimity within the Council of Ministers in regards to internal market issues. Consequently, the opportunities for organized interests to assert themselves in such a changed political architecture increased. Interest group organization focused more intensively and more exclusively on the Commission. See Sonia P. Mazey and Jeremy J. Richardson, “Interest Groups in the European Community”, pp. 192-193.

²⁹⁰ Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAPME. Brussels: July 15th, 2004.

²⁹¹ The UEAPME acronym is from the French Union Europeene De Le Artisanat Et Des Petites Et Moyennes Entreprises.

²⁹² Justin Greenwood, ‘Organized Business and the European Union’, p 90.

lack of official social partner status, SMEIOs regularly consult with European officials, and play a vital and active role in the constellation of business interest organizations in Brussels. Despite claims within the European integration literature that SMEs suffer from a lack of coordinated interest representation at the EU level,²⁹³ or that SMEs are “less engaged” than LSEs in European politics,²⁹⁴ it stands to fact that the existing structure of interest representation is both well organized and diverse. The organizational capacities of all EU-level SMEIOs considered as a group, while not as extensive as LSE groups such as the ERT, are nonetheless quite considerable.

The European Confederation of Associations of Small and Medium-sized Enterprises (CEA-PME) is one SME interest organization that remained after the late 1990s merger process coordinated by the Commission. The European Small Business Association (ESBA) is another such organization (it broke off from EUROPMEI).²⁹⁵ Both the CEA-PME and ESBA represent and consult with already existing nationally-based SME organizations, as well as with individual SMEs. The CEA-PME has a strong institutional connection to the German SME sector, and ESBA to the British, yet both represent a diverse spectrum of national SMEIOs. The Confederation of European Independents (CEDI) is an SME interest organization which has a history stemming from dealing with German SME interests at the EU level (See Appendix G). All three of these organizations assert their differences from UEAPME, citing the fact that they aren’t composed of any mandatory membership organizations, such as chambers of commerce. This, the CEA-PME, the ESBA, and CEDI claim, allows them to be more independent than UEAPME, that is, to be more politically autonomous. These organizations forged a

²⁹³ David Coen and Charles Dannreuther, “Differentiated Europeanization...”, p 270.

²⁹⁴ Helen Wallace and Alistair Young, “The Single Market”, p 145.

formal alliance in 2002 in regards to recent European policy initiatives that they feel important for their memberships.

In addition to the business interests organizations which directly represent SME memberships, another very important SME interest organization has arisen which claims to 'represent the interests of SMEs' and is officially affiliated with a political party. The SME Union is the 'SME wing' of the European People's Party, the centre-Right pan-European party that currently dominates the European Parliament. SME Union is thus a SMEIO quite different from the others described above. SME Union has grown very important in European Union politics, both because of its very direct political connections within the European Parliament, but also because of their often very public and vocal stance as a group constantly trying to 'push the envelope' in terms of neoliberalization. With its extensive resources and contacts within the European Parliamentary world, the SME Union acts in many ways as a hub, organizing events and points of contact for the SMEIO community. For example, they have established many large conferences with European Commissioners, the SME Envoy, smallbusinesseurope, and UEAPME. Not only do representatives from UEAPME and Eurochambres contribute to SME Union publications, the President of Eurochambres is also the president of the Austrian wing of SME Union. The SME Union established the European Enterprise Institute in 2003, a think-tank modelled after the US American Enterprise Institute, a radical neoliberal think-tank.²⁹⁶

²⁹⁵ David Coen and Charles Dannreuther, "Differentiated Europeanization...", p 270.

²⁹⁶ Peter Jungen, "A World from the President" *Enterprise Europe: A Publication of the European Enterprise Institute* Issue 1 (July 2004), p 3. On the modeling of the European Enterprise Institute on the American Enterprise Institute, see Günter Fehlinger, "SME Union 2003" *The Entrepreneur: The Newsmagazine of the Small and Medium Entrepreneurs Union of the European People's Party* No. 6 (March 2003), p 4.

One other SMEIO that is prominent in organized business lobbying at the EU level is called “smallbusinesseurope.” While the name suggests it is a pan-European organization, instead it is an organization that represents only the United Kingdom. Furthermore, it has official ties to official government institutions there. Despite this secularism, smallbusinesseurope is unquestionably a formidable and visible player in the organized business community within Brussels.

We have seen in this chapter that the current structure of official interest representation for SMEs has grown out of a fractionalization process of business interest organizations that emerged after the Treaty of Rome. SMEIOs emerged as important players after the launch of the Single Market Program and were subsequently regulated by the Commission. Appendix G describes the methodological issues associated with the interviews employed, and documents the interview subjects, their positions, and the national representation of each SMEIO under investigation. The next chapter investigates the relationship between SMEIOs and competing visions for Europe, namely emphasizing that SMEIOs are enthusiastic – but not uncomplicated – supporters of a neoliberal EU.

Chapter 4

Mittelstand Macht Mobil!²⁹⁷

- Alexander Barthol, ZDH
'SMEs get mobilized!' – the slogan of a
German SME movement engaging in large
street demonstrations in Berlin against
labour market regulations and
administrative burdens on SMEs

The previous chapter investigated the mobilization of SMEIOs at the EU level, situating this mobilization in the historical context of the evolution of business interest organizations at the EU level since the Treaty of Rome. We are now ready to examine the orientation of SMEIOs organized at the EU level in regards to European integration and neoliberalism. This chapter thus provides a qualitative assessment of the support SMEIOs have for neoliberalism in the EU, along with insight into the political character of the 'market economy' by examining the views of its representatives at the transnational level. As in the previous chapter, we should be careful to situate SMEIOs – both their mobilization and their political orientation – within the context of EU-level organized business as a whole.

Section one of this chapter examines the results of interviews conducted, and discusses, with reference both to the insights of interview subjects from the SMIEO community and within scholarly literature, why SMEIOs are oriented towards the EU the way they are. Here it is argued that the EU SMEIOs' position can be described as follows: they are *supportive and enthusiastic*, *defensively aggressive*, and *selectively cautious* towards a more neoliberal EU. Section two considers how such support may be implicative for the process of European integration, and emphasizes that the context

SMEIOs find themselves in vis-à-vis other business interest organizations in the EU is important in assessing these implications.

Section One – SMEIOs and Support for Neoliberalism

The series of interviews which were conducted with representatives from SMEIOs reveal a number of interesting patterns. Taking the body of SMEIOs as a whole, there are three characteristics that could best describe their approach to the neoliberalism at the EU level: they are *enthusiastic and supportive*, *defensively aggressive*, and *selectively cautious*. While there is some variation amongst SMEIOs as well as different national groups within the SMEIOs investigated with regards to the deliberative approach taken towards economic regulation, there is nevertheless a quite consolidated ‘core’ of values which are readily identifiable.

Enthusiastic and Supportive

Each of the organizations that were interviewed generally viewed the further institutionalization of neoliberalism at the EU level with a spirited enthusiasm. One interview participant reflected that in terms of political deliberation, SMEs tend to have a “neoliberal non-interventionist view of life,” and that “the underlying message of the small business community is deregulation.”²⁹⁷ Despite each interview participant agreeing to sign an Informed Consent Form in which the interview participant agrees to non-anonymity and non-confidentiality, one interview subject asked for confidentiality

²⁹⁷ Interview, Alexander Barthel, Director of Department of Economic and Environmental Policy, ZDH. Berlin: August 19th, 2004.

²⁹⁸ Interview, Ben Butters, Director, smallbusiness|europe. Brussels: July 13th, 2004.

on one particular point, citing public relations concerns. “Most small businesses are pursuing a deregulatory agenda,” the participant stated, yet because of concern over “political correctness” they would never state this in public.²⁹⁹ Across several interviews, SMEIO representatives commented that SMEs have a conservative orientation (politically, socially, and economically),³⁰⁰ that they “support privatization,”³⁰¹ and that economic liberalization – its speed and depth – are issues of great contention. The growth of the SME sector “definitely” furthers the support for neoliberalization.³⁰²

Such enthusiasm for neoliberalism was evident in both SMEIOs’ support for particular policies and the institutional orientation of the EU as a whole. Policies and institutional orientations to promote labour market deregulation were heralded as overwhelmingly positive and necessary. The same was true of tax cutting as economic stimulation (although this is done at the national member-state level). Tax competition pressures through EU enlargement are viewed with great enthusiasm, as is the blockage of ‘social Europe’ in general.³⁰³ SMEIOs also promote broad EU reform approaches, such as the “flexibilization” of labour markets, arguing that this needs to be promoted at the EU level:

In a competitive Europe, legislation needs to be as simple and as light as possible and it must be consistently and fairly applied across the expanded EU...Europe needs a flexible, responsive labour

²⁹⁹ This anonymous interview participant added: “And clearly because it is politically sensitive in public they don’t say that in public and therefore I shouldn’t be saying it to you.”

³⁰⁰ Interview, Stefan Zickgraf, Managing Director, CEA-PME. Brussels: July 12th, 2004; Interview, Alexander Rouffe, Advisor, EU Funding Programmes, CEA-PME. Brussels: July 12th, 2004; Interview, Patrick Voller, Secretary General, SME Union. Brussels: July 15th, 2004.

³⁰¹ Interview, Patrick Voller, Secretary General, SME Union. Brussels: July 15th, 2004.

³⁰² Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

³⁰³ It is noteworthy that not only did such support for neoliberalism in the EU come across in the interviews conducted, but also within reports of consultations conducted by the Commission. According to a 2003 report, the SME community heralds a flexibilization of labour markets, and a simplification of labour law. Additionally, there is a grave need expressed to reduce administrative and regulatory burdens for SMEs. If the EU should develop institutional capacities, these should be to support business enterprise growth. See European Commission, *Summary Report: The Public Debate Following the Green Paper...*, pp. 5, 19

market....One of the key barriers to Europe's competitiveness, as identified by European leaders meeting at Lisbon in 2000, is the relative lack of flexibility of Europe's labour markets compared with its competitors....some European governments have been reluctant to embark on the sometimes painful reforms that are necessary....there will be no sustainable improvement in Europe's growth and employment until they are complete.³⁰⁴

While considerable similarities could be found among the various positions expressed, the particular strength of support for neoliberalism varied. 'Hard' positions in support of neoliberalism coming from groups like SME Union, ESBA, UNICE and Eurochambres were overshadowed by the more 'moderate' neoliberal stance of UEAPME. Perhaps because of its official social partner status, UEAPME maintains a distance from radical positions on the neoliberalization process in Europe. This is roughly the opposite orientation to SME Union, whose representative commented that "they can't go as far as we, because we are a political party."³⁰⁵ UEAPME's more moderated position could be observed from all of the interviews conducted with UEAPME representatives. UEAPME speaks publicly on the "responsibility of being involved in the 'European Social Model.'"³⁰⁶ The increased economic liberalization of the European integration process is generally treated as beneficial for SMEs, yet UEAPME appears slightly but consistently less enthusiastic than most SMEIOS in taking a *radical* stance on the need to direct the European integration process in an even more neoliberal direction. This being said, UEAPME has in many other ways not shied away from a deregulatory, neoliberal position on addressing more purely economic and structural challenges of European integration. In one article written for the SME Union

³⁰⁴ Christoph Laitl, "The New European Parliament Must Re-Focus on the Economy" *Enterprise Europe: A Publication of the European Enterprise Institute* Issue 1 (July 2004), pp. 9-10.

³⁰⁵ Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³⁰⁶ Hans-Werner Müller, "How SMEs can Influence...", p 185.

publication, “Last Chance for Lisbon Targets” the Secretary General for UEAPME took a quite radical neoliberal populist stance on economic reform.³⁰⁷ Similarly, in addressing problems with the European economic slowdown, UEAPME has stressed the urgency of immediate structural reforms that would address the regulation of social security systems; the flexibility of labour markets; ‘administrative burdens’ on regulating health and safety; and taxation, as well as more banal issues such as shortcomings in the internal market, and access to finance and new technologies.³⁰⁸ In these regards, it mirrors the other SMEIOs interviewed in their ‘hard’ support of neoliberalism.

The CEA-PME was another SMEIO that was slightly more moderate in its position on neoliberalization.³⁰⁹ For the representatives interviewed, their position was that while on the one hand, the qualifications that the SME community have about neoliberalism are appropriated by the mixed and large business interest organizations, there also exist important exceptional pockets of regional differentiation, such as Emilio Romagna in Italy.³¹⁰

³⁰⁷ Hans-Werner Müller, “Last Chance for Lisbon Targets” *The Entrepreneur: The Newsmagazine of the Small and Medium Entrepreneurs Union of the European People’s Party* No. 6 (March 2003), p 7.

³⁰⁸ UEAPME, *European Commission’s proposal for the BEPG 2003 or Shortcomings of Europe’s Economic Policy (Position paper on Broad Economic Policy Guidelines)* Brussels: UEAPME, 2003), p 3.

³⁰⁹ This being said, it is notable that in a statement of alliance between the CEA-PME, CEDI and ESBA, these SMEIOs come across as strong neoliberal supporters: “Priority number one for (an) entrepreneurial Europe” is to reduce and revise the current regime of fiscal and administrative burdens that SMEs face. However, in another document, their public demands for EU reform certainly don’t have a strong neoliberal character at all. For example, they cite the need for: More transparency and democracy in all EU activities; Simplification of tax systems for cross-border transactions; the establishment of an independent EU legislative audit office; simplification and flexibility in cross-border labour activities; simplification for business start-ups; stricter enforcement of EU competition rules; reduction of state subsidies; successful enlargement without any distortion of the Internal Market; and promotion of activities with SMEs in developing countries. See ESBA, CEA-PME and CEDI, *Proposal By the Independent Small Businesses to the European Convention* (Brussels: ESBA, CEA-PME and CEDI joint statement, December 2002) Online version: http://www.esba-europe.org/X4u66AsyVd0lEGc6MCci7aHd/News/Press_Releases/December_2002_-_Proposals_by_CEA_PME_CEDI_and_.aspx.

³¹⁰ Interview, Stefan Zickgraf, Managing Director, CEA-PME. Brussels: July 12th, 2004; Interview, Alexander Rouffe, Advisor, EU Funding Programmes, CEA-PME. Brussels: July 12th, 2004.

Many of the SMEIOs under investigation see the European integration process as an opportunity for international tax competition. SME Union is especially vocally supportive of tax competition across nations, and sees the Eastern enlargement of the EU15 to the EU25 as an opportunity for “tax competition, not tax harmonization,” adding that in this regard, “We need the new countries more than they need us.”³¹¹ On the tax competition issue, the SME Union celebrates the flat tax system as a best practice, and an example of the potential that EU Eastern enlargement brings forth.³¹² “We are very happy that SMEs can choose their government now...they can choose where to go – where to pay taxes.”³¹³ In their printed literature, SME Union is extremely vocal about the issue of taxation, stating that “SMEs need lower taxes across the continent”³¹⁴ because the existing systems of taxation is “the biggest obstacle to growth and business.”³¹⁵

The perceived imperative of the European integration process instituting tax competition appears to be an article of faith for the SMEIO community as a whole. The CEA-PME representatives interviewed emphasized the benefits of tax competition within the EU,³¹⁶ and the same is true for UNICE. Tax competition is a contentious issue in the EU, since taxation and redistribution cannot be separated. It is thus a paramount issue of

³¹¹ Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³¹² Günther Fehlinger, “SME-Union 2000 to 2004: ‘Fighting Hard for SMEs’” *SME Union Annual Report 2003* (Brussels, SME Union, 2003), p 25. The Slovak Republic’s 19% flat tax system is heralded as a success and a positive example, as is the fact that Austria subsequently felt pressured to lower its corporate taxes from 32 to 25%. Germany (and in particular Bavaria) is already feeling the pressure from this potential tax competition, the representative stated. Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³¹³ Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³¹⁴ Jacques Santer, “Editorial: Thriving SMEs on the Global Stage” *The Entrepreneur: The Newsmagazine of the Small and Medium Entrepreneurs Union of the European People’s Party* No. 7 (June 2003), p 3.

³¹⁵ Ibid.

contention for those who support either a more neoliberal EU or a more social EU. Acknowledging this controversy and the fact that it invokes resistance, the Eurochambres representative interviewed commented that:

(You need to ensure that) how you can make sure that the taxation argument is never won by the Germans or the French – that it is always going to be won by the ones who want utter and full 100% competition, and make it as bloodthirsty as possible in terms of tax competition.³¹⁷

This is consistent with more public pronouncements by Eurochambres that “The new Member States bring with them a culture of economic liberalization and reform that the EU desperately needs.”³¹⁸ Support for such neoliberal institutional arrangements within the EU were coupled with disparagement towards resistance to them, particularly the “very tight social protection model...that holds back everyone” which some continental EU member states “with those weird kind of rules and regulations about the social model” try to institutionalize at the EU level in favour of a more social Europe.³¹⁹

Defensively Aggressive

Consistently alongside their support of a more neoliberal EU, the majority of SMEIO representatives portrayed their position defensively, as being necessary for self-preservation. In their study of policy making in the EU, Helen Wallace and Alistair Young comment that because of the new structures of regulation which are emerging from the supra-national level of governance in the EU, “It is...not surprising that SMEs have been caught up in a defensive criticism of the ‘burdens of business’ that flow from

³¹⁶ Interview, Stefan Zickgraf, Managing Director, CEA-PME. Brussels: July 12th, 2004; Interview, Alexander Rouffe, Advisor, EU Funding Programmes, CEA-PME. Brussels: July 12th, 2004.

³¹⁷ Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

³¹⁸ Christoph Laitl, “The New European Parliament Must...”, p 10.

³¹⁹ Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

Brussels.”³²⁰ We can concur with this position based on our observations, especially given the fact that the EU is depicted as an overly bureaucratic, intervening force upon SMEs. As the representative from the SME Union remarked, “...you have to leave the SMEs alone, let them do their job.”³²¹ One of the CEA-PME representatives interviewed commented that the SME sector in general is not “forward looking” and is more concerned with immediate issues.³²² SMEIOs thus often focus “on specific pieces of legislation coming down the pipeline” that they fear may affect them adversely.³²³ We might add that there appears to be a defensive posture on social Europe within the SMEIO community. Such views are consistent with the observations made by David Kotz in his research on capitalist development:

When large corporations achieve significant market power and become freed from fear concerning their immediate survival, they tend to develop a long time horizon and pay attention to the requirements for assuring growing profits over time. They come to see the state as a potential ally. By contrast, the typical small business faces a daily battle for survival, which prevents attention to long-run considerations and which places a premium on avoiding the short-run costs of taxation and state regulation.³²⁴

We can add, however, that the SMEIO representatives interviewed conveyed their defensive posture more commonly in terms of the political and economic advantages of LSEs in *managing* regulation. As one SME Union publication argued,

EU Legislation is closely monitored and strongly influenced by multinational corporations. SMEs, on the other hand often lack the necessary financial and personal means to get their voices effectively

³²⁰ Helen Wallace and Alistair Young, “The Single Market”, p 145.

³²¹ Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³²² Interview, Stefan Zickgraf, Managing Director, CEA-PME. Brussels: July 12th, 2004.

³²³ Interview, Ben Butters, Director, smallbusiness[europe]. Brussels: July 13th, 2004.

³²⁴ David M. Kotz, “The State, Globalization and Phases of Capitalist Development” in *Phases of Capitalist Development: Booms, Crises and Globalizations* Robert Albritton, Makoto Itoh, Richard Westra, and Alan Zuege (eds.), (London: Palgrave, 2001), pp. 93-109; p 104.

heard on the European, in particular on the EU-level.³²⁵

Seen in this way, it is not only increased competition in the neoliberal period which appears to influence SMEIO attitudes, but also the concurrent phenomenon of *capital concentration*. The CEDI representative interviewed stated that, because of the trends towards capital concentration in the global and European economies,

[...] SMEs must react. The number of competitors is shrinking more and more. We need instruments to support SMEs against that *communistic pressure*. We don't speak about protection. No – we just want to have some rules which allow SMEs a fair competition. We don't want protection, but fair competition.³²⁶

This CEDI representative also noted that despite the positive efforts of the European Commission to develop more institutionalized relationships and engage with the SME community (which, as the representative acknowledged, increased the voice of SMEs), the representatives of LSEs are more active in similar social networks as EU politicians and bureaucrats.³²⁷

Several 'pure' SMEIOs conveyed that because of the perceived unequal power relations within the organized business community between LSEs and SMEs, SMEIOs they often have to take more radical, louder positions vis-à-vis the 'mixed' SMEIOs. In their more public deliberations, most SMEIOs attempt to emphasize the important differences between SMEs and LSEs to which EU legislation should pay more attention. In the words of the President of UEAPME, "A small enterprise is not the Bonsai version of a big enterprise."³²⁸ This stance is commonplace amongst SMEIOs, and is clearly seen in their reactions to consultations with the SME Envoy on the progress of EU approaches

³²⁵ Piia-Noora Kauppi, "Politics is About Setting Priorities" *The Entrepreneur: The Newsmagazine of the Small and Medium Entrepreneurs Union of the European People's Party* No. 6 (March 2003), p 8.

³²⁶ Interview, Hans-Dieter Schäfer, General Secretary, CEDI. Neunkirchen: August 24th, 2004.

³²⁷ Interview, Hans-Dieter Schäfer, General Secretary, CEDI. Neunkirchen: August 24th, 2004.

to industrial development and regulation.³²⁹ They feel that they are treated unfairly, and they strike back with aggressive praise for a more neoliberal EU ‘in their defence.’

Selectively Cautious

SMEIOs are broadly supportive of the neoliberalization process in Europe, especially in regards to labour market deregulation, the prevention of new environmental regulation, and the taxation systems of national governments. We have seen above that this support is manifested both in terms of their support for specific policies and toward the broad institutional capacities of Europe. This being said, once again we must emphasize that differentiation exists within the EU SMEIO community. There exists a clear difference between ‘mixed’ organizations (or ‘impure’ SMEIOs) such as UNICE and Eurochambres, and the ‘pure’ SMEIOs when it comes to how ‘qualified’ their support of neoliberalization is. While the enthusiastic, increasingly loud position of the ‘pure’ SMEIOs on the need for further economic liberalization has been appropriated by the ‘mixed’ organizations, the attendant ‘qualified reservations’ are neatly dropped. This presents interesting questions of co-optation that will be taken up in the next section.

Amongst the ‘pure’ SMEIOs interviewed, there is a concern regarding ‘double-standardism’ in the rhetoric of neoliberalism. One SMEIO representative commented that “the big companies already have their benefit from the opening,”³³⁰ and in terms of the liberalization of international economic flows, there is a disturbing difference

³²⁸ Hans-Werner Müller, “How SMEs can Influence...”, p 185. (Note: This chapter is an extended version of a speech made in September 2000).

³²⁹ For example, this is evident within the SMEIO communities’ reaction to the European Commission’s Green Paper on Entrepreneurship. See European Commission, *Summary Report: The Public Debate Following the Green Paper...*

³³⁰ Interview, Stefan Zickgraf, Managing Director, CEA-PME. Brussels: February 25th, 2005.

between the discussion and the actual practice. On several occasions, SMEIOs stated that as far as the increased competition *between* firms in the internal market is concerned, some are uncomfortable with the liberalization process, given the advantageous starting positions of LSEs and given that the support schemes for SMEs remain inadequate despite the Commission's and member states' many attempts at SME promotion.

There is also concern within the SMEIO community about the evolution of intellectual property rights in the EU. The Software Patent Directive would strengthen the property rights for the producers of software code. Many 'pure' SMEIOs are concerned that it will lead to strategic patent use, and will impose unnecessary costs on SMEs who use and write new code. The 'pure' SMEIO representatives interviewed often portrayed the Software Patent Directive as a gross manipulation of economic reasoning in favour of an already oligopolistic high-tech sector within Europe. UEAPME has commented that the Software Patent Directive would "reinforce monopolisation in the software sector and act as a barrier to innovation by SMEs and micro-enterprises."³³¹ Like UEAPME, the CEA-PME, ESBA and CEDI have released joint statements condemning the Software Patent Directive as detrimental for the SME-dependent systems of innovation within Europe.³³²

The 'pure' SMEIOs also articulated a cautionary approach toward the liberalization of financial capital, at least where it affects them directly. Access to capital is, in the words of one SMEIO representative, a "huge problem."³³³ Concerns exist within the SMEIO community about the existing regulated structures of national-level

³³¹ See <http://www.eubusiness.com/topics/Rd/patent.2005-03-08>.

³³² See the joint press release of the "Alliance for Action:" <http://swpat.ffii.org/papers/eubsa-swpat0202/ceapme0309/ceapme-ab0309.en.pdf>.

credit allocation being destroyed by financial liberalization. There are also concerns about the concentration of the financial services sector as a whole because of liberalization. However, this dilemma has not been articulated very heatedly. While most SMEIOs tend to maintain an uneasy relationship with financial capital, the great differences in the credit access structures between EU member states means that a unified position on the proper place of financial capital in the EU has failed to materialize. The ambitious efforts by the Commission to extend and deepen SME-friendly credit networks throughout the EU might have something to do with this as well.

Where SMEIOs have had a general, regionally unified position with regards to the power of financial capital has been in the case of an international agreement on credit risk, the Basle II Capital Accord. This directive requires banks to re-assess their risk to lenders, and it does so in such a way that SMEIOs see it as a threat to many traditional lending relationships with SMEs. Basle II is “not effective yet...but banks have already started....”³³⁴ “It has been used already by the banksto explain that they are changing the conditions.”³³⁵ SMEIOs are worried that Basle II will enhance banks’ ability to discriminate against them in their lending practices.³³⁶ There is a particular concern about smaller, regional banks which SMEs rely on most intensely.³³⁷ Eurochambres has been concerned about the “risks of increased bureaucracy, increased costs and restricted access

³³³ Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³³⁴ Interview, Barbara Nöel, Crafts, Microenterprises, and Mutuals, Enterprise DG. Brussels: July 13th, 2004.

³³⁵ Interview, Frederic Soudain, Director, ESBA. Brussels: July 14th, 2004.

³³⁶ UEAPME, *Annual Report 2004* (Brussels: UEAPME), p 29.

³³⁷ See UEAPME, *UEAPME Position Paper on the Green Paper on Entrepreneurship* (Brussels, July 2003), p 19.

to finance for SMEs.”³³⁸ UEAPME has engaged in four years of “intensive discussion” with the Basle Committee,³³⁹ and according to them “the final agreement includes many improvements for SMEs which UEAPME had lobbied for.”³⁴⁰ Similarly, Eurochambres has reported that they have had success in reforming the implementation of Basle II in the EU to suit SME interests.³⁴¹

Market Pressure and Vociferousness

Aside from their occasional, selective qualifications for their support, why do SMEIOs demonstrate in general such enthusiastic support for neoliberalism at the EU level? Jim Stanford has provided a structural explanation for the strong neoliberal orientation of the Canadian SME sector, which might be equally applied to the EU case. Although SMEs in Europe are embedded in different institutional contexts, one might expect the general competitive market structure that they operate within vis-à-vis each other and vis-à-vis LSEs to be roughly similar. In Stanford’s depiction, smaller firm size in competitive markets stimulates a particular kind of political attitude:

The bitter economic constraints facing most small businesses make any additional business cost – no matter how socially or morally justifiable it may be – a very bitter pill to swallow. Thus small business resistance is fierce to taxes, unions, minimum wages, and government regulation governing anything from consumer protection to worker rights to environmental guidelines....it is not surprising that the small-business sector tends to be one of the most

³³⁸ Eurochambres, *Eurochambres’ Response to the Green Paper on Entrepreneurship* (Brussels: Eurochambres, 2003), p 3.

³³⁹ UEAPME, *Annual Report 2004*, p 29.

³⁴⁰ The legislative implementation of Basel II in the EU will be done by a review of the Capital Adequacy Directive, proposed by the European Commission in July 2004. UEAPME issued a position paper on the draft regulation and provided the European Parliament with a list of amendments in order to improve the practicability of using collateral and the transparency of the future rating procedures for SMEs. See UEAPME, *Annual Report 2004*, p 29.

³⁴¹ “On Basle II Eurochambres worked hard to ensure a more SME friendly and the final accord was a vast improvement on the initial proposal.” See Christoph Laitl, p 8.

solidly entrenched conservative constituencies in the whole economy. This stems at least as much from the marginal, hyper-competitive conditions that most small businesses face as it does from the personal views of small business owners – many of whom, of course, are enlightened and compassionate people.³⁴²

Stanford's observations are largely consistent with those made after interviewing the SMEIOs of the EU. The representative from CEDI commented during one interview that:

It is a very normal thing that...SMEs are stricter. Regulations are bad. I mean, in general deregulation is good...SMEs in general just only want to be left alone. And that's the reason why SMEs are stricter in their demands, in what they ask for.³⁴³

One of the most illuminating comments was made by the representative from the ERT, who made a comparison between LSEs and SMEs in terms of *how* the two groups deliberate differently in regards to regulation: “the SMEs have to fight much stronger for their survival than the multinationals do, and that's why they need to really get out there and do things much more vociferously.”³⁴⁴ It is useful to note here that the share of labour costs as a percentage of value added is on average lower in LSEs in Europe than it is in SMEs in their micro, small, and medium-sized manifestations (See Appendix E), which may help to explain such ‘vociferousness.’³⁴⁵

There may also something deeper at work which influences the support of SMEs for a neoliberal EU. Within nearly every interview conducted, the support for neoliberalism was not only articulated in terms of SMEs' economic vulnerability in increasingly competitive markets due to their size, but to the particular *social*

³⁴² Jim Stanford, *Paper Boom*, p 127.

³⁴³ Interview, Hans-Dieter Schäfer, General Secretary, CEDI. Neunkirchen: August 24th, 2004.

³⁴⁴ Interview, Dennis Kradler, Policy Strategy, ERT. Brussels: February 24th, 2005.

³⁴⁵ While the average labour costs as a percentage of value added in LSEs is 47% in the EU19, in SMEs the average figure is 56%. Thus the average labour costs as a percentage of value added are approximately 19% higher in SMEs than LSE. This might signify that labour costs as a percentage of their marginal utility are higher in SMEs, thus perhaps contributing to their distain for labour market regulation that might increase the costs of labour. Note: the figures used here are for the EU 19, as calculated by the Enterprise DG in their publication From European Commission, *2003 European Observatory of SMEs*, p 26.

organization of the firm. Some scholars have pointed out that the manner in which many SMEs are embedded in local communities and family structures, etc. gives them an economic advantage; for Becholfer and Elliot, this is the “the secret of its [the SME’s] capacity to regenerate itself.”³⁴⁶ For the SMEIO representatives interviewed, the unique social organization of many SMEs also translated into a certain vociferousness about regulation. Thus SMEIO representatives claimed that due to the small scale of most firms in the SME sector, regulation represents a burden and a business cost which is “felt” much more intimately than within LSEs, which can manage regulation more impersonally and more effectively. While this position was strikingly uniform across SMEIOs interviewed, the representative of Eurochambres put it most eloquently:

I think it’s a very simple thing...if you are immediately, personally effected by something, you will pay a lot more attention to it. And so small and largely family-owned firms you know they see taxation as a direct income tax, not a corporation tax, whereas the CEO is going to be thinking strategy, and what he wants in Brussels is the right broad economic thinking coming out in Brussels...and the way that they direct their people in Brussels will be along those lines.³⁴⁷

they (SME owner-managers) are confronted with the consequences of legislation...very directly...the CEO will never be confronted with the concrete – he will only see it in his balance sheet...it has a direct effect to the daily life of this entrepreneur.³⁴⁸

Similarly, one UNICE representative, reflecting on the differences between LSEs and

³⁴⁶ Becholfer and Elliot’s comments are particularly instructive for smaller SMEs: “In the struggle to keep the business afloat, husbands, wives, children, and often a wider network of kin and friends are drawn into the routines of the workplace. The insulation of work and home, family from job – so familiar to most people in a modern capitalist society – is neither possible nor, in many instances, desired. Their work is their life. The sense of self-hood, the day-to-day domestic relationships take their character from the rhythms and routines of the shop the bakery or the small farm. The relationships between the owners of the productive resources and those who work alongside them are seldom simply those of boss and worker. Commonly the worker is also a spouse, or a son or daughter, for the greatest number of *petits bourgeois* businesses are family businesses.” See F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism”, p 199, 201.

³⁴⁷ Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

SMEs in terms of political deliberation, offered the following observation:

The magnitude of problems are [sic] different for SMEs than perhaps for big business – hence their populist, in your face approach – because it becomes extremely emotional for them. It's a question of life or death for their company.³⁴⁹

In the same vein, the representative interviewed from the ERT offered a similar explanation:

They (SMEs) face even more urgent challenges than big business does...they really need to get in there and advocate their views and push for fast change...because otherwise they will just go bust...whereas multinationals will be negatively affected by certain things but in the end the urgency is there, but it is not this 'make or break' urgency, this 'life or death' you don't really have these life or death situations that SMEs have.³⁵⁰

Such insights may help to explain not only SMEIOs' enthusiastic support for neoliberalism, but also their defensive aggressiveness. In this discussion, we should reiterate that, while the SME sector as a whole remains economically important and politically supported in the EU, this *does not mean* that many individual SMEs don't face considerable economic hardships in the increasingly competitive conditions of the internal market. While the SME sector is strong, its individual component parts may be struggling.³⁵¹

National Variation

Within the SMEIO support for neoliberalism, there exists some degree of national variation. While it is outside of the scope of this thesis to indulge in the interesting

³⁴⁸ Interview, Luc Hendrickx, Enterprise Policy and External Relations, UEAPME. Brussels: February 23rd, 2005.

³⁴⁹ Interview, David Coleman, Senior Advisor with Dossiers in Entrepreneurship and SMEs, UNICE. Brussels: February 24th, 2005.

³⁵⁰ Interview, Dennis Kradler, Policy Strategy, ERT. Brussels: February 24th, 2005.

³⁵¹ High business death rates are endemic to the SME sector – and the EU context is no exception. However, as long as new firms continue to enter the market, the sector's strength as a whole is relatively

causes and manifestations of such national variation, a few brief observations are warranted. For example, an apparent distinction exists between the SMEIOs coming from the UK and Ireland as opposed to the more continentally-based SMEIOs. The SMEIOs representing SMEs in the UK had the strongest neoliberal orientation.³⁵² Comparatively, the EU level SMEIOs with a strong continental national membership, such as UEAPME, CEDI, and the CEA-PME, (see Table 2 of Appendix G), are more moderate; for example, they expressed concerns that neoliberalism might in some cases favour LSEs disproportionately.³⁵³ There are several ways to interpret these differences, although we cannot discuss them fully here. On the one hand, as Louis Amoore has pointed out, a continental/UK divide exists in terms of how firms are embedded in a greater network of institutions.³⁵⁴ Some SMEIO representatives commented that many

assured. See European Commission, *Industrial Policy in an Enlarged Europe: Statistical Elements in Support of the Communication*, p 29.

³⁵² “The message that we are conveying is more neoliberal than might be the case for other member states” Interview, Ben Butters, Director, smallbusiness|europe. Brussels: July 13th, 2004. Reflecting the general sense of Euroskepticism which has emanated from the United Kingdom for decades, one UK SME organization reported that because of the more liberalized national market economy environment in the UK, SMEs are very critical of “continental” proposals for a social Europe. While one UK SME organization stated that there are “plenty of issues that we (the different SMEIOs) are saying the same thing on,” they also added that when it comes to labour standards, they are much more supportive of keeping the strong neoliberal orientation of the UK. Another UK SMEIO representative stated that the issues related to the European Social Charter constitute a significant divergence in opinion between national SME sectors, given that continental SMEs are more accustomed to more illiberal regulatory environments than those in the UK and Ireland. One representative from a UK SMEIO (which is also a part of UEAPME) stated that in regards to social Europe, the UK SMEIOs have had to “adapt in so far as we now cooperate in it...now we are in the basket and that has enabled us to...dilute the process as it were.” Interview, Victoria Carson, Brussels Representative, Forum for Private Business. Brussels: July 15th, 2004.

³⁵³ We might note, however that neoliberalism as it is expressed and advocated in the UK often takes a more laissez-faire approach, while generally in continental Europe it manifests as an attack not on regulation of economic activity and public goods as such, but an attack on ‘rigidities’ and an effort to institutionalize market discipline without the corresponding institutionalization of social protection and public goods provision.

³⁵⁴ In her work comparing the different national-institutional influences on firm organization, Louise Amoore has stated that the British firm “[...] dwells within, and is constituted of, social power relations which have tended to reproduce individualistic and voluntaristic social institutions and practices. The contestation which characterizes restructuring in the British firm is likely to be more fragmented and less codified by the formal and informal rules of social groups than the German case.” See Louise Amoore, “International Political Economy and the ‘Contested Firm’”, p 191. These divergences in the way that continental and UK SMEs deliberate is largely consistent with Soskice’s comments that, in terms of the

continentally dominated SMEIOs come from a chamber tradition, meaning that they represent firms already established in their local market, and thus are more moderate.³⁵⁵

Another possible reason that UK SMEIOs are more radical in their support for neoliberalism is the relative absence of the craft sector as a significant component of the SME community.³⁵⁶ It is also noteworthy to point out that amongst the national-level SMEIOs – at least those of Germany and Hungary that were interviewed – there remain clear differences in terms of the radicalism of support.³⁵⁷

In this section, we have explored EU SMEIOs' position toward further neoliberalism at the EU level, and have characterized the nuances of their stance thusly:

internal organization of the firm, German social practices require an ongoing process of “cooperation from and between companies, universities and research institutes.” See Louise Amoore, “International Political Economy and the ‘Contested Firm’” p 191, footnote 50.

³⁵⁵ This was conveyed by several organizations, but SME Union especially: the members are....they are in the market already...they are...sometimes they are not pro liberalization...because they are already in...it means more competition for them...we (SME Union) are definitely for more competition...but they have to listen to their members...liberalization of access to the market...is tricky for the chambers...” Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³⁵⁶ The craft sector in the UK – especially in England – was virtually obliterated during the industrial revolution. This is a different historical experience from what most continental states went through, where the guild lineages and craftwork traditions lasted much longer, with many elements still persisting today. As one UNICE representative commented, “If your members are crafts, there is a tendency that your members are more protectionist, less European minded.” Interview, David Coleman, Senior Advisor with Dossiers in Entrepreneurship and SMEs, UNICE. Brussels: February 24th, 2005. As one UK SMEIO pointed out, this means that in the UK, the composition of SME voices fighting for social protection is comparatively less than on the continent. Interview, Victoria Carson, Brussels Representative, Forum for Private Business. Brussels: July 15th, 2004. This may also help explain the more moderate position of UEAPME towards further neoliberalization in Europe.

³⁵⁷ For example, the two national-level German SMEIOs interviewed, the ZDH and the BVD, diverged in their enthusiasm for further neoliberalization, with the former helping to organize populist street protests to roll back social regulation, and the latter exercising a more moderate, though supportive approach to neoliberalism, which at times borders on a critical approach towards the structural power of LSEs. Interview, Alexander Barthel, Director of Department of Economic and environmental Policy, ZDH. Berlin: August 19th, 2004; Interview, Hans-Dieter Schäfer, National Director, BVD. Neunkirchen: August 24th, 2004. The same intra-national divisions amongst SMEIOs interviewed existed in Hungary. IPOSZ, for example, had an approach similar to UEAPME (it is a member of UEAPME), while HASME had a more radical neoliberal approach, and more radical institutional linkages to the Right and conservative parties (with the SME Union, for example). Interview, Tamás Rettich, Assistant to the President, IPOSZ. Brussels: August 11th, 2004; Interview, György Szucs (translated to English by Tamás Rettich), President, IPOSZ. Brussels: August 11th, 2004; Interview, György Bistray, Director, HASME. Budapest: August 17th, 2004.

they are simultaneously enthusiastic and supportive, defensively aggressive, and selectively cautious of a more neoliberal EU. We have also considered some of the possible reasons for the ‘vociferousness’ of SMEIOs, and have also illustrated the existence of national variation. Whatever the causes of SMEIOs’ support for neoliberalism at the EU level, we can be sure that, as an organized structure of interest representation, ‘the market economy’ of SMEs contains strong, but not uncomplicated, *support* for neoliberalism in general. What might be some of the possible consequences of this? In the ongoing conversation over the institutional capacities of the EU, how implicative are SMEIOs?

Section Two – Possible Consequences

Now that we have described the strong – yet not uncomplicated – support that SMEIOs have for neoliberalism at the EU level, we can consider some of the possible implications of this disposition. While this section remains somewhat speculative in nature, since only suggestive and non-empirical evidence can be offered in support of the positions put forward here, it is important that the possible implications are at least provisionally explored.

On one level, the hyper-inclusivity of SMEIOs within deliberations of the European Commission, as detailed in Chapter Two, is important here. While it is unclear exactly how or to what extent SMEIOs are able to articulate their support for neoliberalism through their privileged access, it is unlikely that this institutionalized set of relationships *does not* have an impact on the Commission in some way. Through the commonplace practice of consultation between DG Enterprise and SMEIOs, the creation

of institutionalized relationships such as the SME Envoy, and the 'Open Method of Coordination' discussed in Chapter Two, we have observed that SMEIOs have been subsumed within what Vivian Schmidt calls "the coordinative phase of discourse;" where ideas and arguments about the future of European integration are discussed and developed.³⁵⁸ As we have observed above in the previous section of this chapter, SMEIOs have quite definite views about the process of institutional evolution at the European level. The 'defensively aggressive' character of SMEIOs thus may have implications for the ways in which coordinative discourse operates. Through their deliberations with European officials, with the SME Envoy, and with the popular media, the input of SMEIOs act to reinforce the existing discourses that are supportive of a neoliberal vision for Europe, and to negate those that are not.

Importantly, SMEIOs' *defensive* articulation of the need for a neoliberal EU carries with it a legitimacy that is largely absent from other social forces acting at the EU level which are seen to act in a more offensive manner and against the public interest, such as LSE associations like the ERT. SMEs are generally regarded by the public with positive feelings, and with a 'rooted' connection to the local community. Thus, SMEIOs' strong support for the European integration process encouraging tax competition amongst member states has an authority and legitimacy with the public that it would not otherwise have. Similarly, with SMEIOs advocating for labour market deregulation, other actors both within the Commission and civil society can portray labour market deregulation as a *need* that serves the small 'entrepreneur' and SME not as a *want* for 'the big capitalist' and LSEs. Support for a more 'neoliberal Europe' is not seen as an attack on a vision of 'social Europe,' but as a means to empower the 'entrepreneur.' With the voice of

³⁵⁸ Vivian Schmidt, *The Futures of European Capitalism*, p 233.

SMEIOs well represented in the Commission, as well as within alliances of other business associations and increasingly within the popular media, the phenomenon of tax competition appears as a reward for the ‘entrepreneur,’ and loses its association with ‘big business’ gaining advantages at the expense of the ability for member states to pursue the public interest.

For Bechholfer and Elliot, small businesses “...provide jobs for a substantial proportion of the population and the most personal and direct experience of capitalism for many citizens.”³⁵⁹ Echoing Schumpeter, Bechholfer and Elliot have commented that, although the role of “the petit bourgeoisie” shows “considerable variation” in the political life of particular societies, “it is everywhere an important repository of ideas and sentiments supportive of capitalism and the institutions of liberal democracy.”³⁶⁰ Writing in the 1980s, they commented that “This is a fact which contemporary right wing governments have been quick to recognize.”³⁶¹ Given the fact that one of the most vocal EU-level SMEIOs (SME Union) is affiliated with the Right wing European People’s Party, it is hard to disagree with these conclusions being applied in the contemporary context of the EU. From the perspective of SME Union, “to win an election, it is becoming more and more important to speak to SME issues.”³⁶² “What we observe,”...is that the SME issues are in the hands of the conservative folks here [in Europe].³⁶³ There can be little question that the Right in the EU has capitalized on the currency of SME issues.

³⁵⁹ F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism”, p 181.

³⁶⁰ Ibid.

³⁶¹ Ibid.

³⁶² Interview, Gerhard Heumer, Director of Economic and Fiscal Policy, UEAMPE. Brussels: July 15th, 2004.

³⁶³ Interview, Patrick Voller, Secretary General, SME Union. Brussels: July 15th, 2004.

Future Potentialities

In considering the future impacts of SMEIOs on the process of neoliberalization at the EU level, we might consider the way in which SMEIOs act as a storehouse of neoliberal support – one that could be drawn upon as future circumstances might dictate. Future intensification of the EU's neoliberal orientation (for example, future directives further limiting the potentiality for certain kinds of EU-level social policy) will depend on the given discursive framework within Europe. Schmidt has shown, in her work on neoliberalism in Europe, that intensifications of neoliberal policy demand *an already existing normative framework*.³⁶⁴ We can assert almost unequivocally that SMEIOs contribute to this already existing normative framework; moreover, they actively work to reproduce it, and in many ways strengthen it. However, as we have observed above, SMEIO positions are more nuanced than simple support for neoliberalism, and sometimes are qualified in a way that might appear to run against the neoliberal current in regards to particular pieces of EU legislation. It is unlikely that these particularities of the SMEIO community will disappear with time. What remains more variable in the future, however, is how they will find their political expression in EU politics. In considering future potentialities, however, we must bear in mind two factors which hinder the growth and further expression of these qualities. First, the degree of 'qualification' of SMEIOs' support for neoliberalization is extremely varied, and thus the possibility for a unified 'anti-neoliberal' SMEIO position at the EU level remains

³⁶⁴ Vivian Schmidt, *The Futures of European Capitalism*, pp. 274-275.

limited.³⁶⁵ Second, the fact that the ‘mixed’ business interest organizations such as UNICE and Eurochambres *do not* share the qualifications that the ‘pure’ SMEIOs have means that the public expression of their diverging grievances are made more unlikely, since they often coordinate their positions with the Commission together.³⁶⁶

In regards to the uneven yet very apparent contention that some SMEIOS have with financial capital, one might expect that there exists at least one potential issue-area for SMEIOs to go against the neoliberal current of the rest of the business community. One representative from a ‘pure’ SMEIO commented that the fact that SMEIOs do not represent banks within their organizations, unlike the ‘mixed’ and big business associations, means that the ‘pure’ SMEIOs can be more critical of financial institutions; in the words of one interview participant, “everybody hates banks, but they are members of large business organizations, so they can’t criticize them.”³⁶⁷ So far, SMEIOs have had a tangible impact on the Basle II implementation process in defending their own interests.³⁶⁸ It is perhaps in this area of EU political economic change that SMEIOs can countervail the neoliberal tendency with greatest efficacy, but this remains to be seen and is open to debate. Given the enthusiastic stance of SMEIOs towards neoliberalism in

³⁶⁵ That being said, this might not be the case at the *national* level.

³⁶⁶ In this regard, one UEAPME representative commented that, in regards to instances of concertation with the ‘mixed’ business interest organizations which don’t have the selective qualifications about neoliberalization, we are “pushed a little bit to accept their opinion...but more on issues that are not more important to us.” Interview, Luc Hendrickx, Enterprise Policy and External Relations, UEAPME. Brussels: February 23rd, 2005.

³⁶⁷ Interview, Robert More O’Ferrel, Communications and Press Relations, UEAPME. Brussels: February 23rd, 2005.

³⁶⁸ Internal Commission documentation suggests that “In the consultation rounds, the Commission and the Member States have addressed the issue of SME finance in particular, and the Basel Committee has taken note of this and has adjusted its proposals so that the outline for SME loan treatment presented in July 2002 was significantly more favorable. See European Commission, *Creating and Entrepreneurial Europe...*, p 54.

UEAPME boasts that, “due to intensive lobbying activities” an adjusted Basel II has been adapted. See UEAPME, *UEAPME Position Paper on the Future of SME Finance*. Brussels: UEAPME, 2004. p 3. This

most of its avatars, it is difficult to imagine them forging alliances with other Euro-groups that are actively resistant to neoliberalism at the EU level, such as the European Trade Union Confederation (ETUC). Furthermore, the presence of strikingly different financial orders in the different regions and member states of the EU make for a potentially burdensome heterogeneity of interests when considering financial re-regulation as a possible response to neoliberal reforms.

SMEIOS, LSEs and Neoliberalism

[...] the ERT have consistently warned that the cancer of over-regulation is one of Europe's major competitive handicaps and a direct factor behind excessive unemployment- *and the small companies are its principal victims.*³⁶⁹

That is what is smothering small businesses in Europe, and *the solution is not to modify individual rules line-by-line but to cast them wholesale into the bonfire.*³⁷⁰

- ERT Publication, *Cooperation Between Large and Small Companies*

Economically and sociologically, directly and indirectly, the bourgeoisie therefore depends on the entrepreneur and, as a class, *lives and will die with him...*³⁷¹

- Joseph Schumpeter, *Capitalism, Socialism and Democracy*

Perhaps the most significant implication of SMEIOS' support for neoliberalism is the relationship that SMEIOS have with LSEs. While we have pointed out that SMEs are presented with a favourable opportunity structure and are transnationally organized at the EU level, there is no question that LSEs – both through their representative organizations such as the ERT and AMCHAM-EU as well as on their own as individual firms –

view was confirmed during the interview conducted at the Enterprise DG with Vesa Vanhanen. Interview, Victoria Carson, Brussels Representative, Forum for Private Business. Brussels: July 15th, 2004.

³⁶⁹ ERT, *Cooperation Between Large and Small Companies* (Brussels: ERT, 1998), p 14.

³⁷⁰ ERT, *Cooperation Between Large and Small Companies...*, p 15.

³⁷¹ Joseph Schumpeter, *Capitalism, Socialism and Democracy*, p 134.

exercise in most cases a greater degree of structural power. Yet what LSEs possess in structural, economic terms they lack in terms of legitimacy. In a Braudelian sense, the LSEs of capitalism are industrial giants but in terms of public trust they are pygmies. In ‘the market economy’ of SMEs, the situation is just the reverse: SMEs –especially the smaller ones – garner respect, and the figure of the rugged entrepreneur still possesses an aura of dignity within the popular consciousness.

The impact of SMEIOs’ support for neoliberalism at the EU level should thus be considered alongside the deeply entrenched problem of representation which LSEs face. In an interview with a representative from the ERT, advocating on behalf of SMEs was promoted as a tool by which LSEs could achieve the kind of EU-level reforms that *they* wanted (not that these would necessarily be divergent).³⁷² As an ERT representative commented in an interview, “in the political advocacy framework, SMEs play a very, very important role...[as] business is often seen (badly)...”³⁷³ The ERT representative commented that all businesses – but especially SMEs – have an important role to play in countervailing a prominent ‘anti-business’ attitude in Europe.³⁷⁴ One representative from UNICE, the ‘mixed’ business interest organization most often associated with being simply an LSE organization, made similar comments. They emphasized the need to countervail the attitude of suspicion towards business:

There’s an idea and there’s something that we fight against, and that is that business is the bad guy....Currently, the education systems, teachers, and the press even is pretty negative towards business...portraying it only as the bad guy, and that is an element that

³⁷² Interview, Dennis Kradler, Policy Strategy, ERT. Brussels: February 24th, 2005.

³⁷³ Interview, Dennis Kradler, Policy Strategy, ERT. Brussels: February 24th, 2005.

³⁷⁴ The ERT representative added that: “...the fundamental reason for existence for business is to make a profit, its not to finance schools...there is a very widespread opinion amongst the general public that business should be...is basically there to employ people and to finance public goods...” Interview, Dennis Kradler, Policy Strategy, ERT. Brussels: February 24th, 2005.

we would strive to change in popular discourse...that's an image that has to be changed.³⁷⁵

business is perceived as the bad guy, and that is a very, very bad situation in Europe – we need more entrepreneurs, we need more people that are entrepreneurially minded, and to do that, we need to get into the deep roots of society, and that goes into the education system.³⁷⁶

SMEIOs, being organizations which are just as, if not more, supportive of neoliberalism as LSEs thus can be seen to facilitate an important task for the problem of representation that faces 'big business.' This may be one of the reasons why groups like the ERT have paid more lip service to SME issues in recent years (see quote above), and why 'mixed' business interest organization such as Eurochambres now articulate themselves almost exclusively as an SME organization – in their own words, “seeking to position ourselves as a spokesperson on behalf of SMEs.”³⁷⁷ Bechholfer and Elliot's comments are instructive here. For them, SMEs represent a “repository for certain key values”, and thus

are looked upon by capitalist ruling classes as valuable allies. They have good reason to be confident of support not only in their project to defend existing institutions and practices but also in their campaigns to undermine socialistic and collectivistic ideologies and practices.³⁷⁸

Schumpeter also pointed to such a connection, and more recently Malaeb emphasizes that SME discourse within development politics has often been used “a tool to promote the cause of liberalization and free enterprise [...]”³⁷⁹

³⁷⁵ Interview, David Coleman, Senior Advisor with Dossiers in Entrepreneurship and SMEs, UNICE. Brussels: February 24th, 2005.

³⁷⁶ Interview, David Coleman, Senior Advisor with Dossiers in Entrepreneurship and SMEs, UNICE. Brussels: February 24th, 2005.

³⁷⁷ Interview, Paul Skehan, Deputy Secretary General, Eurochambres. Brussels: August 26th, 2004.

³⁷⁸ F. Bechholfer and B. Elliot, “The Petite Bourgeoisie in Late Capitalism”, p 203.

³⁷⁹ Makram Malaeb, *The Rise and Demise of SME Discourse...*, pp. 108-109.

Regarding the appropriation of SME discourse, it is perhaps implicative that many of the ‘pure’ SMEIOs commented that their qualifications about their occasional neoliberal positions were not appropriated. In the words of one UEAPME representative, “everybody’s paying lip service to it...if someone can say that they are representing the SME interest, it will strengthen their position.”³⁸⁰ Another UEAPME representative commented that “I think that...in the political discourse, SMEs are abused [...]”³⁸¹ In regards to the ability of the SME community to articulate their selective qualifications with a more neoliberal EU (such as the Software Patent, etc.), “The qualification part of it can’t be articulated so well, because you are in a weak position”³⁸² vis-à-vis other better resourced social partners and members of the LSE community.

The end result of such a situation is that it is primarily the ‘hard core’ of support for neoliberalism which finds its fullest expression in the business interest organization community *as a whole*. It would be wrong to say that the ‘pure’ SMEIOs are ‘co-opted’ by the rest of the organized business community, since by and large they generally share strong support for a neoliberal Europe. As was alluded to in section one above, SMEIOs are often more ‘vociferous’ in regards to their support for a neoliberal EU. For LSEs, the entrepreneur is a more positive archetypal figure for public consumption than the CEO, who might as well be an ogre in a suit.

This chapter has provided a qualitative assessment of the support SMEIOs have for neoliberalism in the EU. We have seen that the representatives of the ‘market

³⁸⁰ Interview, Robert More O’Ferrel, Communications and Press Relations, UEAPME. Brussels: February 23rd, 2005.

³⁸¹ Interview, Luc Hendrickx, Enterprise Policy and External Relations, UEAPME. Brussels: February 23rd, 2005.

economy' are *supportive and enthusiastic, defensively aggressive, and selectively cautious* towards neoliberalism at the EU level. We have also discussed some of the possible implications this organized structure of SME representation may have presently and in the future. It was emphasized that SMEIOs represent a bastion of support for neoliberalism, and that their ascendancy in public discourse has actually been welcomed by the LSE community, who utilize SME issues to their advantage. Thus, SMEs and the 'layer' of the economy that they occupy – that is, 'the market economy' – has not only become increasingly important for national and supranational economic development; in recognition of the new, stronger, more powerful opportunity structures available for them, its representatives have organized transnationally to represent their interests, *and* provide a vocal bastion of (albeit equivocal) support for neoliberalism at the EU level.

³⁸² Interview, Stefan Zickgraf, Managing Director, CEA-PME. Brussels: February 25th, 2005.

Conclusion

To refer back to the introductory quote at the beginning of this thesis, it appears that neither the ‘God’ of the market nor the ‘God’ of the state has forsaken small capitalists. Their sun has not set. Indeed, as demonstrated in Chapter Two, the fortunes of the SME sector as a ‘layer’ of the economy have largely reversed from their earlier course that Marx, Schumpeter, and so many others predicted. Such a position has been ensured both by some of the qualitative characteristics of industrial organization in the neoliberal period and also by the active intervention of states. Within the EU context this has meant extensive attempts to promote SMEs as an industrial strategy, attempts which have increased the access that SMEIOs have to the European Commission. Chapter three has described the dense and diverse structure of interest representation that has emerged for SMEs at the EU level, emphasizing that SMEs have organized in response to the favourable opportunity structure presented to them. Chapter Four examined the political orientation of SMEIOs operating at the EU level, and speculated on some of its origins and possible consequences. Through the extensive use of interviews, it was established that SMEIOs are *supportive and enthusiastic*, *defensively aggressive*, and *selectively cautious* towards neoliberalism at the EU level. In exploring some of the possible consequences of these attitudes, we considered the fact that as a group that is both politically aggrandized by the European Commission and by the LSE community, SMEIOs may influence the EU in a more neoliberal direction.

This thesis has not sought to contest the economic taxonomy that Braudel and many others have found useful. What it has sought to do is contest the political ontological understanding that runs concurrently alongside such a taxonomy in IPE: that

the political reproduction of neoliberalism occurs at the ‘top’ layer of capitalism, and that by implication the market economy layer of SMEs is politically quiescent, or at best even represents a potential bulwark against neoliberalization. While this may seem counter-intuitive, we have seen that the reality is quite the contrary. We have seen that such an assumption within IPE is spurious, at least in the case of the EU. Thus, the 25 million SMEs which are formally represented at a level of supra-national governance provide a bastion of support *for* neoliberalism.

We might conclude this thesis by offering some commentary on the scholarly context with which this thesis has hoped to engage by reflecting on the significance of this particular case study for IPE, and for our understanding of neoliberalism.

Consequences for International Political Economy

What might be the consequences of this case study for what we have called ‘the Braudelian imaginary’ in Chapter One, the predominant paradigm within IPE? At minimum, this case study should give scholars of IPE a reason to rethink our exclusive focus on oligopolistic actors, particularly the political activism of LSEs. We have seen throughout this thesis that with the increased economic importance of SMEs, particularly their increased importance within state strategies of economic development, SMEs have developed a transnationally organized structure of interest representation, a structure that must be considered when evaluating the strength or weakness of competing visions for Europe. Whether or not the case of SMEIOs in EU is a particular, regional exception or not remains open to question. Because the opportunity structure that SMEIOs acted within was presented as the result of a regional political authority carrying out regional

policies, it may be prudent to consider the EU case as a special one. However, what we have observed, and what requires further reflection, is the fact that the formal representatives of 'the market economy' are important bastions of support for neoliberalism.

In future research, the case study of support for neoliberalism amongst the SME sector could serve as an interesting way to explore the Gill and Bakker's thesis that neoliberal globalization is accompanied by an "emergent market civilization" accompanied "by the values of possessive individualism."³⁸³ While such IPE analysis has thus far been restricted by the Braudelian imaginary, future research might explore the ways in which SMEs influence this transformation. Such research might emphasize the relationship between competitive market pressures and the unique social organization of many SMEs. As we have explored in Chapter 4, part of the way that SMEIOs explained the vociferousness of their neoliberal support was because of the unique social organization of SMEs, and the fact that regulation was not only a (priced) cost, but also was metabolised as a personal burden for owner-managers, and was thus 'felt' more intensely. Understanding the transmission of such a subjectivity into vociferous support for particular political projects remains a challenging but important task.

As stated earlier in this thesis, an economic taxonomy which involves a conceptual 'layering' of the economy is useful. Indeed, the dynamic relationship between LSEs and SMEs – both economically and politically – cannot be fully understood without such a conceptual differentiation of 'layers.' However, the political ontology that is popularly assumed to follow such an economic taxonomy is unjustified. The situation described in this thesis is certainly a far cry from the Braudelian political

ontology whereby SMEs are politically quiescent economic units, apolitical actors alongside the giants of capitalism, “the great predators.” Like the once atomized mass of labourers of 19th Century Europe, SMEs have forged an ‘international’ – albeit at a regional level of governance. They have utilized their collective resources, and they deliberate through representative organizations at the transnational level. While we cannot empirically measure the direct influence of SMEIOs in relation to other social forces in the polity, it is clear that SMEIOs organized at the EU level are well organized, very vocal, and are used by other members of the business community to legitimate their positions to a European public suspicious of ‘capitalism’ but for the most part trustful of ‘the market economy.’ Thus, the power of SMEIOs should not be underestimated in such a context.

The Significance for Our Understanding of Neoliberalism

What is the significance of this case study for our understanding of neoliberalism? What does it mean that SMEIOs, a representative group currently empowered at the EU level, are ‘neoliberal cheerleaders’? On the one hand, it means we should adapt our analysis of *the location of support for* neoliberalism. Characterizations within IPE of neoliberalism being supported exclusively by the upper layer of the business community should therefore be treated with suspicion. We should question the validity of any research which examines the political role of ‘business’ or ‘capital’ in the EU *without* investigating the political role of SMEs. A holistic and integrated consideration of the business community as a whole not only helps us to more accurately judge its degree of

³⁸³ Isabella Bakker and Stephen Gill, “Global Political Economy...”, p 10.

support for neoliberalism and the equivocations therein; it also helps us to understand political synergies between SMEs and LSEs, such as when they both advocate deregulation, but the SME voice legitimates this notion in popular discourse.

We should also consider the possibility that neoliberalism has a hold on the minds of the organized business community not only because it is a captivating in the sense of being ideologically attractive, but hegemonic in the true ‘Gramscian’ sense, in which there may also be an element of real material benefit to adhering to a neoliberal program.³⁸⁴ Deregulation is ‘productive:’ indeed, changing the conditions of commercial activity alters the fortunes and fates of enterprises. In the IPE literature, this phenomenon is explored at the level of LSEs and ‘capital’ as a whole. Numerous IPE theorists have emphasized that developments wrought by the global neoliberal shift have enabled LSEs to accumulate in an unprecedented manner and scale.³⁸⁵ The ‘primitive accumulation’ afforded by corporate tax cuts, the deregulation of labour markets, large corporate mergers, and the transfer of public assets to multinational corporations – all justified by neoliberal doctrine – is seen as economically beneficial for LSEs. What is true for LSEs in regard to their *accumulation* strategies may be equally true for SMEs in regard to their *survival and success* strategies. For although the place of the SME sector is relatively assured as a whole, both because of its importance in the global economy and because of policy interventions to promote it, many individual SMEs may be in – or perceive themselves to be in – a vulnerable economic position, hence their defensive posture and

³⁸⁴ See Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci* (edited and translated by Quintin Hoare, Nowell Smith and N. Geoffrey) (New York: International Publishers, 1999). Within IPE literature, this line of theorizing, which emphasizes the importance of hegemony, coalition, and the real material concessions offered to subordinate and social forces in ‘historic blocs’ has been best expressed by Robert W. Cox. See Robert W. Cox, *Production, Power, and World Order*, or Robert W. Cox, *Approaches to World Order*.

rhetoric.³⁸⁶ As we have seen in Chapter Four, SMEs' perception of endangerment may be objectively justifiable; however, it may also be a subjective reaction to the changing entrepreneurial climate. As we have seen, not only is regulation a 'cost' that is difficult to bear for SMEs; it is also 'felt' in an adverse way by owner-managers because of the unique socially-embedded organization of these firms. Thus, the market economy is strong *as a sector* but some of SMEs within it feel weak and defensive.³⁸⁷ Politically empowered at the transnational level, that defensiveness is articulated politically as a neoliberal *offence* to existing structures of regulation. Proponents of a more social Europe will find it difficult to find a friend in the market economy; some proponents of a more neoliberal EU, such as the ERT, have already found a valuable ally.

Organized Business and Social Welfare

To conclude, we should reflect on how this case study might reveal some new ways of thinking about the potential shortcomings of neoliberalism. Instead of focusing on the staggering power of multinational corporations and their ability to harm the public interest in the *private interest* of "capital", we need to reflect on the fundamental

³⁸⁵ See, for example, David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003), or Keys Van Der Pijl, *Transnational Classes and International Relations*.

³⁸⁶ As noted earlier, while the SME sector as a whole may be strong, the 'business death rate' of individual firms within that sector is very high. See European Commission, *Industrial Policy in an Enlarged Europe: Statistical Elements in Support of the Communication*, p 29.

³⁸⁷ This situation might be likened to the situation of workers in a situation of full employment. Although it is relatively assured that everyone in the labour market will get a job, this doesn't mean that the conditions of work or even job security itself is necessarily assured. Workers can lose their job and get hired soon thereafter or workers can leave the labour market (and others may enter it that have not been looking for work). Thus the structure of aggregate employment as a whole maintains itself, but at the individual level people could be losing their jobs perpetually. Similarly, it is possible for SMEs to fail as long as this is counteracted by another firm (or the same firm in a different form) entering the market. The aggregate picture is one of strength and stability, while at the micro-level there could be precariousness. This example is used not to point out that the majority of SMEs are economic weaklings that are in a perpetual state of business failure, but rather to point out that the precarious conditions of many SMEs would not be

relationship of organized business to the moral and institutional framework in which it is embedded. In this regard, and in light of the argument contained in this thesis, we might offer a critique of neoliberalism *on its own terms*. Focusing on the existence of an SME sector, which is inevitably sensitive to any given regulatory environment, helps us to do just this.

The authority of neoliberalism rests on the promise of the efficiency of the market. The more we leave firms ‘alone’ (i.e. do not institutionalize a set of non-market based expectations on them), it is alleged, the more that firms can combine the factors of production in a way that is efficient. However, in politically dynamic conditions, whereby firms can deliberate on the framework conditions they operate within, how do we know that calls for neoliberal deregulation are not a way of subsidizing inefficiency? When regulation imposes a high cost for business, as it does for SMEs, then deregulation poses a business opportunity - either for enhanced success in the market, or simply as a way of remaining in the market. Yet if deregulation is “productive” for business success in this way, then how do we know when it is not a *substitute* for other productive improvements within the firm, thus allowing inefficient business activity to go unchecked, and allowing firms that would otherwise die to survive longer?³⁸⁸ Isn’t neoliberal deregulatory reform thus at least potentially contradictory with its own aims? One study by Parker suggests that deregulatory reform designed to promote SMEs through labour market deregulation and tax cuts may have the consequence of promoting “those SMEs

registered in an aggregate measurement of the sector as a whole. They would be measured, however, when SMEs are able to voice their support for particular political projects.

³⁸⁸ To use an extreme example, allowing a small manufacturing business to lower the cost of labour to a minimum might help this business succeed. But under such conditions what incentive would the firm have to combine labour in a way that is more efficient when the budget constraint has just been made more flexible?

which do not undertake research and development and which engage in insecure and low wage employment.”³⁸⁹ Similarly, Baldwin and Chowhan’s research suggests that the growth of the SME sector can cause a drag on labour productivity growth.³⁹⁰ If this is true, (and it would take further research to measure such a truth), we might conclude that a justification for expanding the ‘market economy’ through neoliberal reform has contradictory ends.³⁹¹

Smith, Braudel, Hayek, and their successors within IPE captivated by the Braudelian imaginary all have one thing in common: for them, there is an inherent danger in organized business. Smith said most eloquently what the others have said in their own way:

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.³⁹²

Thus, organized business always presents the opportunity to distort the market. However, when the conversation of organized business ends not in ‘raise prices!’, but ‘tax cuts!’ or ‘deregulate!’, organized business is not distorting the market; it is merely changing the conditions in which the market operates.³⁹³ Instead of the threat of ‘rent seeking behaviour’ from price-mechanism distortions, the threat is to the institutional framework conditions in which markets are embedded. The consequences are twofold. On the one

³⁸⁹ Rachel Parker, “From National Champions to Small and Medium Sized Enterprises: Changing Policy Emphasis in France, Germany and Sweden” *Journal of Public Policy* Vol. 19, No. 1 (1999), pp. 63-89; p 64.

³⁹⁰ See John R. Baldwin and James Chowhad, “The Impact of Self-employment on Labour Productivity Growth...”

³⁹¹ We should note, however, that if the aims of neoliberal deregulatory reform are *not* to promote efficiency, but are simply designed to generate employment, then this would not be contradictory. On the other hand, we might question what differences actually exist then between such policy efforts and the Keynesianism that neoliberalism criticizes.

³⁹² Adam Smith, *The Wealth of Nations* (Bungay: Pelican Books, 1974), p 232.

³⁹³ It might also be added here that neoliberalism in many instances significantly reduces the ability for firms to engage in such practices as intentionally distorting the market for economic gain.

hand, it is a danger to the things that such taxes might finance or what the regulation was designed to achieve, not always but typically for some goal of social justice through redistribution. But it might also be a threat to the legitimacy of the market itself. In calling for deregulation, doesn't organized business potentially countervail the market's capacity for doing what gives it legitimacy: ensuring efficiency? Couldn't a better understanding of the contradiction inherent in this latter consequence of deregulation be a potential ally to those who seek to challenge neoliberalism?

Such questions could be further explored, perhaps much to the benefit of our dynamic understanding of neoliberalism, its sources of social support, and its potential contradictions. However, to begin to explore such questions, IPE scholarship would have to first cast off the 'Braudelian imaginary' that discounts the relevance of the capacity of 'the market economy' of SMEs to influence the political affairs of the world.

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Appendix A: Official EU SME Definitions

Table 1.0: 1996 EU SME Definition Thresholds

Enterprise Category	Headcount	Annual Turnover	Annual Balance Sheet Total
Medium-sized	< 250	≤ €40 million	≤ €27 million
Small	< 50	≤ €7 million	≤ €5 million
Micro	< 10	not defined	not defined

Table 1.1: New 2005 EU SME Definition Thresholds

Enterprise Category	Headcount	Annual Turnover	Annual Balance Sheet Total
Medium-sized	< 250	≤ €50 million	≤ €43 million
Small	< 50	≤ €10 million	≤ €10 million
Micro	< 10	≤ €2 million	≤ €2 million

The European Commission revised its definition of SMEs in May 2003, taking into account economic developments since 1996 and the application of the definition. This was an attempt to ensure that enterprises that were part of a larger grouping did not benefit from SME support schemes. An increase in the financial ceilings was also designed to avoid penalising enterprises that invest, though this is unlikely to increase the number of SMEs significantly.

See European Commission Enterprise Directorate General, *The New SME Definition: User Guide and Model Declaration* (Brussels: European Commission, 2003), pp 13-16

Appendix B: EU Member States

EEA

European Economic Area:

Austria, Belgium, Denmark, Germany, Greece, Spain, France, Finland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Sweden, the United Kingdom, Iceland, Liechtenstein, and Norway.

EU 19

EEA Plus Switzerland

EU 15

The EU until April 30th 2004

Austria, Belgium, Denmark, Germany, Greece, Spain, France, Finland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Sweden, and the United Kingdom.

EU 25

The EU beginning on May 1st, 2004

Austria, Belgium, Denmark, Germany, Greece, Spain, France, Finland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Sweden, the United Kingdom, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia

Appendix C: Differentiating Employment by Enterprise Size and Nationality

Table 2.0: Estimated Number of Occupied Persons, Differentiated by Size and Nationality, EU 15, 2003
(X 1000)

	Micro	Small	Medium-sized	SME	Large	Total
Austria	1 094	555	462	2 111	826	2 938
Belgium	1 310	535	422	2 267	997	3 264
Denmark	744	417	352	1 512	570	2 082
Finland	526	232	225	983	540	1 523
France	7 024	3 039	2 550	12 614	6 318	18 932
Germany	10 488	5 553	3 961	20 002	10 882	30 884
Greece	1013	302	230	1 545	239	1 785
Ireland	234	218	196	648	281	929
Italy	10 702	3 178	1 855	15 735	3 099	18 834
Luxembourg	55	55	55	165	61	225
Netherlands	2 205	1 245	1 084	4 533	2 417	6 951
Portugal	1 201	743	589	2 533	678	3 210
Spain	7 901	3 069	1 799	12 769	2 868	15 637
Sweden	1 240	516	438	2 194	1 035	3 228
United Kingdom	7 933	3 664	3 044	14 641	10 089	24 730
EU-15	53 669	23 320	17 261	94 251	40 902	135 152

Adapted from Table IV.3, in European Commission Enterprise Directorate General (in association with KPMG, EIM Business and Policy Research), *2003 European Observatory of SMEs No. 7: SMEs in Europe 2003* (Luxembourg: European Commission, 2004), p 78

Table 2.1: Estimated Number of Occupied Persons Per Enterprise, Differentiated by Size and Nationality, EU 15, 2003

	Micro	Small	Medium-sized	SME	Large	Total
Austria	5	19	101	8	871	11
Belgium	3	21	104	5	1 115	7
Denmark	4	20	97	7	814	10
Finland	3	20	102	4	932	7
France	3	21	102	5	1 123	8
Germany	4	18	90	7	1 001	10
Greece	1	19	99	2	646	2
Ireland	3	19	94	7	691	10
Italy	2	18	97	4	1 013	4
Luxembourg	3	21	103	7	710	9
Netherlands	4	29	118	8	955	12
Portugal	2	19	96	4	760	5
Spain	3	20	97	5	931	6
Sweden	3	19	100	5	1 062	7
United Kingdom	4	18	99	7	1 328	11
EU-15	3	19	98	5	1 059	7

Adapted from IV.4, in European Commission Enterprise Directorate General (in association with KPMG, EIM Business and Policy Research), *2003 European Observatory of SMEs No. 7: SMEs in Europe 2003* (Luxembourg: European Commission, 2004), p 78

Appendix D: Differentiating The Number of Enterprises

Table 3.0: Number of Enterprises, Differentiated by Size and Nationality, EU 15, 2003
(X 1000)

	Micro	Small	Medium-sized	SME	Large	Total
Austria	233	30	5	267	1	268
Belgium	408	25	4	437	1	438
Denmark	180	21	4	205	1	206
Finland	207	12	2	221	1	222
France	2 326	144	25	2 495	6	2 501
Germany	2 656	307	44	3 008	11	3 019
Greece	752	16	2	771	0	771
Ireland	83	12	2	97	0	97
Italy	4 290	177	19	4 486	3	4 489
Luxembourg	21	3	1	24	0	24
Netherlands	517	43	9	570	3	572
Portugal	648	39	6	693	1	694
Spain	2 499	156	19	2 674	3	2 677
Sweden	454	27	4	485	1	486
United Kingdom	1 996	200	31	2 226	8	2 234
EU-15	17 272	1 211	176	18 659	39	18 698

Adapted from Table IV.2, in European Commission Enterprise Directorate General (in association with KPMG, EIM Business and Policy Research), *2003 European Observatory of SMEs No. 7: SMEs in Europe 2003* (Luxembourg: European Commission, 2004), p 77

Appendix E: Output Measurements

Table 4.0: Value-Added Per Occupied Person, EU19, 2003

		SME				LSE	Total
		Micro	Small	Medium-sized	Total		
Turnover per enterprise	1 000 Euro	440	3 610	25 680	890	319 020	1 550
Value added per enterprise	1 000 Euro	120	1 180	8 860	280	126 030	540
Share of exports in turnover	%	9	13	17	12	23	17
Value added per occupied person	1 000 Euro	40	60	90	55	120	75
Share of labour costs in value added	%	57	57	55	56	47	52

Adapted from Table 3.1, in European Commission Enterprise Directorate General (in association with KPMG, EIM Business and Policy Research), *2003 European Observatory of SMEs No. 7: SMEs in Europe 2003* (Luxembourg: European Commission, 2004), p 26

Appendix F: European Commission Staff Consulted

Organization Name	Directorate General	Name	Position
European Commission	Enterprise	Emmanuel Berck	Promotion of Entrepreneurship and SMEs
European Commission	Enterprise	Emmanuel Maincent	Policy Officer - Industrial Policy
European Commission	Enterprise	Barbara Noel	Crafts, Microenterprises and Mutuals
European Commission	Enterprise	Vesa Vanhanen	Principle Administrator, Access to Finance
European Commission*	Employment and Social Affairs	Finn Ola Jolstad	Employment Strategy
EBN	European Business and Innovation Centre Network	Olivier Marciset	Project Manager

Appendix to Chapter Three – Interview Methodology

In July and August 2004, and February 2005, formal, semi-structured interviews were conducted with senior representatives of each of the explicitly SME-focused lobby organizations which act exclusively at the EU level. Questions posed to SMEIO representatives ranged from more a-political, empirical questions about the increased importance of SME issues in the EU (e.g. “Why are we hearing so much about SME issues in the EU lately?”) to more specifically political questions such as “What is the political orientation of your organization?”³⁹⁴ These questions were typically open-ended, such that the interview subject could answer in a manner unimpeded by the possible ‘baiting’ of the interviewer. While the structure of questions posed to each representative was identical in substance, the placement and articulation of questions was dependent on the ‘flow’ of the conversation between the interviewer and the interview subjects.

Often, the context of the questions posed were elaborated through the interviewer’s citing of examples in selected country cases, such as illustrating what terms like ‘financial capital’ and ‘liberalization’ meant when invoked. Interview subjects were also informed as to *why* such a question was posed. This and the general open-endedness of the questions posed allowed interview subjects to present their views in a way that was both straightforward yet qualified. For example, when one interview subject was asked about his/her organization’s political disposition, and to what extent it was a ‘neoliberal’ position, the interview subject responded with a ‘yes – but...’ answer, enabling them to ‘qualify’ their answer in a manner whereby the nuances of their arguments were able to

³⁹⁴ There were four main groups of questions; ‘Why are we hearing so much about SME issues in the EU lately?’; ‘What is the political orientation of your organization?’ ; What is this disposition motivated by? Is it related to the market-environment that SMEs find themselves in? Particular national attitudes? Etc.’ ; What is your relationship with financial capital/banks?’

be expressed. Questions of clarification were also posed as the interviews progressed, and were not pre-determined. For example, if an interview subject discussed at length the need for deregulatory reform within labour markets, an increase in intra-state tax competition, etc., the interviewer could ask “by this do you mean you promote a more economically liberalized Europe? A more neoliberal Europe?,” etc.

The SMEIOs investigated ranged from a very well-resourced organization with over 30 permanent employees, such as UEAPME, to those with small staffs composed of 2-3 people, such as ESBA. The total number of SMEs that each organization represented varied, as did the defined mandate of each organization. Table 1 below provides a concise list of each of the SMEIOs under investigation, which includes the names and official positions of the representatives interviewed. Making room for the possibility that there may be more differentiated views within the larger organizations, as much as possible at least two representatives of the larger, more well-resourced SMEIOs were interviewed.

The criteria behind the selection of these organizations was very straightforward: the sample sought to capture cross-sectoral, cross-national, EU-focussed³⁹⁵ business associations that claimed to represent the interests of SMEs. The breadth implied by this criteria meant that the interviews covered both business organizations that are ‘SME-exclusive’ and thus ‘pure’ SMEIOs, as well as those which are essentially ‘mixed’ business interest organizations, for example organizations that represent both large firms and SMEs. Consequently, it should be noted that in Table 1, the organizations UNICE and Eurochambres are covered in this sample. The sample of individual representatives

³⁹⁵ i.e. where the majority of lobbying was directed at the EU, or the organization defines themselves as a ‘Euro’ organization.

of each organization was determined on the availability of representatives, contacts made during interviewing and investigating, etc. The sample of SMEIOs is exhaustive in that every cross-sectoral EU-focussed business interest organization claiming to represent the interests of SMEs is covered. The EU wing of the American Chamber of Commerce (usually referred to as AMCHAM-EU) was excluded from the field research since it represents LSEs which are US firms and not European. The European Round Table of Industrialists is also unrepresentative of SME interests (although they claim to represent interests about which both SMEs *and* LSEs are concerned). However, because of their importance, and because they ‘speak to’ SME issues increasingly, one of their representatives was interviewed. This source is drawn upon not as an SMEIO source of views, but as an exclusively LSE-oriented organization which has insights into how SMEIOs and exclusively LSE organizations might differ and interact.

Table 1: SMEIO Representatives Interviewed

Organization Name	Pure or Mixed?	Headquarters	Number of SMEs Represented 7 Million in EU, 11 Million across Europe 7 Million in EU, 11 Million across Europe 7 Million in EU, 11 Million across Europe 17,000,000 (95% of which SMEs)	Interview Participant	Position
UEAPME	Pure	Brussels		Luc Hendrickx	Enterprise Policy and External Relations
UEAPME	Pure	Brussels		Robert More O'Ferral	Communications and Press Officer
UEAPME	Pure	Brussels		Gerhard Huemer	Director of Economic and Fiscal Policy
Eurochambres	Mixed	Brussels		Paul Skehan	Deputy Secretary General Senior Advisor, with Dossiers in Entrepreneurship and SMEs
UNICE	Mixed	Brussels	N/A	David Coleman	Advisor, Economic and Fiscal Affairs Department
UNICE	Mixed	Brussels	N/A	Jean-François Maystadt	
SME-Union	Pure	Brussels	N/A	Patrick Voller	Secretary General
CEA-PME	Pure	Brussels	500,000	Stefan Zickgraf	Managing Director Advisor, EU Funding Programmes
CEA-PME	Pure	Brussels	500,000	Alexander Ruoff	
ESBA	Pure	Brussels	1,500,000	Frederic Soudain	Director
CEDI	Pure	Brussels*	1,000,000	Hans-Dieter Shaefer	General Secretary Director Economic and Environmental Policy
ZDH	Pure	Berlin	860,000	Alexander Barthel	
BVD	Pure	Neunkirchen (Germany)	200,000	Hans-Dieter Shaefer	National Director
HASME	Pure	Budapest	N/A	György Bisztray	Director
IPOSZ	Pure	Budapest	500,000	György Szűcs, Tamas Rettich	President, Assistant to President
FPB	Pure	London and Brussels	25,000 All UK SMEs	Victoria Carson	Brussels Representative
smallbusinesseurope	Pure	Brussels		Ben Butters	Director

National Composition

Each of the EU-level SMEIOs listed in Table 1 above are ‘associations of associations’ in the sense that they are the representative voice at the EU level for a collection of national organizations. While many of the organizations have periodic contact with specific SMEs, the ‘inputs’ that the EU level SMEIOs investigated receive are coming from SME groups operating at particular national localities. Each of these organizations also possesses an important degree of general autonomy; being European-wide organizations, however, they are constrained to act and think ‘in the general interest’ so as to maintain their institutional legitimacy as cross-sectoral, nationally diverse interest organizations. The exclusively nationally-based organizations under study are of course exceptional.

Table 2 below highlights the composition of national representation within the SME interest organizations which were interviewed. This national composition is quite extensive, with the larger SME interest organizations claiming to represent the interests of all countries in the EU 25, while other smaller SME interest organizations cover a narrower range of national representation. Interestingly, many of these organizations have national memberships outside the EU25, most often in candidate countries, although there are other “outliers” as well.³⁹⁶

³⁹⁶ For example, an Israeli business interest organization is a member of Eurochambres.

Table 2: The National Composition of SMEIOs Interviewed

Organizati on Name	Austria	Belgium	Cyprus*	Czech Republic*	Denmark	Estonia*	Finland	France	Germany	Greece	Hungary*	Italy	Ireland	Latvia*	Lithuania*	Luxembourg	Malta*	Netherlands	Poland*	Portugal	Slovakia*	Slovenia*	Spain	Sweden	United Kingdom
UEAPME	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Eurocham -bres	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
UNICE	X	X	X	X	X	X	X	X	X	X	X	X	X	O	X	X	X	X	X	X	X	X	X	X	X
SME- Union	X	X	X	X	X		X	X	X	X	X	X	X			X	X	X	X	X	X	X	X	X	X
CEA-PME	X			X				X	X	X				X	X				X	X	X	X	X		
ESBA	X							X	X											X				X	X
CEDI		X						X	X																
ZDH									X																
BVD									X																
HASME												X													
IPOSZ												X													
FPB																									X
smallbusin esseurope																									X

Note: the O for Latvia's membership in UNICE is denoted as such because it is an official 'observer.'

The fact that the SMEIOs interviewed often represented a plurality of different organizations within different EU member states meant that their lobbying activities cannot capture national differences very acutely.³⁹⁷ From a methodological point of view, this is both advantageous and disadvantageous in terms of the representativeness of the organizational sample. It is advantageous because interviewing exclusively EU-based SME organizations would capture the broadest articulations of SME political deliberation, which is what this thesis intended to explore. If there was a common denominator amongst SMEs in different localities, we could expect that it would be expressed at the EU level.³⁹⁸ As Marks and McAdam have pointed out in the context of

³⁹⁷ At least not very starkly, else they would risk their legitimacy through charges of favouritism, always a serious matter in European Union politics.

³⁹⁸ It would also be far beyond the scope of our resources to interview every national SME lobbyist in the EU.

transnational labour lobbying, Euro-groups “tend to take the lowest common denominator position in representing union interests in the European Union.”³⁹⁹

Focusing exclusively on the EU level of lobbying is however disadvantageous in that it fails to capture important regional and national differences that may be expressed within the EU-level organizations. While the focus of interest is on the EU level, it was deemed appropriate (and perhaps instructive) to get a glimpse into particular nationally-focused SME interest organizations. To this end, interviews were conducted with six different nationally-based interest organizations. Here an attempt was made to maximize case difference through selecting EU member states with significantly different political economies. To capture a regulated market economy, two representatives of German national-level SMEIOs were interviewed. To capture a highly liberalized market economy, two representatives UK-based SMEIOs were interviewed.⁴⁰⁰ As a third case of national variation, it was felt that it was important to investigate a European state undergoing post-communist transformation. To this end, two representatives of national SMEIOs in Hungary were interviewed. The selection of these nationally-based SME interest organizations was the result of contacts made through interviews with SME organizations at the EU level. Some of the national SME organizations overlapped with the EU associations (e.g. some national organizations interviewed are members of the regional EU-based organizations). Consequently, the selection criteria for specific national representation were somewhat biased, and should not be considered an

³⁹⁹ Gary Marks and Doug McAdam, “Social Movements...”, p 106.

⁴⁰⁰ The differences between the UK and Germany certainly do not capture the plurality of differences between EU member states, however as a supplemental aspect to my field research I felt that they would help at least map a rough outline of some significant differences. The national cases of Germany and the UK were selected both because of availability and because these two countries were often cited against each other (in the early phases of my interviewing) as containing significantly different political

exhaustive or fully representative sample of nationally-based SMEIOs in Europe. As the phenomenon of national variation within the EU is not the focus of this thesis, the observations made regarding national variation should be treated as supplementary to the ones made at the EU level.

It is also worth noting here, as was noted in the Introduction of this thesis, that studying SMIEOs, while it remains the study of a particular owner-manager class within Europe, does not mean that what we are measuring is the direct, raw dispositions of the class itself. SMEIOs operating at the European level are associations of associations, and should be examined as such. They are staffed not by owner-managers of SMEs (although many of their staffs profess to have been SME owner-managers formerly or to be so presently), but by formal representatives that claim to represent the interest of that class. The impacts of organizations that act *for* classes has been taken up by Poulantzas, who argues that “while the existence of classes and fractions is not determined by organizations, the latter ‘play a constitutive role’ vis-à-vis the formation of class positions.”⁴⁰¹ In this way (and related to the comments above by Marks and McAdam), Wright’s comments that the “organizational capacity” of a class is a function of “the actual linkages among members of a class created by and through consciously directed class organisations”⁴⁰² suggests, in a Thompsonian fashion, that SMEIOs may not only ‘represent’ or ‘reflect’ the political wills of SME owner-managers, but rather help to ‘constitute’ their political positions. Similarly, Mahon has commented that

while structural tendencies may increase or decrease the likelihood that

orientations of SME communities. One of the UK SME organizations (FPB) was also conveniently housed at an EU-centered lobbyist office (UEAPME).

⁴⁰¹ Nicos Poulantzas, *Classes in Contemporary Capitalism* (London: NLB, 1975), p 25. This quote was taken from Rianne Mahon, *The Politics of Industrial Restructuring: Canadian Textiles* (Toronto: University of Toronto Press, 1984), p 31.

⁴⁰² Erik Olin Wright, *Class, Crisis and the State*, p 101.

fundamental class interests will be declared, it is the degree to which a class has developed its organizational capacity that exercises a direct effect on the concrete definition of these interests and on the ability of a class to advance them.⁴⁰³

Thus, an analysis of the political disposition of millions of individual SME owner-managers, if it even were possible, wouldn't adequately capture the disposition of their class as a whole. Indeed, as Wright and Mahon suggest, the organizations that represent their interests at the EU level not only provide organizational capacities for SME owner-managers, but they also constitute their subjectivity regarding the EU itself. Consequently, interviewing SMEIOs – which are *organizations* – should be taken as a useful measure of SME owner-managers as a class. However imperfect this reflexive transmission may be because of the transnational character of SMEIOs, it remains the only measure we can take at that level of governance.

⁴⁰³ Rianne Mahon, *The Politics of Industrial Restructuring...*, p 32.