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# The Single European Market: A Favourable Interim Assessment

**H**eralded by Greece's handover of the EC Presidency to Spain and the new EC Commission's entry into office, the second half of Project 92 is underway. After an initially hesitant though ultimately promising run-in, the next two years will largely decide whether the large market free of physical frontiers will permit of realization by 31 December 1992 and what basic political/administrative form it will take.

First let us look at what has been achieved. At the political and administrative level, a point worth stressing is that the Commission of the European Communities is working to schedule: it has already transmitted some 90% of the proposals provided for in the 1985 White Paper on the completion of the internal market to the Council for deliberation and adoption. The Council hasn't been idle, either: it has formally accepted over 40% of the submissions or achieved a common stance, i.e. a political consensus on them. In recent years, in fact, the Council has shown much greater readiness to take decisions – at least on those issues requiring a qualified majority. Only a fraction of the directives have as yet become national law, though, and the Council and the governments and parliaments of the member states will have to speed up the decision-making process if the deadline is to be met.

In terms of content too, the interim achievements are substantial. Admittedly, the majority of the directives adopted so far concern "technical" aspects and are hardly likely to fire the imagination of present or future supporters of the internal market. Nevertheless, certain substantive lines of development can be traced: first, the Commission's new approach of mutually recognizing national products and production standards instead of pursuing harmonization is gaining ground, the consistent decisions of the European Court of Justice in the cases of cassis de Dijon, beer and pasta having provided a major foundation. The cases presently running in milk and meat products are performing an alibi function for the Government of the Federal Republic of Germany aimed at placating domestic producers. Their outcome is predictable.

A second interim result: after decades, the opening of national service markets and their integration into a European internal market is now making progress. This applies both to the financial services of insurance companies (particularly as provided to businesses) and banks as well as air and road goods transport. In the case of insurance and air transport, the Court of Justice had to lend a helping hand. Concomitant to the opening of markets is keener competition in efficiency and prices, which will unleash forces for innovation and growth on the national markets usually heavily regulated and controlled by cartels. This ought to stimulate demand for services and cut costs in the manufacturing sector, too.

The decision to dismantle barriers to the free flow of capital by 1990 (with extended transition periods for certain member states) is a third plus item on the success side so far. The departure from the decades-old system of controls is subject to provisos; the EC

safeguard clauses allowing countries temporary respite from liberalization have been extended further and more steps will have to be taken – the member states are still unprepared to relinquish the mercantilistic system on the capital market in the case of regulations governing the investment activities of insurance firms for example. Nevertheless, the decision constitutes a decisive step towards a European financial market and greater convergence in European economic policy.

A fourth feature of developments thus far is the decoupling of market integration processes from political/administrative ones. The internal market initiative was launched at the political/administrative level with the Commission's White Paper of 1985, the Single European Act and the flood of directives and draft directives. Trade and industry took about two years to realize that, unlike the project to establish an economic and monetary union instigated in the seventies, the Commission and the Council mean business this time. Preparations are now in full swing. All most firms know about the single market is that competition in Europe including domestic markets will get tougher. To this challenge they respond by means of investment and acquisition, activities, streamlining production and concentration on fewer production locations, development of new products and manufacturing and marketing methods.

Economically, businesses are behaving as if the internal market were already completed. At microeconomic and macroeconomic level, some are already garnering the profits from increased efficiency which the completion of the market was planned to generate in 1993 and after. They are also vehicles of competition between nations and regions. Regions with high wages, corporate taxes, social security contributions and manufacturing regulations must stand the test of whether performance (quality and working morale of the labour force, quality of infrastructure, adaptability of public administration, social stability) matches up to the high costs, in other words whether they can offer value for money. Competition between firms, regions and concepts in economic policy is thus already in progress and keeping precisely to the political/administrative deadline of 31 December 1992 no longer seems as crucial.

This does not of course mean that this date has become unimportant. Finance ministers and ministers of the interior in particular need the stick of a deadline to finish their "homework": fiscal harmonization, harmonization of laws governing aliens (where necessary) and improved cross-border police coordination. The Council should therefore politically commit itself anew to unconditionally removing all border controls on time.

The major concern in the second half in terms of content will be to anchor the – complementary – basic political/administrative decisions for competition and the principle of subordinate substitution in the directives and regulations still to be issued. The principle of subordinate substitution means that the Community should not regulate what the member states or regions can better take care of themselves. Opting for the principle of subordinate substitution, as repeatedly stressed by Commission President Delors, is thus a commitment to cultural pluralism and competition and a rejection of bureaucratic centralism, as embodied in the EC agricultural market. The principle of subordinate substitution is called for in social policy (apart from minimum standards in health and safety at work), in merger control, in stipulating the minimum size for credit institutes, in land transfer taxation and corporate taxation.

The decision for competition is the decision for creative economic change, for an incentive system for the production factors labour and capital, for decentralized economic decision-making and against "(Euro)sclerosis", against "long-standing arrangements" and "annuities" and against investment control. This approach is called for now in the Community's commercial policy towards non-member countries, in merger control (no coalescence with industrial policy) and in media policy, to name but a few examples.

There are no standard recipes to solve the problems of centralization versus regionalism, harmonization versus mutual recognition, regulation versus competition. Especially in this the latter phase of Project 92, though, it is crucial to point the signposts in the right direction, when in doubt towards the path of competition.

*Hans-Eckart Scharrer*