conseil d'analyse économique

PRESS RELEASE

Paris, February 2nd 2017

MAKING THE BEST OF EU'S SINGLE MARKET

The European project has come to a crossroad, torn between a fading promise of prosperity and mounting perceptions of widening inequalities. In this new *Note of the CAE*, the authors, **Vincent Ausilloux Agnès Bénassy-Quéré**, **Clemens Fuest** and **Guntram Wolff**, recommend not to loosen market integration efforts, but to adequately complement those using modern tools to counter tax evasion. European funds should be progressively refocused on areas providing large spillovers across member states. Given the increased digitalization of the economy, these steps are crucial for Europe to boost its productivity and regain its ability to deliver prosperity.

How to boost productivity growth in the EU

All other things being equal, trade between two EU countries is four times lower than between two US states. Doubling the intensity of trade between European member states from ¼ to ½ could increase European income by around 14%, this is equivalent to what the single market has already achieved.

An improved use of economies of scale in major services at the European level is essential in order to progress: for instance, harmonizing regulations and grouping regulators in energy, rail transport, and telecommunications services. For the remaining service sectors, the functioning of the single market can be improved through the removal of *de facto* barriers created by local regulations. The challenge of a wider and better integrated market is crucial to enable European digital companies to emerge.

Since a growth strategy cannot be designed ignoring environmental constraints, the authors propose specific tools aim at reconciling environment and competitiveness and to ensure a greater consistency in decisions based on future expected carbon prices.

Recommendation 1. In sectors with large externalities and potential economies of scale, the single market agenda should aim at a single rulebook and close coordination (or merger) of national regulators.
Recommendation 2. In services sectors, individual regulations should be systematically assessed on a cost-benefit basis, with reference to the best practices, in order to reduce undue obstacles to cross-border activity.

Recommendation 3. Make EU environmental policy from destination- rather than origin-based through the setting of technical standards over long but credible horizons, defining a reference path for the carbon price, and using revenue-neutral tax instruments to discourage GHG emissions.

A new investment agenda

The EU as a whole has sufficient amount of resources to invest. The latter, however, has increasingly been channeled outside its borders. To stimulate investment, especially in innovative sectors, it is essential to be able to rely on a diversified and resilient capital market, offering both bank and market financing. In this regard, the Capital Markets Union project and the completion of the banking union are top priorities. EU resources based investment spending –justified under the three objectives of economic convergence, interdependence and solidarity– must follow the evolution of challenges facing European integration (such as higher education, or energy interdependencies).

Recommendation 4. Continue to address the different structural challenges related to the capital markets agenda, especially in the area of corporate insolvency law, by moving to identical core principles across the single market.

Recommendation 5. Review the EU budget and Juncker plan in respect of economic convergence, spillovers between member states and solidarity.

The roles of the EU and EU countries in promoting fairness

While EU national governments are still responsible for welfare-related redistribution, the EU has a crucial role to play in strengthening their implementation capacity, including access to modern and effective tools to combat tax evasion. A central issue is cross-border information systems, which have not really followed the significant increase in mobility of businesses and individuals. The authors support the ambitious common consolidated corporate tax base (CCCTB) proposal of the European Commission to limit tax optimization by companies. However, since its implementation may be complex, they strongly recommend alternative pragmatic avenues for reform.

With regards to intra-EU migration, social protection systems should neither encourage nor discourage labor mobility. While "social tourism" does not appear to be a major phenomenon, there remains room for improvement to achieve greater neutrality of social systems.

Recommendation 6. Make sure social charges for posted workers are effectively paid in the home country by developing proper electronic interfaces, and make the company in the destination country liable for showing prior authorization.

Recommendation 7. Modify the Interest and Royalties Directive to allow for more extended use of source taxes on royalties and interest. Alternatively, coordinate double taxation agreements with third countries.

Recommendation 8. Make unemployment insurance more neutral with respect to intra-EU migration through the full continuation of rights when leaving one country for another EU country, and through compensation payments between countries for the costs incurred by the application of the aggregation principle.

Recommendation 9. Improve information on pension entitlements by centralizing personal information on a single platform.

See all Notes produced by the CAE on www.cae-eco.fr

Contact Presse

Christine CARL 01 42 75 77 47 christine.carl@pm.gouv.fr

Suivez **@CAEinfo** sur Twitter *Courriel nomade :* christine.carl@cae-eco.fr