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European Single Market 2.0: Striving for a More Social and Environmental Market Aligned with Open Strategic Autonomy

KEY MESSAGES

- **The internal market is at the core of the European project and has had different phases and objectives supported by different coalitions of actors**
- **It is time to reinvent this project and prepare for an internal market 2.0 capable of confronting the new challenges – be they climatic or geopolitical**
- **This project should revolve around three axes: the dual transitions and in particular the environmental one, the social dimension, and the geopolitical (strategic autonomy)**
- **Even if difficult it could be possible to find a new coalition of actors and a new European social pact to support this**

Ever since its inception in the mid-1980s, the single market[1] has been at the center of European economic integration, playing a key role in political and social integration. Created formally in 1993 through the adoption of the Single European Act together with the White Paper on the completion of the internal market, the single market represents a major milestone for the overall European project. According to Article 3(3) of the Treaty on European Union: "The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment." In doing so, the Treaty presented a vision of Europe where market integration, economic prosperity, and social and environmental sustainability are closely linked to each other.

Indeed, by removing barriers to trade in the internal market as well as facilitating the free movement of capital and people within the Union, the European single market has led to the expansion of intra-European trade, increased competition and foreign direct investment, created jobs, and revived labor markets (Hafner 2017). The European Commission estimates that the economic benefits of the internal market could account for an 8 to 9 percent increase in GDP across the EU with one-fourth of the EU GDP generated from the trading of goods as well as the creation of 56 million jobs in Europe (in 't Veld 2019).

While economic prosperity has advanced with further integration of the internal market, there is also a widespread perception that integration has not been even across all domains, member states, or even regions within countries. The asymmetric nature of European integration points to a deeper market integration in contrast to the shallower social integration. Moreover, as with any regional agreement aiming for a free market, the internal market is mainly based on the fundamental economic objectives of harnessing competitive gains through comparative advantage and regional specialization combined with the free movement of goods and people. However, such economic dynamics also result in stretched supply chains, which while being efficient and economically beneficial often come with environmental and social repercussions as a result of regional specialization (Akgüç et al. 2022).

In what follows, we first provide a brief analysis of the evolution of the internal market by keeping a global perspective. We then propose to focus on three key axes along which the single market 2.0 should be calibrated to be resilient in the face of future challenges. Finally, we reflect on potential policy options for launching this new vision of the single market.

RESILIENCE AND TENSIONS OF THE INTERNAL MARKET IN THE MIDST OF VARYING GLOBAL DYNAMICS OVER THE PAST FEW DECADES

The revival of the internal market in 1985 can generally be understood as a product of the desire to create a European form of capitalism. This project was sup-

[1] Throughout this article, we use the terms "single market" and "internal market" interchangeably.

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ported at the time by some 40 major leaders of large multinational companies who formed the Round Table of Industrialists, an episode well chronicled in the analyses of Professor Bastiaan Van Apeldoorn (2003). It was also the project pursued by Jacques Delors, the then President of the Commission. This period saw a form of compromise between the political forces of the left and the right on the internal market, as well as the emergence – to a certain extent – of a social dimension, illustrated, for example, by the establishment of the European social dialogue and by the Community Charter of the Fundamental Social Rights of Workers and the accompanying social program (1989).

However, as globalization progressed, the project of European integration gradually evolved to become a mere link in this greater process chain, which ultimately subsumed European autonomy. This is also well illustrated by Van Apeldoorn's work, which shows how, in the mid-1990s, the Round Table of Industrialists became dominated by Anglo-Saxon multinationals whose goal was to focus production in three major economic regions of the world: Asia, Europe, and North America. It was back then that China became the factory of the world.

Against this backdrop, social compromise was replaced by the deregulation of social protections at national levels, with the Bolkestein Directive (2005) and the Laval et al. (2008) rulings of the European Court of Justice being the most notable examples in that direction. These decisions were compounded by a pressure to deregulate, which resulted from the economic crisis of 2008–2009 as well as the first (2004–2009) and particularly second (2009–2014) Barroso Commissions. It was in this context that Mario Monti (2010) wrote a strategic report that, while positive about the successes of the internal market, was also critical about its shortcomings, particularly in social and environmental domains.

By the mid-2010s, the situation had once again begun to change. China was becoming a technological and political power – a systemic competitor – and the idea of a rising tide of globalization to lift all boats was fading. At the same time, populist movements critical of European integration and the internal market were on the rise. The most significant example was the radical change that took place in the United Kingdom, when conservative elites successfully advocated a withdrawal from the single market, leading to a majority Brexit vote in 2016.

Beginning in 2020, the Covid-19 crisis opened up a new debate, with the initially disorganized European response calling into question the commitment to freedom of movement and highlighting the fragility of the supply chain, now deemed "strategic" (European Parliament 2021). Autonomy and strategic sovereignty became the new mantra, with France and later Germany leading the way. Considering both the Covid-19 and environmental crises, many have excessively questioned the long – and vulnerable – value chains generating strategic dependencies and called for better integrated and more local production. Recycling and product quality (through high environmental standards) have become not only essential but also critical for keeping resource exigency under control during this transition. The Russian invasion of Ukraine and the ensuing energy crisis have highlighted the new global geopolitics and, as with Covid-19, called into question pillars of the internal market such as state aid or competition rules.

On the other hand, this new environmental (and social) taxonomy and reporting, along with the analyses of the environmental stability of banks and of companies in general by the European Central Bank, indicate a change in outlook for financial markets and companies. Now the consensus is that supply chains should be made shorter in order to reduce CO_2 emissions and that there is a need for reshoring part of the strategic production of goods. This also means rethinking a new industrial policy for Europe that also covers the service sector (Juhász et al. 2023). As major investments are being made in this transition, we are seeing changes in state aid, competition rules, and – to a limited extent after the revisions – the Stability and Growth Pact. All in all, the "Alibaba" model – perhaps the best analogy of the way the internal market developed after 1992, i.e., providing the consumer with ever cheaper products from further and further away without any real regard for social and ecological concerns – has become outdated.

THREE KEY AXES TO CONSIDER WHEN MOVING TOWARD THE EUROPEAN SINGLE MARKET 2.0

At such a critical juncture of swinging geopolitical context and constantly evolving European economic, social, and ecological transformations, we argue that if the internal market wants to reinvent itself and face the challenges of the coming decades with increased socioeconomic resilience and environmental sustainability, it has to do so by considering three key axes: (i) dual transition, (ii) social sustainability, and (iii) open strategic autonomy.

First, the dual transition, composed of digital and green transitions, is set to transform many aspects of European economies, societies, and environment as well as geopolitical relations with other regions of the world. On the climate front, the ever-increasing resource exigency as a result of massive industrialization and other human induced environmental degradation has led to uncontrollable emissions of greenhouse gases with irreparable repercussions on the whole ecosystem. Numerous IPCC reports, among others, point to irreversible environmental and societal impacts if climate and environmental preservation targets are not achieved by the mid-21st century. The overarching European Green Deal and the accompanying "Fit for 55" package with legislative proposals to tackle climate crisis aim to either decouple eco-

nomic growth from resource use and environmental degradation or increase circular economy action to keep resource consumption within planetary boundaries and reduce dependence on others for critical raw materials through, for example, recycling. These initiatives are also in line with the framework on sustainable product policy through which consumers are not only offered maintenance and repair options, but also informed in a transparent manner about the ecological footprint of the product they want to buy.

On the digital front, the transformation has been not only changing the production processes through automation and robotization, but also disrupting the world of work when the substitution effects of technology outweigh the complementarity effects leading to job losses, for instance. The digitalization of the world of work, while it can increase efficiency as well as flexibility in task performance, could also lead to situations with precarious work arrangements and concerns over working conditions. Therefore, digital transformations, including the rapidly developing artificial intelligence innovations, should be carefully monitored when considering their implications for the world of work.

Second, Europe has been proudly promoting its unique social market economy model in which the social welfare state and other progressive social aspirations have slowly yet steadily found their place by establishing a floor of rights – particularly in domains such as occupational health and safety but also in other areas such as free movement of people or worker rights – while paving the way on further market integration over the past few decades. However, various shocks such as the austerity years following the 2008 financial crisis have also left their mark in the social domain via the prevalent cuts in public spending (Degryse et al. 2013). It is then not surprising that the erosion of political and social support for the single market (in Monti's words) is shaped – partly – by the perception that the market is unfair and might have generated significant inequalities both between and within countries in Europe. This is why a reorientation of the single market by ensuring social sustainability is all the more necessary to achieve large-scale political and social support.

Finally, the open strategic autonomy notion has been put forward as a key European policy framework, mainly starting with the Covid-19 pandemic which exposed critical dependencies in strategic sectors (Akgüç 2021). The enlarged concept has become even more relevant after the invasion of Ukraine by Russia. As open strategic autonomy has direct implications for supply chains and economic efficiencies, rethinking the single market to reduce strategic dependencies and increase socioeconomic resilience – while keeping ecological footprints in line with the European Green Deal and climate targets – will imply reshoring certain production lines back to Europe as well as to shorten and diversify stretched supply chains. Such ambitions require significant modifications to the competition rules and level-playing-field functions of the single market, which has been considered almost untouchable due to strong market deregulation over the past few decades. But Covid-19 has already changed that picture and more changes are underway (e.g., temporary framework on state aid or revised regulation on IPCEIs). At the same time, we can already notice that a new European industrial policy has been developing to answer those challenges (McNamara 2023).

The European Commission's recent Strategic Foresight Report adopted our emphasis on these three key axes when thinking about transforming "our society and economy toward a model that respects planetary boundaries, and safeguards global competitiveness, strong social foundations, and resilience" (European Commission 2023). The question is how we get there without leaving out any of these axes.

POLICY PERSPECTIVES FOR THE FUTURE

What can we conclude from this? First, the long cycle that began with the creation of the internal market – whose first phase brought opportunities for the social dimension, but which ultimately led to global integration, resulting in a long period of anti-social policies – has come to an end. We are now entering into a new period, in which the rules of the internal market are changing in response to the pressing need for environmental sustainability and (open) strategic autonomy. The question now is what place the social dimension, including the question of good jobs, will occupy in this new architecture and how choices regarding the future of the internal market will be made. This will ultimately depend on the preferences of national and European actors, in a context shaped by global forces.

For the purposes of this article, we propose a more global view. The environmental challenges and the fulfilment of the Paris Agreement will put the issue of global value chains and the reduction of their length and complexity at the top of the agenda, which in turn is closely linked to the open strategic autonomy debate.

This reconfiguration of production models combined with the development of the circular economy calls for us to refocus, away from price (after all, an Indian or Vietnamese subcontractor will always be cheaper than a German or Scandinavian subcontractor) and toward product quality. A perfect example is that of batteries. The objective is to have high standards that allow for a good recycling rate (and therefore additional jobs) relative to the manufacturing rate. In other words, the emphasis is shifting toward a product defined by its quality and not just its price. High standards, it should be noted, was one of the explicit objectives of the 1992 internal market. Meanwhile, product quality is consistent with environ-

mental issues, and a "circular economy" replaces the central concept of price.

But this quality must be accompanied by social quality and employment. This is the objective of creating and developing quality jobs that make sense (see, for example, the discussion on good jobs by Rodrick and Sabel 2022). This is what happens in Germany, for example, in the *Mittelstand*, which consists of small and medium-sized enterprises producing quality goods with good working conditions and worker participation. This is just one example, but it represents the objective: quality of work combined with quality of products.

Finally, this new perspective can take shape only if we go beyond the traditional approach to wealth as it is often measured via an indicator such as GDP. In this respect, there are many debates on alternative indicators for measuring wealth and well-being. But here, too, the underlying phenomenon is clear: to move from a monetary evaluation of wealth to the measurement of quality of life. This is a decisive step toward redefining well-being in a low-carbon society (the recent Strategic Foresight Report 2023 also highlights this dimension).

As stated in the introduction, a paradigm shift such as the one the internal market project signified in the 1980s and 1990s opens up space for the negotiation of agreements between opposing interests. We are clearly in this situation again today. In this context, Europe must redefine its project and find a new eco-social model. From our perspective, a new social pact involving employers interested in quality products, workers and trade unions concerned with the quality of work, and all NGOs and citizens advocating for a better quality of life could be envisaged.

Of course, this is an extremely ambitious vision that obviously raises many difficult questions. What kind of industrial and competition policy would this necessitate? Isn't there a risk that the larger member states and their companies would be the big winners? How can we ensure that existing cross-country, regional, or intra-group inequalities are not exacerbated in a future internal market faced with tremendous transformations both within and outside Europe? It thus requires us to engage in debates that are both open and complex. At its heart, though, such a vision paves the way for a profound reflection on the fundamental objectives of European integration and Europe's place in the world in the context of climate emergency – and opens up the possibility for real change.

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