

## Required: A bold follow-up to Monti

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On the 9<sup>th</sup> of May (Schuman Day), Mario Monti did the EU a great favour by publishing his report, *A new strategy for the single market: At the service of Europe's economy and society*.<sup>1</sup> In hindsight, the timing turned out to be problematic for purposes of publicity, since yet another episode of the eurozone crisis was unfolding, with all the attention it drew. Just a few days before, the European Parliament's Grech report on the internal market<sup>2</sup> was published, which is strongly supportive of a determined new initiative by the Union on the hard core of European integration. The case for deepening, widening the scope and updating some building blocks of the EU single market is powerful. It is also what the EU economy is longing for today, because it is one of the two complementary routes to badly needed higher trend growth of productivity as the basis for economic growth, resulting in robust and more numerous jobs after a lag. Putting the budgetary house in order in the member states and designing a new 'economic governance' may be indispensable for resuming healthy and sustained growth, but in and by itself it does not generate higher productivity, the very basis of our prosperity. It is the *single market* – but deeper and with a wider scope, with clear consumer benefits, and updated to accommodate new technologies, markets and business models – that can induce higher productivity, in addition to firmer *domestic reforms* in areas and markets where growth, entrepreneurial initiative and investment are hindered, yet without losing sight of the social dimension in the good European tradition.

One would have expected a lively debate on the very interesting strategic reflections of the Monti report (discussed below) and active discussions and positioning on the numerous concrete proposals. Yet, very little was heard or observed. Now, more than two months later, the deafening silence in the 'Brussels circuit' of so many political, social, civil society and business stakeholders begins to be very worrying indeed. Even less has been heard from the member states. Is the EU incapable of discerning, let alone pursuing, its enlightened self-interest? Are stakeholders massively succumbing to the 'internal market fatigue' by reverting to a throttling silence?<sup>3</sup>

<sup>1</sup> Available in PDF at [http://ec.europa.eu/commission\\_2010-2014/president/news/press-releases/pdf/20100510\\_1\\_en.pdf](http://ec.europa.eu/commission_2010-2014/president/news/press-releases/pdf/20100510_1_en.pdf). It is unfortunate that the Commission has not facilitated access to this crucial report on its website. It is simply hard to retrieve. It ought to be prominently present, presumably with hyperlinks, on several portals, such as that of DG Markt, the Commission President, the Secretariat-General and perhaps other DGs including DG Enterprise and DG Sanco.

<sup>2</sup> EP Report on delivering a single market to consumers and citizens, A7- 0132/2010 of 3 May 2010 by the Internal Market and Consumer Protection (IMCO) Committee, adopted later in plenary (Rapporteur: Louis Grech).

<sup>3</sup> Monti, op. cit., pp. 23-24, observes a certain "integration fatigue" as well as a "market fatigue" in a section entitled "Less popular than ever, more needed than ever". See my analysis of the 'internal market fatigue' in a CEPS Commentary, "Single Market Revival", 17 March 2010 (<http://www.ceps.eu/book/single-market-revival>).

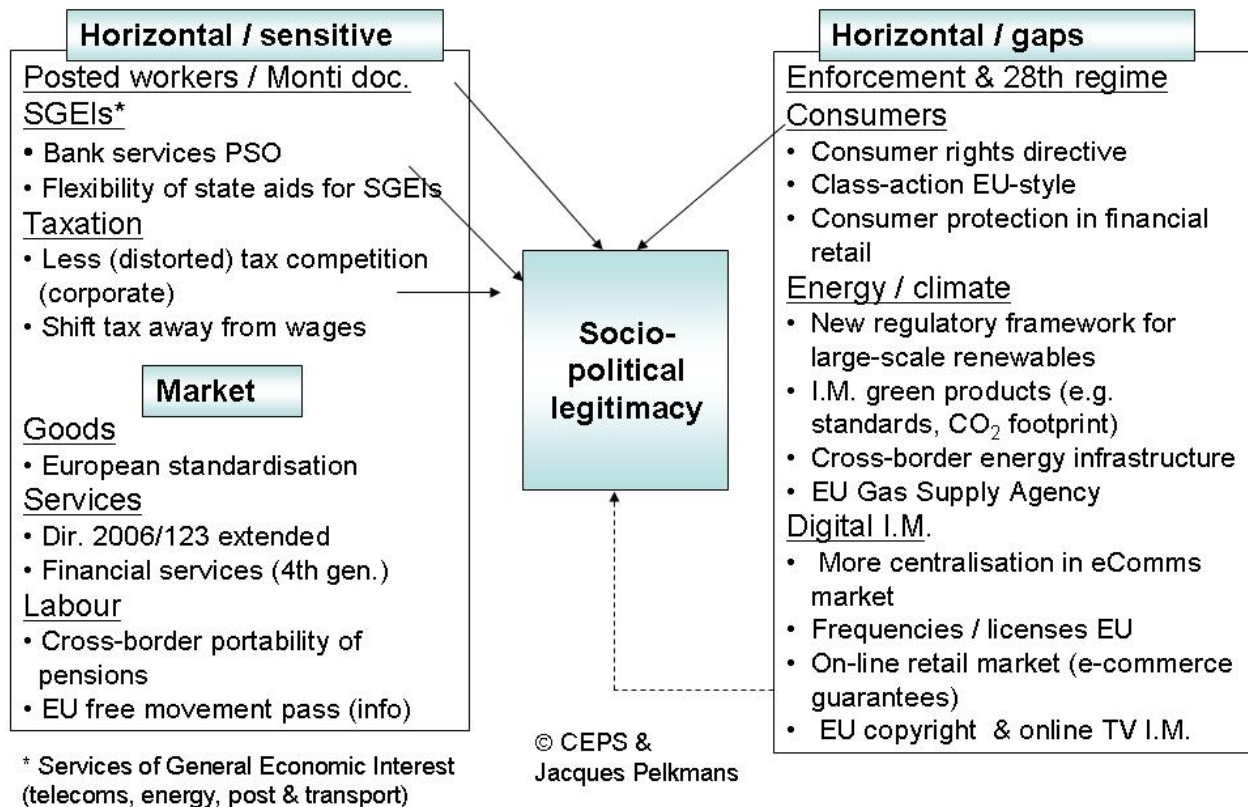
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This Commentary briefly sets out the main lines of the Monti report and calls attention to a few critical aspects. The report is truly ‘strategic’ and is far more than simply long lists of specific, often highly technical proposals that render ‘the’ internal market so difficult to appreciate for many. His proposals are preceded by an unusually lucid analysis of the fundamental difficulties of obtaining profound and lasting political support for the deepening and widening of this hard core area of the Union. Indeed, a number of Monti’s suggestions emerge directly from his conviction that (what I call) the ‘socio-political legitimacy’ of new initiatives on the single market has to be assured. Figure 1 summarises the Monti report in a single flowchart.

## Monti’s Internal Market Strategy



The Monti report begins with a careful analysis of the obstacles to pursuing a new single market strategy. This seems fully justified after the traumatic experiences around the Services Directive (2006/123), the initial sensitivities about East-West migration inside the Union (including conspicuous ECJ cases on posted workers providing temporary services in other EU countries), the cumbersome and slow second and third generations of EU regulation and liberalisation of the internal markets for gas and electricity, postal services, eCommunications and freight rail, the profound frustrations over the EU patent that never seem to get resolved (despite the huge benefits) and the dramatic failure of the third generation of EU financial services regulation just two years after its so-called ‘successful accomplishment’.<sup>4</sup> Monti recognises that the internal market is not popular, in particular with citizens, (on-line) consumers and social partners. These concerns will have to be addressed in a credible fashion. Socio-political legitimacy is critical for an ambitious single market strategy to have any chance of success, which is why it is found in the centre of the figure above.

Professor Monti continues with three blocks of proposals on the substance of the single market. One block consists of a series of proposals of a horizontal character (e.g. for citizens, consumers and SMEs; the digital market; physical infrastructure), supplemented by specifics on the markets for goods, services, labour and

<sup>4</sup> As to the latter, the revised Capital Requirements Directive and the revised Banking Directive of June 2006 concluded the Financial Services Action Plan, based on partial delegation under the Lamfalussy method. No less than 43 regulations and directives, included interesting breakthroughs like MiFiD, had been adopted in barely five years. However, only two years later, the financial crisis demonstrated that the central objectives of such regulation and supervision – overcoming deep asymmetries of information for bank clients and investors, as well as assuring financial stability – were not at all achieved, with dreadful consequences for the European economy for many years to come.

capital. A second block is made up of elements that can be said to generate more sensitivities and hence require the building of consensus (balancing free movement of [posted or migrating] workers with social rights of [local] workers; social services; public procurement; a better balance between justified harmonisation and national tax sovereignty; cohesion, etc.). A third block is about delivery, which essentially reiterates – for good reasons – the ‘delivery’ elements of the Single Market Review package of November 2007.<sup>5</sup> Monti’s report ends with a plea for a new political initiative on the single market, which is both comprehensive and consensual. The flowchart above cannot of course capture each and every element of this rich and stimulating report but it is hoped that it helps readers to appreciate the overall logic of Monti’s approach.<sup>6</sup>

What is the significance of this report? Of course, this will ultimately depend on what the Commission and the EU legislature will do with it. One should expect a policy response from the Commission in the autumn of 2010.

In the meantime, it might be interesting to reflect on four points. First, the importance of ‘strategy’. Monti elaborates at great length the critical meaning of strategy, and rightly so. He recalls the famous 1985 White Paper launched by Lord Cockfield and Jacques Delors. In fact, it is seldomly realised that, exactly one year before, Commissioner Karl-Heinz Narjes brought out an analogous paper (also containing more than 200 proposals in its Annex) with many ideas that would reappear in the White Paper. This technically rich paper never got the attention, let alone, the follow-up that the White Paper enjoyed. The critical difference was strategy. In this respect, the Monti report can perhaps be compared with an agenda-setting report presented to the European Parliament in mid-1983 by James Ball and Michel Albert. It is their strategic view as well as their famous coinage of the phrase ‘the costs of non-Europe’ that created the awareness amongst leaders and the wider public that the single market was not merely a legal concept in the Rome Treaty, but an asset that could generate formidable additional wealth for Europeans. Unlike the Commission 1997 internal market action plan, two successive internal market strategies under Commissioner Bolkestein and McCreevy’s low-key single market review – although all three useful and to some degree successful – Monti’s approach is truly strategic and, for this reason alone, a ‘must’ reading for all stakeholders in the ‘Brussels circuit’, if not in national capitals and beyond. Lobbyists or politicians with narrow agendas trying to pick and choose from Monti, whether supportive or critical on such specifics, without any regard for these strategic considerations, do the EU a bad service.

Second, the Monti report is unique in recognising and squarely addressing the lack of *socio-political legitimacy* of the internal market. This is not a ‘big business’ report!<sup>7</sup> It can certainly be valuable for the European public interest when the European Round Table (ERT) (preceding and following the 1985 White Paper), BusinessEurope and AMCHAM-EU advocate a deeper and wider single market. But in Monti’s report, deeply conscious of the issue of socio-political legitimacy, consumers, social partners, SMEs and citizens worried about public services are not regarded as ‘residual’ after European business has spoken to Barroso, van Rompuy and the Council’s presidency. As the flowchart tries to bring out, the preoccupations of consumers, workers and citizens are addressed with proposals and hence are crucial for restoring the much-needed legitimacy of a deeper and wider single market.

Third, and with due respect to this approach, Monti’s reflections about the unpopularity of the single market are, in my view, too sombre. Looking back to the period 2003 to 2007 – the origin of most of these preoccupations – the EU witnessed an unbelievable coincidence of derailed or conflictual internal market dossiers, most of which have meanwhile been resolved or at least appeased. A good deal of these issues combined fears, often unsubstantiated fears, about seemingly radical new EU regulations or problems of adjustment that turned out to be not nearly as dramatic as they had been portrayed in fierce lobbying. Examples include:

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<sup>5</sup> The little noticed Single Market Review was hardly about new EU regulation – except Better Regulation, of course. Instead, a myriad of legal, economic (e.g. market monitoring exercises) and institutional proposals about more effective implementation and enforcement were initiated. See COM (2007) 724 of 20 November 2007, *A single market for 21<sup>st</sup> century Europe*, and a series of accompanying COM SEC papers on legal instruments, etc. See also COM (2007) 502 of 5 September, “A Europe of results – applying Community law”. A convenient overview can be obtained from SEC (2008) 3064 of 16 December 2008, Staff Working Document, “The Single Market Review: One year on”.

<sup>6</sup> Speaking at a CEPS lunchtime meeting on 1<sup>st</sup> July, Professor Monti confirmed that the figure provides a faithful summary of the essence of his report.

<sup>7</sup> Even though European business would be unwise not to support its thrust wholeheartedly.

- REACH (with three prime ministers writing an open letter to Prodi, not to speak about the ferocious lobbying by industry and hardly less by certain NGOs);
- the Services Directive (where an initial, unanimous support by Council eventually led to a complete split, and the debates in the EP – as well as the demonstrations in the streets – were frequently wrong, misleading or beside the point), and the negative (anti-social) fall-out in some old EU countries completely ignored the support by workers in other ones, both East and West, whilst a long queue of sectors succeeded in being derogated despite the removal of the origin principle);
- the first and second Eastern enlargement generating anxiety amongst workers in certain sectors about their jobs or downward pressures on wages;
- referenda on the Constitution (where the debates, paraphrasing Mitterand, hardly touched on the Constitution’s text at all, but included misgivings about Turkey, enlargement, the supposed EU-as-a-superstate (?) or the EU as an agent of globalisation) and, not least
- the severe testing of the EU’s social dimension in ECJ cases on posted workers in countries not having minimum wage legislation (see the Laval and Rüffert cases) and the struggle to get symbolically important directives (e.g. on working time and on temporary work agencies) adopted by the EU legislature. Some of the social aspects at EU level should be understood against the backdrop of national socio-economic reforms including the welfare state, labour markets and selected services.

Nowadays, REACH and the Services Directive are not only in place but far better understood and recognised than when initially proposed. Workers’ fears about enlargement and posted workers have not disappeared but been mitigated first by the rapid rise of wages in the East of the Union and, second, by the crisis. The Lisbon Treaty is in force; it is now much better understood that the incorporated changes are far from radical – and indeed next to none for the internal market. As Monti himself acknowledges, the Laval and Rüffert rulings have the virtue of forcing the search for a proper balance between two sets of fundamental rights. The point is that the climate today is incomparable to that of this earlier period and most of these problems have been absorbed in one way or another. Monti’s explicit call to address the remaining anxieties with workers, citizens and consumers is well taken – at the same time, it would seem less of a tall order than (say) five years ago.

Fourth, is it feasible to launch a *major new internal market initiative*? The proposed resolution attached to the Grech report firmly supports this idea when it speaks (in para. 76) of “a clear set of political priorities through the adoption of a ‘Single Market Act’ by May 2011”. It is far too early to cast any judgment on the probability of such an initiative. But it will have to come from a determined and united Commission, willing to spend a good deal of its time and political capital until 2014 or so on such a wide agenda. When advocating a new grand initiative in his short chapter 5, Monti devotes considerable attention to what he calls the “integrity” of the process, a more “comprehensive” approach and a “holistic vision” on the part of the Commission’s President. With respect to the EP, he advocates a more unitary vision of the internal market. Professor Monti deserves credit for emphasising this vital point. What does he mean and why is it so important? Over time, the Commission (and indeed, the organisation of the Council and its committees, as well as that of the EP) has become ever more splintered with respect to the internal market. Commissioners and all DGs have strong incentives to chop up the internal market imperative and (re)label their policies as separate or even ‘stand-alone’ domains of the Union. Politically, this comes in handy because it is far more recognisable for specific stakeholders or for citizens and the media. However, when one studies the draft directives (etc.) proposed by all these Commissioners, more often than not, one finds that they are based on internal market articles of the treaty (mostly, Art. 114, TFEU, the former Art. 95, EC). It is thought that no less than 15 Commissioners are dealing with internal market aspects. A telling example of the internal market as the hard and wide core of most of the regulatory *acquis* of the EU consists of the experience of ‘pre-accession’ in the second half of the 1990s. In the May 1995 White Paper [COM (95) 163] for the pre-accession countries, the Commission presented an inventory of the regulatory *acquis* of the internal market that these countries would have to adopt at home, preferably before accession: it comprised 23 of the 30 negotiating chapters!

Chopping up the internal market imperative would not be a problem if there were not just a ‘vision’ but also a hard overall policy constraint, or, better, a *binding single market strategy* disciplining possible deviations and stimulating complementary approaches for a larger gain. Here the former Commissioner employs prudent language, falling short of such a hard, binding constraint (as if it were a hard budget constraint).

What he is driving at is clear, however. He advocates ‘top-level comprehensive guidance’ from the European Council, a fast-track legislative procedure for measures included in a strategic initiative for the single market and an annual stock-taking for EU bodies and stakeholders. These are most sensible and probably indispensable suggestions. But it should not be anything like the Lisbon process. The single market is about credibility for market players (including consumers, etc.) on the basis of hard competences and the Community method. If done properly, therefore, it can turn into a handmaiden for higher growth in the EU following the crisis.