

Ida MUSIAŁKOWSKA<sup>1</sup>, Magdalena SAPAŁA<sup>2</sup>, Łukasz WRÓBLEWSKI<sup>1</sup>

<sup>1</sup> Poznań University of Economics

<sup>2</sup> Vrije Universiteit Brussel

## The strengthening of the Single European Market vs. the crisis

**Abstract:** The economic crisis that erupted in 2008 has significantly influenced the European Union (EU) economy and questions about the future of the European integration process have arisen. The crisis' effects forced the European Union institutions and its Member States to take significant decisions and to draft recovery plans. Apart from initiatives aimed at economic policy coordination and financial market supervision, the EU proposed and introduced important initiatives for the strengthening of the internal market's competitiveness. In November 2008 the European Commission in its communication on the EU recovery plan proposed ways for supporting the real economy and competitiveness, for boosting demand and for restoring confidence in the European economy. Then, over the years 2008–2011, a broad range of legislative and non-legislative decisions were taken by the European Commission and the European Parliament in order to minimize the crisis' consequences for the internal market, which included the Single Market Act and the new European strategy Europe 2020. Moreover, part of the EU budget was taken out for investments in energy security, the development of broad-band internet in the rural areas or enterprise help within the framework of the EU Cohesion Policy, while the European Investment Bank took out 15 billion euros for credits and loans to SMEs.

Taking into account the variety and the scope of these actions this article will focus on the initiatives aimed at strengthening the competitiveness of the EU internal market. The overall objective is to answer the three main questions:

1. What are the priorities of the internal market and how can market competitiveness be improved in crisis circumstances?
2. What are the main activities of the EU institutions (the European Commission and the European Parliament) to strengthen the functioning of the internal market and EU competitiveness during and after the crisis?
3. What are the funding sources of actions relating to the internal market after the crisis?

**Keywords:** economic crisis, internal market, European Union, competitiveness, EU institutions, EU budget, EU Multiannual Financial Perspective 2007–2013, Multiannual Financial Framework 2014–2020, Europe 2020 strategy, Single Market Act, international economics, European integration.

**JEL codes:** F15, F20, F36, F42, F53, F59.

## Introduction

The 2008 economic crisis had a global impact and considerably affected the Member States of the European Union. The results of the crisis are still visible and they have had their consequences on economic priorities set out at every level of economic governance, be it regional, national or European. The crisis has significantly influenced the priorities set and decisions made by the EU, both by intergovernmental institutions such as the European Council or the Council of the EU and by the Community institutions, i.e. the European Commission (EC) and the European Parliament (EP).

Apart from making spectacular decisions concerning the coordination of economic policies and the enhancement of financial surveillance, it is especially important for the EU in the times of crisis to consider what actions should be taken under other Community policies and what legal, institutional and financial instruments should be used in order to strengthen the economy and streamline the functioning of the Single Market<sup>1</sup>. Therefore, three important issues are presented in this article concerning the functioning of the Single Market in crisis conditions and the actions taken by the EU in order to alleviate the negative effects and to prevent the occurrence of more of such economic collapses. The article is divided into three sections. The first section outlines major issues for and barriers to the internal market, elimination of which is of crucial importance to the economic development of the European Union after the crisis. The second section covers selected legislative and extra-legislative developments between 2008 and 2011, related to the strengthening of the Single Market and the competitiveness of the EU in crisis conditions, with the twelve levers of the Single Market Act as the main focus. The third section concerns the sources of financing the Single Market<sup>2</sup> activities under the crisis conditions.

### 1. Priorities and barriers for the Single Market after the crisis

When analyzing the economic integration, it is necessary to bear in mind the fact that the introduction of the Single Market in 1993 was the result of a phased economic integration process, as proposed by Balassa, who in his theories promoted using the market to achieve the Economic and Monetary Union (EMU) and – as a consequence – the full (political) union [Balassa 1961]. The assumption is that none of the stages of the union eliminates the achievements of the previous stages

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<sup>1</sup> In this article, the terms Single Market, internal market and Single European Market (SEM) will be used interchangeably for lexical purposes.

<sup>2</sup> The article describes the situation as of September 2011.

and that the gradual achievement of new stages adds ever more common elements, while removing the existing barriers. Still the Single Market is not free from numerous barriers, as far as the movement of goods, services, people, capital and entrepreneurship is concerned. The removal of those barriers should take place within the EMU and lead to greater harmonization and coordination of the economic policy, particularly the fiscal policy, in the European Union. This element is relatively weak in the EU when compared to the monetary policy. The monetary policy is centralized by the European Central Bank (ECB) and the European System of Central Banks (ESCB). The fiscal policy (the policy of expenditures, investments, taxes, etc.) is barely harmonized, for instance in the field of indirect VAT rates. In accordance with the assumptions of theories of optimum currency areas proposed by many economists [incl. Mundell 1961; Kennen 1969; McKinnon 1963; Grubel 1970; Frankel & Rose 1996; Grauwe de 2000; Krugman & Obstfeld 2000; Kowalski, Kowalski & Whilborg 2007; Kowalski & Pietrzykowski 2010], it is the fiscal policy that should be unified in the first place, in order to make a foundation for the monetary policy. The European Union attempted a different approach towards economic integration, leaving the fiscal policy instruments at the disposal of the governments of the EU Member States. This decision, being the result of discrepancies in the economic development of countries, seemed rational and made it possible for economic policy-makers to react to the changes in economic trends at various stages of the business cycle, taking into account the times of recession and crisis. Minimizing the discrepancies in economic development is one of the purposes of the European Union and a necessary condition to the deepening of the integration process [Musiałkowska 2009b; 2011; Skrobisz 2005].

Therefore, when it was clear that Europe would not be able to escape the economic crisis, the EU started to promote activities aimed at protecting the Single European Market (SEM). In November 2008, in the Communication on a European Economic Recovery Plan, the European Commission presented proposals of methods by which the Member States and the EU could “support the real economy” and “enhance confidence.” The EU budget supported this initiative with an additional amount of 5bn euros, which was earmarked for the expenditures related to providing energy security and the development of fast Internet connection in rural areas, as well as with additional advances paid under the Cohesion Policy, worth 11bn euros. Moreover, the European Central Bank (ECB) provided an additional amount of 15bn euros in the form of credits for small and medium enterprises (SMEs) [*Consequences for public accountability*]<sup>3</sup>.

In order to address European economies woes, the EU came up with another document designed to replace (from March 2010) the not-fully implemented Lisbon Strategy – the Europe 2020 strategy [Sapała 2010]. The document – horizontal by

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<sup>3</sup> For the insightful analysis see Section 3.

nature – supports the European economic and social integration and conveys decisions of the Community and Member State institutions – which should become increasingly important. The strategy outlined for the next ten years translates a vision of a European social market economy and is based on three priority areas (see Table 1). The first area – smart growth – concerns the development of the knowledge-based economy and innovations; the second one – sustainable growth – concerns support of initiatives for a low-emission economy, competitive and energy-efficient; and the third one – inclusive growth – is to facilitate social inclusion, support the economy – characterized by a high level of employment – and ensure the economic, social and territorial cohesion. The progress in implementation of the three priorities is to be measured in relation to the five most important EU objectives, which the Member States are to translate into domestic objectives, taking into account their starting situation. In accordance with the discussed strategy, until 2020 [Communication (f)]:

- the employment rate of people aged 20–64 should be 75%,
- 3% of the EU GDP should be earmarked for research and development,
- the goals “20/20/20” on climate/energy should be reached,
- the number of people prematurely finishing school education should be reduced to 10%, and at least 40% of young people should obtain higher education,
- the number of people at risk of poverty and social exclusion should be reduced by 20 mln.

Accomplishment of the objectives of the strategy shall be executed through implementation of seven programs, the details of which are presented in Table 1.

The Europe 2020 strategy, as proposed by the European Commission, was fairly positively received by the European Parliament but more skeptically by the Member States. This was due to the particularly ambitious system of monitoring and control over the Member States in the process of the strategy implementation, e.g. the idea of the European semester [Sapała 2010]. It seems though that for the fight against the consequences of the prolonged crisis the EU economy needs this kind of instruments. Both the Member States and the EU institutions have to effectively mobilize and refocus all instruments and tools to support reforms. To that end, the Europe 2020 strategy calls for action to enhance the SEM.

Another important step in preparation for renewal of the SEM was the report worked out and presented in 2010 by the group of experts led by the former EU Commissioner for Competition, Prof. Mario Monti. In the report the imperfections of the SEM were well-identified and the diagnosis took into account the changed macroeconomic situation in the world. Many priorities and postulates of changes included in the report relate to further removal of barriers to “the four freedoms”, facilities for entrepreneurs (the Small Business Act), legal conditions (regulations concerning the protection of intellectual property rights, the EU sectoral policies). Also the priorities of the Presidency trio reveal the emphasis on these particular el-

**Table 1. Priorities of the strategy Europe 2020**

Europe 2020 priorities	Flagship initiatives (Programs deriving from the strategy Europe 2020)
<p>Smart growth: the development of knowledge- and innovation-based economy.</p> <p>Sustainable growth: supporting the economy more efficiently using the resources, more environment-friendly, and more competitive.</p> <p>Inclusive growth: supporting the economy with a high level of employment and ensuring social and territorial cohesion</p>	<p>Innovation Union – involves the use of research and development activities and innovations for solving our biggest problems and for bridging the gap in the commercialization of research results.</p> <p>Youth on the Move – is aimed at improving the quality and attractiveness of the European higher education in the international arena through supporting the mobility of students and young professionals. The aim is to increase accessibility of jobs in the Member States for candidates from all over Europe and to lead to the appropriate recognition of qualifications and professional experience.</p> <p>The European Digital Agenda – implementation of the agenda is to bring permanent economic and social benefits resulting from the creation of the single digital market based on very fast internet connections. By 2013 all the inhabitants of Europe should have access to a fast internet connection.</p> <p>Resource Efficient Europe – involves supporting changes leading in the direction of a low-emission economy and economy that more efficiently uses resources. This would lower the value of the imported oil in gas by 60bn Euros by 2020.</p> <p>The Industrial Policy for the Globalized Era – aimed at increasing the competitiveness of the EU industry in the post-crisis conditions, at supporting entrepreneurship and developing new skills. The assumption is that it is to contribute to the creation of millions of new jobs.</p> <p>The Agenda for New Skills and Jobs – is to create the conditions for modernizing labor markets in order to increase the employment level and ensure sustainability of social models in the light of baby boomers’ retirement.</p> <p>The European Platform Against Poverty – whose aim is to provide the economic, social and territorial cohesion through supporting the poor and the socially excluded, enabling them to actively participate in the life of the society</p>

Source: Own study based on: Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions. Regional Policy contributing to smart growth in Europe 2020, European Commission, COM(2010) 553 final; [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/smart\\_growth/comm2010\\_553\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/smart_growth/comm2010_553_en.pdf).

ements. Other examples of European undertakings and legislative proposals aimed at improvement of the SEM will be presented and analyzed in Section 2. First let us have a closer look at the barriers and deficiencies of the SEM.

The SEM is currently one of the most complex elements in the process of European integration, but it is still not free from barriers limiting its development

and turning it, in most of cases, into just a theoretical concept. Analyzing the previous experiences of the internal market, you can point out two groups of barriers and the greatest problems, classified as direct barriers resulting from the theory of internal market and indirect barriers, which influence the market. The direct barriers include limitations on the freedom of movement of people, services, goods and capital. The indirect barriers, on the other hand, include instability of the financial sector and the lack of consolidation of budgetary expenses, quality and transposition of law, differences in the approach to the internal market that can be observed among its participants, the so-far unimplemented initiative of creating a digital market and the lack of regulations concerning the European patent and the intellectual property rights. The removal of these barriers is the fundamental criterion for intensification of the competitiveness of the SEM. According to the estimates of the European Parliament, the profits of the EU economy from the above-outlined areas may amount to as much as 200–300bn euros a year [European Parliament resolution (a)].

## **1.1. Direct barriers**

### *1.1.1. Limitations to the freedom of providing services*

Although the share of services in the structure of the EU GDP is 70%, there are still many barriers that impede real freedom of movement of services. This is undoubtedly a result of the economic crisis which undermined the SEM's foundations, and of the still low confidence in the freedom of movement of services among consumers and entrepreneurs [Wróblewski 2011]. A significant problem limiting the free movement of services is the lack of awareness of consumers' rights. According to the estimates of the European Commission, the losses borne by consumers due to problems with cross-border purchasing and delivery of services (for example disputes in the field of the civil and commercial law when consumers have to go through expensive judicial procedures to get their rights), may amount to 40 million euros [*Your Single Market?*]. In order to achieve full liberalization of services we should aim at introducing a European system of online dispute solving [Communication (d)], a Community mechanism for class action, entailing lower court fees and simplified, alternative procedures to solve disputes. We should also take institutional measures, i.e. the full implementation of the directive on services in the internal market in order to simplify and modernize the methods of management, the supervision on the part of state bodies and the increase of the rights of users and consumers. The estimated benefits from the removal of barriers in the movement of services may amount to as much as 60 to 140bn euros a year, which corresponds to a nearly 1.5% increase in the GDP of the European Union [*Your Single Market?*].

### *1.1.2. Limitations on the free movement of people*

Pursuant to Art. 45 of the Treaty on the Functioning of the European Union (TFEU) the freedom of movement of people means the prohibition of discrimination on the grounds of nationality in employment, payment and all the other aspects of work. At the same time each citizen of the European Union has the right to enter, stay and seek employment in the EU. What is also important in this context is the possibility for employers to post employees to other Member States so that they perform work within the existing employment relationship [Wróblewski 2011]. Nevertheless, previous experiences show that the freedom of the movement of workers between Member States is not being executed to its fullest. In order to implement the goals of the Europe 2020 strategy (see Table 1) and increase the competitiveness of enterprises operating in the SEM, the EU should concentrate on the full implementation of the Posted Workers Directive and counteract the position of some Member States seeking to expel from their territory unemployed citizens of countries admitted to the EU in 2004 and 2007. Another enormous problem is the lack of full recognition of professional qualifications in the EU and the fact that the process of recognition of diplomas is very time-consuming [EU Citizenship Report 2010]. At present, only 7 out of 800 professions are recognized automatically. In order to increase the efficiency and competitiveness of the European labor market and in order to enable EU citizens to make use of job offers in other Member States without having to go through a long procedure of qualification recognition, measures should be taken to create a European Skills Passport [Communication (d)] and to fully implement the Directive on the recognition of professional qualifications [Directive 2005/36/EC] and the Directive on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States [Directive 2004/38/EC].

### *1.1.3. Limitations to the free movement of goods – technical, physical and fiscal barriers*

The internal trade of goods in the EU generates nearly 25% of the GDP. The lack of full harmonization of technical standards and norms in terms of the production and marketing process of EU and non-EU goods is a significant obstacle for the free movement of goods and negatively affects the competitiveness of the SEM. The fact that economic entities are obliged to meet a variety of requirements and technical standards translates into an increase in production costs and a decrease in enterprise competitiveness coupled to a more difficult access to the world market. Previous experiences have shown that the implementation of the new approach directives and the mutual recognition principle does not eliminate the greatest barriers to the free movement of goods in the internal market. In order to guarantee EU consumers access to high quality, highly safe goods, regardless of their country of

origin, we should aim at a more intensive harmonization<sup>4</sup> of technical standards. The estimated benefits from the harmonization for the EU economy may amount to 1% of the GDP [*Your Single Market?*].

Yet another problem affecting the shape of the SEM and responsible for the decrease in its competitiveness is the lack of a unified tax system, common for the whole EU. The existing legal solutions included in Art. 110 of TFEU introduced a ban on the discrimination of goods of foreign origin, stricter punishments for exporters from other EU states for infringing on the tax law and favoring domestic producers by the tax system, by specifying only the duty to maintain the principle of neutrality of the tax system towards the competition. Also, the introduction of the minimum base rate at the level of 15% and the reduced rate at the level of 5% may seem to be an insufficient solution. The problem of the tax system concerns especially enterprises operating in several Member States of the EU. One solution could be the introduction of a common collection of tax laws (Common Consolidated Corporate Tax Base (CCCTB)), by means of which economic entities could file consolidated tax returns involving their joint income generated in the EU [*European corporate tax base; Workshop on the Common Consolidated Corporation Tax; Questions and Answers on the CCCTB*]. The initiative would not limit the fiscal policy of the Member States and at the same time it would create a possibility for enterprises to settle the income tax by means of separate tax returns in each of the Member States or by means of a single, consolidated return tax for the whole EU. The use of CCCTB would make it possible to increase the competitiveness of the SEM and contribute to reducing the regulatory burden on businesses by as much as 700 million euros a year [*European corporate tax base*]. Such a legal solution does not eliminate, however, the differences in tax systems. Therefore, it is important that the EU tackles the issue of implementing a common corporate tax base in the future. Nevertheless, the greatest challenge in this issue is unification and reduction of the VAT rate, which has not been significantly changed since its introduction in 1963 [Communication (d)]. An important problem is also the lack of a unified natural person tax rate. Still, it must be emphasized that an attempt at the full harmonization of the fiscal policy, due to the national aspect, may be received with lack of approval on the part of the majority of the EU Member States.

#### *1.1.4. Impediments to the movement of capital*

The lack of full liberalization of capital flow in combination with impeded integration of financial markets, banking systems in particular, is one of the greatest bar-

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<sup>4</sup> The present *acquis communautaire* of the SEM consists of 1521 directives and 976 regulations concerning various areas of the Single Market policy. Nevertheless, taking into account art. 288 of TFEU, the harmonization of new or sensitive sectors of the market may be much more efficient if introduced by means of regulations, not directives. This is due to the fact that regulations, in contrast to directives, do not leave Member States freedom to choose the forms or the methods of implementation.

riers to the development of the SEM. The limited access to funding sources is a significant obstacle for SMEs, which in the conditions of impeded capital flow are not able to make use of their development potential. In this context, the EU should concentrate on enabling high-risk funds to invest in an unlimited way in the whole European Union and on encouraging investors to engage in long-term economic investments. What is equally important is the introduction of bonds for financing infrastructural projects, increasing the investment attractiveness of SMEs from the Member States and emphasizing their presence in the capital markets.

Another important issue is the one of liberalizing and facilitating access to banking services. The currently existing, complicated system of bank fees makes it difficult for clients to compare prices and to change one bank for a different one which may offer better financial terms. This situation significantly limits the competitiveness of the internal EU market.

The liberalization of banking services should involve also an EU home mortgage market, as at present there is a lack of transparency plus a wealth of administrative barriers and differences in the level of prices, products and legislative interpretation, which as such clearly reduce consumer trust in the banking sector. The importance of implementation of the European Commission's initiative to create an integrated mortgage market should in this context be underlined [*Your Single Market?*].

## **1.2. Indirect barriers**

### *1.2.1. Instability of the financial sector and the lack of consolidation of budget expenditures*

The economic crisis made it necessary to prepare new regulatory frameworks at the level of the European Union in order to guarantee increased stability of the financial sector. In this context, it is essential that the EU seeks to restructure the banking sector in order to restore long-term profitability and to guarantee the proper functioning of credit activities. Taking into account the forecast of the European Commission, according to which the medium-term economic growth of the EU by 2020 will stay at a low level and will be about 1.5% [Communication (d)], we should aim at reducing the high public support for the banking sector. Instead, we should introduce a more intense control and increase the resilience of the banking sector to adverse shocks through gradual strengthening of the capital base in accordance with the Basel III framework.

An equally important condition essential for the further economic development of the EU and the improvement of the competitiveness of the EU economy is the change in the approach to public spending. The economic crisis redefined the core task package of the EU, making the EU a quintessential player in restoring the public's trust in the financial sector and in preventing states from falling into a vicious circle of sovereign debt. The financial experiences of Greece, Ireland, Portugal, Spain

and Italy indicate that the implementation of rigorous financial consolidation may appear particularly important for the future of the EU [Wróblewski 2011, 2012]. Therefore, we should aim at limiting the increase of public spending and keeping it below the level of medium-term increase in the GDP and at a smooth approval of the EU budget for 2012. What is also important for the fiscal consolidation is the execution of the so-called European semester.

### *1.2.2. The lack of the regulations concerning the European patent and intellectual property rights*

The lack of a unified system for the protection of intellectual property rights common to the whole European Union is a significant obstacle and a missing link to the Single Market. The present patent system is not conducive to innovations [Communication (d)]. The introduction of the European patent will make it possible to protect technological know-how and intellectual property rights, to increase the competitiveness of the EU economy and to reduce the losses of SMEs incurred on account of the trade in counterfeit products, which, according to the estimates of the European Commission, may account to as much as 250bn euros a year. It is hence crucial that the EU seeks to create common jurisdiction on patents as soon as in 2013 [Communication (d)].

### *1.2.3. The lack of a single digital market for Europe*

The development of technologies and modern forms of communication involves the need to introduce new legal solutions to the SEM, as a response to the changes taking place on the EU market. In accordance with the assumptions of the Europe 2020 strategy the single digital market is to be created by 2020. This goal may be achieved through the legal regulation of the telecommunication infrastructure, and the internet retail and digital content market. The lack of common regulation concerning telecommunication infrastructure translates into fragmentation of the digital services' market, which leads to a slowdown in infrastructural investments, pricing agreements, limited economies of scale for enterprises operating in the digital market and a decrease in the competitiveness of the EU economy. Along with the increase in the number of consumers in the EU who have access to the internet, especially in the "new" countries of the EU, the number of people ordering goods or services via e-commerce also grew – from 20% in 2004 to 37% in 2009 [Consumer Markets Scoreboard]. This level, however, is still insufficient for the intensification of internet commerce. Nevertheless, we can presume that this trend will grow and it may become necessary to introduce EU regulations on e-commerce. Equally important is the question of introducing regulations concerning digital content and respecting copyrights by internet users. Therefore, it should be important to aim at simplifying the regulations concerning copyrights' management in the European Union and at establishing an EU-wide system of digital content licensing. According to

estimates of the European Commission, the benefits from the creation of the digital market for the EU economy could amount to as much as 500bn euros, which would account for nearly 4% of the EU GDP [Monti 2010]. One possible problem is that some consumers may be afraid of shopping via the internet, while some retailers may be reluctant to enter into transactions with consumers from other Member States.

#### *1.2.4. Participants' fears of the Single European Market*

The EU's difficult task at hand consists in restoring the participants' confidence in the SEM and the foundations of the EU market. The economic crisis confirmed many opponents of the European market in their belief that the SEM is at best an imperfect instrument for solving economic problems, and much on the contrary a source of tension, disruption and fears. In this context the EU should concentrate on increasing the trust of consumers in the European market. This goal may be achieved by making the SEM resistant to the nationalisms of the Member States and future asymmetric shocks. At the same time, we should aim at strengthening and expanding the Economic and Monetary Union and the social, economic and territorial cohesion of the European Union. What may also appear important is attempts at the intensification of cooperation between the Member States and the EU institutions, as well as searching for common political will, which would make it possible for many to overcome several years of resentment towards the SEM. This resentment is increasingly visible in the countries of the "old" EU, which are critical about the SEM for fear of the influx of cheap labor from countries admitted to the EU in 2004 and 2007.

Another concerned group of the participants in the SEM is enterprises, which – paradoxically – are among the greatest advocates and critics of the Single Market. SMEs demand primarily the reduction of legal burdens that hinder their economic activities. The Small Business Act introduced by the European Commission in 2008 goes a long way in bringing the issue towards resolve. At the same time, companies with greater economic and financial potential, which operate in the world market, notice that the SEM – which via the application of EU competition policy exercised oversight on state aid applied – does not facilitate increased expansion into foreign markets, thereby reducing the competitiveness of the EU economy.

#### *1.2.5. Quality and transposition of legislation*

An enormous problem affecting the shape of the SEM and the decrease in the EU's competitiveness is frequent delays in the process of implementing directives and regulations on the EU market in the Member States. The European Commission estimates that the deadline for implementing 16 directives out of 74 adopted in 2009 was delayed by 2 years on average in relation to the assumed deadline of transposition. At present, on average 50% of the EU directives on the SEM are not being implemented on time [Monti 2010]. Among the countries that are the leaders in de-

laying the transposition are the Eurozone members. The main effect of the delayed implementation of legislation is decreasing cohesion and decreasing transparency of the EU legal system. It is therefore essential to act for the improvement of the quality of legislation. An important initiative aimed at improving the regulatory environment and increasing its impact on the development of entrepreneurship and the competitiveness of the EU economy is the Smart Regulation. This initiative is aimed at creating legislation appropriate and adequate to the current socio-economic situation. The existing economic and financial problems indicate that the SEM cannot be left without supervision and control. In order to exercise this control we should aim at simplifying the EU legislation, reducing the administrative burdens and increasing the cooperation and shared responsibility in the field of legislative powers between the Parliament, the Council of the European Union and advisory bodies.

In the following section examples of legislative and non-legislative initiatives of the European Commission and the European Parliament will be presented. They should be regarded as a significant contribution to the improvement of the SEM and strengthening of the EU in the recovery process.

## **2. The actions of the European Commission and the European Parliament for strengthening the Single Market in crisis conditions**

In accordance with the provisions of the Lisbon Treaty the internal market is part of the competences shared between the EU and the Member States. At present most of the regulations directly and indirectly related to the functioning of the SEM is considered in the ordinary legislative procedure – co-decision (art. 114 in relation to art. 26 of the TFEU, specifying the aims of the internal market), in which the legislative proposal is presented by the European Commission and the Parliament decides about it on an equal footing with the Council of the EU. The scope of application for this procedure has almost doubled in comparison with the provisions of the Treaty of Nice, also in the fields in which the European Parliament had not previously had such strong decision-making powers. Moreover, the Lisbon Treaty has also introduced national parliaments to the decision-making process. Their decisions must be taken into account when adopting any legal measures concerning the internal market. The ordinary procedure currently applies to 85 areas. Below some examples are given of fields in which this procedure is a novelty and in the case of which the role of the EP has been changed<sup>5</sup>:

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<sup>5</sup> The full list is to be found in appendix E to the document: Co-decision and Conciliation. A Guide to how the Parliament co-legislates under the Treaty of Lisbon [*Co-decision and Conciliation* 2009].

- services of general economic interest (art. 14 TFEU),
- applying the rules on competition to the common agricultural policy (art. 42 referring to art. 43(2) TFEU),
- extending the provisions concerning the provision of services to nationals of a third country who provide services and who are established within the Union (art. 56 second paragraph TFEU),
- liberalizing services in specific sectors (art. 59(1) TFEU),
- measures necessary to eliminate distortions of the internal market (art. 116 TFEU),
- the Structural Funds – (art. 177 first paragraph TFEU),
- the Cohesion Fund – (art. 177 second paragraph TFEU),
- methods of control of implementing powers (art. 291(3) TFEU).

According to the rules currently in force, it is the Parliament where nearly all the initiatives coming from the European Commission and concerning the SEM are agreed on and approved. Therefore, while acknowledging the legislative role of the Council of Europe, it should be emphasized that the main initiators of the integration and the guardians of the principles of the SEM are the European Commission and the European Parliament. To illustrate the role of these two institutions, especially the EP, this article will deal with selected, concrete legislative and extra-legislative activities taken in the previous 2–3 years, related to the strengthening of the SEM and the competitiveness of the EU in crisis conditions<sup>6</sup>. Due to the fact that recently works are focused on the Single Market Act, this initiative is the primary focus of the section.

The question of the economic crisis has been of great importance in the EP, being the subject of debates at plenary sessions and during the works of particular committees and political groups. Since 2008, during the discussions held at plenary sessions deputies have pointed out the need for a reform of the supervision over financial markets, rating agencies and investment funds, as well as the need for credit support for small enterprises<sup>7</sup>. On 7th October 2009 the EP appointed the Special Committee on the Financial, Economic and Social Crisis (CRIS). The EP also actively participated in the drawing of M. Monti's report entitled "A New Strategy for the Single Market at the Service of Europe's Economy and Society" (see also Section 1).

The problems of implementing the SEM under the crisis conditions, due to their horizontal character, affect the work of nearly all parliamentary committees. The most engaged in the legislative and extra-legislative works directly related to the functioning of the SEM are: the Committee on the Internal Market and Consumer Protection (IMCO) and the Committee on Economic and Monetary Affairs (ECON),

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<sup>6</sup> Broader description of the EU actions undertaken in relation to the crisis in: Economic Crisis in Europe: Causes, Consequences, Responses. European Economy 7/2009 [*Economic Crisis in Europe*].

<sup>7</sup> For example, at plenary sessions held on 19<sup>th</sup> November 2008, 19<sup>th</sup> May and 20<sup>th</sup> October 2010.

whereas the matters related to the crisis have over the last two years been dealt with by the before mentioned Special Committee (CRIS).

The works of the EP related to counteracting the results of the economic crisis concentrated on the Single Market Act prepared by the European Commission, and before – on the report drawn by M. Monti and the strategies for the SEM. In the resolution of 20<sup>th</sup> May 2010 on Delivering a Single Market consumers and citizens [*Delivering a Single Market*] the EP called the EC to prepare a set of activities that should be taken in relation to the need for giving an impetus to the SEM. After the EC presented the first version of the document in the Communication of 27/10/2010 [Communication (e)], which included a list of 50 activities aimed at improving the functioning of the Single Market, the EP – basing itself on the results of the work of the IMCO – at the plenary session of 6 April 2011 adopted three resolutions referring to the three pillars of the Single Market Act [Communication (e)]:

- on Governance and Partnership in the Single Market (2010/2289(INI)),
- on a Single Market for Europeans (2010/2278(INI)),
- on a Single Market for Enterprises and Growth (2010/2277(INI)).

In those documents, adopted by a great majority of votes, the EP specified 15 priority activities (5 in each document):

In relation to enterprises the EP recommended [European Parliament resolution (c)]:

1. The creation of the EU patent and the single judiciary system for resolving patent disputes.
2. The financing of innovations – through the creation of the EU project bonds, especially in the field of energy, transport and telecommunication, as well as the legal frameworks encouraging the venture capital funds to invest in the EU.
3. Encouraging e-commerce – increasing the trust of entrepreneurs and consumers in e-commerce, the action plan the EU aimed against counterfeiting and piracy, as well as a framework directive on managing copyrights.
4. Improving the share of SMEs in the Single Market – the access to capital markets, the removal of administrative and fiscal obstacles for the cross-border activities, clearer frameworks for the VAT and a common consolidated corporate tax base.
5. Rationalizing public procurement procedures – the review of the legislation related to public procurement and public-private partnership, transparent legal framework to guarantee the certainty of law to economic entities and contracting authorities.

In relation to the citizens the EP recommended [European Parliament resolution (d)]:

1. The adoption of measures by the EC aimed at increasing the mobility of European citizens, in particular by releasing in September 2011 the Green Paper on recognizing professional qualifications, as well as conducting the assessment of a reg-

ulation and possibly presenting a legislative initiative on EU-wide professional identity cards and the “European skills passport”. It also recommends the establishment of a “mobility scoreboard” to measure mobility within the EU.

2. A more active role of the EC in coordinating the activities of market surveillance and customs authorities, in order to improve the effectiveness of border control of goods imported from third countries, and in order to draw up in 2011 a multiannual action plan of an effective European market surveillance system for all products, at the same time leaving Member States flexibility in fulfilling their legal responsibilities.
3. The extension of the existing regulation on roaming both in time – until June 2015 – and in scope, introducing retail price caps for data roaming in order to reduce roaming costs for citizens and enterprises.
4. The submission by the EC by June 2011 of a legislative proposal on guaranteeing access to certain basic banking services and to improve the transparency and comparability of bank charges by the end of 2011.
5. The submission by the EC of a legislative proposal to remove obstacles encountered by mobile workers, in order to ensure the full portability of pension rights. In relation to managing and implementing the SEM the EP recommended [European Parliament resolution (b)]:
  1. Devoting every spring the European Council to the evaluation of the state of the SEM. The evaluation should be based on the process of monitoring the market, e.g., by applying the consumer markets scoreboard.
  2. The publication by the European Commission of a green paper containing guidelines for consultations of the EU institutions with representative associations and civic society.
  3. The creation and publication by EU Member States of correlation tables<sup>8</sup> on all Single Market legislation.
  4. A reduction on the part of the EU Member States of the transposition deficit of Single Market directives to 0.5% for outstanding legislation and 0.5% for incorrectly transposed legislation by the end of 2012.
  5. The submission of a legislative proposal on the use of alternative dispute resolution in the EU by the end of 2011 for disputes in civil and commercial matters by the European Commission.

Shortly after the adoption of these resolutions, on 13<sup>th</sup> April, the European Commission announced the final list of 12 activities, the so-called Single Market levers [Communication (d)]. This document orders strategic goals and activities that are to “renew” the SEM and give it impetus. Their implementation started already before 13<sup>th</sup> April 2011. Table 2 shows several examples of legislative and non-legislative initiatives of the European Commission and the Parliament, which

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<sup>8</sup> A correlation table is a tool to analyze if national provisions are compatible with EU rules.

**Table 2. Examples of legislative and non-legislative initiatives of the European Commission and the European Parliament aimed at the implementation of twelve levers of the Single Market Act**

Single Market Act Levers	Barriers of the Single Market	Actions proposed by the EC	Examples of recently taken legislative and non-legislative initiatives in EC and EP
Access to funding for small businesses	Instability of financial sector	Legislative initiative facilitating access to venture capital across Europe	Directive 2011/7/EU of the European Parliament and of the Council of 16 <sup>th</sup> February 2011, on combating late payment in commercial transactions European Parliament resolution of 14 <sup>th</sup> December 2010 on regulation of trading in financial instruments – ‘dark pools’ (2010/2075(INI))
Citizens’ mobility	Limitations on free movement of people Participants’ fears of Single European Market	Modernizing legislation on recognition of professional qualifications	Regulation (EC) No 544/2009 of the European Parliament and of the Council of 18 <sup>th</sup> June 2009 amending Regulation (EC) No 717/2007 on roaming on public mobile telephone networks within the Community and Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services Proposal for a Regulation of the European Parliament and of the Council on the establishment of an evaluation mechanism to verify application of the Schengen <i>acquis</i> COM(2010) 624 final
Intellectual property rights	Participants’ fears of Single European market Lack of regulations on European patent and intellectual property rights	Legislation establishing a unitary patent in the EU*	Proposal for a Council regulation implementing enhanced cooperation in the area of the creation of unitary patent protection, COM(2011) 215 final, Proposal for a Council regulation implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements, COM(2011) 216 final
Consumers	Limitations on freedom of providing services Fears of participants to European Single Market	Legislation on alternative dispute resolution	Legislative EP resolution of 23 <sup>rd</sup> June 2011 on the proposal for a directive of the European Parliament and of the Council on consumer rights (COD/2008/0196) Legislative EP resolution of 5 July 2011 on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EC) No 2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws (2011/0001(COD))

cont. Table 2

Single Market Act Levers	Barriers of the Single Market	Actions proposed by the EC	Examples of recently taken legislative and non-legislative initiatives in EC and EP
Services	Limitations on freedom of providing services	Revision of legislation on a European standards system	Non-legislative EP resolution of 15 February 2011 on the implementation of the Services Directive 2006/123/EC (2010/2053(INI))
Networks	Limitation on free movement of goods – technical, physical and fiscal barriers	TENS Guidelines and legislation on energy infrastructures	Non-legislative EP resolution of 21 September 2010 on completing the internal market for e-commerce (2010/2012(INI)) Regulation (EC) No 544/2009 of the European Parliament and of the Council of 18 June 2009 amending Regulation (EC) No 717/2007 on roaming on public mobile telephone networks within the Community and Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services Proposal for a Regulation of the European Parliament and of the Council on energy market integrity and transparency COM(2010) 726 final, 2010/0363 (COD) – awaiting Parliament 1 <sup>st</sup> reading
Digital Single Market	Lack of unified European digital market Lack of regulations on European patent and intellectual property rights	Legislation on E-authentication and revision of the directive on the electronic signature	Non-legislative EP resolution of 21 September 2010 on completing the internal market for e-commerce (2010/2012(INI))
Social business	Fears of participants to European Single Market	Legislation creating an ethical investment fund	Non-legislative EP resolution of 5 <sup>th</sup> July 2011 on a more efficient and fairer retail market (2010/2109(INI))
Taxation	Impediments to movement of capital Limitation on free movement of goods – technical, physical and fiscal barriers	Legislation to amend the directive on energy taxation	Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee. Smarter energy taxation for the EU: proposal for a revision of the Energy Taxation Directive, COM(2011) 168 final

Social cohesion	Fears of participants to European Single Market	Legislation on posted workers directive	Non-legislative EP resolution of 6 <sup>th</sup> April 2011 on Governance and Partnership in the Single Market (2010/2289(INI)) Non-legislative EP resolution of 6 <sup>th</sup> April 2011 on a Single Market for Europeans (2010/2278(INI)) Non-legislative EP resolution of 6 <sup>th</sup> April 2011 on a Single Market for Enterprises and Growth (2010/2277(INI))
Regulatory environment for business	Quality and transposition of legislation	Simplification of directives on accounting standards	Non-legislative EP resolution of 5 <sup>th</sup> July 2011 on a more efficient and fairer retail market (2010/2109(INI)) Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011, on combating late payment in commercial transactions Communication from the Commission to the European Parliament, the Council, the European Economic And Social Committee and the Committee of the Regions. Smart Regulation in the European Union COM(2010) 543 final
Public procurement	Impediments to movement of capital	Revision of legislative framework for public procurement. Legal framework for service concessions; legislation on access for third country businesses to European public procurement markets	Green Paper on modernization of EU public procurement policy. Towards a more efficient European procurement Market COM (2011)15 final

\* At the request of 12 Member States, the Commission proposed to launch enhanced cooperation in the area of unitary patent protection on 14<sup>th</sup> December 2010. Following the Commission's decision, another 13 Member States submitted their request to join the enhanced cooperation and only Spain and Italy refused to join the initiative. The European Parliament gave its consent on the 15<sup>th</sup> of February. On the 10<sup>th</sup> of March 2011, the Competitiveness Council authorized the launch of enhanced cooperation with the participation of 25 Member States. The implementation of the authorizing Council decision requires the adoption of two regulations; one on the creation of unitary patent protection and the other on the applicable translation arrangements. On 13<sup>th</sup> April 2011, the Commission adopted the proposals for the implementing of regulations. On the 30<sup>th</sup> of May 2011, the first discussion in the Council took place, see [http://ec.europa.eu/internal\\_market/indprop/patent/index\\_en.htm](http://ec.europa.eu/internal_market/indprop/patent/index_en.htm).

Source: Own study based on materials of the European Commission: Communication from the Commission to the European Parliament, the Council, The Economic and Social Committee and the Committee of the Regions. Single Market Act. Twelve levers to boost growth and strengthen confidence. "Working together to create new growth", European Commission, COM(2011) 206 final; [http://ec.europa.eu/internal\\_market/smact/docs/20110413-communication\\_en.pdf#page=2](http://ec.europa.eu/internal_market/smact/docs/20110413-communication_en.pdf#page=2) and *The Single Market Act*, DG Internal Market and Services, European Commission; [http://ec.europa.eu/internal\\_market/smact/index\\_en.htm](http://ec.europa.eu/internal_market/smact/index_en.htm).

can already be regarded as part of the implementation of the 12 levers and of the removal of the barriers to the SEM described in part 1 of the article. This also indicates that the activities of European institutions aimed at the protection of the SEM have their continuity and are consistent. The information included in the Table 2 also shows how determined the European Commission and the Parliament are to counteract the effects of the crisis and to improve the functioning of the SEM. Another step in the process of implementation of the Single Market Act assumptions is preparing new legislative proposals by the EC and efficiency in negotiating the common position with the Parliament and the Council, so that for the 20<sup>th</sup> anniversary of the creation of the SEM in 2012 most of these assumptions could be implemented.

Apart from the EP activities listed, it is also worth mentioning that Members of the IMCO Committee are currently working on other documents as well, which will be very important for the improvement of the functioning of the SEM in crisis conditions, for example:

- A non-legislative document on modernization of public procurement procedures – rapporteur H. Rühle, Verts/ALE (1<sup>st</sup> reading);
- A non-legislative document on a new strategy for Consumer Policy – rapporteur E. Britt Svensson, GUE/NGL (1<sup>st</sup> reading);
- A non-legislative document on the Mutual Evaluation Process of the Services Directive – rapporteur M. Handzlik, EPP (1<sup>st</sup> reading);
- A non-legislative document on the implementation of the Professional Qualifications Directive (2005/36/EC) – rapporteur E. McClarkin, ECR (1<sup>st</sup> reading).

Among other activities of the EP related to counteracting the effects of the crisis and indirectly to the SEM are the works on the legislative initiatives of the EC concerning the improvement of the surveillance of the European financial markets aimed at fast detection of risks and irregularities on a macro (European) and a micro (particular markets of financial services) scale, conducted in the Parliamentary committee ECON. Among the activities deserving particular attention are:

- Directive on Alternative Investment Fund Managers (procedure completed) [Directive 2011/61/EU],
- Regulation of the European Parliament and of The Council on OTC derivatives, central counterparties and trade repositories (works in progress, trilogue) [Proposal (a)],
- Regulation on short selling and certain aspects of Credit Default Swaps (works in progress, trilogue) [Proposal (b)],
- The package creating the European system of financial surveillance – the European Systemic Risk Board and the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority (procedure completed),

- The package of six projects concerning the economic management reforming, among others, the Stability and Growth Pact and the excessive deficit procedure proposed by the European Commission, the so-called legislative six-pack<sup>9</sup>,
- Own-initiative reports, including recommendations for the EC on the future legislative frameworks for European rating agencies.

Finally, worth mentioning are the results of the works of the CRIS Committee, consisting of 44 full members. During the nearly two years of the works of the Committee, the question of the impact of the crisis on the functioning of the SEM was discussed many times, which was reflected for instance in working documents<sup>10</sup>. In the final resolution adopted on 6<sup>th</sup> July 2011, the EP emphasizes the necessary actions in the fields of the financial market, public finances and the global monetary system. Many parts of the resolution refer to issues related to the Single Market, in particular [European Parliament resolution (e)]:

- calls for the consistent implementation of the goals of the Europe 2020 strategy and considers the Single Market Act the most important political initiative, on which the goals of the strategy are based,
- “underlines that the crisis has clearly shown the importance of strengthening the EU’s industrial base and innovation potential by facilitating market access and mobility and combating social and territorial fragmentation throughout the EU”,
- recalls that the full potential of the SEM has not yet been realized, and that further political determination is required for its development, especially in the service sector and trade in services,

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<sup>9</sup> Meant are the following reports: on the proposal for a regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances; on the proposal for a Council regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure; on the proposal for a Council directive on requirements for budgetary frameworks of the Member States; on the proposal for a regulation of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area; on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EC) No 1466/97 on the strengthening of surveillance of budgetary positions and surveillance and coordination of economic policies; on the proposal for a regulation of the European Parliament and of the Council on enforcement measures to correct excessive macroeconomic imbalances in the euro area. At the plenary session in June 2011 the EP adopted a decision on the package but refrained from the final voting in order to exercise pressure on the Council of the EU so that it approved of the version of the EP, which states that in case of non-respect of budgetary discipline, sanctions should be automatic and not passed on the basis of political decisions made by the Council of Ministers. The EP proposed also a number of laws strengthening the original proposals of the Commission.

<sup>10</sup> The working document on the exit strategies from the economic crisis: financial and monetary aspects, SMEs, innovations and new opportunities for sustainable growth, the Special Committee on the Financial, Economic and Social Crisis, 22/04/2010 and the working document 2 on the social impact of the crisis: employment, demographic and pension systems challenges, the Special Committee on the Financial, Economic and Social Crisis, 22/10/2010, [www.europarl.europa.eu](http://www.europarl.europa.eu), as of: 13/07/2011.

- recalls the need for the extension of European transport networks, which would contribute substantially to consolidating the SEM,
- recalls the need for encouraging greater access to labor markets and workforce mobility by granting equal employment and social conditions for all, including recognition of professional qualifications and diplomas and transferability of social security rights and portability of pension rights.

As can be seen, the European Commission and the European Parliament undertake intensive actions aimed at removing the identified limitations in the functioning of the internal market (see Table 2). Both institutions equally pursue significant institutional and financial support for countries, economic entities and citizens operating in the post-crisis context. What seems particularly important in the current post-crisis situation is the question of sources of funding for EU policy initiatives and actions of the institutions and the Member States, which is the topic of the next section of this article.

### **3. Sources of funding for actions related to the Single Market**

As mentioned in the introduction, fiscal policy plays a key role in the EU in post-crisis conditions. According to J. Tinbergen's research, essential in the policy are expenditures and their allotments. The expenditures related to the activities (policies) of the EU come forth from the budgets set by the Member States, while the community budget is agreed upon by multiple bodies, including the European Commission and national governments. Resources from the EU budget themselves are redistributed again to the level of the Member States and currently only about 22% of the EU budgetary resources are managed directly at the level of the European Commission while about 76% are managed at the level of the Member States. Apart from that, additional off-budget mechanisms and funds are created which constitute a kind of reserve used by the Member States in situations of emergency or natural disasters.

The inflows into national budgets come mostly from indirect and direct taxes. In the case of the EU budget they are primarily the Member States' contributions calculated as a percentage of the gross national income (GNI) – about 75% of the inflows – and the VAT flat rate, custom duties at external borders of the EU, sugar levies or charges on agricultural products. Those inflows are used to finance mostly the activities in the field of the agricultural and rural development policy and the cohesion policy, as well as of other spheres of the EU activities (including research and development, transport and environment protection policies). As for the cohesion and agricultural policies (especially as far as the development of rural areas is concerned) a dominant role is reserved for stimulating entrepreneurship, boosting

competitiveness and innovation of companies, and creating infrastructure facilitating doing business and human capital investments. This is consistent with both the objectives of the EU strategy and the proposed paradigm for regional development prepared by the OECD and used by the European Commission and the EU Member States. In this sense we must not look separately at the funding instruments of both major policies and the functioning of the Single Market. Improving cohesion, as was mentioned at the beginning of this article, contributes to the deepening of economic integration. The Lisbon Treaty emphasizes also the significance of territorial cohesion for the EU, the achievement of which requires a strong coordination of activities at many different policy levels, which relate to: cohesion, transport, environmental protection, industry, research and development, etc.

Due to the fact that the activities concerning the Single Market are included in many spheres /policies of the EU, it is difficult to clearly single out the amounts earmarked for them in the EU budget. The sections of the budget reflect the most important policies for the EU but the terminology used for them differs from the names of the policies (see Table 3).

Further in this article the emphasis is laid mostly on the financial resources coming from the EU budget, but the off-budget resources are also mentioned (such as, for example, the resources from the European Investment Bank) as are the mechanisms and instruments that contribute to turn around the state of (post-)crisis in the EU.

### ***3.1. Financial perspective 2007–2013***

As a result of financial difficulties and decisions on the support to the Member States most affected by the crisis (Greece, Ireland, Spain, Portugal) as well as due to requirements arising from the implementation of the Europe 2020 strategy and the enforcement of the provisions of the Lisbon Treaty, the Member States made a decision concerning the shape of annual budgets until the end of the current period. Drawing up the budget for 2011 was the first post-crisis confrontation of different visions of particular Member States represented in the Council of the European Union and the representatives of the EU societies in the European Parliament. Apart from that, it must be remembered that the Lisbon Treaty gave the European Parliament the co-decision competence in relation to all kinds of expenditures (and not only in relation to non-obligatory expenses as it was previously). As a result of the conciliation between the Member States the annual budget was set in an unchanged amount. Nevertheless, this happened at the expense of the EP demands (concerning, for instance, the European External Action Service).

The year 2012 will be another difficult post-crisis year. It seems, however, that the amount of the budget will be maintained at a level similar to the one in 2011. The decision not to diminish the budget for the years 2011, 2012 and 2013 in the current financial perspective, in spite of the crisis, was seen as crucial to enable the

Member States to carry out investments and obligations arising from the strategies of Lisbon and Europe 2020. Reducing the budget for the coming years and thus the amounts transferred to the Member States would make it impossible to reach the development objectives set, a point which was emphasized within different EU institutions, including the in European Parliament.

In the current budget perspective for the years 2007–2013, resources are divided over six main sections (specific amounts in Table 3):

1. Sustainable development / sustainable growth, including the improvement of the quality of education and training, competitiveness and innovation, promotion of sustainable transport networks and grids, the European Globalization Adjustment Fund. This category includes most of the Single Market support measures: the cohesion policy (including the financial instruments – the structural funds – the European Regional Development Fund and the European Social Fund, the Cohesion Fund and other instruments supporting sustainable development of competitiveness). The EU earmarks for them over 40bn euros a year. The majority of the resources are spent on supporting the poorest regions in the EU and on social needs, e.g., the integration of the unemployed in the labor market, the development of human resources and education. Part of the money is earmarked for infrastructural projects. Furthermore, some resources are spent on projects aimed at supporting small and medium enterprises, urban regeneration, social integration of the disabled, etc. A significant part of the budget consists of the expenditures on research and innovations (about 8bn euros a year, which makes it possible to finance about 6% of all the research projects carried out in the EU). This money makes it possible to conduct scientific research on a European scale and promote international projects engaging researchers from various countries of the EU. Also educational programs are financed from the budget, e.g., Erasmus, aimed at helping students and teachers study in other countries of the EU and exchange experiences. Apart from that, the resources are used for the development of European transport, energy and telecommunication infrastructure and electronic platforms supporting trans-European networks.
2. Natural resources' management and protection, including: cohesion for growth and employment and natural resources and their protection.
3. Citizenship, freedom, security and justice (3a freedom, security and justice; 3b – citizenship), including: the fundamental rights and justice, security and the protection of freedoms, migration flows' management, support for European culture and its diversity.
4. The EU as a global partner, including: development aid for developing countries, pre-accession support, neighborhood policy and spending on humanitarian aid,
5. Administration.
6. Compensation (temporary support for the budgets of the least wealthy member states).

**Table 3. Financial perspective for 2007–2013 – adjusted commitment appropriations (EUR million, current prices)**

Headings	2007	2008	2009	2010	2011	2012	2013	2007–2013 total
1.Sustainable development	53 979	57 653	61 696	63 555	63 974	66 964	69 957	437 778
1a. Competitiveness	8 918	10 386	13 269	14 167	12 987	14 203	15 433	89 363
1b. Cohesion	45 061	47 267	48 427	49.388	50 987	52 761	54 524	348 415
2.Preservation and Management of Natural Resources	55 143	59 193	56 333	59 955	60 338	60 810	61 289	413 061
Including: agriculture (including direct payments)	45 759	46 217	46 679	47 146	47 617	48 093	4 574	330 085
3.Citizenship, freedom, security and justice	1 273	1 362	1 518	1 693	1 889	2 105	2 376	12 216
4. EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	55 935
5.Administration	7 039	7 380	7 525	7 882	8 334	8 670	9 095	55 925
6. Compensations	445	207	210					802
Total	124 457	132 797	134 772	140 978	142 965	147 546	152 312	975 777

Source: Own study based on: [*Financial framework 2007–2013*].

Activities strengthening the Single Market have been additionally supported by the use of off-budget resources from the European Investment Bank, the European Globalization Adjustment Fund, the European Investment Fund and other financial engineering instruments.

As an immediate response to the crisis, Economic Recovery Plan on 28th January 2009 outlined measures originally proposed by the Commission, and budgeted at a total Community contribution of an estimated 30bn euros, to be distributed among the following sectors:

- energy interconnections and high-speed internet through revision of the 2007–2013 multiannual financial framework (MFF) and measures related to the CAP “Health Check”,
- advanced payments under the Structural and Cohesion Funds,

- several initiatives in the area of research and innovation such as the European green cars initiative, factories of the future initiative and energy-efficient buildings initiative,
- an increase in pre-financing for the most advanced trans-European transport projects,
- initiatives in favor of SMEs or the Community Innovation Program (CIP) and for funding the already granted by the existing or new loans and funds from the EIB [European Parliament resolution (g)].

In response to the crisis a series of financial mechanisms were designed to support the Member States and at the same time – indirectly – the economic entities operating within them. The European Court of Auditors called for the control and efficient spending of resources connected to these mechanisms [*Consequences for public accountability*], including community medium-term financial aid to non-Eurozone Member States, the European financial stabilization mechanism for Eurozone Member States, and the European financial stability mechanism for Eurozone Member States (both instruments for Eurozone Member states are to be replaced by the European stabilization mechanism in 2013) [*Consequences for public accountability*].

### **3.2. Multiannual Financial Framework 2014–2020<sup>11</sup>**

In 2011 initial decisions were made concerning the size and structure of expenditures in the new Multiannual Financial Framework 2014–2020 [Sapała 2011]. The EU budget and the available resources it offers in the upcoming years are still one of the main instruments for financing the operations of the Single Market. Their structure and assignment have not changed considerably (compare headings in Table 3); what has been changed is the amounts and the goals that are to be reached with the use of the resources.

As can be seen from the initial proposals submitted by the European Commission<sup>12</sup>, as a result of the multiannual financial frameworks the total sum divided into annual budgets amounts to about 972.2 bn euros in payments (in comparison to 925.6 bn euros in 2007–2013) and 1025 bn euros in commitments (in comparison to 975.8 bn euros in 2007–2013). Financial resources are to be earmarked for counteracting the negative effects of the crisis and implementation of the strategy Europe 2020 (the

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<sup>11</sup> The TFEU introduces a change in the financial perspective for multiannual financial frameworks, which is to be applied from 2014 [Consolidated versions of the Treaty on European Union].

<sup>12</sup> Based on the European Commission's materials: José Manuel Durão Barroso, President of the European Commission Remarks by President Barroso on the Commission's proposals for the 2014–2020 Multi-Annual Financial Framework Press Conference Brussels, 29 June 2011; SPEECH/11/487; review with Commissioner Janusz Lewandowski 4–11 July 2011; Communication (a).

goals and programs presented in Table 1). Nominally, the new budget is to be about 5% bigger than in the financial perspective of 2007–2013. In relation to the national income, the budget payments have been reduced from 1.06% to 1.00% of the gross national income (GNI), and the budget commitments – from 1.12% to 1.05% of the GNI. Commissioner Janusz Lewandowski points out that the real value of the new budget is higher than the previous one's by 2.5 percent.

The greatest amount is to be earmarked for the cohesion policy, which has been regarded as beneficial for the whole EU and, as mentioned before, conducive for the implementation of the assumptions of the Single Market. The proposal of the European Commission assumes earmarking about 376 bn euros for the cohesion policy. The total amount consists of:

- 162.6 bn euros for convergence regions,
- 38.9 bn euros for transition regions,
- 53.1 bn euros for competitiveness regions,
- 11.7 bn euros for territorial cooperation,
- 68.7 bn euros for the Cohesion Fund,
- about 40 bn euros for the new instrument – the “Connecting Europe Facility” – whose aim is to lead to more investments in transport, energy and IT and communication technologies between the regions of the whole Europe. The fund is to replace the EU Transport Fund, which totals about 8 bn euros in the present perspective. The new fund is to be open for all Member States. In combination with about 10 bn euros from the Cohesion Fund, this fund will contribute to enhancing the integrity of the internal market and thus achieving territorial cohesion.

From the general amount earmarked for the Cohesion Policy Poland would receive more than any other EU country – about 80 bn Euros. This would be more than in the present perspective 2007–2013, under which Poland receives about 67 bn euros from the EU budget.

It is also interesting to point out a significant increase (by as much as 46% in comparison to the period of 2007–2013) in the resources earmarked for the research and development program – Horizon 2020, which is a continuation of the 7<sup>th</sup> Framework Program of Research and Technological Development; in the new perspective the resources are to amount to about 80 bn euros. The program is crucial from the perspective of the competitiveness and innovativeness of EU states' economies and companies operating within the countries [Musiałkowska 2009a]. Therefore, it is especially important to overcome barriers described in Section 1 to the present article, which is to streamline the movement of knowledge, people, goods, services and entrepreneurship and to provide legal protection to entities and individuals operating in the market.

Less than in the present perspective has been earmarked for the agricultural policy, i.e., the total amount is to decrease from 413 bn to 383 bn euros, with 282 bn euros to be spent on direct payments. The differences between direct payments for

farmers from wealthier and poorer Member States are to be reduced. It is estimated that direct payments for Polish farmers will grow from 196 euros per hectare in 2013 to 224 euros per hectare in 2020.

8 bn euros has been earmarked for the protection of the external borders, in comparison to 3 bn in the present perspective. About 70 bn euros is to be spent on external activities of the EU and increasing its international position, of which about 16 bn euros is to be used for the neighborhood policy and about 20.6 bn – for the development aid and the execution of the millennium objectives.

About 20% of the resources earmarked for each of the EU policies is to be earmarked for climate and natural environment protection, which is part of the Europe 2020 strategy. The European Commission's proposal also includes the allocation of about 2.4 bn euros for increasing the competitiveness of industry and SMEs. This amount is to be earmarked for the Competitiveness and SMEs Program, which is to be part of the continuation of the Competitiveness and Innovation Framework Program. The remaining activities aimed at such goals as promoting entrepreneurship and research for innovativeness are included also in other programs of the Commission: the Erasmus for entrepreneurs or the research and development program [Communication (a)].

In the post-crisis situation the discussion on the new sources of income has begun; the new resources are to lead to reducing the contributions of the Member States. The proposals include a transport tax, an ecological tax or a tax on financial transactions. The relevant discussions are still in progress. The estimates included in the EP Resolution of 8<sup>th</sup> March 2011 indicate that the removal of barriers in the internal market could bring a benefit of about 200–300 bn euros a year and the income from tax on financial transactions – an additional 200 bn euros to the EU budget, which would be enough to cover the costs of the crisis. The European Parliament also called for searching new sources to finance the economic growth and the development of the Single Market; it stresses that “a properly functioning Single Market is the EU's most valuable tool in a global and competitive world and the main driver of the European growth; it also stresses that the focus should be on strengthening the internal market and on finding ways to spend national and European resources more intelligently by taking a holistic view of budget reform, covering both the expenditure and the revenue side of the budget; it points out that spending needs to be delivered in a way which is designed to produce results and new financial instruments for budget delivery must be smart, integrated and flexible” [European Parliament resolution (f)]. The EP also proposes considering Eurobonds for financing, e.g., infrastructure projects, levying a carbon tax and “identifying synergies between old and new taxes” [European Parliament resolution (f)].

## Conclusions

In the face of effects of the economic crisis, the European Union started a number of important activities, both in the area of economic management and financial supervision and in the framework of particular community policies. The subject of analysis in this article was undertakings related to improving the Single European Market as one of the main economic projects in the process of European integration. This project, despite nearly 20 years of its history, is still full of faults and imperfections, which showed even more during the crisis period. In order to improve the situation and strengthen the Single European Market, the EU in the last few years has mobilized a number of legal, institutional and financial instruments. Some of them, as presented in Table 2, are still being legislatively prepared and processed, but it can already be seen that enhanced efforts should produce short- and long-term results. For the purpose of development of the SEM after the economic crisis, the EU institutions decided in the first place to take actions aimed at strengthening its foundations and increasing the level of confidence in the market among its participants. Such significant strategic projects as the Europe 2020 strategy, the Small Business Act, the Smart Regulation, or the Single Market Act have been announced and launched. Also under particular sectoral policies of the EU, such as research, cohesion, transport and agricultural policies, priority is given to the issues of increasing competitiveness and preventing the emergence of new crisis phenomena. The plans and strategies are drawn by the European Commission and the European Parliament, which also prepare legislation necessary for their implementation. Both institutions are the driving forces for changes and often have a disciplining effect on the Member States, which – due to the crisis difficulties – more and more often assume a passive or even a negative approach to integrating activities.

All these undertakings require appropriate funding, which is especially difficult in the general atmosphere of savings and cuts in the public spending of the Member States. However, in proposals of the EC and the EP it has been assumed that the EU budget should not be reduced, as the support provided through the budget gives – in most cases – positive impulses for development. At the same time, it has been emphasized that there is a need for such allocations to finance the priorities arising from the EU strategies that will contribute to the creation of the European Added Value and to enhancement of the competitive position of the Member States and the EU.

Further simplifications in the functioning of the internal market are necessary and may produce significant benefits for the Member States and economic entities, and at the same time for the whole EU. The actions taken at the EU level must be coordinated with the actions of the Member States. What seems to be the key issue is

further harmonization of economic policies (including fiscal policies), the emphasis on sensible, efficient, and targeted spending of the EU budgetary and extra-budgetary resources and the introduction of further legal and administrative support, the final goal being for the EU to regain its competitiveness in post-crisis conditions.

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