Toward a Coherent Digital Single Market (DSM):
Winds of change blowing from Brussels

J. Scott Marcus

The opinions expressed are solely my own.
Toward a Coherent Digital Single Market (DSM): Winds of change blowing from Brussels

- Introduction: How did we get where we are?
- Tensions:
  - Process versus outcome
  - Centralisation (harmonisation) versus decentralisation (subsidiarity)
  - Supply versus demand
- Concluding observations
How did we get where we are?

... with apologies to John Tenniel and Charles Lutwidge Dodgson.
The Telecoms Single Market (TSM) package: How did we get here?

- TSM was submitted by the Commission to the Parliament on 11 September 2013.
- Deeply flawed concept: sought to achieve a Single Market solely by means of regulatory harmonisation.
- Deeply flawed individual proposals.
- European Parliament (wisely) deleted 80% of the package, but retained three promising parts: roaming, net neutrality, spectrum.
- Current Council text deletes spectrum as well.
- Not clear whether anything at all will actually be enacted.

Overall, a failed initiative.
The TSM: How did we get here?

- The process is not less important than the outcome.
  - Provided a weak Impact Assessment (IA) that had been rejected three times by the Commission’s own IA board.
  - No proper, comprehensive consultation process.
- The Commission claimed that it lacked time for an IA.
- That DG CONNECT believed that this was an excuse suggests that they no longer remember why we do an IA.
  - The goal is to assist the policymaker in understanding the problem to be solved, whether the Action Lines actually contribute to solving it, and what side effects might follow.
  - The IA thus plays a crucial role in formulating the proposal.
  - The goal of the IA is not to justify after the fact an (unfounded?) political decision that has already been reached.
Marcus’s Maxim #1:

Bad process $\rightarrow$ bad outcomes
Harmonisation versus Subsidiarity

Centralisation versus Decentralisation
Inherent tensions in the vision of the Single Market

• With the Single Market, we seek
  - Free movement of goods, services, people and capital;
  - Reduction in transaction costs;
  - European economies of scale; and
  - Elimination of fragmentation;

• Yet we also embrace
  - Cultural and linguistic pluralism, which we rightly view as a strength of Europe; and
  - A range of national prerogatives (subsidiarity).
The evolutionary arc of the European Union

- Clear need to rise above the intense nationalism that led to two catastrophic world wars during the first half of the Twentieth Century.


- Progressive growth in competencies.
  - Schengen Area.
  - Euro Zone.

- Progressive growth in the number of Member States (especially 2004), accompanied by growth in diversity.
A short evolutionary arc for the United States

- From roughly 1777 to 1789, the United States operated under the Articles of Confederation and Perpetual Union.

- “Each state retains its sovereignty, freedom, and independence, and every power, jurisdiction, and right, which is not by this Confederation expressly delegated.”

- This system of confederation was abandoned in 1789 in favour of a federal system.
  - Under the Articles, the United States had no president.
  - No coherent control over foreign policy.
  - Limited ability to enforce its decisions against the states.
A European confederation

- Even after enactment of the Lisbon Treaty of 2009, the European Union is much closer to the United States under the Articles of Confederation than to the federal United States under the Constitution.

- The results of the Irish referendum of 2008 and the events surrounding it make clear that there are limits to the degree of European integration that European citizens are willing to accept at this time.

- The present growth of Eurosceptic parties underlines that this is a real concern.

- There is thus a need to carefully craft European solutions that appropriately balance centralisation versus decentralisation of authority.
Differences in prices and regulated costs

- We lament differences in prices and in regulated costs for electronic communication services among the Member States.

- How do these differences compare to costs of labour or of civil works?

Fundamental economic differences among the Member States

- These differences are generally less than the difference in GDP per capita (coefficient of variation of 0.64).

![Nominal GDP per capita 2014](source: Wikipedia based on Eurostat data)

What Digital Union?, Bruegel, Warsaw, 15 June 2015
Supply versus Demand
Broadband: What role for supply? For demand?

- The relationship between broadband speed and broadband usage is not as strong as many suppose.
- Audiovisual content plays a large role.

Source: Cisco VNI online data (2014), WIK calculations

Fixed Traffic per User 2013

Source: Cisco VNI online data (2014), WIK calculations
What Digital Union?, Bruegel, Warsaw, 15 June 2015
Broadband: What role for supply? For demand?

• Can demand drive supply?
  - Obviously!
  - South Korea apparently did not subsidise the last mile.
  - Instead, they made good PCs available at low prices.

• Can supply drive demand?
  - Insufficient or inadequate supply can deter usage.
  - Otherwise, supply side stimulus either has only limited effect, or else operates over long time scales.
  - There are some suggestions that supply side measures do more to stimulate upstream than downstream usage.

• Bulldozers alone cannot solve Europe’s broadband challenge!
  - Leads to big, empty networks.
  - Like “pushing on a rope”.

What Digital Union?, Bruegel, Warsaw, 15 June 2015
Concluding observations
Concluding observations

• There are no sharp dichotomies here.
• We need both good process and good outcomes.
• We need to work with a rich palette of policy instruments.
• We need a sensible balance between
  - Harmonisation versus subsidiarity
  - Centralisation versus decentralisation of function
• We need a sensible balance between supply side measures (*push*) and demand side measures (*pull*).
• We need a sensible balance between ambition and realism.
Winds of change blowing from Brussels

• The DSM strategy of 6 May 2015 is a much more promising start than the 2013 TSM.
  - Attacks a wide range of interrelated policy challenges.
  - Addresses both supply side and demand side issues.
  - Seeks to use a wide range of policy instruments.
  - Already includes a reasonably good collection of evidence that could serve as a starting point for a set of Impact Assessment analyses.

• We are off to a good start!

➢ Now we need to get to a good finish.
“... it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

… with apologies to John Tenniel and Charles Lutwidge Dodgson.
References


J. Scott Marcus et al. (forthcoming), Ökonomische Chancen und Risiken einer weitreichenden Harmonisierung und Zentralisierung der TK-Regulierung in Europa.