EU Single Market expectations, achievements

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Overview

- 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
Why SM in the 1980s?

- **Fragmented markets in Europe**
  - National champions, protection
  - Non-Tariff-Barriersto-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, ...)

Initiative for market liberalisation

- **“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
The core of EU economic integration

Economic liberalism

- **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

SM-rule: All market based activity shall be free to cross borders
Limits to the Single Market rule

- **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**
General expectations and results

- **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
Goods

- **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 “mistery of missing trade” = borders still influence buying behaviour**
  - Neighbourhood, proximity
Labour

- **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.)

- **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.)

- **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 11th 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
Capital

- **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 \(\rightarrow\) 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
Services

- **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, ...
Are services tradable cross-border?

„4 modes“ (WTO)

- **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 maintainace
Regulation of services in the EU

Scope

Source: Pelkmans, 2006:127
Services
Business, consumer and financial

- **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“)
Services Networks

- **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
Conflicts in the Single Market

- (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?