Single Market or National Industrial Policies?

Two years after the Lisbon summit the Heads of State and Government of the EU member countries met again in Barcelona, on 15-16 March, to assess the progress made since. In Lisbon the European Council had set itself the strategic goal of turning the European Union into the "most competitive and dynamic knowledge-based economy in the world" by 2010. This was (and is) a bold and highly ambitious goal. In Barcelona the European Council "notes that there have been important advances, but also that there are areas where progress has been too slow". Where do we stand?

GDP per capita in the EU, in purchasing power terms, is still less than two thirds of the US level, unchanged from Lisbon. This large gap in incomes and production, which will widen further with the accession of the low-income economies of central and eastern Europe, demonstrates the need (and the scope) for effective catching-up strategies. To close the gap, and to live up to the Lisbon promise, Europe must achieve a sustainable rate of economic growth well above the US rate. This will be no easy task. Over the past decade the European growth rate (2.1 per cent p.a.) lagged consistently and considerably behind that of the USA (3.25 per cent p.a.) True, since 1994 a few smaller member countries (Ireland, Luxembourg, Finland and the Netherlands) have been able to grow at rates of 3.5 per cent and more. At the same time, however, three major economies (Germany, Italy and France) expanded at only 1.8 to 2.3 per cent. Has the Barcelona summit made progress in stimulating the policy turn-around required to shift the growth balance in favour of the EU?

For the EU to become the most dynamic and competitive economy progress is needed on both the European and the national levels. On the Community level priority must be given to providing a credible macroeconomic framework and to advancing the Single Market for goods, services, labour and capital. The macroeconomic framework has been greatly enhanced by entry into economic and monetary union, with the European Central Bank as the single and independent monetary authority. Yet, the adoption of the euro has not allowed the EU to decouple itself from the US recession. And the recent power struggle on the early warning letter to Germany (and Portugal), with the defeat of the Commission, has undermined the credibility of the Stability and Growth Pact. It will need more than the affirmation of the medium-term budgetary objectives – as voiced in Barcelona – to restore fiscal confidence.

The Single Market, already due to be completed a decade ago in 1992, is still under construction. Both the Internal Market Commissioner, Mr. Bolkestein, and the Commissioner for Competition Policy, Mr. Monti, are pushing hard to create and improve the conditions for market liberalisation, integration and competition. They deserve full support for their efforts to unleash the forces of competitive and innovative dynamics, as called for in the Lisbon strategy, and to make full use of the scope and scale of the large pan-European market. Indeed, how should the EU ever become competitive, if not by fostering competition?

In the late 1980s and early 1990s France and Germany joined forces to make the Single Market Programme a success and they used that programme as a lever against domestic interest groups demanding economic protection. In Barcelona, the wind has changed. The Heads of State and Government demonstrated their negligence of the European economic dimension in the face of strong national economic concerns and their preoccupation with international security issues. Is the Single Market, the most powerful force for the revitalisation of the European economy, in danger of being re-fragmented into national bits and pieces? Under the pretence of defending German interests at large, Chancellor Schröder fought, with dramatic fancy figures and arguments, for the narrow industrial interests of certain – not all – German automobile producers (firms that otherwise pride themselves on their international competitiveness), chemical and engineering enterprises, charging the Commission with a lack of consideration for the German (and European) industrial structure. In doing so he continued and intensified his earlier Commission-bashing for its (legitimate) action against anti-competitive practices and its criticism of German budgetary policy.

Schröder received political support from President Chirac and his Prime Minister (and rival) Jospin, who wish to exempt the powerful French state monopolists, from the energy companies to the postal services, railways and air carriers, labelled as "services publics", from the Single Market's liberalisation and competition rules – while reaping the benefits from the opening of their partners' markets. Both governments are united in their short-sighted and biased view that "what is good for Volkswagen (Electricité de France) is good for Germany (France)." And they are united in their drive to weaken the European Commission, and in particular its Competition and Internal Market Commissioners, for their efforts to give priority to economic efficiency over the conservation of existing rents. From the engine of European integration the Franco-German tandem has turned into a brake to the very dynamism the Lisbon strategy is supposed to produce.

As a result, progress in the realisation of the Single Market is slow. Many measures are already overdue and their timely adoption and implementation risk being missed, as the Commission notes in its communication to the Barcelona summit. The European Council has labelled "connecting European economies" a priority policy area and has asked the Council and European Parliament to adopt "as early as possible" the pending proposals in the fields of public procurement, financial services, energy, transport and communications. Yet the label is a misnomer since many of the proposals, while aiming at further liberalisation of national markets, fall short of expediting an integrated European market. Moreover it remains to be seen whether the call will indeed spur political action. The EC Council appears to be unwilling to take majority decisions as foreseen by the EC Treaty, which would be a precondition for speedy action.

In addition to joint action at the Community level, action to improve the national economic performance of member countries is as important as ever. Progress on that front is uneven. While the smaller countries are generally doing their homework and are being rewarded with comfortable growth rates, structural reform in the larger economies often meets with heavy resistance. The mass protests in Italy against a relaxation of the rigid rules against lay-offs are only the latest incidence. The Barcelona summit made some cautious references to the need for, and direction of, reforms in the pensions systems, labour markets and education systems. These are national domains, and the EU can do no more than establish benchmarks and provide best performance indicators to evaluate the success or failure of national endeavours.

It goes without saying that without bold structural reforms in the larger member countries, aimed at creating a policy climate conducive to robust market-driven growth and investment, overall EU economic performance will continue to be weak. Yet in Germany, and to some extent also in France, the political tide appears to be going in the opposite direction: a revival of interventionist industrial policies to the short-lived benefit of incumbent firms and employees. The price to be paid for populist policies will be high: increased proneness to supply and demand shocks, and foregone income and employment opportunities. For the time being the European Commission and Parliament are perhaps the only political driving forces for sound economic management of the EU. The Convention which was recently set up to lead the debate on the future of Europe should see to it that in its blueprint for reform both are strengthened rather than weakened – to the political as well as to the economic benefit of Europe.

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