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LIBERATING EU SERVICES
how and why?

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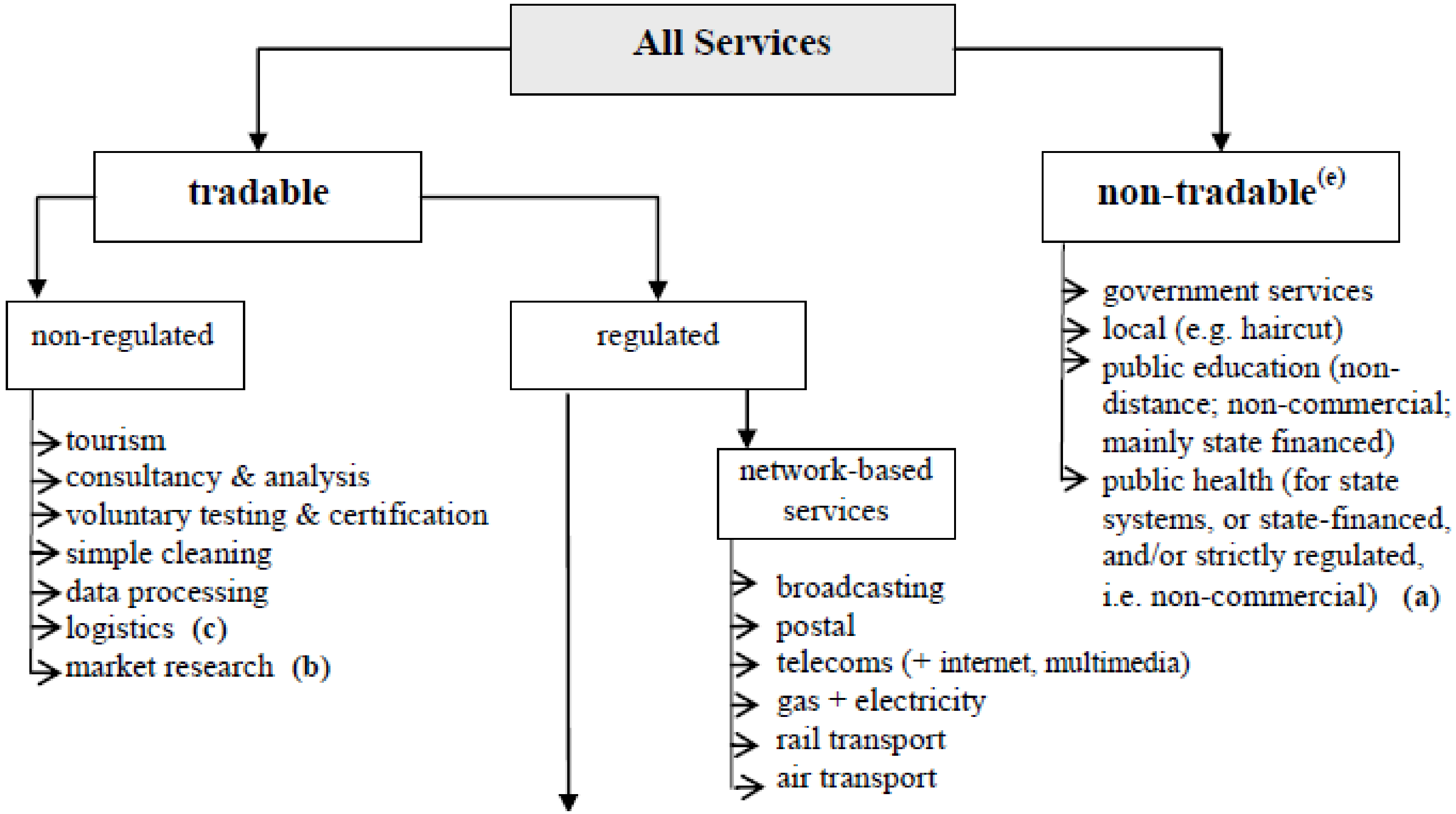
LIBERATING SERVICES
what services ? (1)



LIBERATING SERVICES
what services ? (2)

- non-networked industries
  - real
    - <u>business services</u>
      - professional services
      - advertising
      - industrial cleaning
      - recruitment services
      - (selected) advisory services
      - car-hire
      - audio-visual services
      - testing & certification for regulated products
      - construction, repair, maintenance of infra + premises
      - (non-local/cross-border) retail and wholesale (d)
    - <u>transport</u> (not networked)
      - road haulage
      - river, sea
      - bus, coach
  - financial
    - banking
    - insurance
    - investment
  - (pure) consumer services
    - hotels, cafes, restaurants (= horeca (d))
    - entertainment services
    - health services (commercial only)
    - education services (distance; other commercial)

LIBERATING SERVICES, horizontal

- only ‘economic’ services
- both free movement & establishment

1. ‘non’- regulated services (see slide 2)
   - logistics (transport part) and T & C (via Goods Package ’08) have min. requirements
2. business services (see slide 3)
   - T & C (Goods Package ’08)
   - ADD: facilities man.t, commerc. agents, veterinary serv., trade fairs, real estate
3. consumer services (see slide 3)
   - add : leisure services

- BUT NOT: health, audio-visual, gambling, temp. work agencies, private security and notaries

LIBERATING SERVICES, sectoral

- only ‘economic’, both free mov.t & establ.t
- network industries
- transport
    - non-networked (road, bus, sea, river)
    - widening via lobbies (taxis, ambulances, port services)
- financial services
    - widened in 4th generation EU reg.n
- special post-Bolkestein directives
    - health, private security, work agencies

WHY a *deep* *and wide* single services market ?

- business misses out on huge opportunities, both on input & output side, both free move.t & establishment
- cheaper, better-quality and innovative services (inputs) improve competitiveness
- both of services (private & public) and manufacturing
- deeper single market improves EU services business (output), withstands competition in Europe and beyond
- good for consumers (assuming C. protection)
- labour sensitivity a problem only for a few sectors, and mainly in only 3 non-min. wage countries (D, SE, DK); dubious evasive legal tricks undermine EU legitimacy

WHY? examples (1)

- despite high, secular growth of business services in the EU, the growth of their (av.) productivity is close to zero
- since competitive pressures in many services sectors are relative low (high mark-ups), research suggests room for higher productivity, once rivalry is greater
- weak competition is due to market structures and (too) strict regulation or outright barriers, both domestic and intra-EU cross border
- both form good reasons to act
  - ➢ liberalize intra-EU (without market failures !) and use anti-trust to assess possibly anti-competitive codes

WHY? examples (2)

- however, market structure matters a lot because business services have 95 % of SMEs, being sub-scale, and only few firms not suffering from scale inefficiency
- thus, there is sharp competition between sub-scale SMEs, but somehow the re-allocation amongst them does not occur
- the culprit is regulation hindering exit, entry and employment changes ; also high concentation
- scale inefficiencies are less in EU countries with easier entry/exit/job mobility

WHY ? examples (3)

- ICT services is one of the few exceptions, showing <u>steady productivity growth</u>
- also engenders significant spill-over effects when input into other sectors
- recent empirical research found
  - negative influence of market regulation on GDP growth through ICT investment deterrence
  - ICT growth contribution much lower in high-reg.n EU countries [reg.n on labour, business, credit]
  - labour reg.n throttles ICT effect 3x more than product market reg.n
- European business models and internal re-organisation under less competitive pressure, compared to US firms, causing ICT to be less 'deeply' absorbed for TFP

WHY? examples (4)

- in 2008, one third of all EU manufacturing staff worked on/in services [note, despite ‘back to core business’ outsourcing]
- purchased services by man. industry in EU-15 rose from 11 % (1980) to 15.7 % (2005) ; indirect linkages are bigger (see Isabel Grilo)
- manuf. output of services (e.g. after- sales) in 2007 was 5.1 %, up from 4.3 % in 1995
- a single services market and domestic reforms are critical for services performance in their own right AND for competitiveness of EU industry