# THE SINGLE MARKET & THE FINANCIAL CRISIS

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# THE EU AS AN ECONOMIC PROJECT

- The post-WWII context: half of Europe under communism; beginning of the end of European colonialism; emergence of the welfare consensus; strong American support for European economic integration; increasing consensus for free trade.
- Institutional context: World Bank and the International Monetary Fund (1944); General Agreement on Tariffs and Trade (1947); European Recovery Programme (1948); Organisation for European Economic Cooperation (1948).
- The forerunner: the **European Coal and Steel Community** (1952).

- The **European Economic Community** (or Common Market) founded through the **1957 Treaty of Rome**.
- Article 3 stipulates the goal of creating a "common market free from distortions to competition".
- The EEC established a free trade area by removing tariffs, quotas and preferences on goods between its members.
- Relative stagnation of economic integration throughout the 1960s and 1970s due to the requirement of unanimity in a Council characterised by different visions on regulation.
- Two notable exceptions: the 1968 complete elimination of internal tariff barriers between member states and the 1979 formation of the **European Monetary System**, which harmonised bilateral exchange rates.

# THE SINGLE MARKET

- Favourable context for relaunching the project of the single market in the early 1980s: economic recession, 1979 decision on *Cassis de Dijon*, rise of neoliberalism (Young, 2010).
- Supranational business interest groups take the lead – the **European Round Table of Industrialists** (ERT), formed in 1983 to promote competition and competitiveness.
- Political momentum for the SEM – **1984 Council meeting in Fontainebleau**, where Thatcher calls for the creation of a 'genuine common market' (Thatcher, 1984).

- **1985 White Paper** – almost 300 barriers to trade to be removed, almost identical to the proposals of the ERT (Hermann, 2007).
- **1986 Single European Act** – commitment to complete by 1993 the SEM: "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured" (Council of the European Union, 1986).
- Introduction of **qualified-majority voting** for decisions in the Council regarding the internal market to avoid previous deadlocks.
- Two ways of building the SEM: 1) **deregulation** (negative integration); 2) **re-regulation** (positive integration).

- The engine for building the SEM is the **principle of mutual recognition**: any product that is legal in one member state needs to be recognised as such in all the other member states.
- This principle has had a double liberalising effect:

1. Internally, it implicitly set the bar to the lowest standard, which meant that in time the weakest national regulations would prevail.
2. Externally, it allowed for the removal of over 6,300 quantitative restrictions to imports from countries outside of the EU.

- Big member states advocating free trade (e.g. Germany, UK) prevailed over those endorsing a neomercantilist approach: ‘competition’ prevailed over ‘competitiveness’.

- However, the SEM has focused mainly on products, so it is far from complete, particularly with respect to services.
- 2006 directive to liberalise services was opposed by trade unions for facilitating social dumping, so it was amended by the EP.
- Overall, beneficial economic impact: **increase in GDP** and **3 million new jobs** (although unemployment went from 7% to 11% during the eurozone crisis).
- Most people associate the SEM with job creation and product diversity but perceive it as **mainly benefitting big business** (Eurobarometer, 2010).
- The SEM arguably represents the beginning of the neoliberal consensus in the EU and laid the foundations for the **Economic and Monetary Union**, TTIP and CETA.

# THE ECONOMIC AND MONETARY UNION

- 1989 Commission's three-stage plan to fully establish the EMU, later on incorporated in the 1992 Maastricht Treaty:

1. **1990-1994** – the complete elimination of barriers to the free movement of capital and ensuring political independence of central banks.
2. **1994-1998** – macroeconomic discipline by limiting deficit and debt to 3% and 60% respectively of the state's GDP.
3. **Since 1999** – the creation of the ECB, which would gain control over the central banks, the launch of the Eurogroup and the introduction of the euro.

- The ECB is supposed to be ‘politically independent’: free from influence of EU institutions or national governments.
- At the same time, the ECB (modelled on the German Bundesbank) favours price stability, low inflation and tight financial discipline (Gill, 1998).
- The ‘convergence criteria’ (max. 3% deficit and 60% debt of the GDP) also limit public spending.
- This economic policy protects savings but can hinder investment and aggregate demand (Huffschmid, 2005).
- Hermann (2007, p. 78): “the outcomes of these policies are slow growth rates, very moderate real income increases, and an unemployment rate that amounts to more than eight percent across the Union.”

# THE EUROZONE CRISIS

- The Euro is introduced on 1 January 1999 and has been adopted by 19 countries so far.
- The first decade of the Eurozone:
  - relatively stable prices, first budget surpluses for member states since the 1970s and the euro becomes second strongest currency in the world after the American dollar;
  - slow GDP average growth of 2.1%/year, near-stagnation of real wages and employment rate, weakening of workers' rights, increase in average retirement ages.

❖ **What happened?**

- The US sub-prime market implodes at the end of 2008 and Fannie Mae, Lehman Brothers and AIG collapse.
- European banks linked to the US sub-prime market suffer big losses so they are bailed out.
- Bank losses lead to a drop in lending and investment, which lead to economic recession in 2009.
- Markets become worried that countries with ‘big’ national debts, such as Greece, cannot pay their debt back.
- Markets less willing to lend these countries, who now cannot finance their budgets and debts and bail out the banks.
- Greece, Ireland, Portugal, Spain and Cyprus are bailed out: the banking crisis turns into a sovereign debt crisis.

## ❖ Why it happened and how to fix it – the 'official' answer

- GIPSI countries were deemed as mainly responsible for their high levels of public deficit and national debt.
- The identified causes: corruption, low productivity, rigidity of labour market, high wages, low competitiveness, tax evasion, over-expanded welfare states (Hadjimichalis, 2011).
- The identified solution: bailouts in change for cuts and privatisations, meant to reduce public deficits and debts and to ensure fiscal discipline in the future.
- After six years of austerity: increased poverty (extra 7 million people living in poverty), rise in unemployment (e.g. over 50% among the youth in Greece and Spain) and the lowest growth rate in the world (Lanzavecchia & Pavarani, 2015).

❖ **Why it happened and how to fix it – the alternative answer**

- Flawed design of the ECB, which has monetary but not fiscal control to help governments finance their budget deficits and manage the interest rates on their debt (Davis, 2011).
- Imbalance between export-led Northern and import-led Southern economies: the latter had structural trade deficit that they could not cover after the adoption of the euro, in the context of the 3% deficit threshold (Bellofiore et al, 2010).
- The introduction of the euro also decreased interest rates, allowing Southern countries to borrow money from Northern ones and cover their deficits (Lapavitsas et al, 2012 ).
- Except Greece, all GIPSI countries had average levels of debt in 2009, but they increased as the states bailed out the banks (Mahnkopf, 2012).

- Austerity has meant lower incomes, which prevents an increase in demand, which in turn hinders economic growth – a vicious circle.
- One possible solution: increased public spending, which would create jobs, stimulate consumption and increase production and thus economic growth – the Keynesian 'virtuous circle' (Skidelsky, 2009; Palley, 2013).
- The neo-Marxist critique: the EU is a project of capitalist elites in Western Europe and it neoliberal institutional architecture simply does not allow Keynesian policies.
- Indeed, according to this perspective, in the current global crisis of capitalism, the establishment is not willing to make significant concessions in order to protect levels of profit – but austerity undermines levels of profit, so what next?...

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