Part One

The Economy of the European Union – between Vision and Reality

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The two themes of Part One of the book focus on the failure of the European Union (EU) to confront directly the problem of chronic and high levels of unemployment (Jonathan Michie, Chapter 2) and on impediments that continue to restrain the integration and convergence of markets across the EU, drawing on the experiences of the retail financial services sector (Kate Prescott, Chapter 3) and retailing, with particular reference to home shopping (Elke Pioch and Paul Brook, Chapter 4).

Market integration was identified in the 1986 Single European Act as the key to employment, a vibrant competitive environment and economic growth. The vision was that a Single European Market (SEM), created from a supply-side attack on formal trade and market entry barriers – physical controls, technical standards, national regulations and fiscal distortions – would capture economies of scale, intensify competition, boost R&D spending and capital investment and reduce industries' costs by stimulating the cross-border movement of goods, services, labour and capital. This mid-1980s' initiative to achieve the single market objective initially identified in the 1957 Treaty of Rome had the backing of European firms, who had grown increasingly apprehensive about a condition diagnosed as 'Euro-sclerosis' – fragmented and highly regulated markets and a declining international competitiveness.

In the short-run period leading up to and beyond the Act, firms responded to the single market initiative (the so-called '1992' programme) with enthusiasm by adopting strategies to re-position their businesses in the EU through cross-border mergers, acquisitions and alliances and by targeting EU markets more than ever before. An initial surge towards integration has since given way to a slow and halting progress, sufficient to suggest that the '1992' programme is unlikely to meet its aims. Many intransigent barriers remain in place that will allow national firms to continue to dominate their home market. Examples include bureaucratic procedures, insider networks, closed distribution channels, public procurement policies and consumer preferences dictated by habit and custom.

The '1992' programme promised a massive supply-side shock, but many of the directives to dismantle formal barriers gained approval only after they had been diluted to satisfy producers' lobbies and then began to be implemented in a feeble spirit. Firms were supportive of measures to lower costs but were less appreciative of those designed to create a more competitive environment. The single market vision has particularly met stiff resistance in the civil aviation, energy and telecommunications sectors, and across most sectors many technical, legal and administrative barriers still exist. These remaining barriers, of which demand-side cultural barriers are particularly impervious to the kinds of legislative action that underpin integration, and the inclination of countries to look after their own, will dictate the pace of further progress towards the integration and convergence of markets across the EU. Many of these obstacles are on display in the services sector. Measures to dismantle formal barriers in financial services, for example, have been laid down, but broken deadlines, remaining differences between national and European norms, and cultural influences form such pervasive barriers that individual suppliers find it impossible to penetrate markets outside their home markets with the range of products they are capable of providing. Similar impediments in the home shopping sector deny opportunities for cross-border expansion. In both sectors, users' charters to protect consumers' rights have been successfully challenged by trade associations.

If the EU exists to promote the welfare of its citizens, this is best achieved by the creation of jobs. The Cecchini Report (1988) predicted that by 1995 up to 5 million new jobs would have been created by the '1992' programme and that unemployment levels would fall by around 1.5 per cent. But the EU's largest producer and employer, the services sector, has failed to create sufficient jobs to compensate job losses in the manufacturing sector caused by de-industrialisation and productivity gains in excess of the growth of output. The contemporary conventional view is that unemployment is a consequence of labour costs and social welfare provision above the market-clearing level, uncompetitive markets and a high burden of taxation, the antidote being more flexible and competitive labour and product markets and smaller public sector deficits. The promise of lower costs and product and process innovations held out by the '1992' programme and the macroeconomic priorities accorded to the convergency requirements of monetary union, presumably, also account for the failure to confront unemployment directly with countervailing employment and industrial policies. The main failure of the EU, post-1986, in consequence, has been an inability to create jobs.

The problem of unemployment in the EU is taken up by Michie in Chapter 2, where he proposes a corporate state model which challenges conventional views, attributing unemployment instead to de-industrialisation, balance of payments constraints and flawed macroeconomic policies. Adopting a neo-Keynesian stance, Michie describes a vicious spiral of low pay, low productivity and low investment best corrected by collective bargaining, minimum employment rights, focused training programmes, controls on cross-border capital movements and a requirement that responsibility for corrections to trade and payment imbalances be taken by surplus countries. The Delors White Paper (1993), belatedly, focused attention on unemployment but failed to pursuade members to introduce schemes for regional development and job creation. The problem of what to do about unemployment is simply not on the EU agenda.

In Chapter 3, Prescott draws attention to cultural differences inside the EU and weaknesses in the '1992' programme which continue to block the access of retail financial services to cross-border markets. The UK made the first move inside the EU towards the deregulation and liberalisation of financial services by permitting formerly specialist firms to operate in product markets that had previously been denied to them. The '1992' programme sought similar effects elsewhere in the EU, but historical, cultural and demographic influences continue to sustain fragmented and insular markets. New products, processes and technologies, accordingly, are being introduced with varying speeds to EU markets, for example in retail banking, mortgages, and insurance and pensions' provision, so that no one country holds a dominant European position across the range of retail financial services. The author's survey of the UK, France, Germany and Spain reveals that firms do not expect a single market to develop by offering the same opportunities to firms as they have in their domestic markets.

A similar theme is pursued by Pioch and Brook in Chapter 4. They argue, additionally, that retailers have succeeded in bringing about changes in legislation sufficient to preserve the primacy of national retail markets. According to the authors, the impact of social, economic and cultural diversity inside the EU has been consciously neglected. The choice instead, as in other sectors, has been to pursue market integration and convergence with supply-side directives. In the home shopping sector, which is dominated by the world's largest mail order firms, the authors predict that the '1992' programme will assist the further globalisation of these firms rather than integrate EU markets. The retention of diverse national rules, for example those which leave consumers unprotected when cross-border shopping, constitutes a severe barrier to market convergence and will allow home shopping firms to continue with their country-focused perspectives.

Reference

Cecchini, P. (1988) 1992 – *The Benefits of a Single Market* (Aldershot: Wildwood House).