

## **Single European Market as an anti-crisis factor in the economic growth of the European Union**

### **Introduction**

The economic crisis of 2008 revealed that many EU member states struggled with the problem of the lack of economic balance resulting from low macroeconomic stability, incompetent and unreasonable fiscal policy and too close relations between real economy and financial market. Moreover, an analysis of the previous functioning of the European Single Market (ESM) shows that its problems stem from the lack of adjustment to the current socio-economic reality. At the same time, these problems coincided with the 20th anniversary of its creation and the exposure of the most serious problems of the European economy by the financial and fiscal crisis. Taking action aimed at strengthening the internal market will not only help counteract the effects of the crisis, but also increase the competitiveness of the European economy. The European Union should realize that it is no longer the most competitive economy in the world.

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### **1. Direct problems of the European Single Market**

Faced with the economic crisis, the European economy should look for new sources and areas of competitiveness. The solution to this problem may not only be the institutional and legal actions aimed at achieving real consolidation and control of the budget, regulation of financial markets and improving supervision over rating agencies, but also finding a solution to the problems related to the flow of services, goods, capital and workforce, which limit the competitiveness of the European economy.

### **1.1. Problems with the flow of goods**

The technical and fiscal limitations of the flow of goods, which are still present, are a serious problem of the ESM, reducing the competitiveness of the EU. The harmonization and unification of the legislation related to the means and methods of production and authorizing the sale of products within the single market is not fully realized. The foundations of a single market, when it comes to the freedom of the flow of goods, are based on a holistic perspective of the market as a place for unlimited exchange, production and sale of goods. However, the delayed transposition of secondary legislation very often poses a significant problem in implementing the stipulations related to the flow of goods. The necessity to fulfill the non-uniform technical requirements results in higher costs of production and reduction of trade within the EU, which in the end means lower competitiveness of the European economy. The EU member states should realize that the ESM is no longer an end in itself, but an excellent tool to boost economic growth and increase the participation of the European economy in the economy of the world. In this context, however, the still present national egoism is a serious problem.

It is important to point out the discussion over the fragmentation of the EU tax system. Even though the rule of the obligatory neutrality of the tax system towards competition enables the reduction of the use of the tax system to decrease the freedom of the flow of goods, but the lack of a uniform tax system has negative influence on both the freedom of the flow of goods and economic activity. Another problem is the lack of harmonization of the VAT tax rate and corporate income tax. It is, however, difficult to expect that this problem will be solved soon because of the fact that fiscal policy is not within the powers of the EU.

### **1.2. Problems with the flow of capital**

When analyzing the ESM in the context of the economic crisis, it is also necessary to point to the problems with the flow of capital. This freedom is key from the point of view of the financial support for companies, especially from the SME sector. The hindered access to capital very often limits the development of companies and weakens their innovativeness. In order to make their development easier, it is important to support external sources of funding, more effectively use the financial engineering instruments supporting the activity of SME, namely the Joint European Resources for Micro-to-Medium Enterprises (JEREMIE), as well as structural funds, especially the European Regional Development Fund.

### **1.3. Problems with the flow of services**

Another action crucial for economic growth is the intensification of service provision and flow in all dimensions. In this aspect, one of the main problems is the pursuit of rights by service



users in case of civil and trade law disputes. The aim should be to simplify legislation, implement an online European system for settling disputes, an EU mechanism for representative actions, as well as to simplify the procedures concerning alternative methods of settling disputes. It is also necessary to take action in order to fully implement the service directive. This will increase the trust of civil users towards service providers, which is important for the competitiveness of the European economy.

#### **1.4. Problems with the flow of workforce**

Another issue concerns the problems with the flow of workforce. The main problem, reducing the economic benefits of the EU in this area, is the often restrictive legislation concerning entering and staying in certain countries as well as access to employment and the possibility to delegate employees to work in different member states. This problem mainly results from the attempts to protect national job markets, the expression of which is the demand of certain EU-15 societies to expel from their territory the unemployed citizens of the countries which joined the European Union in 2004 and 2007. It is also important to draw attention to the need to extend the catalogue of occupations with automatic recognition, shorten the procedure for occupational qualification recognition and make sure that the member states adhere to art. 45 of the Treaty on the Functioning of the European Union, specifying the prohibition of discrimination when it comes to employment, remuneration and other aspects of work regardless of nationality. The improvement of the functioning of the ESM with regard to the free flow of workforce should, therefore, constitute an important priority for the entire EU, not only from the point of view of the expected benefits from the functioning of a borderless area, but also in the aspect of intensified economic growth.

### **2. Indirect problems of the European Single Market**

A market is not only the traditionally understood freedom of the exchange of services, goods, capital and workforce. The problems of these areas are inseparably related to the transposition of secondary legislation by member states, their lack of adherence to the stipulations of the ESM, lack of full liberalization of international trade, the search for new sources of funding for the areas of activity of the EU faced with the fiscal crisis and the lack of regulation concerning the digital market and common system of patent protection.

#### **2.1. Insufficient support for companies and quality of law**

From the point of view of the goal of the EU, which is to counteract the negative effects of the economic crisis, it may seem that an equally important priority should be the support and development of companies. Unfortunately, they are paradoxically in a group of entities which most often criticize, but also support the functioning of the ESM. This problem undoubtedly results from the fact that the functioning of the market very often brings only limited results.



Legal burdens and difficulties with the transposition of secondary legislation make the development of the SME sector very difficult. The date of the implementation of 16 out of 74 directives accepted in 2009 was postponed by 2 years on average in relation to the assumed date of transposition. More than 50% of all directives concerning the ESM were not implemented on time. It resulted in a significant fragmentation of the market, which often hinders the development and effective activity of SME in the whole EU. On the other hand, some of the larger economic entities point to the restrictions of economic activity resulting from the rules of competition and consumer protection policy preventing the creation of cartels, abuse of dominant position or public aid control for companies. Even though such actions are mainly aimed at creating proper rules for the functioning of the ESM, in certain conditions they can limit economic activity weakening the impulse for growth and expansion to foreign markets. It is, therefore, important to simplify the EU legislation and reduce administrative burdens, implement more comprehensible legislation by means of full implementation of the Small Business Act program and Smart Regulation initiative and support the activity of enterprises and their expansion to foreign markets through the intensification of direct export subsidies and indirect export support utilization. The protection of the market with the use of the Common Commercial Policy tools is also very important.

## **2.2. The lack of complete liberalization of international trade**

The lack of complete liberalization of international trade is also an important problem. The economic crisis exposed the degree of globalization of the economy. The creation of global chains of values shows that the EU economy is more and more dependent on the rest of the world. This situation, on the one hand, poses certain dangers, on the other, provides a huge opportunity for economic growth. It may, therefore, seem that the European Union should maintain protectionist actions within the most crucial areas of the market and economy and, at the same time, liberalize other areas. It may also be necessary to undertake actions aimed at enforcing the adherence of the EU trade partners to the agreement within WTO, namely the agreement concerning the trade of industrial products with the People's Republic of China. The bilateral trade agreements of the European Union with India, the Association of South-East Asian Nations and the countries of Middle America are also significant in that respect.

## **2.3. The lack of adjustment of the European Single Market to the current socio-economic reality**

The development of digital methods of communication and conducting business activity constitute an important part of modern economy. At the moment, however, the ESM does not fully take into account the regulation of digital content, telecommunications infrastructure,



online retail market and copyrights. The result of that is a significant fragmentation of the market of digital services, decrease in infrastructural investments, pricing agreements and reduction of benefits for the digital market. The expansion of the market to new areas and adjusting it to the requirements of the current socio-economic reality will influence the competitiveness and economic growth in the EU to a significant degree. According to the European Commission, the creation – in accordance with the stipulations of the Europe 2020 strategy – of a single digital market will bring the European economy a benefit of about 500 billion euros.

### **Summary**

The analysis of the functioning of the internal market so far indicates that the main problems of the ESM result from its lack of adjustment to the current socio-economic situation and the lack of adherence of member states to its fundamental rules. The economic crisis weakened the European economy, but it also revealed the most significant problems of the internal market. Anti-crisis actions should, therefore, be aimed at increasing the macroeconomic stability of member states and the development of the internal market when it comes to the traditionally understood freedoms as well as completely new areas of the ESM. It can be assumed that only a holistic approach to the problems of the internal market will enable the full minimization of the effects of the crisis and intensification of the economic growth and competitiveness of the European economy.

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