THE SINGLE MARKET 20 YEARS ON

SINGLE MARKET: NEW RULES URGENTLY NEEDED

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Notre Europe – Jacques Delors Institute publishes the synthesis of the round table entitled "The single market 20 years on: achievements and prospects on economic, social and political dimensions" organised during the annual meeting of its European Steering Committee on 24 November 2012. After an introductory speech of Riccardo Perissich[1], Former Director General Industry at the European Commission, the participants discussed the successes and the challenges of the single market 20 years on.

The session has revolved around five major themes: the importance of prevailing ideology for the single market, the new challenges posed by globalization, the ways of strengthening European industry, the need of making the single market more accessible and comprehensible for both businesses and citizens and the complementary policies that have to accompany the single market.

1. Single market yesterday and today: new context, new ideology?

1.1. 20 years ago: the wind of liberalism

Different ideologies have walked through Europe in the past decades: state interventionism, influences of communism and social democracy, Keynesianism, monetarism and liberalism; all of them have marked the European project. 20 years ago, when the Single European Act was launched by Jacques Delors, the liberal winds were blowing throughout Europe. **If internal market programme was so successful back then, it is because the consensus between governments, businesses and public opinion of the time was that of market liberalization and deregulation.**

In addition, the European Commission has managed to define a clear economic policy objective of bringing back competitiveness to all of the member states and Europe as a whole. The Commission has also managed to equip itself with the sufficient means for implementing the objectives of the internal market.

Consequently, a virtuous circle has emerged between the political process on the European level and the behaviour of the firms. As soon as the firms understood that the political system, consisting of the Commission and the member states, was determined to implement the single market programme, they adjusted their expectations and their investment behaviour accordingly. Growth and optimism returned to Europe, which, in turn, has encouraged the political actors to go ahead with further reforms.

1.2. Today: in search of a new paradigm

Today the crisis, which was born in the USA due to excessive financial deregulation, has brought a fundamental change of ideology. **The hypothesis of efficient markets is no longer seen as a right basis for public policy.**

This change of paradigm is already observed at the EU level with plans of re-regulating financial markets. Directives on financial market regulation are on the table already and the project on the banking union is emerging. This change of attitude is present not only in Europe, but also in the United States as witnessed by the outcome of the recent presidential elections.

The EU is at the crucial crossroad when it needs to decide if the single market can indeed work effectively without the genuine economic and banking union. Economic, political and social crisis in the member states has put indeed the whole project of the single market at risk: if single market is to survive intact, **the approach of "business as usual" is no longer sufficient**.

1.3. A need for determined action now

The Commission has been trying to move forward with the single market programme by publishing the Mario Monti Report and producing the Single Market Acts 1 and 2. Overall, the Single Market Acts are great for setting clear objectives. Today the most serious problem of Europe is that the means of implementing these objectives are insufficient.

The feeling of urgency, which was observed in the period of 1985-1992, is lacking among the policy makers. For example, the real proposals of the Single Market Act 1 were not ready yet at the time of the adoption of the programme and today only one of twelve proposals has been passed through the Council and the European Parliament. Similar trends are apparent with what concerns the financial service regulation and even the banking union. The directive on hedge funds and private equity has been adopted in 2011 and was supposed to be in place in all member states by 2013. Yet up to now, none of the 27 member states have even proposed a law for the transposition of this directive.

EU needs to put a more concrete project, capable of bringing all of the actors together. Recently one such project has been a real success: the European Energy Community[2]. It was put together by Jacques Delors and Jerzy Buzek and eventually accepted by both the European Parliament and the Council as a good way to move forward. Having such a clear project on banking union nowadays would probably help to reach a conclusion more efficiently, too.

2. Single market and globalization

2.1. The external influence of the single market remains limited

At the origins of the single market, it was thought that the internal market will increase the weight of the European Union in the globalized world. Indeed, the "external dimension of the internal market" has been a concept often evoked during the past two decades. The external actors, such as China and Brazil, tended to look at the European internal market strategy as an example, which thus reinforced the European "soft power".

Nowadays Europe is seen as a declining continent, not as an example worth looking at. Overall, **the single market no longer acts as a catalyst for the European influence on the global level** in the spheres of regulation, for example. On the one hand, the policies that are applied in between the member states cannot always be applied to the external countries, such as China. On the other hand, the member states themselves create obstacles for the creation of a level playing field in global trade by acting in an uncoordinated manner according to their national interest.

2.2. Time for the new rules to emerge

The changing landscape of global economy poses a big challenge for the single market today. Some of the developing countries are obstructing the global equilibrium. It is especially the case for China, a regulated economy, which continues to artificially depress its currency in order to stay competitive.

As a consequence, in certain layers of European society, a feeling of hatred towards the single market is emerging. **The single market is seen as a threat that weakens the member states' economies against disloyal competition on the global market.**

Yet, the EU should stop complaining about being "subjected to" globalization. It should be remembered that it was the USA and the EU which originally made the rules of global trade, international accounting and monetary policy. Moreover, it was also the USA and the EU which were often the first ones to break many of these rules. Europe has not always been able to abide to the global system, of which it was one of the creators.

Therefore, **the EU should rethink the global rules and redefine its external relations,** bearing in mind that the current policies of anti-dumping are no longer efficient and that the foreign sovereign funds, which are needed and welcome, often rest under the political control, which can be problematic.

2.3. Repercussions of the global finance on the EU

The same principles of open market can be hardly applied to financial services in the same manner as they applied to other sectors of services. **In the context of globalization, the standards of the financial regulation are not the same at the European and global levels.** The ongoing evolution of financial regulation, notably with the creation of the banking union, will only reinforce these differences.

This poses real problems for the global competitiveness of European financial centres, especially the City of London. Yet, the construction of the banking union without the UK, which represents more than one third of European financial system, could lead to negative consequences for the single market.

Even though differentiation is sometimes a necessary path to move forward in the EU policymaking, it can pose a real threat to the functioning of the single market. Policy 'shopping lists' vis-à-vis the single market should be avoided whenever possible.

3. Strong European industries: a must on a globalized market

3.1. The limits of European competition policy

Today competition policy is one of the most important instruments at the European level. The role of the Commission as the main guardian of competition in Europe has been strengthened after the Single European Act. The anticompetitive behaviour, which was openly tolerated by firms and governments to a large extent 20 years ago, has now changed.

Overall, the European competition policy has worked well; nonetheless, efficient as it is, it is an ex-post policy. Consequently, the Commission has a limited impact on the actual behaviour of governments. Some of the national industries concerned are seen as "strategic" and "too big to fail" by the national governments. **State aids are thus often attributed by the national governments to the sectors suffering from structural overcapacity**. These aids interfere with market mechanisms and the overcapacity of production is not eliminated by competition.

In other sectors **the member states and the EU as a whole have gone too far with public investment and created excessive superficial capacity.** For instance, a lot of public spending was put into immature bio-fuel, solar energy and wind power technologies. These technologies are developing very fast everywhere in the world while the European producers are stuck with the fleets of already outdated equipment. Eventually, this could lead to a significant weakening of European competitive position on the global markets.

3.2. Overcapacity and consolidation

With the changing global context, the EU should rethink its industrial policy to be able to compete globally. A new equilibrium between liberalism and interventionism should be found. The "proportionality test" in the state aid cases, which was suitable at the time of the Steel and Coal Community for restructuring a particular sector, might not be the best way to promote European industries nowadays. After all, at the time of restructuring the steel industry, aids in themselves were not forbidden; they were transformed into a European instrument.

European industry needs a real consolidation, not only in manufacturing, but also in the telecommunications, air transport and energy sectors. Yet, strong resistance to consolidation is felt not only from the companies themselves, but also, and above all, from the part of governments. The production thus remains suboptimal and everyone loses out eventually. To solve the issues of overcapacity, the "crisis cartel" managed by the public authorities could be a way out, especially in the European automobile industry[3].

The European Fiscal Compact could also contribute to European industrial policy by encouraging the member states to adopt measures in favour of competitiveness and industrial development. **Strong coordinated action at the national level could potentially add to a multilayer European industrial policy.**

3.3. Key areas for action: services and intellectual property

20 years ago, the manufacturing industries were seen as the most important productive capacity in Europe as **the Commission tended to underestimate the growing importance of service sector in the economy**. The "Bolkestein directive", which was an imperfect and badly negotiated text with disastrous consequences in terms of public communication, was a failed attempt by the Commission to move forward with the integration of the services. Even today, the directive is not applied properly in the member states as the principle of the country of origin proved inappropriate for the labour markets.

Yet, services today represent more than two thirds of the European economy. **A well-functioning internal market for services could then bring significant gains in terms of growth and jobs.** Service sector is also essential for the industrial value added chain and could thus boost European industrial competitiveness.

Intellectual property is another area that needs urgent attention from the European policy makers. The questions of intellectual property have not been dealt with adequately as the technology has evolved much faster than could have been imagined 20 years ago. European information society has known a good start with Europeans having invented the GSM and various mobile technologies, but the world has changed and became much more complex. Now the market needs the development of applications rather than hardware. Europeans are strongly lagging behind in this sphere and the centres of development are no longer based in Europe.

With the explosion of internet, the technological developments keep changing the nature of production; **it is essential for the European legislation of intellectual property to go hand in hand with technological advances**.

4. Making the single market comprehensible for all

4.1. Judicial uncertainty still a major problem for businesses

20 years ago, the single market project was based on an intelligent equilibrium between the principle of mutual recognition based on the famous cases of the European Court of justice and the necessity to adopt legislative acts at the European level. The principle of mutual recognition made the programme much more credible as the number of laws and directives to be adopted at the European level was reduced. In manufacturing sector, which still played an important role in European economy, establishing clear industrial standards proved to be a great success and one of the main pillars of the project.

Yet, the question of judicial uncertainty has not been fully resolved during the past two decades. The principle of mutual recognition gives way to legal disputes, which are disliked by the European companies, contrary to their American counterparts. The directives are also differently transposed in the member states and, consequently, European firms have to deal with many different legal systems. Administrative and legal systems in the member states also function differently and with differing levels of efficiency. All this uncertainty is obstructing the efficient development of the European firms, which demand a level playing field in all of the member states.

4.2. Improving the quality of legislation

Two years ago the Mario Monti Report claimed that the European firms were no longer in love with the single market. One of the reasons for this declining support is the process of law-making in the EU. Before the crisis, the governments have acknowledged this problem and reached a consensus that European legislation should be improved. For some governments, this meant no law-making at all; for others it was associated with better preparation of legislation, more evaluation of potential effects, simplification and clarification. But **due to the crisis, the pledges to the "smart legislation" have been all but forgotten.**

This is especially relevant for the financial regulation, which is at the heart of European project today. Europe does not have a strong track record in financial regulation in general, but with all of the ambiguities, uncertainties and programmed revision procedures, unsurprisingly, the European firms dislike European legislation. **The quality of regulation must improve if we are to create a better functioning of the single market.**

The same problem is observed with European spending. There are many European instruments in place including the research and development programme, the structural funds or the "project bonds". One could argue on whether enough money is spent on the European level, but the consensus that this money is not well spent is generally accepted in the business sector. Consequently, **European companies do not see European spending as an instrument of competitiveness and growth.**

4.3. Bringing the single market closer to the citizens

EU citizens feel distanced from the complexities of the European project. To bring the citizens closer to the EU, the ambiguities of the European legislation should be reduced at all levels. European politicians should work hard on explaining the real added value of the European project to the societies.

With the development of the crisis, another layer of confusion and animosities in public opinion has emerged. The tendency of the national politicians to divide the European Union into disciplined and undisciplined nations as well as to emphasize the north-south cleavages has a very negative impact on the public opinion. With time, these divisions might prove extremely harmful for the internal market.

5. Single market: only a part of the strategy for growth

5.1. Single market alone is not enough

The single market is fundamental to ensure growth, competitiveness and creation of jobs Europe; yet, it cannot achieve these goals on its own. The 1985 White Paper of Jacques Delors was the first attempt to create an all-encompassing strategy for Europe. The member states agreed to develop other policy domains at the European level. The prominent examples include enacting of the minimal social standards, strengthening solidarity clauses through the structural funds and establishing the European research policy.

Lisbon strategy that followed was a visionary decision covering all the policy areas with the goal of Europe becoming the most competitive area in the world in terms of growth and job creation. Even if the Lisbon strategy has not been a great success, it brought four positive developments. Firstly, the member states have come up with the common strategy for growth and competitiveness for the first time. Secondly, the strategy outlined a dozen of distinct programmes in the spheres of employment, research and environment among others. Thirdly, the member states got involved into the evaluation of each other's national implementation programmes. Fourthly, many layers of actors have been involved in the process: governments, regional authorities and civil society.

5.2. The reasons for the failure of the Lisbon strategy

Lisbon strategy was not a great success from the point of view of the results. It did not have a significant effect in part due to the crisis, as the preoccupations of member states have changed completely. More importantly, however, sufficient means were not put together to achieve the ambitious objectives.

With the Commission totally toothless and no focus on concrete issues, the implementation suffered.

Similar evaluation applies to the EU2020 strategy, too, which has now been forgotten amidst the economic and financial crisis. The implementation of this strategy is very unequal in the member states limiting the potential of the single market.

Strong conditionality may then be imposed in exchange of structural funds and stringent control of economic efficiency of spending introduced. Due to the lack of this conditionality, some industries and some member states have got dependent on European spending. Too much of hard infrastructure in the peripheral countries was developed, forgetting the importance of soft investment such as education and research. This should be changed radically, especially in the context of the Central and Eastern European countries now.

1. His introductory speech was inspired by his recent tribune published by *Notre Europe – Jacques Delors Institute*: Riccardo Perissich, "Single market: industrial and political challenges", *Tribune, Notre Europe – Jacques Delors Institute*, November 2012.
2. "Towards a European Energy Community: A Policy Proposal", Sami Andoura, Leigh Hancher and Marc Van Der Woude, Policy Proposal by Jacques Delors, *Study No. 76, Notre Europe*, March 2010.
3. Riccardo Perissich, "A Rescue Plan for the European Automobile Industry?", *Policy Brief No. 10, Notre Europe*, April 2009.

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