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The Single Act: A new frontier for Europe

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The Single Act: A new frontier for Europe

Introduction

The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion. The realization of these two objectives will also respond to the hopes and needs of the countries which have just joined and which rightly expect that their involvement in the Community should underpin their development and help raise their living standards through a combination of their own efforts and support from their partners.

In order to succeed in its new responsibilities, the Community must first complete the reforms it has started, especially since 1984, with the aim of adapting its old policies to the new conditions: the reform of the common agricultural policy to take account of new production and trade conditions, the reform of the structural funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the Member States impose upon themselves.

Once these reforms have been implemented, the Community will have to have the resources needed to be in a position to achieve the objectives of the Single Act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous economic growth trends, creating more jobs.

For this reason, the Commission feels that it should set out the conditions that must be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament, and these have a medium-term context, looking towards 1992 as the date by which the large market, without internal frontiers, will be complete.

I — The conditions for success

Before examining the reforms already under way or that have to be undertaken in order to implement the Single Act, it would be useful to review briefly the prospects before us and the conditions governing success. It is hardly necessary to point out that this 'new frontier' entails the simultaneous implementation of the six policies highlighted by the Single European Act:[1] the establishment of a large market without internal frontiers, economic and social cohesion (in other words greater convergence as regards both the methods used and the results obtained), a common policy for scientific and technological development, the strengthening of the European Monetary System, the emergence of a European social dimension and coordinated action relating to the environment. It is easy to show that these policies have to go hand-in-hand if the single economic area is really to be achieved, which is the only outcome compatible with the overriding idea of European Union, as formally restated in the preamble to the Act. And our efforts will never be crowned with success unless we also have a common, strong and coherent external policy.

A — A common economic area

In political terms, this is not a new idea. Article 2 of the Treaty of Rome provides that the Community should promote 'throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability [and] an accelerated raising of the standard of living'.

In economic terms, it is self-evident that a large market without internal frontiers could not be completed or operate properly unless the Community had instruments enabling it to avoid imbalances interfering with competitiveness and inhibiting the growth of the Community as a whole.

Let us be quite clear. This does not mean transferring all powers in the fields of economic and social policy to the European level. But experience has shown that it is impossible to achieve freedom of movement of persons, goods, services and capital without a common exchange-rate discipline and without increased cooperation between national policies. The recent difficulties of the European Monetary System are proof enough of this, if proof were needed.

In other words, the ship of Europe needs a helmsman. The large market without internal frontiers cannot, on its own, properly be responsible for the three main functions of economic policy: the quest for greater stability (the fight against inflation and external imbalances), the optimum allocation of resources to obtain the benefit of economies of scale and to stimulate innovation and competitiveness, and the balanced distribution of wealth allowing for individual merit.

Thus it is, for example, that the Community will this year take the final step as regards the liberalization of capital movements. The implementation of this step implies strengthening the European Monetary System in such a way as to enable capital markets to be regulated and imbalances to be corrected. Likewise, it will be necessary at the same time to ensure, for the purpose of fair competition, that the basic rules regarding banking legislation and supervisory standards are harmonized. Lastly, national monetary policies should be mutually compatible so that this common financial area is as stable as possible.

A further example drawn from past experience: the economic integration brought about by the large market will entail considerable economic benefits. However, all regions of the Community ought to be able to share progressively in these benefits. It is no easy matter to bring the fruits of progress to all, whether as regards technical progress, the effect of competition in bringing cheaper and better quality goods and even as regards the financial innovations that are essential for investment and development. It is for this reason that the 'transparency' of the large market should be facilitated by supporting the efforts of regions with ill-adapted structures and those in the throes of painful restructuring. Community policies can be of assistance to these regions, which in no way absolves them from assuming their own responsibilities and from making their own effort. The Commission has conceived the 'structural' policies in this spirit, firmly resolved that they should have a genuine economic impact and that they should not consist merely of budget transfers, which would be far too costly and inadequate as well.

To put it plainly, Community instruments must cease to be seen as mere elements in a system of offsetting payments. Their role is the central one of bringing about the convergence of national economies alongside and in harmony with national and regional policies.

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[1] Supplement 2/86 — Bull. EC.

Community action must be more closely related to real economic circumstances and there must be closer cooperation between national policies: it is on the basis of these two conditions that we can hope to reap all the benefits—for all concerned—of a large market without internal frontiers. But in striking to the heart of the problem, i.e. by leaving the fullest scope for decentralized measures, the 'new frontier Community' has greater need of selective incentives and schemes than of any further proliferation of intervention and regulations. Common sense dictates and the large market demands that it be so.

If Community action and decentralization are to be effectively reconciled, a number of adjustments are proposed. These include:

(i) as regards the large market, the most important measures should be selected to ensure that the necessary impetus is provided, such as the liberalization of public contracts and capital movements. The principle of mutual recognition of standards and rules should be adopted in the place of an endless and fruitless search for agreement on common standards and rules;

(ii) as regards the control of national aid schemes and the objective of cohesion, the necessary steps should be taken to ensure that the conditions for fair competition are met, and in this context to take account of the level of development of the regions to show the flexibility necessary to take account of the evaluation of the local context;

(iii) the concept of 'programme' should replace, for the most part, that of 'projects'. Rather than being responsible for the management of thousands of dossiers, the Commission would fix its attention, as is the case with the integrated Mediterranean programmes,[1] on supplementing the efforts of the multiannual programmes drawn up by backward regions and regions undergoing restructuring;

(iv) social policy should be concentrated on one or two main priorities and the Community should now avoid a wide scatter of individual schemes born of a plethora of objectives and criteria. But these priorities should become the building blocks of Europe and effective sources of innovation, and should be perceived as such by their beneficiaries and by public opinion. What is the central issue, the most harrowing problem that faces us?—unemployment. The Community must show through the implementation of two major policies that it is able to help solve this problem; on the one hand, through a specific policy aimed at helping young people to find their first job and, on the other hand, by taking measures to tackle actively long-term unemployment.

B — More vigorous economic growth

The Commission is not afraid of disequilibria which the introduction of the large market could entail. But it has been studying the Community's short history—with its successes, but also its failures, with its ambitious ideas, but also the obstacles which have hampered their implementation—and its conclusion must be that a background of weak economic growth has severely inhibited progress. This is one of the reasons why a cooperative growth and employment strategy was proposed in 1985 enabling more rapid development of activity and employment to be achieved throughout the Community, through the specific contributions of each country.

This strategy is still relevant, given the rather disappointing results achieved by our economies, despite the stimuli from the fall in oil prices, and, initially, the decline in the dollar. The strategy is needed all the more because it would make it possible, as a result of the additional wealth created, to provide substantial assistance to each country in carrying through the necessary adjustment to the large market and the new world economic pattern.

This is not a question of legislation, although the Council's decision of 18 February 1974 on convergence will have to be reviewed.[2] This decision, it must be recognized, has not lived up to the expectations of its authors. Indeed, it has got bogged down in routine and sterile procedures. What is really at stake is political will and economic imagination. Are the member countries really determined to go beyond their short-term view of the situation and outdated concept of independence with regard to economic and financial decisions? Will they be reasonable enough to discern and accept the network of interdependence of which their own activities form part and will they be in a position to turn this situation to best account by a sort of 'positive sum' game?

In addition, the slowdown in world trade over the past decade makes it more necessary than ever to exploit the internal potential for growth within the Community. This is what is at stake in the effort to achieve completion of the large internal market.

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[1] OJ L 197, 27.7.1985; Bull. EC 7/8-1985, point 2.1.106.
[2] OJ L 63, 5.3.1974.

C — Greater effectiveness on the part of the institutions

The word 'routine' was mentioned in the context of the 'convergence of economic policies'. This word can be applied to Community life in all its aspects, Europe takes the wrong decisions too late and is rarely able to implement effectively what decisions it takes. And this has spawned a paralysing and over-interventionist process of bureaucratization.

The Single Act sets out to remedy these shortcomings. Even so, the will must be found to implement it in the right spirit. Failing this, Europe will never recover from its congenital disease: a succession of good resolutions that sink into the sands of long drawn-out and sometimes inconclusive deliberations. In order to escape from the morass, the Council should make full use of qualified-majority voting, the Commission should at last be given the powers that it has been denied so far and Parliament should assume full responsibility as co-legislator in the cooperation procedure.

Indeed, the true interests of Europe demand that one should go even further in improving the effectiveness of the institutional triangle composed of the Council, Parliament and the Commission. This is particularly true as regards the budget, if revenue and expenditure are to be brought under greater control, thereby fulfilling the objectives of the Single Act whilst ensuring that the European taxpayer's money is put to the best possible use. The Commission is making a number of proposals as regards budgetary discipline which should not reactivate the institutional squabble. In other words, it does not wish, for the moment, to add to the difficulties of 'le grand rendez-vous' on the implementation of the Single Act, but it is convinced that the day will come when the provisions of the Treaty will have to be revised to enable the Commission, in the manner of the 'cooperation' procedure, to assume fully its initiative-making role and to involve the Council and Parliament as equal partners at every stage of the budget procedure.

However, the Council should, without delay, tackle its own internal workings in order to put right what has to be recognized as the disintegration of the decision-making process. To return to the question of the budget—there is at present no arbitration body within the Council, which is one of the reasons for the failure of the budgetary discipline procedure adopted at Fontainebleau in June 1984.[1] Each Council is at liberty to adopt its own positions and its own measures. The Agricultural Council has a relatively free hand as regards its policy and the expenditure that results therefrom. The Council of Ministers for Economic Affairs and Finance, for its part, determines the maximum level of expenditure... but it is the Budget Council that is responsible for actual implementation in an acrimonious and often not very dignified quarrel with Parliament. No political entity can operate properly under such conditions.

D — Strengthened budgetary discipline

These last considerations lead on directly to what is for the Commission another major condition to be met if the Single Act is to be properly implemented: strengthened budgetary discipline.

At a time when, rightly or wrongly, the member countries are keen to reduce their budgetary expenditure and cut public deficits and, in some cases, to lower taxes, it is no easy task to persuade public opinion that the Community needs more money. It is true that the EEC is growing fast and therefore needs practical policies to reach the new frontier proposed by the Single Act. It is true that the substitution effect is important — what is spent by the Community often represents sums saved from the national budgets. More than this, every single ECU which is well spent jointly by the Twelve can yield more than equivalent national expenditure. It can easily be shown that this is the case at present for the common agricultural policy and for research, and will be the case in future for transport and major infrastructures.

These are points which must be emphasized, for much of the unjustified criticism of the Community budget is born of a curious attitude held by some observers who are all too apt to treat Community finance as if their countries were not in fact members of the Twelve.

The inconsistency would be even more obvious if, having signed the Single Act, the authorities refused to allocate the resources to implement it!

But the Community — that is to say the Council, Parliament and the Commission — must, as a counterpart to acceptance of the new responsibilities conferred on the member countries under the Single Act, manage its budget in the spirit of the 'prudent citizen' and ensure the best possible use of the resources allocated to it. This will depend on the quality of the policies implement-

[1] Bull. EC 6-1984, point 1.1.9.

ed, on their effective execution, and on a spirit of rigour, which must prevail everywhere.

By presenting this new plan for budgetary discipline, the Commission is drawing on the experience gained from 1985 to 1987 and correcting the defects of the present system: the disintegration — already noted — of the decision-making process; the lack of control over commitment appropriations and the difficulty in getting agricultural expenditure under control (while acknowledging, on this last point, the major role played by an entirely unpredictable external parameter: the extreme volatility of the dollar).

The new budgetary discipline is a sort of fiscal contract for the Community: the assurance that before 1992 the European tax charge will not exceed a ceiling fixed at 1.40% of the Community's gross 'national' product, the adoption of tighter rules concerning agricultural expenditure, and the optimum allocation of resources to the other policies which are essential to the success of the Single Act.

E — A common and strong external economic policy

The European Community is the world's leading trading power. As such, it is sometimes courted and sometimes criticized. Courted, because it represents a formidable potential in terms of purchasing power and because it is in a position to play an even more important role in stimulating multilateral trade and commerce. Criticized, because other countries feel that it is not open enough to their products and because it has fully exploited its agricultural potential.

First and foremost, it must be underlined that the Community is, in fact, the most open trading unit in the world. Although the Commission believes that the Community must go further on the road to helping the developing countries, it can only reject attacks from elsewhere. Especially from countries whose protectionism is sometimes not even disguised.

Of course, the Community's political position would be stronger if it could take promptly the initiative required to solve the problems of world currency disorder, the inefficient allocation of financial resources or the quite inadequate growth of world trade. But all hope should not be lost. The positions adopted at the outset of the Uruguay Round, the exemplary measures implemented under the Lomé III Convention or in connection with food aid, and the proposals for the adaptation of the roles played by the IMF and the World Bank are all points on the credit side of a Community acting with a proper sense of responsibility. But this is obviously not enough.

How are we to explain to our farmers that they must adapt to a world situation in which the excess of supply over demand is structural in character, if other agricultural powers are not making the same effort?

How are we to assert the need for technical progress to sharpen our competitive edge and boost employment, if we are incapable of meeting threats from elsewhere?

How are we to state effectively the case for better relations between the North and South if wa haggle endlessly over a few tens of millions of ECU in trade advantages or aids for countries suffering the direst poverty?

One thing we have got to realize is this. There will be no tangible progress in European integration if the Community does not speak clearly to the outside world, with strength, courage and magnanimity. In fact, this is an aspect of Community life which is all too often neglected or even ignored. Let there be no mistake about it, the Community will prove its mettle, also, in the way it resists, now and in the future, the wrong kind of pressure, but yields to those in real need.

II — Reforms needed

A — A common agricultural policy adapted to the world context

Closely dovetailed into the rest of the economy, agriculture is, for the Community, a sector of fundamental economic and strategic importance, not only as a supplier of essential raw materials but also as a purchaser of a wide range of inputs. It is therefore vital for the Community that this industry should go forward on economically sound bases, so as to provide real prospects for those who depend on it directly or indirectly, and that the common agricultural policy (CAP) should allow for and adjust to change.

The factors which, in the early 1960s, led to the formulation of the CAP still hold good, as do its basic principles of Community preference, a single market and financial solidarity.

On the other hand the general economic context and the situation on agricultural markets have changed radically: growth has slowed, unemployment has increased, extraordinary progress in productivity and advances in biotechnology have led to surpluses on world markets, currencies are fluctuating and there are budget difficulties.

The Commission has, therefore, repeatedly and emphatically stressed the need for progressive efforts to bring about changes in agriculture in order to eliminate surpluses and check the steady increase in the budget burden to which they lead. This is all the more necessary as, given the present circumstances of structural imbalances between supply and demand, difficulties have emerged in reaching the desired objectives of stabilizing market prices and supporting farm incomes, even though the amount of money committed to this has been rising steadily.

Similar efforts have also had to be made in other major industries in the Community. This is essential if Europe is, in the long term, to maintain its competitive edge and thus its standard of living. This does not mean that we can ignore the special features of the agricultural sector—especially the fact that most farms are family enterprises and the role of farming in protecting the countryside. The Commission consequently intends to see that efforts are undertaken at the same time to help rural development.

It is therefore up to agriculture to join in the common effort which is vital for the future of all the countries of Europe and of which the citizens of Europe will have to bear the consequences, whether it is successful or not.

In its previous communications, and especially the one made following the consultations for the 'Green Paper',[1] the Commission clearly indicated the approach it intends to adopt in seeking better balance on agricultural markets. This involves:

(i) a restrictive pricing policy,

(ii) more flexibility in guarantees and intervention mechanisms,

(iii) a greater degree of producer co-responsibility, including recourse to quota systems.

If the Community cannot manage to give market prices a greater role in the interplay of supply and demnd, the CAP will sink ever deeper into a morass of administrative measures and rules for the quantitative regulation of production. This will provoke resistance from consumers and the development of substitute products, and will in addition cut off agriculture from the potential for developing industrial and food outlets through exports.

The Community must continue to try to bring intervention back to its original role of short-term market adjustment. Intervention must no longer be seen as an artificial supplement to the market, automatic and permanent, ironing out all market effects and preventing any action to bring supply into line with demand.

Since 1985 a large number of proposals have been put to the Council and Parliament in pursuit of this approach. The decisions so far taken, in particular those of April and December 1986 on milk and beef,[2] have been in the right direction and have set in train the process of adjustment which is required. Through the disposal programme implemented since last year, which the financial decisions adopted by the Council on 9 and 10 February will make it possible to accelerate, stocks may be brought down to more acceptable levels.

Thus, in its proposals for future marketing years, the Commission intends to give clear signals to producers, by freezing or even reducing prices, in the light of the situation for each product concerned.

The Commission also intends to continue adjusting intervention mechanisms for the products where the major problems arise, especially by limiting buying-in to certain periods of the

[1] Bull. EC 12-1985, point 1.2.1 *et seq.*
[2] Bull. EC 12-1986, point 1.2.1 *et seq.*

year or, as recently proposed in the milk sector, by altering the arrangements when quantities delivered exceed certain limits. The Commission also intends to reinforce measures to guide production towards those qualities which the market really requires. The general aim is that farmer should gradually be induced to take greater responsibility for their choices of types of product and for finding unsubsidized outlets.

Particular attention will be paid this year to the oils and fats sectors, where the prospects for balance have been greatly modified by the enlargement of the Community to include Spain and Portugal. This sector is also affected by erratic developments on the world market due, at least in part, to monetary factors independent of agriculture. The Commission's proposals here will be aimed at stabilizing production, by means of definite quantitative objectives, and stabilizing consumer prices on the basis of the underlying trends on world markets over previous years. The Commission thus intends to see that the growing budget burden of this sector is shared fairly between producers, consumers and taxpayers.

The Commission also wishes to give all our agricultural regions the possibility of developing products in which there is a shortage, in order to contribute to more harmonious development of the different regions.

In order to promote the rationalization of the various CAP mechanisms and to improve their mutual consistency, the Commission also intends to propose changes to the agri-monetary system, in order to bring the 'green' currencies progressively into line with general monetary arrangements and also to prevent the elimination of monetary compensatory amounts (MCAs) stimulating inflation and, through an artificial increase in prices when expressed in national currency, offsetting some or even of the effect of the measures adopted at Community level.

In formulating its proposals the Commission is none the less aware that the changes required in the CAP will be brought to bear on an agricultural situation which, in a Community of Twelve, is extremely diverse. There are great differences in natural and structural conditions of production and in the impact of agriculture on socio-economic balances and on the environment. The measures taken will bite more in the case of those farms which are economically and structurally weaker. Their consequences will be of varying impact for society in general depending on certain regional characteristics.

The action the Community is to take must allow for these facts; at the same time it must also avoid any tendency to sideslip into national or Community measures which may lead to unfair distortion of competition within a single market.

Over the last few years the Commission's proposals and the decisions adopted by the Council have differentiated measures to take account of the special situations of some farmers or some regions. For example, the milk levy has been varied. Aids have been introduced for small grain farmers, and the special features of certain regions or countries have been adopted as criteria in deciding on production quotas. In its proposals for the next few years the Commission intends to continue along these lines, ensuring that small farmers have a future.

It would be foolish to imagine, however, that this will solve all the problems arising in this area. In particular, such differentiation cannot go beyond the limits imposed by a policy of improving the allocation of resources in the light of the comparative advantages enjoyed by each country and region.

In order to achieve greater balance between the imperatives of the market and the need for solidarity, the Commission therefore takes the view that there must be, at Community level, a supplementary mechanism for supporting incomes. In addition, schemes operated by the member countries must be brought within the same framework. If restricted to economically weaker holdings, accounting for only a limited share of Community output, two-pronged action along these lines could well enable the socially unwelcome consequences of such a Community policy to be reduced. This could be a decisive factor in putting such a policy into effect and successfully completing it in the time available.

To this end the policy as regards national aids in agriculture will have to be supplemented by a strict framework for income supports, setting out precise limits at Community level. We must ensure that any national aid granted does not distort competition or have the effect of cancelling out the Community effort being made to achieve a balance between supply and demand. Account must also be taken of individual Member States' financial capacities, in order not to increase existing disparities.

In addition, regional measures—included in the three Community support programmes[1]—would complement existing instruments such as

[1] See what is said on 'structural' policies in the next chapter.