

**“The Economic Policy for the Single Market of the Future”  
Bruegel – DG Internal Market seminar, 16 January 2007**

**Conclusions\***

**1) Welfare maximisation and productivity growth as objectives of Single Market policies**

- The focus of Single Market policies should not be the mere integration of markets but the **maximisation of consumer welfare and productivity growth**. In this sense, every potential policy should be assessed in terms of its impact on productivity growth and consumer welfare. Rigorous **impact analysis** should be an important part of the regulatory process.
- Therefore Single Market policies should view consumers as a central player. This does not necessarily mean that reforms have to focus on retail markets but that any reform should aim at increasing consumer welfare.
- Reforms aiming to increase productivity and consumer welfare should not only focus on the removal of static obstacles to trade and market entry but should also guarantee the **well-functioning of markets** and create the appropriate dynamics and incentives for innovation and efficient market entry and exit. The removal of obstacles to trade and market entry is necessary but does not guarantee by itself the well-functioning of markets. In order to achieve that, the removal of market distortions and operative restrictions is essential.
- While designing Single Market policies, one should be aware of their limits. Cultural factors and different preferences, labour and social national legislations and fiscal policies may constitute **constraints to market integration** and limit the effectiveness of Single Market policies. Those factors should be carefully incorporated in the design of any policy and the constraints they impose on the effectiveness of Single Market policies should be adequately assessed in the corresponding impact analysis.

**2) Policies targeting specific sectors and policy areas**

- The basic general principles for the functioning of the Single Market have already been put in place. New policies should avoid being generalist and should address specific problem areas targeting those sectors and

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\* These conclusions have been drawn up by Juan Delgado, Research Fellow at Bruegel, on the basis of the presentations at the seminar and comments and suggestions from several participants. They do not, however necessarily represent the views of the participants at the seminar or the opinions of the European Commission. The conclusions do not aim to be comprehensive.

obstacles that are likely to have a significant impact on productivity growth and consumer welfare. **Sector specific policies** and policies targeting specific obstacles are easier to implement and more effective in reaching their goal.

- Identification of **policy priorities** becomes crucial. A consistent approach across sectors and policy areas for the identification of priorities should be established. Cost/benefit analysis of different policies and goals is essential in order to allocate resources and efforts accordingly. Screening criteria and priority setting criteria have to be established in order to assess policies and goals.
- For instance, policies should target those sectors/areas that not only have a large **economic importance** by themselves but also have the largest spill-overs over other sectors. Key sectors, for example, are those that act as “market lubricants”, that is, those that facilitate the functioning of other markets and increase the tradability of other goods and services. Examples of such sectors are electronic communications, financial services, energy, transport and postal services. For instance, a well functioning financial market is essential to guarantee access to sources of funding and therefore to facilitate efficient market entry. Competition and innovation policies are also essential tools to deliver efficient market outcomes.

### 3) Monitoring outcome rather than implementation

- The success of a specific policy is reflected in its effectiveness in reaching its goal. Therefore, the monitoring of Single Market policies should go beyond the analysis of implementation of legislation and aim to assess the **performance of policies**. Where possible, policies should aim at setting targets rather than at designing the way to reach such targets. The performance of a specific policy can therefore be assessed by monitoring the degree to which the targets have been met.
- **Market monitoring** becomes crucial to establish policy priorities, evaluate the effectiveness of policies, inform new policy developments and enable the withdrawal of existing regulation. Market monitoring therefore provides a better indication of the effectiveness of policies than monitoring the implementation of legislation.
- **Policies should be specific** and address problems with tailor-made tools on the basis of the obstacles identified in the process of market monitoring. Policies should aim at solving the problems identified by minimising their collateral effects.

#### 4) Incentive regulation

- Regulation should avoid being prescriptive and aim instead to provide the appropriate **incentives** to reach efficient outcomes. Regulation should create the suitable framework for the adequate functioning of markets while avoiding intervening in market outcomes. Market-based and performance-based regulations should be used where possible to reach the desired goals with the minimal distortion.
- **Mutual recognition** is a faster and more effective instrument for market integration than regulatory harmonisation. Standardisation facilitates trade but increases complexity, is difficult to implement and can constrain innovation. Mutual recognition provides Member States with incentives to design more efficient and less burdensome regulation.

#### 5) Combining European policies with national reforms

- Single Market policies should go beyond the borders (e.g. beyond removal of obstacles to trade) and their principles should be applied to **structural reforms at national level**. Non-discrimination between domestic and foreign companies and products is not sufficient to create a Single European Market. Removal of obstacles to the well-functioning of markets at national level (such as national and local regulations limiting market entry and restricting the strategic choices of firms) is essential to facilitate the expansion of markets beyond national borders.
- The effective combination of Member State and European policies requires proper **coordination between EU and national reforms** and a clear definition of the subsidiarity principle. The appropriate level of decentralisation should be determined on a policy-by-policy basis. Stronger independent national regulators might be needed in some fields (e.g. competition policy). In some others, the need for higher coordination might require supranational regulators (e.g. banking supervision or energy regulation). National authorities should have a prominent role not only at the implementation stage but also at the design stage of Single Market policies.

#### 6) Flexible tools to respond to increased heterogeneity

- The increased heterogeneity of the EU, the rapid technological change and the changing economic context driven by the process of globalisation require **flexible policy tools** that can be adapted to national circumstances while keeping a common goal. “One-size-fits-all” policies might no longer be effective in an enlarging Europe.

## 7) Smoothing transition through flanking policies

- Market restructuring and reform can cause temporary displacements of resources and labour within and between sectors. Single Market policies should be accompanied by the relevant flanking measures to smooth transition, reduce adjustment costs and facilitate political acceptability. Flanking policies might include social policies, re-training opportunities and economic development programmes.

## 8) Single Market “policies”

- Single Market policies should be understood as a collection of policies which objective is to benefit from the “**European dimension**” and to increase productivity and welfare through integration. In this sense, Single Market policies should not be a delimited set of policies but should constitute a core element in all policy areas where the European dimension can enhance the effectiveness and impact of a specific policy. Examples of areas that clearly benefit from a European approach are competition, innovation, financial markets, education, energy and transport.
- Single Market policies should aim at making the most of the **synergies** between other EU and national policies. Single Market policies should act as a coordinating body of legislation to guarantee a consistent approach across policies maximizing the potential synergies.

## 9) Taking the lead internationally

- Single Market policies should be linked to and consistent with neighbourhood and other external policies. Single Market policies should be designed with an **outward-looking perspective** taking into account their external impact. The design of the Single Market is no longer an internal exercise but it is essential for determining the position of the EU in the global economy. The Single Market should be understood as an opportunity for the European economies to be more competitive. Through the extension of Single Market policies to neighbouring countries the EU could play an important role in shaping the process of globalisation.