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THE SINGLE MARKET 20 YEARS ON

COMPETITION, COOPERATION, SOLIDARITY: NEW CHALLENGES

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Notre Europe – Jacques Delors Institute publishes the synthesis of the conference called "Competition – Cooperation – Solidarity: Facing the new EU challenges" that was held in Brussels on 16 October 2012. The event was organized to mark the 20th anniversary of the European Single Market, an initiative launched by Jacques Delors, and to celebrate the change of name of *Notre Europe*, which from now on will be known as *Notre Europe – Jacques Delors Institute*. The seminar consisted of introductory speech by António Vitorino, the president of *Notre Europe – Jacques Delors Institute* and three round tables. Every roundtable dealt with one of the most acute problems of the EU today: the need of a new start for the European Economic and Monetary Union; single market and EU funding; and the future of the social dimension in the European project. Each of the three roundtables brought together high level experts and moderators and opened the floor to the discussion with the public. This synthesis focuses on the main themes developed by the speakers.

In his introductory speech[1], António Vitorino has given a historical perspective of the European integration process in the past two decades and the importance of the balanced approach between the famous formula of "competition which stimulates, coordination which strengthens and cooperation that unites". This balance was needed to reconcile different aspirations of European people; consequently, the two packages of 1988 and 1992 adopted under the impulse of Jacques Delors served as a basis for the advancement of the European project. These packages allowed establishing the freedom of movement of goods, capital, services and people while simultaneously strengthening social and economic cohesion in Europe. It is in that same spirit that Jacques Delors went on to work alongside Tommaso Padoa-Schioppa for the creation of a single currency, lending his name to the committee set up to define the functioning of the European Economic and Monetary Union. However, despite Jacques Delors' recommendations, it was not considered either necessary or possible to set up a balanced "EMU" possessing an economic pillar as solid as its monetary pillar.

In addition, no solidarity was provided for by those who drafted the Maastricht Treaty to help countries in major financial difficulty (the famous "no bail-out" clause), not because such a prospect was not even discussed, but because several countries feared that pledging that kind of financial solidarity up front would discourage the countries involved to make any effort to be more disciplined in view of their membership of the European monetary union.

What are the lessons to be drawn from the balanced approach of Jacques Delors?

Firstly, the interim report of Herman von Rompuy, which goes in line with the proposals of the report of the Tommaso Padoa-Schioppa group[2], shows that the Eurozone crisis can only be solved by strengthening the solidarity and cooperation mechanisms. This can and should be achieved by creating genuine banking, fiscal and economic unions in the Eurozone and establishing solidarity funds for countries in crisis.

Secondly, Europe needs to find its new sources of growth. Single market has already achieved fascinating results in terms of employment, price decreases and greater choice for European consumers. Yet, it still offers a lot of unexploited potential, especially in terms of trade in services, digital economy and network industries. European leaders should cooperate more to adopt the proposals of the Single Market Acts I and II as quickly as possible and use the multiannual financial framework for their implementation.

Lastly, the single market has contributed positively to the social dimension in terms of purchasing power and convergence of social standards of the member states. However, more solidarity is needed in terms of compensating for the pressures of liberalization on certain regions and social groups. These three important challenges are therefore the topics of the three roundtables.

ROUND TABLE 1 – The Economic and Monetary Union: the need for a new start

- **Étienne Davignon**, Former Vice-President of the European Commission
- **Jo Leinen**, Member of the European Parliament and President of the European Movement
- **André Sapir**, Member of the Tommaso Padoa-Schioppa group, Professor of Economics at Université Libre de Bruxelles and Senior Fellow at Bruegel

Chair: Yves Bertoncini, Director of *Notre Europe – Jacques Delors Institute*

The moderator of the round table, **Yves Bertoncini**, reminded that the European Economic and Monetary Union (EMU) is a sui generis construction. There is no other historical example of a monetary union of this kind, bringing together economically highly diverse but politically sovereign countries under the common umbrella of a shared currency administered by a single and independent central bank. He recalled that according to Jacques Delors, "Europe needs rules, but a vision above all"[3]. This roundtable precisely discusses the vision and the rules that are needed for the functioning of the common currency.

According to **Jo Leinen**, the current crisis in Europe is the biggest test for solidarity, democracy and unity. For the European project to be seen as a solution rather than the cause of the current mayhem, social justice should be re-established. Financial crisis, which is at the roots of the debt crisis, resulted in bank bailouts of 4.3 billion euro and deterioration of the public finances. Financial sector that is seeking help from the taxpayers is actually punishing the governments for their increasing debts. At the same time, many Europeans, especially among the young generation, are suffering from poverty and unemployment. This kind of Europe is not acceptable and sustainable in the long term. It is, therefore, a pity that the interim report of Herman von Rompuy has not proposed a vision for a new social pact in Europe.

Austerity that is applied incessantly across Europe nowadays most probably does not provide the best response to Europe's foes. Austerity results in more recession whereas Europeans should be concentrating on generating growth by employing adequate policies such as the "growth pact" adopted in June 2012. In addition, Eurozone needs more structural convergence in tax, health and pension systems among others. This also includes improvement of tax collection systems by eradicating fraud, tax evasion and tax havens: more income would reduce the pressure of budgetary cuts.

The creation of political union in Europe has yet to pass the test of democracy and the test of political will. As the two-speed Europe and enhanced cooperation in many issues seem unavoidable, the institutional setting should be adapted and the democratic legitimacy strengthened. If the creation of the Eurozone budget is decided, more representative powers should be given to the European Parliament, which is the institution working for Europe as a whole. Political leaders also have a significant role to play in the process of the European construction. At the moment, the debates on the euro crisis are very national-minded. European debate could be prompted by a third Convention building new bridges between European capitals.

André Sapir, as a member of the Tommaso Padoa-Schioppa group, underlined that most of the provisions in the current Treaty came from the Treaty of Maastricht, but two decades later, the world has changed and so should the provisions. He has presented the report "Completing the Euro: A road map towards fiscal union in Europe" which spells out what measures should be added to the Maastricht provisions and to the reforms recently undertaken if the common currency is to function properly.

Even though this roadmap deals with the long term vision, it is pragmatic: there should be as much political and economic union as necessary, but as little as possible. The Tommaso Padoa-Schioppa group sees three main challenges for the Eurozone: (i) real interest rate mechanism is not working as well as it should in the common currency area; (ii) Eurozone is in a bad equilibrium experiencing self-fulfilling solvency crises and (iii) there is a banking paradox whereby financial markets are European, yet the regulation is national. As structural differences in the member states have not decreased over the years as it was expected, the "one size fits all" monetary policy of the ECB was actually rendered into "one size fits none".

The Tommaso Padoa-Schioppa group proposes four steps that could complete the euro area setup. First of all, the single market has to be further deepened so that the economies could adjust more easily to various asymmetric shocks. Secondly, a cyclical adjustment insurance fund should be created, which would allow countries in a recession to boost their economies in time. Thirdly, a European Debt Agency (EDA) ought to be established. EDA would mutualize public debts up to 10% of GDP at all times; yet, whenever a member state would need to issue more of its debt through EDA, increasingly strong conditionality would bet attached to it. Finally, a genuine banking union should be created, including a common supervisor, single guarantees and a resolution fund. Without these measures, EU could continue walking down the difficult path of Japan after the banking crisis rather than drawing on the successful Swedish example in early 1990's.

Étienne Davignon stressed the importance of having a clear vision for the European project for both European citizens and the markets. Political leaders should consistently explain to European populations the fundamental values of the EU, such as peace for which EU has been awarded a Nobel Prize. Societies must understand why some inevitable sacrifices sometimes have to be accepted for the higher purpose of European integration. Social justice should be at the heart of the EU. European Council should give a clear direction and vision for the long term. Even though politicians are always too late for the markets, the markets should know that the risk of European failure is not the risk that is worth betting on.

As for the political union, it is a very ambiguous notion. In fact, all of the unions including banking, monetary and economic, are de facto parts of the European political union. Member states have pooled sovereignty where necessary, by creating supranational institutions such as ECB and the ECJ. However, any excessive transfers of sovereignty are not desirable just as the report by Tommaso Padoa-Schioppa group emphasizes. For example, Herman Van Rompuy's interim report suggests that individual contracts should be signed between the member states and the EU in order to help separate member states complete their structural reforms. Such a setting is useful as the contract would define exactly what kind of task is conferred to the EU, and thus the sovereignty of the country would remain intact.

All of the panellists have agreed that a clear vision is indeed the most important building block for solving current crisis and constructing the Europe of tomorrow. Implementing structural reforms to facilitate convergence, or compensating for divergences, is one of the key elements for stable and prosperous Eurozone. Yet, the opinions have diverged on whether EU should proceed on the two speed highway, one line devoted for the euro area members and another for the EU27. On one hand, Eurozone needs the decisions now and those member states which do not want to continue with further integration should not be able to block it. On the other hand, all of the member states, except for the UK and Denmark, will have to join the Euro area sooner or later; therefore Europe with different speeds might be just the matter of timing rather than of substance.

ROUND TABLE 2 – Single market and EU funding: a "package" for growth and convergence

- **Hannes Swoboda**, President of the Progressive Alliance of Socialists & Democrats Group in the European Parliament
- **Jonathan Faull**, Director General Internal Market at the European Commission
- **Philippe Maystadt**, Former President of the European Investment Bank and President of the EPC

Chair: Adriana Cerretelli, Journalist, *Il Sole 24 Ore*

The single market project, deepened and re-launched 20 years ago under the presidency of Jacques Delors, is the "golden asset" of the EU, as it has the potential of boosting economic growth, creating jobs and ensuring smooth shock adjustment in the EU. Some significant progress has been already achieved in facilitating free circulation of goods, services, capital and labour among the EU members. Yet, for further deepening of the single market more financial effort on the EU level is needed. Jacques Delors' budgetary packages I and II were seen as a part of a "triptych" reforms accompanying the creation and development of the single market. Today we are witnessing an emergence of a new "package", based on the Single Market Acts I and II and the proposal for a New Multiannual Framework as well as the adoption of a "Growth Compact". Will this "package" be enough to complete the single market and ensure sustainable growth in Europe?

Jonathan Faull has emphasized that despite the economic calamities of last years, the foundations of the single market have survived intact and the member states have not resorted to protectionism. Single market has been in progress over the past two decades as the size and the scope of it have changed considerably. However, much is still to be done; therefore, the European Commission has adopted the Single Market Acts I and II with the aim of relaunching deeper integration. Among other key actions, the Commission proposes to concentrate on opening up the network industries, especially transport and energy and creating a genuine digital market. Significant savings could be achieved, both for the public budgets and for the consumers, if the reforms proposed were to be carried out efficiently. Yet, the level of European law enforcement is still disappointing: it takes around eight months to transpose a directive on the national level once these directives are adopted by the Council and the European Parliament.

European single market is not only a marketplace for exchange; it is an actual foundation of European integration. As such, it should be fully based on the three principles of competition, cooperation and solidarity; taken separately none of them would provide an answer to the challenges of today. At the time of Monti's report, single market was almost forgotten, yet the crisis gave a new impetus for its completion and this opportunity window should not be missed. Obviously, many more Single Market Acts are yet to come in order to genuinely complete the single market. However, the main commitments and tools are on the table at the moment and they should be used to create new growth in Europe.

For **Hannes Swoboda** single market, however useful, is an instrument rather than an ideology. "Business as usual" is no longer enough to respond to current challenges: single market must be embedded into a strong social and economic policy. Single market is now menaced by protectionism, nationalism and extreme liberalization. Protectionism arises if European businesses feel that the development of the single market is unfair; therefore elements of reciprocity should be introduced. European regulations on which our citizens sometimes do not have a say, but which influence their lives significantly can lead to eruptions of nationalism and separatism. Extreme and unmeasured liberalizations coming from the EU might also result in negative public opinion.

Single market is easy to build in good times, but this task becomes much more difficult when the economies are stagnating. We should be conscious that the single market is not only creating jobs, but also destroying some of them. The territorial dimension of development and the price of each job should be measured accordingly. Therefore, EU must complement the development of single market with an elaborate strategy for growth. Europe is the only continent where the investments in the future are declining and this trend must be reversed. The national governments should be given enough budgetary space to invest in the future and, in the European budget, the growth elements, such as spending for Connecting Europe Facility, should be seen as a priority.

Philippe Maystadt has reminded that the key challenge for now is to lift the European economies out of the recession. The member states should then stop concentrating on nominal budget measures, do their best to boost consumer and household confidence and adopt some measures, such as wage increases in Germany, which do not require public spending and yet could be very effective. On the European level, the Growth Pact will also provide a channel for growth-friendly investments. The pact will be financed through better utilization of the structural funds, increased capacity of the European Investment Bank, which alone should generate 120-180 billion euro of additional investment, and the issuing of project bonds. These project bonds provide a novel interesting approach of involving private capital in infrastructure spending. However, private investors could be discouraged to buy them by the Solvency II rules, which should then be revised properly.

In the longer term, the multiannual financial framework should be finally aligned with the objectives of the Europe 2020 strategy. This strategy was judged as the only way for Europe to regain competitiveness in the world economy; if sufficient European financing is not allocating for reaching this goal, the whole European project could be discredited. Special emphasis should be put on the trans-European networks first proposed by Jacques Delors in the 1990s. It has been estimated that European transport network needs 500 billion euros of investment and that additional 500 billion is needed for energy networks. The current levels of investment allocated by the Commission are a far cry from these amounts: we should then look for the ways of involving private investors more through project bonds, long term investment funds and private equity.

ROUND TABLE 3 – Improving the social dimension of the EU

- **Alejandro Cercas**, Member of the Employment and Social affairs Committee at the European Parliament
- **Koos Richelle**, Director General Employment and Social Affairs at the European Commission
- **Frank Vandenbroucke**, Professor at KU Leuven and former Belgian Minister for Social Affairs

Chair: Philippe Pochet, Director General of the European Trade Union Institute

The social dimension of the EU is suffering as highlighted by **Philippe Pochet**. Whereas in the 1980's Jacques Delors have summoned the syndicates for the European cause, now, for the first time in history, European Confederation of Syndicates has not given its support for a new European treaty, the Fiscal Compact. Social dialogue is in decline in Europe as the majority of member states have relaxed their industrial action systems. The changes in the general public sentiment are very important in the current context and should be kept in mind whenever the social dimension of the EU is evoked.

To **Koos Richelle**, social dimension is not only about great ideas, but also about solving the most burning issues of today, such as unemployment of 25 million of European citizens, among which the youth is the most affected. "Flexi-security" that has been promoted in the EU in the last decade resulted in high flexibility and low security with, for example, the rise of "mini-jobs" in Germany. These realities stand in the way of achieving the EU2020 targets of lifting 20 million people from poverty.

European Union has little competence in social affairs, yet some progress has been achieved over the years. It should be realized that there is no one European welfare state as, in fact, EU has 27 different welfare states. Moreover, social domain is mostly a national domain and the method used in social matters is coordination rather than harmonization. Under these circumstances, however, important things have been established, such as the great success of occupational health and safety regulation. In addition, European semester now allows making country specific recommendations not only on macroeconomic policy, but also on social issues. European leaders have also learnt that social considerations have to be taken into account when designing the recommendations for the "programme countries".

One of the key messages of Delors' triptych is that deeper EU economic integration ("competition") should go hand-in-hand with a respect of the European social model and with a certain degree of solidarity within member states ("solidarity"). According to **Alejandro Cercas**, for now EU excels in competition, works on cooperation, but has abandoned the solidarity aspects. Yet the social dimension is utterly needed; indeed, the crisis has shown that social and economic progresses go hand in hand. European project is a project of and for the citizens; therefore, a new European social contract is necessary to overcome the economic crisis.

Social union is needed for five reasons. First of all, there is a democratic commitment enshrined in the treaties, which promises the construction of political and social union. Secondly, with the reductions of social standards and unmeasured budgetary cuts, European societies feel the lack of social justice. Thirdly, the budgetary cuts might not be efficient and create additional problems such as poverty, unemployment and depreciation of human capital. Fourthly, a lack of social considerations leads to increasing euro-scepticism among the peoples of Europe and deepens the "North-South" distinction. Finally, there is also a strategic reason: Europe without strong syndicates, without a good education system and efficient social insurance scheme will not be able to compete on the world markets. For all these reasons, European Parliament feels that social dimension should be added to the Herman van Rompuy's report on the future of the EMU.

Frank Vandenbroucke agrees that EU's social objective is a necessity rather than a luxury. Eurozone faces the trade-offs between symmetry, flexibility and budgetary transfers. Europe needs to come to a consensus about the point where it wants to situate itself in this triangle. For example, if European single market cannot become more flexible, we will need more symmetry in the labour markets and more financial transfers between the member states. These are political choices and European leaders have to assume the role of deciding on the future social order.

Discipline is much needed in the Eurozone, yet without solidarity it will not improve the functioning of the monetary union. On the macro-economic level, solidarity no doubt implies sharing the burden of asymmetric shocks through collective action. However, European solidarity should also be based more on the reciprocities among European people. We should strive to develop a virtuous relation between social cohesion at national level and European level through, for example, social investment. Social investment should not only be used for protection, but also for the development of human capital. Social investment does not necessarily go against budgetary discipline, yet it could get European countries out of the "low skill – low productivity – low job growth" equilibrium in the longer term. For this end, Single Market Acts I and II should be adjusted to include more investment not only on infrastructure projects, but also on the development of human capital.

1. "Jacques Delors' 'Triptych': current situation and prospects", António Vitorino, *Tribune, Notre Europe – Jacques Delors Institute*, November 2012.
2. "Completing the Euro: A road map towards fiscal union in Europe", Tommaso Padoa-Schioppa Group, Foreword by Jacques Delors and Helmut Schmidt, *Studies and Reports No 92, Notre Europe*, June 2012.
3. "Rules, but a vision above all", Jacques Delors, *Tribune, Notre Europe*, September 2012.

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