

Interview with David Wright

IV - The Single Market as a lever for recovery ? Europe's social model ?



“We have to be very rigorous and make sure that the principles of the Single Market, which are after all in the Treaty, are fully respected”.

The March Communication reads: “The Single Market should be seen as the lever of recovery”. Could you say a bit more about that?

The Single Market has been a great European success from the days of the Single Market programme, which President Delors triggered in the early 1980s. We now have products, services, people and capital that circulate around the European Union like never before, which allows the relative advantages of different countries to come to the fore. This is how trading should take place. Sometimes we should think back a few years.... For example, how much it used to cost to make a cross border telephone call and how much it costs today!

Are Member States respecting the rules of the Single Market?

In the financial crisis we have now, the danger is that governments will try to keep their capital at home. They will be tempted to ensure that public procurement contracts are won only by their own domestic firms. We're seeing elements of fresh state aids to try and help them in these difficult competitive conditions. As I mentioned, huge amounts of money are going into the banking sector. So we have to be very rigorous and make sure that the principles of the competition and Single Market policies are fully respected. We are not going to put up with discrimination or anti-competitive behaviour. We have to be very tough. For example, we're seeing attacks now from various Member States on the whole basis of establishment for banks in the European Union. Some Member States are beginning to attack the branching concept, which is again the right of establishment under the Treaties and the basis of all our financial services passports. Once you're licensed in one country, you have a passport to do business throughout the EU. We're seeing that come under pressure. We're going to have to deal with it.

Could this be seen as protectionism?

With some of it, you never know what is protectionist and what are knee-jerk reactions. We are also seeing some banks take capital out of the branches of subsidiaries and retreat to the domestic markets. That is symptomatic in a sense of how serious the economic situation is. We might be seeing very serious declines in GDP this year. Is it protectionism? Well I suppose there are degrees of it, but I would describe it more as knee-jerk defensive reactions. But on anything that is clearly protectionist or discriminatory against the Treaties of course we would have to take out infringement procedures.

We are living a financial and economic crisis on a global level. How would you describe the challenge for Europe's social model?

The challenge for the social model is to survive and evolve. This is the worst economic crisis any of us will ever face in our lives.

Unemployment is going to go up, unfortunately. So the cost of unemployment for governments, such as benefits and so on will go up too. We have an ageing population and costs of ageing are expensive. We have huge problems in competitiveness and global trade, so there is pressure on wages and pressure on all employees. The budgets of the state are worse anyway, because they have been putting a lot of money into the banks. Governments budgets are going to be worse anyway, because the economy is doing worse, so there will be fewer tax receipts.

The famous Maastricht 3 % public sector deficits are going to be under real pressure this year. You don't want that to go on for too long, because the debts of the governments will get higher and as the economy improves, you are going to have to pay that back. You cannot have huge debts. Otherwise, the governments have to pay that debt back every year through the capital markets. If the interest rates start to rise to 2 to 3 % and you have a 100% debt, 3 % of your GDP has to be paid back every year. That's just to stand still.

It is going to be a very testing time. I think our social model will survive, because I think at the end of the day we believe in Europe in social equality and fairness; we believe in safeguards on the social system side, whether it is health or education or security. I think these are very strong European values actually and you feel them much more when you don't have them. People often take them for granted. They cost money – but they are vital for a balanced society. By all means make our social systems more dynamic – but never alter these principles that define our Union. So today there is very fierce pressure on social systems, unemployment and ageing as I said, but we have to maintain them.

