

# The Single Market

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## Reader's Guide

This chapter charts the evolution of the **single market** project, from its original conception in the 1950s, beginning with the **Treaty of Rome** and ending with the **Single Market Act I and II**. It explores the role of the **Court of Justice of the EU (CJEU)** in promoting market access, the balance between different economic ideals, and the regulatory strategies used to foster **market integration**. The chapter highlights the importance of the single market in promoting competitiveness and growth. It concludes by demonstrating how both traditional international relations theories of **integration** and newer approaches in comparative politics and international relations, can be used to shed light on the **governance** of the single market.



## Introduction

Although the single market is a core element of the **European integration** process, it has been relatively neglected in recent years. The single market has evolved considerably since its inception in the 1950s, delivering major changes in many policy domains in an effort to liberalize trade, to coordinate economic policies, and to promote competitiveness. It has also become a major political priority in the midst of the eurozone's **sovereign debt crisis**, as evidenced by the **Monti Report** (2010) and Single Market Act I (2011) and II (2012), which aimed at **deepening** and **widening** the internal market. In taking stock of what the European Union (EU) has accomplished in terms of internal trade liberalization, regulatory strategies, and legal rulings, this chapter assesses the institutional innovations, ideational rationales, and interests and preferences that have shaped single market integration. Although the process has been sharply contested, with deep concerns about socio-economic rights, the scope of the internal market has continued to widen over the past two decades, both in terms of the external promotion of European norms, rules, and standards, and in response to changes in market transactions and globalization. This chapter reviews the state of the single market, from its historical origins to more recent efforts, recognizing its economic imperatives as well as its political rationale by highlighting different theoretical efforts to understand the dynamics of market integration.

## Market integration in historical perspective

In the space of one year, from the **Messina Conference** in June 1955 to the **Venice Conference** in May 1956, the idea of economic unification among six West European states had taken root. After months of lengthy discussion, what became known as the **Spaak Report** (after its principal author) generated the idea of a new kind of inter-state economic relationship as the basis for treaty negotiations (Bertrand, 1956: 569). This report provided a blueprint for a single market in Western Europe, with three main elements:

- the establishment of normal standards of competition through the elimination of protective barriers;
- the curtailment of state intervention and monopolistic conditions; and

- measures to prevent distortions of competition, including the possible **harmonization** of legislation at the European level.

The economic intent of such proposals dovetailed with the **federalist** agenda (Laurent, 1970). Yet turning the single market idea into a political reality has been extremely contentious and protracted.

Based on the Spaak Report, the Treaty of Rome (1957) aimed for a **common market** by coordinating economic activities, ensuring stability and economic development, and raising living standards. At the core of the proposed European common market was the creation of a **customs union** (see Box 18.1). This meant that member states would not only abolish all of their customs duties on mutual trade, but also apply a uniform tariff on trade with non-European Community (EC) countries. The other measures proposed to promote internal trade liberalization, including free movement of labour, services, and capital, and a limited number of sectoral policies (agriculture, transport, and competition), were to be regulated and managed at the European level.

The transformation of the Community into a common market was to take place over a period of 12 to 15 years. It began with efforts to address traditional tariffs, starting with the elimination of customs duties and quantitative restrictions in 1958, and by introducing a **common external tariff** in 1968. Internal tariff reductions were also frequently extended to third countries to limit the discriminatory effects of the customs union, which was politically important in the formative period of the EC (Egan, 2001: 41). Membership of the EC meant more than simply a customs union, however. The Treaty established the 'four freedoms'—the free movement of goods, services, capital, and labour—a central features of the single market. However, the

### BOX 18.1 STAGES IN ECONOMIC INTEGRATION

Free trade area (FTA)	Reduces tariffs to zero between members
Customs union	Reduces tariffs to zero between members and establishes a common external tariff
Single market	Establishes a free flow of factorial production (labour and capital) as well as goods and services
Economic union	Involves an agreement to harmonize economic policies

agreements for each freedom varied according to political exigencies at the time that the Treaty was signed.

The removal of trade barriers for *goods* focused on the removal of tariffs and quantitative restrictions, as well as on the removal of **non-tariff barriers**. This meant dismantling quotas, subsidies, and voluntary export restraints, and measures such as national production regulations and standards, public purchasing, and licensing practices, which sometimes reflected legitimate public policy concerns, but were often a thinly disguised form of protectionism designed to suppress foreign competition (Egan, 2001: 42).

For the free movement of *capital*, the goal was freedom of investment to enable capital to go where it would be most productive. Yet vivid memories of currency speculation in the interwar period meant that liberalization was subject to particular conditions or 'safeguard clauses', frequently used during recessions. With regard to free movement of *services*, it meant the freedom of establishment for industrial and commercial activity—that is, the right to set up in business anywhere in the Community. However, the Treaty provisions on services contained virtually no detail on what should be liberalized (Pelkmans, 1997). For *labour*, the provisions for free movement meant the abolition of restrictions on labour mobility.

National governments were receptive to early efforts to eliminate trade barriers and to create a customs union because they were able to use social policies to compensate for the increased competition stemming from market integration. Favourable starting conditions for the European trade liberalization effort were thus a result of the fact that it occurred against the backdrop of the mixed economy and welfare state, which were central components of the post-war settlement

(Tsoukalis, 1997). Yet even with these national policies, it was still felt politically necessary to provide some sort of financial aid at the European level to ease the effects of competition through basic investment in underdeveloped regions, the suppression of large-scale unemployment, and the coordination of economic policies (see Bertrand, 1956; Spaak, 1956). Despite substantial economic growth and increased trade among the member states, the prevalence of domestic **barriers to trade** resulting from pervasive state regulation of economic activity across all four freedoms signalled the enormity of the task (Tsoukalis, 1997: 78).

A major characteristic of European economies has been their historical and national variation in areas like industrial relations, social welfare, and financial systems (Zysman, 1994; Berger and Dore, 1996; Rhodes and van Apeldoorn, 1998). There are systematic differences in how national economies are organized, and member states have chosen ways of regulating production, investment, and exchange that constitute different varieties of capitalism (Hall and Soskice, 2001: 15). Thus efforts to create a single market in Europe have sought to unify disparate interests and market ideologies, and the process of market integration has often been deeply contested.

The clash between *laissez faire* and **interventionist** ideologies that began in the earliest years of the European Community continues today. The implied commitment to the free market economy, stressing the virtues of competition and greater efficiencies through specialization and economies of scale, was balanced by a widespread acceptance of *dirigisme* and intervention by state agencies and nationalized monopolies, resulting in a tension between 'regulated capitalism' and 'neoliberalism' (Hooghe and Marks, 1997; see Box 18.2). How, then, did the Community

#### BOX 18.2 CHARACTERISTICS OF CAPITALISM

##### Neoliberalism

Market liberalization—removes restrictions to trade; provides a regulatory climate attractive to business

**Regulatory competition** among member states—leads to competition among different national regulatory policies

Rejection of greater regulatory **power** for institutions at EU level; insulation of the market from political interference; retention of political authority at the national level

Supporters include conservative political parties, multinationals, industry associations, and financial institutions

##### Regulated capitalism

Market intervention—government intervention in market  
Social market economy and social solidarity—emphasis on welfare state and distributive politics

Increased capacity to regulate at European level; mobilization of particular social groups; reform institutions to generate greater use of **qualified majority voting (QMV)**; enhancement of legislative **legitimacy**

Supporters include social and Christian democratic parties

Source: adapted from Hooghe and Marks (1997).

tackle such deep-seated differences in rules, standards, and practices as it sought to create a **single European market**?

#### KEY POINTS

- The objective of creating a single European market can be traced to the 1956 Spaak Report and the 1957 Treaty of Rome.
- The Treaty of Rome sought to establish a customs union in Europe.
- The Treaty also sought to dismantle trade barriers among the six original members of the European Economic Community (EEC).
- Distinctive forms of capitalism persist given strong institutionally embedded practices and norms.

### Setting the scene for the single market

Two important changes took place that helped to set the scene for the creation of a single market. The first was the emergence of **mutual recognition** as a key principle; the second, the increasing **judicial activism** of the Court of Justice of the EU (CJEU).

#### From harmonization to mutual recognition

In order to tackle domestic regulations that thwarted the creation of a common market, the European Community promoted a policy of harmonization (or standardization) that was to provide a lightning rod for public opposition over efforts to regulate what many felt were long-standing national customs, traditions, and practices (Dashwood, 1983; see Box 18.3). Although the goal of harmonization was a 'barrier-free' single market, the years of fruitless arguments over harmonizing noise limits on lawnmowers, the composition of bread and beer, and tractor rear-view mirrors were a result of **unanimity** making it extremely difficult to get agreement among member states, since it allowed individual governments to veto specific legislative proposals.

However, the single market took off with the introduction of a new mode of governance, when the principle of mutual recognition was introduced. Mutual recognition allows member states to recognize

regulations as equivalent (Schmidt, 2007). Because member states do not unconditionally accept such mutual equivalence of rules, they reserve the right to enforce their own regulations as a result of 'general interest' considerations. Mutual recognition and harmonization reduce the barriers created by national regulations, but at the same time provide a necessary level playing field. Without this, the absence of regulations for product and process standards might lead to a 'race to the bottom' in social and environment standards, as states seek to reduce their domestic measures to attract foreign direct investment and gain significant competitive advantage through **social dumping**.

### The free trade umpire: the Court of Justice of the EU and judicial activism

The problems associated with addressing trade restrictions through harmonization did not go unnoticed by the CJEU, which has often used its judicial power for the purposes of fostering an integrated economy (see Chapter 12). Indeed, a large measure of the credit for creating the single market belongs to the CJEU's judicial activism. Confronted by restrictions on their ability to operate across national borders, firms began to seek redress through the Community legal system. The Court was asked to determine whether the restrictions on imports imposed by member states were legitimate under the Treaty.

Examples of member states' restrictions included Italy's prohibition on the sale of pasta not made with durum wheat, Germany's 'beer purity' regulations prohibiting the sale of any product as 'beer' that was not brewed with specific ingredients, and Belgian regulations that required margarine to be sold only in cube-shaped containers to prevent confusion with butter, which was sold in round-shaped containers. As many of its decisions illustrate, the Court had the task of reconciling the demands of market integration with the pursuit of legitimate regulatory objectives advanced by member states.

Several landmark cases limited the scope and applicability of national legislation. One of the most important cases in this regard was Case 8/74 *Procureur du Roi v. Dassonville* [1974] ECR 837. Dassonville imported whisky into Belgium purchased from a French supplier. It was prosecuted by Belgian authorities for violating national customs rules that prohibited importation from a third country without the correct

## BOX 18.3 THE SINGLE MARKET PROGRAMME

The single market programme involved the removal of three kinds of trade barrier, as follows.

<b>Physical barriers</b>	<p>The removal of internal barriers and frontiers for goods and people</p> <p>The simplification of border controls (including the creation of a single administrative document for border entry)</p>
<b>Technical barriers</b>	<p>Coordinating product standards, testing, and certification (under the so-called 'new approach')</p> <p>Liberalization of public procurement</p> <p>Free movement of capital (by reducing capital exchange controls)</p> <p>Free movement of services (covering financial services, such as banking and insurance, to operate under home country control)</p> <p>Liberalization of the transport sector (rail, road, and air; rights of <i>cabotage</i>; the liberalization of markets and removal of monopolies, state subsidies, and quotas or market-sharing arrangements)</p> <p>Free movement of labour and the mutual recognition of professional qualifications (including non-discrimination in employment)</p> <p><b>Europeanization</b> of company law, intellectual property, and company taxation (including the freedom of establishment for enterprises, a <b>European Company Statute</b>, and rules on trademarks, copyright, and legal protection)</p>
<b>Fiscal barriers</b>	<p>Harmonization of divergent tax <b>regimes</b>, including sales tax</p> <p>The agreement of standard rates and special exemptions from sales tax</p> <p>Other indirect taxes aimed at reducing restrictions on cross-border sales</p>

documentation. Dassonville argued that the whisky had entered the French market legally, that it must therefore be allowed to circulate freely, and that restrictions on imports within the EC were illegal. In a sweeping judgment, the Court argued that 'all trading rules that hinder trade, whether directly or indirectly, actually or potentially, were inadmissible'.

National measures that impact trade negatively were therefore prohibited (Stone Sweet and Caporaso, 1998: 118). This was softened by the recognition that reasonable regulations made by member states for legitimate public interests like health, safety, and environment policies were acceptable if there were no European rules in place. The judgment was predicated on the belief that the European Commission should adopt harmonized standards to allow free movement across markets, while at the same time giving the CJEU the opportunity to monitor member states' behaviour and scrutinize permissible exceptions.

In what is probably its best-known case, Case 120/78 *Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein (Cassis de Dijon)* [1978] ECR 649, the Court ruled on a German ban on the sale of a French black-currant liqueur because it did not conform to German standards regarding alcoholic content (see Egan, 2001:

95 and Chapter 12). The Court rejected German arguments that Cassis, with its lower alcoholic content, posed health risks, but noted that the protection of the consumer could occur by labelling alcohol content. Most importantly, it clearly defined what national measures were deemed permissible. The most-cited part of the ruling suggested 'there was no valid reason why products produced and marketed in one member state could not be introduced into another member state'.

The notion of equivalence of national regulations, which this ruling introduced, opened up the possibility that harmonization would not always be necessary for the construction of a single market. This was the crucial step in launching a new regulatory strategy, mutual recognition, which would make for an easier circulation of trade and commerce in the Community. Mutual recognition implies that it is only in areas that are not mutually equivalent that member states can invoke national restrictions, practices, and traditions, and restrict free trade in the Community.

In fact, the Court argued that **derogations** from (or exceptions to) the free trade rule for the purposes of public health, fair competition, and consumer protection were possible, but that they had to be based upon

reasonable grounds. Governments, whether national, local, or sub-national, had to demonstrate that any measure restricting trade was not simply disguised protectionism. Anxious to safeguard the Community-wide market, the Court has continued to determine on a case-by-case basis whether specific laws are valid under the Treaty. However, faced with a growing number of cases, the Court, in *Joined Cases C-267/91 and 2-268/91 Keck and Mithouard* [1993] ECR I-6097, reduced the scope of judicial scrutiny in cases that applied to all traders operating in specific national territory, under certain conditions. Thus the Court would not examine issues such as Sunday trading, mandatory closing hours, or other issues that had a limited effect on cross-border trade and which reflected national moral, social, and cultural norms.

Despite lagging behind other areas, case law relating to free movement of services and rights of establishment is now at the centre of recent legal developments because the 'country of origin' principle is the starting point in assessing restrictions to free movement. In the seminal Case C-438/05 *International Transport Workers' Federation and anor v Viking Line ABP* [2008] IRLR 143, Case C-341/05 *Laval* [2007] ECR I-11767, and Case C-346/06 *Rüffert v. Land Niedersachsen* [2008] IRLR 467, the importance of freedom of establishment and services is prioritized over social and collective labour rights in economic integration. Judicial activism has thus allowed companies the right to choose the least restrictive regulatory environment to allow for more home-country control rules. Scharpf (2010) highlights the constitutional asymmetry that this creates, where these recent court cases and efforts to liberalize services challenge national socio-economic models, as a result of the predominance of market-based treaty obligations promoting economic freedoms and legal obligations to safeguard against protectionism.

The constitutive role of law is crucial in understanding the consolidation of markets. Market integration involves a substantive legal project that shapes public and private policies. The CJEU has placed state and local laws under its purview, and has determined the economic relationship between public intervention and the market, as well as the political relationship between the member states and the Union. European case law has opened up opportunities by reducing much of the cost of innovation and entrepreneurship by shifting the focus towards creating the context for open markets and competition.

## KEY POINTS

- Harmonization was initially the main *dirigiste* strategy used to integrate national markets in the 1960s and 1970s, but it achieved limited results.
- Mutual recognition provided a new mechanism for regulatory coordination and the possibility of mutual equivalence of member state rules.
- Legal rulings by the Court of Justice in *Dassonville* and *Cassis de Dijon* have played a key role in challenging non-tariff trade barriers.
- More recent cases, *Viking*, *Laval* and *Rüffert*, have raised questions about the balance between economic freedoms and social and labour rights.

## The politics of neoliberalism and '1992'

Throughout the 1970s and early 1980s, member state efforts to maintain import restrictions and discriminatory trade practices had thwarted attempts to create a single market. By the mid-1980s, however, things began to change.

### Market-making

Growing recognition of a competitiveness gap vis-à-vis the United States, Japan, and newly industrializing countries, led to strenuous efforts to maintain overall levels of market activity and provide conditions for viable markets (Pelkmans and Winters, 1988: 6). While past economic policies, notably *neo-corporatist* class compromises and *consensual* incomes policies, had successfully promoted growth, these national policies were unable to cope with changes in the international economy as trade deficits soared and stagflation increased.

Assessments were so bleak that, on the 25th anniversary of the Treaty of Rome, *The Economist* put a tombstone on its cover to proclaim the EC dead and buried. A growing consensus among business and political leaders that a collective strategy was needed to stop an 'escalating trade war' (*Financial Times*, 25 July 1980) led the European Round Table, the head of Europe's largest companies, to put forward numerous proposals to improve European competitiveness. It also led the American Chamber of Commerce

big problems of industry standards, border formalities, and export licences, France and Italy being the worst offenders. Industry began a campaign of proactive lobbying, ambitious proposals, and visible political engagement (*Financial Times*, 20 March 2007). Responding to this groundswell, the European Commission proposed addressing the most problematic barriers in the member states (*Financial Times*, 22 September 1980; *The Economist*, 22 October 1983).

Governments, cognizant that their efforts to create national champions, protect labour markets, and maintain public spending were not stemming rising trade imbalances and deficits, sought new solutions. Efforts to contain import competition and stabilize industries had failed, shifting strategies from Keynesian demand management towards market liberalization. This did not mean a common consensus around neoliberalism, because different conceptions of the agenda for European integration emerged.

While the British advocated a genuine common market in goods and services, and promoted a radically neoliberal agenda, the French argued for the creation of a common industrial space wherein trade barriers could be reduced internally, provided that external trade protection would compensate for increased internal competition (Pearce and Sutton, 1983). Major steps taken at the 1984 **European Council** meeting in Fontainebleau broke the impasse, as agreement on the long-running disputes over the UK's contribution to the Community Budget and the pending Iberian **enlargement** were reached. The **Dooge Committee** was also established to reform the institutional and decision-making structure of the Community.

Agreement at the 1985 **Intergovernmental Conference (IGC)** in Milan to 'study the institutional conditions under which the internal market could be achieved within a time limit' proved critical for market integration. This built on several earlier developments, including the **Spinelli Report**, which focused on the need to link national regulations and institutional reform, and the parliamentary draft Treaty on European Union on institutional reform, which included increased parliamentary powers and greater use of qualified majority voting (QMV) in the Council. At the subsequent IGC, the proposed treaty reforms were assembled to become the **Single European Act (SEA)** (see also Chapter 2).

The SEA endorsed the single market and altered the decision-making rules for single market measures (with exceptions such as taxation and rights of

workers) from unanimity to QMV. This linked institutional reforms to substantive goals and made it more difficult for recalcitrant member states to veto legislative action, as had been the case under harmonization. The SEA also strengthened the powers of the European Parliament with respect to single market measures by allowing for the rejection or amendment of proposals under the **cooperation procedure**.

### The 1992 Programme: a blueprint for action

By early 1985, newly appointed Commission President Jacques Delors and Internal Market Commissioner Lord Cockfield, a British former Secretary of State for Industry, put together a package of proposals that aimed to complete the single market by 1992. The 300 proposals—subsequently modified and amended to become 283 proposals—became a Commission White Paper entitled *Completing the Internal Market*. The final product became known as the '**1992 Programme**'.

The White Paper grouped remaining trade obstacles as physical, technical, and fiscal barriers. Lord Cockfield used this simple categorization to introduce legislative proposals across goods, services, capital, and labour markets to improve market access and prevent distortions to competition and restrictive business practices. The European Commission bolstered support by commissioning a series of economic evaluations on the 'costs of non-Europe' (the **Cecchini Report**, 1988), which has recently been revived in the European Parliament's 2014 report *Mapping the Cost of Non-Europe*. This concept, first pioneered in the 1980s, emphasized trade and welfare gains from removing trade barriers, as well as efficiency gains achieved through market enlargement, intensified competition, and industrial restructuring. The new report suggests the European economy could be boosted by some 800 billion euro—or six per cent of current GDP, as the single market has yet to achieve its full potential which could be achieved by more effective application of existing legislation and a deepening of the single market.

At the core of the single market project is mutual recognition, the consequence of which would be increased competition among intra-EU firms, as well as different national regulatory systems (see Sun and Pelkmans, 1995). Governments sponsoring regulations that restricted market access would be pressured since firms from other member states would not be

required to abide by them, putting their local firms at a disadvantage. The European Commission sought to apply this innovative strategy to the service sector as well. The concept of 'home country control' was to allow banks, insurance companies, and dealers in securities to offer elsewhere in the Community the same services as those they offered at home. A single licence would operate, so that these sectors would be licensed, regulated, and supervised mostly by their home country.

Building on the legal decisions outlining the doctrine of mutual recognition as a broad free trade principle and with reference to standard-setting as a more flexible regulatory strategy, the Commission drafted a proposal on harmonization and standards in 1985 (Pelkmans, 1997). This 'new approach' reflected a critical effort to address trade barriers by sharing regulatory functions between the public and private sectors. Where possible, there was to be mutual recognition of regulations and standards, and Community-level regulation was to be restricted to essential health and safety requirements. European standards bodies, the **European Committee for Standardization (CEN)**, the **European Committee for Electro-technical Standardization (CENELEC)**, and the **European Telecommunications Standards Institute (ETSI)** set the necessary standards (Egan, 2001). Such private sector governance allowed states to coordinate without the agreement costs associated with harmonization, by **delegating** regulatory authority to private institutions.

The White Paper gained widespread political support by providing a target date for the completion of the single market, emphasizing the merits of economic liberalism. It included measures across the four freedoms, such as the abolition of frontier and capital exchange controls, mutual recognition of goods and services, and rights of establishment for professional workers. While the White Paper focused mostly on market access or **negative integration** measures, such as removing technical trade barriers, dismantling quotas, and removing licensing restrictions for cross-border banking and insurance services, they were complemented by market-correcting or **positive integration** measures, such as health and safety standards, rules for trademarks and deposit insurance, and solvency ratios for banks and insurance (see Box 18.4).

Despite its 1992 deadline, the single market remained incomplete. The White Paper avoided a



#### BOX 18.4 THE FRAYED EDGES OF THE SINGLE MARKET: THE CASE OF SERVICES

The Services Directive (Directive 2005/36/EC) is seen as critical because liberalization is expected to deliver tangible benefits and serve as the main driver of growth and jobs. Hampered by numerous barriers, the so-called '**Bolkestein Directive**', which aimed to do for the trade in services what the '1992 Programme' did for goods, sparked criticism and protest across Europe. Although a key ambition of the Directive was to extend the well-understood principle of 'mutual recognition' to the services sector, it stoked fears of a flood of cheap labour from new member states under the 'country of origin' principle. Under this principle, a firm would be able to operate in a foreign country according to the rules and regulations of its home country, leading to concerns that an influx of cheap labour from Central and Eastern Europe (CEE) would undercut working conditions, wage levels, and welfare benefits in Western Europe, leading to 'social dumping' and fears about 'Polish plumbers' depressing wage levels. European fears that services liberalization reflected the primacy of market liberalization over social protection made this one of the most disputed pieces of European legislation in recent years (Polanyi, 2001; Nicolaidis and Schmidt, 2007).

number of issues, such as the social dimension, politically sensitive sectors including textiles and clothing and taxation of savings and investment income, despite these areas' evident distortions and restrictions. Completion of the single market meant tackling politically difficult dossiers and ensuring legislation was implemented in all member states; otherwise consumers' and producers' confidence in realizing economic benefits would be undermined. Nationally important sectors like utilities (for example, gas and postal services) were given special exemptions in the single market due to social and economic arguments that 'universal services' must be provided, resulting in natural monopolies and limited competition. With rapid liberalization and technological changes, the traditional economic rationale for such *dirigiste* policies was being undermined. Pressure to open telecommunications, electricity, and gas markets resulted in the Commission forcing liberalization of these basic services through its competition powers. The competition policy pursued by the Commission has reinforced a liberalizing bias to the single market—because specific features of restrictive practices, managerial rules governing state aid to industry, and merger policy have played a substantial role in reducing market distortions.



Over the transformation of European economies over the past two decades, the traditional means of market integration through the removal of trade barriers and sector harmonization appears outdated in the face of changes in production, technology, and innovation, and the growth of tradable services (Hammond and Quinlan, 2005: 255). While closer economic integration has challenged states' sovereignty in terms of their capacity for autonomous action within their territories, further integration has run into resistance to the irreversible market liberalization and economic globalization pressures have challenged the European social model. Although high unemployment, low economic growth, and the resulting insecurity in many European states have fuelled pressure for economic reform, they have also triggered anxiety and resistance by member states. Efforts to address these issues in the service sector, freedom of services, and rights of establishment through the concept of home-country control sparked a considerable outcry (see Box 18.4). Often forgotten is that the internal market agenda is unfinished. Despite deeper market integration, domestic consumption, investment patterns and labour markets still reveal a distinctive 'home bias' (Delgado, 2006). After a period of 'internal market fatigue', these issues re-emerged on the political agenda with the Monti Report (2010), the Europe 2020 strategy (2010), and the Single Market Act I (2011) and II (2012). Attention has focused on the benefits of a digital single market, fully integrated financial services, and more physically integrated energy markets to promote growth and efficiency gains in the aftermath of the economic slowdown and sovereign debt crisis in Europe.

#### KEY POINTS

- In the mid-1980s, business engaged in extensive lobbying for the single market and supported measures to improve European competitiveness.
- The White Paper on the single market created a package of measures to liberalize trade that became the 1992 Programme.
- The single market is a work in progress, with continued efforts to deepen and widen the internal market.
- The Single Market Act I and II are the latest efforts to complete the single market, engendering renewed awareness of the central role of the single market as a means of promoting growth, innovation, and competitiveness.

## Correcting the market: the politics of regulated capitalism

The emphasis on market integration through the '1992 Programme', and subsequently in the Monti Report, brought pressures for ancillary policies along social democratic lines (Scharpf, 1999). Fearful that excessive competition would increase social conflict, proponents of regulated capitalism (see Box 18.2) recommended various inclusive mechanisms to generate broad-based support for the single market. These included structural policy for poorer regions to promote economic and social cohesion, consumer and environmental protection, and rural development. Fiscal transfers spread the burden of adjustment and assisted the adversely affected countries.

Labour representatives also sought to address the impact of market integration by creating an ongoing social dialogue (see Chapter 19). These initiatives acknowledged that the domestic political pressures on national welfare states meant that they could no longer compensate for the effects of integration as they had done in the past (Scharpf, 1999). The goal of regulating markets, redistributing resources, and shaping partnership among public and private actors led advocates of regulated capitalism to propose provisions for transport and communications infrastructure, information networks, workforce skills, and research and development (Hooghe and Marks, 1997). The progressive expansion of activities at the European level brought into focus two long-standing opposing views about the economic role of governments.

Some have argued that the single market has progressively increased the level of statism or interventionism in Europe (Messerlin, 2001; Schmidt, 2007). The economic consensus favourable to market forces and neoliberalism under the 1980s single market programme has been offset by increased intervention or regulated capitalism in labour markets (minimum wage and working time), and new provisions for culture (broadcast quotas), industry (shipbuilding, textiles, and clothing), and technology (new energy resources, biotechnology, and broadband networks) in the 1990s. Yet these forms of embedded liberalism have partly been overshadowed by a growing emphasis on competitiveness in the 1990s, in terms of increased market competition and discipline through the Lisbon Process, a collective strategy across different policies wherein the single market is central to deliver the goals of growth, jobs, innovation, and

competition, and to drive European recovery and Europe 2020. Such market liberalization presents opportunities via mobilization and provides a new context wherein opposition can be expressed (Imig and Tarrow, 2001). This is recognized by the Monti Report (Monti, 2010) aimed at providing greater awareness of the role of the single market for the European social market economy in an effort to enhance socio-political support and legitimacy.

#### KEY POINTS

- Proponents of regulated capitalism advocate a number of policies to generate more widespread support for the EU, including structural policies and social dialogue.
- The disjuncture between market integration at **supranational** level and social protection at national level has become a cause for concern.
- Fears about the socio-political legitimacy of market outcomes were echoed in the Monti Report.
- The Monti Report argued that the social dimensions of a market economy need to be strengthened to create a competitive social market economy, as set out in the Preamble to the Treaty of Rome.

### The revival of the single market

As Europe faces the challenges of making the single market deliver, greater attention has been given to better governance and compliance, as well as to completing the single market to promote growth (Radaelli, 1998; European Council, 2012). The European institutions have promoted regulatory reform and more flexible modes of governance, in part motivated by business requests for an easing of regulatory burdens as a prerequisite for the achievement of a Europe-wide single market (European Commission, 1992a; Molitor, 1995; Mandelkern Group, 2001). Specific initiatives have included 'Simpler Legislation for a Single Market' (1996), the Action Plan for the Single Market (1997), a scoreboard to generate peer pressure to enhance regulatory compliance (European Report, 28 November 1997), and regulatory impact assessments. Yet there remain compliance problems with single market obligations in both new and old member states, generating a range of formal and informal mechanisms with which to address the situation (Falkner et al., 2004). While the Commission has

actively pursued **infringement proceedings** (under Article 226 of the Treaty), whereby it formally notifies member states of their legal obligations, it has also sought to address the slow pace of standardization, and misunderstandings with the application of mutual recognition in practice (Nicolaidis and Schmidt, 2007). This involves out-of-court informal solutions to complaints by consumers and businesses regarding the incorrect application of internal market laws, notification of new national laws and standards to prevent new trade barriers, and the new goods package, all aimed at better market surveillance. Business surveys indicate that firms still face obstacles that prevent them from realizing the full benefits of the single market (Egan and Guimarães, 2011).

Recognizing that the single market constitutes a key driver for European economic growth, Mario Monti, a former Commissioner and Italian Prime Minister, was commissioned to write a report on how to improve the single market in a time of economic crisis. Facing concerns about 'internal market fatigue' and growing nationalist pressures (see Box 18.5), Monti advocated deepening and widening the single market, using social benefits to generate public support and renewed momentum. On the eve of the 20th anniversary of the '1992 Programme', the context for the single market had clearly changed, requiring adaptation to new technologies, business models, and market practices (Pellemans, 2010). Seeking to generate a momentum, the timing of the Monti Report, entitled *A New Strategy for the Single Market: At the Service of Europe's Economy and Society*, coincided with the start of the **eurozone** crisis and was thus largely ignored. Yet the European Commission persisted, promoting 12 key areas that ultimately became the Single Market Act I (2011), which was subsequently complemented by the Single Market Act II (2012). Although efforts have been made to address those areas wherein economic benefits are still to be had, including the digital economy, patents, the coordination of tax policies, copyright and electronic commerce, and implementing legislation in the contested area of services, the goal of delivering on this agenda by the end of 2012 was, from the outset, very ambitious given Europe's economic and political climate at that time. The single market is far from perfect. Companies still experience difficulties in selling goods and services across markets, professionals still struggle to have diploma or qualifications recognized outside of their home state, and single market rules are often incorrectly implemented.

## BOX 18.5 BREXIT AND THE SINGLE MARKET

In January 2013, British Prime Minister David Cameron made a commitment to hold a 2017 referendum on whether Britain should remain in the EU. A British exit (Brexit) would mean using the exit clause introduced in the 2009 Lisbon Treaty. Cameron noted that the UK's access to the single market should not be compromised, regardless of EU membership status, advocating for its reform and completion in the services, energy, and digital sector, after a comprehensive review of EU competences. Some UK groups, such as the Confederation of British Industry, concur with Cameron, but the Institute of Directors (IoD), which mostly represents SMEs, backs a downward transfer of competence in areas like corporate governance and employment law, and advocates substantial EU reforms. Brexit is generating economic uncertainty among investors, given that the UK is home to the largest financial centre in Europe. Cameron's recent efforts to 'cut red tape' ironically requires continued EU-level regulation in some areas, in particular in efforts to complete the Digital Single Market and the Single Market in Services. There are also concerns in the UK about the future role of Britain in Europe, and tensions over recent British restrictions imposed on free movement of labour, one of the 'four freedoms', due to concerns about 'welfare tourism'.

## KEY POINTS

- Efforts have been made to improve compliance through formal and informal mechanisms.
- Emphasis has been given to the design of better regulatory policies to ease burdens on business and to promote competitiveness.
- The eurozone crisis and nationalist pressures are key challenges to the single market.
- The Monti Report and Single Market Act I and II are attempts to address the lack of confidence in the single market using initiatives aimed at enhancing general macroeconomic performance.

## Globalization and the single market

Some in Europe argue that European integration contributes to globalization because increased intra-European flow of goods, services, capital, and people increases economic opportunities and market openness. Others argue that globalization threatens the European social model, and that the direct impact on national economies requires coordinated action

to manage the tensions and challenges created by increased global competition (see Box 18.6). While much attention within Europe has been focused on the need to manage the consequences of industrial decline, to foster greater productivity, and to ease intra-European transaction costs, debates about managing economic liberalization have now been transferred to the global level. Yet the single market has also enabled the European Union to exercise its authority in multilateral trade negotiations, and use market access as a 'soft power' instrument to promote economic and political reform in Central and Eastern Europe and the Balkans through **stabilization and association agreements (SAAs)** to, in many cases, eventual EU membership (see Chapter 16).

As the largest trade bloc in the world, the EU has a leading role to play in the context of international trade negotiations and liberalization, notably the **Transatlantic Trade and Investment Partnership (TTIP)** with the USA and **Comprehensive Economic and Trade Agreement (CETA)** with Canada. These efforts to promote cross-jurisdictional markets are about regulatory cooperation rather than traditional trade negotiations. While many argue that across a broad range of sectors, the EU is increasingly shaping global markets through the transfer of its regulatory rules and standards, others point to tougher and more stringent financial regulations in the USA that are forcing the EU to adjust its expectations, as the USA assumes a global leadership role in post crisis financial regulation and management (Damro, 2012; but see Young, 2014). The EU, as an international economic regime, has sought to play a leading role by promoting key concepts of its regulatory approach in areas like competition policy, environmental management standards, and food safety. However, the EU is also pushing for a stronger transatlantic regulatory partnership—as the goal is to eliminate non-tariff barriers through the promotion of new global standards. Yet European integration also takes place in a situation of global sourcing of goods and services, increased tradability of goods and services, and changing patterns of trade and investment. While many studies of globalization have suggested that Europe is moving towards greater levels of economic integration, they have paid much less attention to other parts of the world. Economic integration is continuing, but political integration is either not desired or so limited as to make debates about territoriality, sovereignty, and governance premature.

## BOX 18.6 THEORIZING THE SINGLE MARKET

There are different theoretical approaches from various disciplinary perspectives that can explain the causes, content, and consequences of the single market (see Pelkmans *et al.*, 2008).

**Intergovernmentalists** (see Chapter 5) claim that the institutional dynamics that underpin the single market project were the result of a convergence of policy preferences in the early 1980s between the UK, Germany, and France (Moravcsik, 1991). National interests and policies are expected to constrain integrationist impulses, because state resources, power, and bargaining are the driving factors of economic integration. Garrett (1992) furthers this, arguing that, in important areas of legal activity, the Court was constrained by member states' governments. According to Garrett, the Court anticipates reactions from member states and serves their interests (especially those of the most powerful member states) in rendering its judgments.

By comparison, **neo-functionalists** (see Chapter 4) stress the importance of supranational actors in shaping the single market. Sandholtz and Zysman (1989) point to the Commission as an innovative policy entrepreneur shaping the European agenda, supported by business interests seeking to reap the benefits of an enlarged market. Burley and Mattli (1993) argue that Court rulings have resulted in interactions between national and European courts, creating a distinctive legal regime that shapes rules and procedures governing markets. When political attempts to create a common market stalled, the Court advanced its supranational authority over national courts, expanding its jurisdictional authority in order to make a pivotal contribution to the promotion of free trade (see Shapiro, 1992; Egan, 2001).

Cameron (1992) seeks to blend these different theoretical perspectives by arguing that the 1992 Programme was the result of the complex interaction of different actors and institutions, simultaneously accelerating economic integration and **supranational institution**-building, while also representing intergovernmental bargaining among states. By contrast, van Apeldoorn (1992) argues that market outcomes are the result of struggles between contending transnational forces, and that economic integration reflects the economic interests of transnational capital strengthened by the deepening globalization processes and the rise of neoliberal market ideology within European political economy. Conversely, Jabko (2006) focuses on the role of ideas in **framing** the single market project, drawing on **constructivist** premises (see Chapter 6) that the market can be strategically used as a political strategy to appeal to various constituencies at different times.

More recently, the single market process has been examined through the lens of comparative policy analysis. Empirical studies have shown that European policies are a patchwork of different **policy styles**, instruments, and institutional arrangements (Héritier, 1996). Majone (1996) described such changes in

governance (see Chapter 7), resulting from the failure of public ownership modes of control and the ensuing turn to privatization policies, as generating an increasing transfer of authority to the EU level to deal with market failures and to ensure credible commitments to a European single market. His argument that the EU as a political system specializes in regulation is based on the notion that regulation is the central instrument of EU level governance, since, with limited fiscal resources at its control, the EU has sought to expand its influence through the supply of regulations, the costs of which are borne by the firms and states responsible for complying with them. Thus, the single market is an effort to reduce **transaction costs** and to resolve problems of heterogeneity through collective action and coordination. Majone (1995) argues that, in order to achieve such goals, the European Union requires **non-majoritarian** institutions, such as independent banks, regulatory agencies, and courts, to foster collective regulatory outcomes, because they are better suited than traditional political interests, such as parties, legislatures, and **interest groups**, to achieve the independence and credibility necessary to govern the market.

Focusing on issues of governance, other scholars have stressed the impact of the single market on regions, sectors, and classes by looking at the relationship between economic development and democratic conditions, seeking to demonstrate that the single market may not be entirely benign in its consequences (Hirst and Thompson, 1996; Scharpf, 1999). While political economists have illustrated how the European **polity's** activism has increased market competition in sectors hitherto shielded from the discipline of the market (Scharpf, 1999), there has been growing attention in comparative politics to the role of public opinion and party politics in intensifying conflict around European policies. Few subjects have generated more debate than the effects of economic integration and globalization on the policy autonomy of governments. Opponents argue that the increasing constraints on national policy choices, especially the pressures on the welfare states and government-owned monopolies, have, in fact, contributed to the growing opposition among the populace towards further European integration. As Hooghe and Marks (2009) have argued, as important as economic imperatives are, market integration is also the product of politics—most notably, but not exclusively, tensions and conflicts about **sovereignty**, identity, and governance in a multilevel polity. There is a strong relationship between economic and political developments, as the single market and its ancillary policies require political support and legitimacy, as well as institutional capabilities and effectiveness. Market integration generates conflict and bargaining over institutional power and authority, and has resulted in growing economic insecurity among domestic publics about the effects of a broader breakdown of economic barriers on national identity, culture, and values (see Chapter 25).

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### Conclusi

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## KEY POINTS

- Opinion is divided on whether globalization is a threat or an opportunity.
- The European Union—as a huge trading bloc—plays an important role in the international economic system, as well as being shaped by it.
- The EU uses its different trading relationships to promote its rules and standards, exporting its single market governance.
- It is unclear whether European integration provides a model for other parts of the world in terms of regional integration.

## Conclusion

While the completion of the single market has suffered a period of relative neglect, its star is once again on the rise as a means to enhance productivity and competitiveness across European economies (Monti, 2010; Pelkmans, 2010). In the context of the post-2008 economic crisis, more needs to be done to make the single market function more effectively. The single market needs to enable the European Union to confront the dynamics of increased competition and to respond to the changing global environment by fostering collective coordinated action on a range of regulatory issues. This could help the EU to shape global rules and norms.

Although the single market is now well entrenched, its feasibility and effectiveness depend on two conditions. First, it requires well-defined legal and judicial mechanisms to guarantee **enforcement** and compliance in single market rules. But it also needs to attend

to generating political support and legitimacy for economic integration. In this respect, the relationship between economic and social rights needs to be re-examined, since viable and sustainable integration is likely to be more successful if economic growth is fairly distributed. While striking down economic trade barriers, promoting market liberalization, and freeing up economic access, the Court of Justice has also created extensive case law that bolsters equity, economic development, and social welfare (Caporaso and Tarrow, 2009). Yet it has increased the asymmetry between economic and social rights, generating public opposition as increased economic divergence within an enlarged EU has made the impact of market integration more salient in domestic politics. Like all internal markets, Europe's single market must balance functional, distributional, and territorial pressures (Anderson, 2012).



## QUESTIONS

1. What policy instruments has the European Union used to address intra-EU trade barriers?
2. How successful has the EU been in fostering a single market free of restrictions to trade and commerce?
3. What were the driving forces behind the 'relaunch' of the single market project in the 1980s and 2000s?
4. How have theories and approaches explained the single market programme?
5. What role has the Court of Justice of the EU played in dealing with trade barriers?
6. What accounts for recent interest in the single market?
7. To what extent are the current problems of market integration a result of its lack of socio-political legitimacy, the economic crisis, or internal 'market fatigue'?
8. What are the possible consequences of a British exit ('Brexit') for the single market?