

# EU Single Market expectations, achievements

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## Europäische Integration

Wirtschaft, Erweiterung und regionale Effekte

3. Auflage



# Overview

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- ❑ **Cross-border liberalisation**
    - Why SM in the 1980s ?
    - Initiative for market liberalisation
    - The core of EU economic integration
    - Scope and limits of Single Market
  - ❑ **General expectations and results**
    - Goods
    - Labour
    - Capital
    - Services
  - ❑ **Conflicts**
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# Why SM in the 1980s ?

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- ❑ **Fragmented markets in Europe**
    - National champions, protection
    - Non-Tariff-Barriers-to-Trade (NTBT)
    - Public procurement
    - State ownership (services, basic / strategic industries)
  - ❑ **Globalising markets with multi-national companies**
    - Japan
    - USA
    - (later: China)
  - ❑ **European based companies falling back**
    - Less economies of scale
    - Less competition
    - Less innovation (IT, electronics, ...)
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# Initiative for market liberalisation

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- ❑ **“Supply side economics” (Thatcher, Reagan)**
    - Small government, free markets, light-touch regulation, cut back subsidies and social benefits/protection, break power of trade unions (UK, coal miners)
  - ❑ **“Class struggle” between employers and trade unions**
    - Strong socialist / communist political parties, trade unions (Italy, France, Spain)
    - Competition between “West” and “East”
  - ❑ **Concepts and initiatives**
    - “European Round Table of Industrialists”
    - “Werner-Plan” (1970)
    - J. Delors compromise
      - ❑ Liberalisation and privatisation (= “Single Market”) **plus**
      - ❑ Common currency **plus**
      - ❑ social market economy (**plus** “horse trading”, e.g. regional support)
    - 1985 “White Book”
    - 1992 Maastricht Treaty
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# The core of EU economic integration

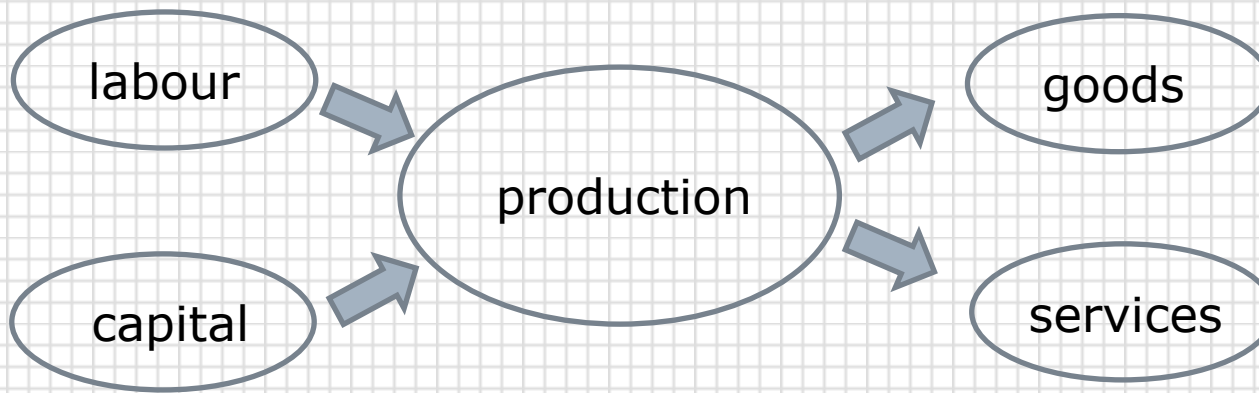
## Economic liberalism

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- ❑ **Ideology: “markets are superior to state”**
  - ❑ However: “market failure” versus “state failure”
- ❑ **Economic agenda of the EU**
  - Liberalisation, deregulation, competition (policy)
  - Role of the state in the economy: Privatisation
  - EMU
    - ❑ Single Market “Four freedoms”
    - ❑ Common currency: EURO
    - ❑ Co-ordination in economic (fiscal) policy BUT: national rule
- ❑ **Competition policy**
  - Anti-cartels, control mergers, abuse of market dominance
  - Control state aid and restrict subsidies
  - Privatisation and opening to international competition
- ❑ **Public procurement**
  - State as customer must tender internationally  
no „local / national champions“

# Scope of Single Market

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**SM-rule: All market based activity shall be free to cross borders**

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# Limits to the Single Market rule

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- ❑ **Agriculture**
    - last fortress of planned economy
  - ❑ **Non-market (= non-profit) activities**
    - Health care
    - Social benefits
    - Education
    - Services under **public authority** (police, ...)
      - ❑ Public service NOT necessarily public authority!
  - ❑ **Military equipment**
  - ❑ **Protection of culture, public moral, safety**
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# General expectations and results

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- ❑ **Reduction of cost (Borders, formalities, ...)**
  - ❑ **Enhanced competition = more efficiency**
    - Lower prices, more choice, better allocation of resources
  - ❑ **Expected effects**
    - “Cost of Non-Europe” study; highly speculative and political
    - Static (short term, given allocation of resources)
      - ❑ growth, jobs
    - Dynamic (long term, re-arranged capital and labour)
      - ❑ Economies of scale
      - ❑ Growth, jobs
      - ❑ Regional agglomeration (Krugman)
  - ❑ **Results so far**
    - Hard to evaluate
    - Multi-factor environment, e.g.
      - ❑ globalisation, collapse of SU, financial crisis, ...
    - Assessment: Effects rather small
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# Goods

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## ☐ **Expectations**

- Theoretical concept
  - ☐ Comparative advantage and customs union theory (1958!)
  - ☐ New trade theory with imperfect markets (Krugman)
  - ☐ Re-location and agglomeration

## ☐ **Findings**

- Markets more or less open
- Some minor obstacles
  - ☐ Co-operation of national authorities in mutual recognition
- Causality?
  - ☐ Globalisation and “global value chains”
  - ☐ Trade is intra-company

## ☐ **The “mystery of missing trade” = borders still influence buying behaviour**

- Neighbourhood, proximity
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# Labour

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## ☐ **Expectations**

- Labour migration
  - ☐ Equalisation of wages across all countries
  - ☐ Optimal allocation of labour
- Demographic change (“Ageing”) hits (nearly) all EU nations
- Extra-EU immigration
  - ☐ Cheap, low wage labour illegal
  - ☐ “Blue Card” (worldwide competition for talent)

# Labour (cont.)

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## ☐ Results

- “Host country rule”
  - ☐ National regulation dampen free movement, there is no cross-border (wage) competition
  - ☐ national minimum wages
  - ☐ posted workers directive
- Natural barriers
  - ☐ culture and language, recognition of diploma
- Low level of free movement despite large differentials in unemployment (even in the crisis)

## Labour (cont.)

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- ❑ **Concentration of problems in some areas**
    - Housing in poor neighbourhoods
    - Low paid jobs: competition with illegal immigrants
  - ❑ **Populist conflicts: “migration into social benefits”?**
    - UK tops up low wages by state subsidies – to immigrants as well (makes migration into low wage jobs attractive)
    - DE can deny social benefits (Hartz IV) to EU-migrants, that didn't contribute by working before (ECJ C-333/13, Dano v Jobcenter Leipzig, Nov 11<sup>th</sup> 2014)
    - Public objections to EU-immigration might discredit EU-membership (UK!)
      - ❑ There are more British citizens (pensioners) living in Southern EU, than EU-citizens living in the UK
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# Capital

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## ☐ **Expectations**

- Integrated market for capital
  - ☐ Stocks, credit, banking
  - ☐ Foreign direct investment
- Lower interest rates, optimal allocation of capital

## ☐ **Results**

- Capital is moving globally, however FDI is a game between a few rich countries
- Investment: "Patriotism" (=nationalism)
  - ☐ "them foreigners taking over our factories";
  - ☐ national champions (Alstom and Siemens case)
- Financial markets
  - ☐ national regulation of finance → fragmentation
  - ☐ fragmentation rises due to the crisis

## ☐ **New regulation upcoming (Banking Union, etc.)**

- Community method in financial markets
  - ECB with a new (problematic) role as a bank supervisor
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# Services

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- ❑ **Largest share of economy**
    - 60 – 85% of jobs, GDP
  - ❑ **Social aspects touched**
    - Health, education, ...
  - ❑ **State has still a dominant role in some segments**
    - Networks based services (water, rail, electricity, ...)
    - Health, education, ...
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# Are services tradable cross-border?

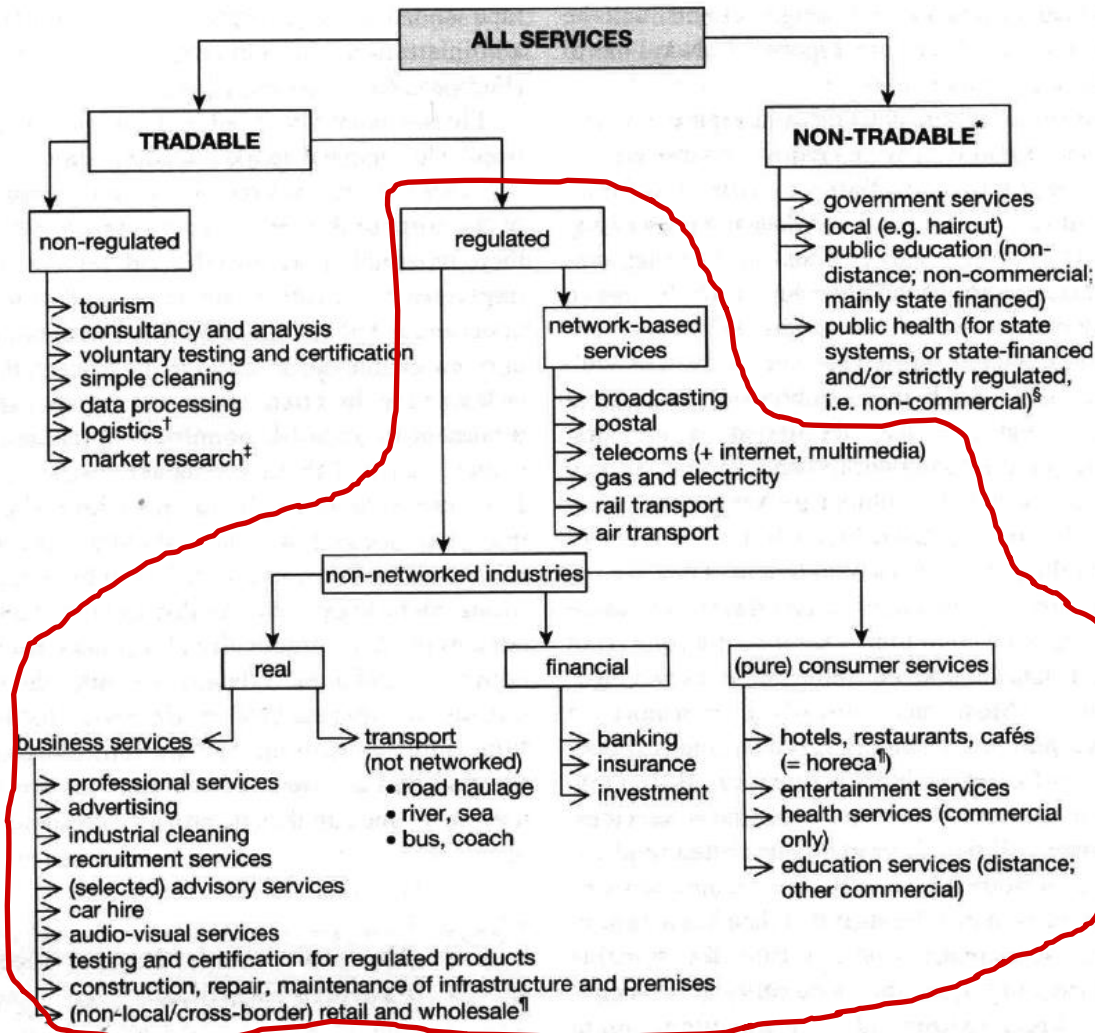
## „4 modes“ (WTO)

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- ❑ **M-1: Provider delivers cross-border**
    - Sending a building design via mail
    - Selling an insurance abroad
  - ❑ **M-2: Customers crosses border to provider**
    - Haircut in Poland
    - Medical treatment
  - ❑ **M-3: Provider sets up a subsidiary abroad**
    - Banks
    - Hospitals
    - Distribution network
  - ❑ **M-4: Posted workers provide service abroad (temporarily)**
    - Project management
    - Repair and maintenance
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# Regulation of services in the EU

## Scope



Source: Pelkmans, 2006:127



# Services

## Business, consumer and financial

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### ☐ **Business**

- Strict national regulation
- High entry barriers
- Trust, culture
- Attempt to liberalisation: Bolkestein Directive
  - ☐ Home country rules suggested
  - ☐ Stiff political resistance; host country rules apply

### ☐ **Consumer**

- No major obstacles
- Customers prefer local (health)

### ☐ **Financial**

- Large body of national regulation; some international frameworks (Basel-II, -III)
  - Fragmented markets AND cross-border spill-overs
  - Crisis triggered effort to EU-wide rules and competencies („Banking Union“)
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# Services Networks

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## ☐ **Natural monopoly**

- How to install competition?
- Maintain social aims?
  - ☐ Services of general public interest

## ☐ **Co-operate cross-border**

- Technical standards, inter-connectivity
- Incentive to connect

## ☐ **Not just competition and markets**

- Security, availability (electricity, gas, ...)
- Strategic goals: Climate change, finish with nuclear, ...

## ☐ **Risk**

- Long-term commitment
- Large sunk capital
- Political decisions (without compensation)

## ☐ **EU**

- No budget; no power – just planning and communication
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# Conflicts in the Single Market

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- ❑ **(Mis-) Trust into markets**
  - private drinking water, ...
- ❑ **Pain from competition**
  - Re-location of jobs, loss of market share, regional concentration
  - Lobbyists and/or trade unions resist
- ❑ **How to compensate losers when growth is slow and debt high?**

## General issues

**Can social needs survive under (global) competition?**

**Does EU have a social, caring touch?**

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