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Elisabeth Bublitz*

The European Single Market at 25

This year we celebrate the 25th anniversary of the European Single Market. The Single Market's achievements cover various areas but there is still room for improvement. Against the background of this historic and economic development, this article discusses different legal acts that are being negotiated and outlines suggestions for improvement.

More than 60 years have passed since the foundations of the European Union were laid. In comparison to that, the European Single Market is relatively young, having only come into being in 1993. When we reflect on its achievements over the past few decades, we see that the Single Market has been decisively shaped by trends like the rise in digital technologies and events like the Great Recession. This year seems an appropriate time to assess the degree to which it has matured.

The prosperity of the European Union today is, among other things, the outcome of the economic integration that followed the implementation of the European Single Market. In general, a well-functioning (internal) market increases economic efficiency, e.g. by lowering transaction costs, and boosts growth. It can help to shield countries from the repercussions of economic shocks through increased cross-border mobility. There is general agreement that the economic integration of EU Member States can still be deepened, which would allow market mechanisms to unfold their full potential within a single economic area.

After a historical outline of the Single Market's development, the article continues with a brief summary of the four freedoms and the theoretical background on the effects of economic integration. It then looks at different legal acts that have recently been finalised or are still being negotiated. Although this does not allow for predictions regarding the overall economic effects, it illustrates where progress is currently being made.

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The history of the European Single Market

From the start, economic interests were a primary driver of integration in Europe; and one of the core objectives was to create a single market. As early as 1968, the then six-member European Economic Community (EEC) abolished customs barriers within the Community and established a common customs tariff for goods from non-EEC countries. However, non-tariff barriers like technical norms or safety standards continued to hamper trade. In the 1970s, the next steps towards greater integration were mostly brought about by means of rulings from the European Court of Justice (e.g. *Dassonville* in 1974 or *Cassis de Dijon* in 1979).¹ In addition, growing economic challenges, e.g. due to the oil crises, put pressure on Member States to deepen their economic relationships.²

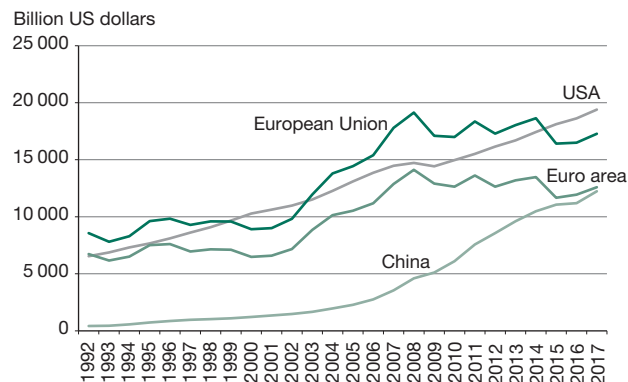
In 1986, the EU agreed to adopt the Single European Act which was followed by the implementation of various common EU rules over the next six years. This first major revision of the 1957 Treaty of Rome was intended to add greater momentum to European integration and "com-

* The author is indebted to her colleagues who provided many insightful comments. The article's content is solely the responsibility of the author and does not necessarily represent official views of the author's affiliations.

1 Both judgements referred to the free movement of goods. *Dassonville* established a broad definition of measures by Member States that have an equivalent effect to quantitative restrictions. This opened the door to more deregulation within the Single Market. In *Cassis de Dijon*, the Court laid out that a Member State must allow a product lawfully produced and marketed in another Member State to enter its own market, unless a prohibition of this product is justified by overriding reasons of public interest such as health protection and safety.

2 M. Mariniello, A. Sapir, A. Terzi: The long road towards the European Single Market, Bruegel Working Paper No. 2015/01, March 2015.

Figure 1
Development of GDP



Source: Own graph, using World Development Indicators by The World Bank (Series Code: NY.GDP.MKTP.CD, GDP in current US\$).

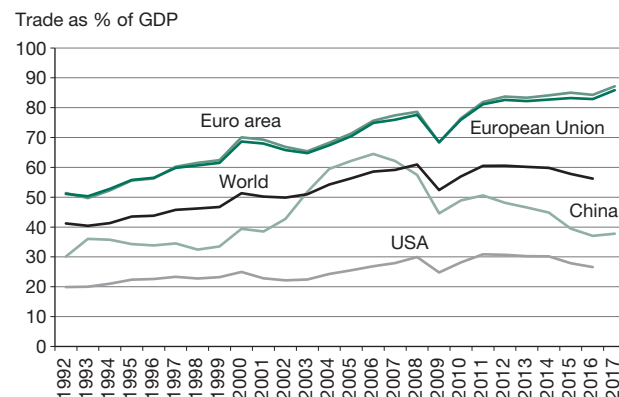
plete” the Single Market. In early 1993, the Single Market became a reality for 12 EU countries.³

The Maastricht Treaty (1992) was a big step forward and laid out the idea of an Economic and Monetary Union (EMU) with a single currency, which was officially introduced at the turn of the century. This step was not supposed to replace the Single Market, which still needed further work. In fact, there is a mutual dependency: Firstly, the EMU provides the framework for more economic integration; secondly, a stable EMU requires close economic cooperation. Nonetheless, the Single Market covers a larger number of countries than the EMU and requires specific regulations. In 1994, the Agreement on the European Economic Area (EEA) entered into force, extending the Single Market to include a total of 31 countries.

When the Great Recession hit Europe, it became painfully clear that the Single Market still needed work. This provided all involved parties with incentives to intensify their cooperation. The Single Market Act I (2011) identified 12 levers to improve the functioning of the Single Market and called upon Member States to adopt a key action for each. A year later, the Commission pointed out that so far the European Parliament and Council had only agreed on one out of the 12 key action proposals. Due to the urgency

³ Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Portugal and the United Kingdom. European Commission: Internal market: From crisis to opportunity - putting citizens and companies on the path to prosperity, The European Union explained, 2014; European Commission: 25 years of the EU Single Market, Fact Sheet, 2018.

Figure 2
Development of trade



Source: Own graph, using World Development Indicators by The World Bank (Series Code: NE.TRD.GNFS.ZS, trade is the sum of exports and imports of goods and services measured as a share of gross domestic product).

resulting from the eurozone crisis, the Commission went ahead and presented a second set of priority actions in the Single Market Act II (2012).⁴

The development of the four freedoms

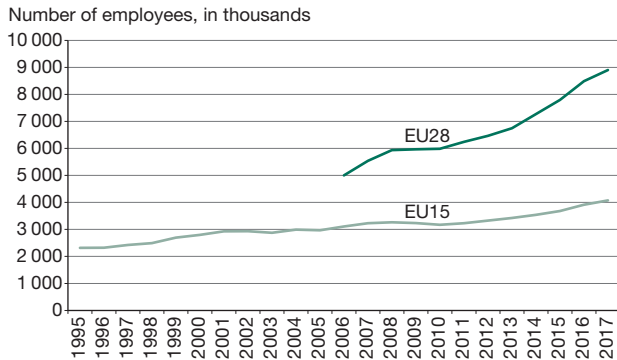
Efforts to improve the functionality of the Single Market have continued under the Single Market Strategy. There is no doubt that the economic weight of the Single Market has strengthened the voice of the European Union in the world. This is evident in trade agreement negotiations, for instance, which have become broader and more ambitious in recent years. Japan and the EU, which together account for more than a quarter of global GDP, will profit from the signing of the EU-Japan Economic Partnership Agreement in July 2018. Today, the Single Market consists of around 500 million European citizens and around 24 million companies.⁵ The EU's GDP is similar in size to the GDP of the US, albeit with some fluctuations: It is currently below the US value but was higher in 1992-1998 and in 2003-2014 (see Figure 1).

The Single Market possesses four unique characteristics that date back to the Treaty of Rome. They are also called the four fundamental freedoms and encompass the free movement of goods, services, capital, and labour. These four freedoms reflect European goals of economic inte-

⁴ J. Pelkmans, M. Goyens, H.-P. Burghof, S. Leibfried: The European Single Market – How Far from Completion, in: *Intereconomics*, Vol. 46, No. 2, 2011, pp. 64-81.

⁵ European Commission: 25 years of the EU Single Market, op. cit.

Figure 3
Trends in worker mobility in Europe



Source: Own graph, using EU Labour Force Survey. Sample includes working individuals, aged 15-64, 1995-2017, figures are given in units of 1000.

gration, framing an ideal situation for economic growth in a free market economy. The development of these characteristics illustrates how freely the different factors move within the Single Market.

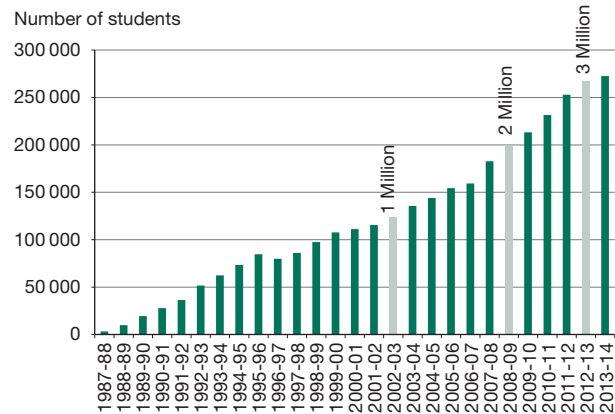
The international standing of the European market is demonstrated by how well it is integrated into the global economy. Figure 2 illustrates the importance of trade for the EU in comparison to other countries from 1992 to 2017. The EU has the highest share of trade (sum of goods and services) in relation to GDP, which is well above the world average. This is mostly driven by an increase in trade in services. Trade in goods makes up 25% of the EU's GDP, whereas services account for over 70% of the EU's GDP.⁶ On average, two-thirds of exports from EU Member States go to other EU countries.

The free movement of capital prohibits restrictions on capital movements and payments between Member States as well as between Member States and third countries. This liberalisation significantly reduces potential transaction costs for the cross-border exchange of goods and services as well as for investments. Most investment takes place in the service sector; accounting for 59% of outward investment and for 87.4% of inward investment in 2014.⁷ Since 2008, EU outward stocks have exceeded the value of inward stocks. In 2015, foreign direct investment

⁶ European Commission: 25 years of the EU Single Market, op. cit.

⁷ Eurostat: Foreign direct investment – stocks, Statistics Explained, 2017.

Figure 4
Student mobility since the start of the ERASMUS program



Source: Own graph, based on European Commission: Erasmus. Facts, Figures & Trends. The European Union support for student and staff exchanges and university cooperation in 2013-2014, 2015, available at http://ec.europa.eu/assets/eac/education/library/statistics/erasmus-plus-facts-figures_en.pdf.

stocks of the EU28 reached 46.8% of GDP; direct investment within the EU28 was at 39%.⁸

The free movement of labour as measured by the mobility of workers across borders has increased but the overall level is still relatively low compared to the overall population size. In total, the number of employees working in another Member State rose from 2.3 million to 4.1 million in the EU15 between 1995 and 2017 (see Figure 3). In 2006-2017, the number of employees from another EU Member State increased by 78% in the EU28, and now stands at 8.9 million; for the EU15, the increase in the same time period was notably lower (31%). The ERASMUS+ program encourages educational exchanges and thereby fosters the mobility of students and teachers. It was established in 1987 and has various goals, among them reducing unemployment through higher mobility and better skills. Since 1987, the number of students who study or train abroad has gradually increased, exceeding the three million mark in the 2011-2012 academic year. In the 2013-2014 academic year, 272,500 students went abroad (see Figure 4).

Effects of economic integration

The numbers show the size of the Single Market but do not yet address whether a European added value is created that accrues to Member States. Various theoretical approaches argue that economic integration within a single

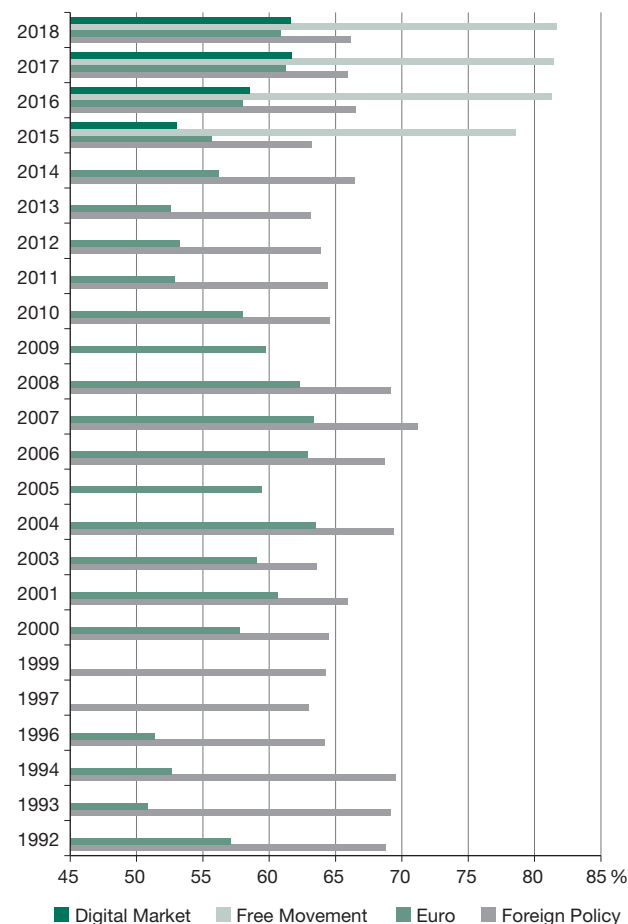
⁸ Eurostat: Foreign direct investment – intensity ratios, Statistics Explained, 2017.

market benefits aggregate welfare by boosting productivity in various ways. The arguments put forward encompass comparative advantages from classical trade theory or economies of scale from new trade theory as well as new economic geography.⁹ Mariniello, Sapir and Terzi provide a list of specific channels through which micro-based effects of the respective freedoms have an impact on productivity and growth.¹⁰ These cover, for instance, better skill matches due to higher labour mobility or increased extra-EU FDI flows as well as greater innovation due to increased competitiveness of EU-based firms. Due to their nature, these channels only shed light on selected dimensions of the Single Market.

Other studies have looked at the overall benefits of further economic integration. The results should be interpreted with caution as sizeable challenges exist when trying to measure integration and its macroeconomic effects. The majority of studies conclude that economic integration has positive effects on economic activity.¹¹ Ilzkovitz et al. estimate the size of the GDP effect to be 223 billion euro in 2006.¹² According to the European Parliament Research Service, the untapped economic potential in free movement of goods in the long term is estimated to be 183 billion euro, and the long-term gain in services 338 billion euro.¹³ Campos, Coricelli and Moretti find that the economic effects of EU membership are positive but vary significantly across countries due to their accession date. In the absence of institutional integration, per capita European incomes would have been 10% lower on average in the first 10 years after joining the EU.¹⁴

It is also helpful to look at how the European population perceives European integration. Over the past few decades, the Eurobarometer has collected data on support for further integration (see Figure 5). Findings show that 61% of respondents favour the euro in 2018, up from

Figure 5
Support for further European integration



Source: Own graph, using Eurobarometer; share of individuals in favor of 1) "A digital single market within the EU", 2) "The free movement of EU citizens who can live, work, study and do business anywhere in the EU", 3) "A European economic and monetary union with one single currency, the euro", and 4) "A common foreign policy of all Member States of the EU".

around 50% in the 1990s. On average, support for a common foreign policy of all Member States ranks higher than support for the euro, starting with 69% in 1992 and reaching 66% in 2018. Recently added questions show that the share of people in favour of a Digital Single Market within the EU is now at 62%. An overwhelming 82% of people support the free movement of EU citizens to live, work, study and do business anywhere in the EU.

Dustmann et al. analyse individuals' attitudes towards economic integration using data from the European Social Survey for the period 2002-2014.¹⁵ There is no clear

9 Other theories that try to explain regional integration in general (e.g. intergovernmentalism) are beyond the scope of this article.

10 M. Mariniello, A. Sapir, A. Terzi, op. cit.

11 V. Aussilloux, C. Emlinger, L. Fontagné: What benefits from completing the Single Market?, La Lettre du CEPII No. 316, Le Centre d'études prospectives et d'information s'internationales, 2011; E. Dahlberg: Economic Effects of the European Single Market. Review of the empirical literature, Stockholm 2015, National Board of Trade; M. Mariniello, A. Sapir, A. Terzi, op. cit.

12 F. Ilzkovitz, A. Dierx, V. Kovacs, N. Sousa: Steps towards a deeper economic integration: the internal market in the 21st century. A contribution to the Single Market Review, Economic Paper No. 271, European Commission DG Economic and Financial Affairs, 2007.

13 Z. Pataki: The Cost of Non-Europe in the Single Market. 'Cecchini Revisited'. An overview of the potential economic gains from further completion of the European Single Market, EPRS Study, European Parliamentary Research Service, 2014.

14 N.F. Campos, F. Coricelli, L. Moretti: Institutional integration and economic growth in Europe, in: Journal of Monetary Economics, 2018.

15 C. Dustmann, B. Eichengreen, S. Otten, A. Sapir: Europe's Trust Deficit: Causes and Remedies, London 2017, CEPR Press.

trend at the aggregate level among the 14 countries; nonetheless, a large share is in favour of deeper integration (almost 50% in 2014). However, in some countries there is decreasing support for economic integration (e.g. Austria, Great Britain), whereas trends in many countries cannot clearly be discerned. Note that despite a documented increase in populism in Germany, a recent study shows that political candidates who favour increased co-operation in the EU could mobilise a larger share of voters.¹⁶ It is crucial to keep this in mind when discussing new initiatives for the Single Market which ultimately lead to deeper economic integration. The literature shows that individual perceptions play an important role in shaping policy preferences,¹⁷ and the Brexit vote demonstrates why this should be taken seriously.¹⁸

What is missing?

Although the European Single Market has come a long way, it should not be surprising that the Single Market is not yet completely integrated. The European Commission subsumes several areas of action under the name of the Single Market Strategy. By looking at examples of European initiatives, I will now shed light on aspects of the Single Market currently in focus and examine areas where there is still room for improvement.

The mobility of goods within the Single Market is well developed. What remains to be done is the abolition of non-technical barriers to trade and other accompanying measures. These encompass improving conditions for permitting businesses from one EU Member State to establish subsidiaries in other Member States. Simplified access criteria and streamlined administrative procedures could lead to higher investment levels by making it easier for European companies to invest in other Member States and, among other things, build a European distribution system. In March 2018, the European Parliament adopted new rules for cross-border parcel delivery which should foster price transparency and further increase cross-border online shopping. To a considerable extent, the Single Market's ability to function is also determined by tax policy. Further efforts to harmonise VAT in Europe

could positively impact cross-border sales, especially for small and medium-sized enterprises. Overall, it is important to ensure fair competitive conditions for all Member States, thereby avoiding unwanted obstacles.

When looking at the health care sector, we see that access to new drugs has improved. Nonetheless, health care remains a national, rather than an EU, competence. According to M. Kyle, this is the reason why Europe lags behind in the pricing of pharmaceuticals and approval of generic drugs.¹⁹

The digital revolution has drastically changed the mobility of services. The core principles consist of the right to establish a company and to provide or receive services in another EU country. The initiative to establish a Digital Single Market or the initiative to establish free movement of data (as put forward by the 2017 Estonian presidency) highlight the importance of digital topics. Measures like the recently adopted regulation to prohibit geo-blocking are important steps toward the expansion of cross-border digital services. The specific nature of digital services (as well as digital products) raises questions regarding the design of existing regulations: Firstly, these regulations risk creating entry barriers for new businesses if they unintentionally bar new digital services or products. Secondly, the regulations may disadvantage existing companies if new products that are not subject to existing legal provisions gain a competitive advantage – without this being the regulatory aim. Simplifying the cross-border exchange of services also requires that entry regulations for occupations allow EU citizens to access the labour market in other Member States. It is necessary to create framework conditions that ensure that quality standards are met while avoiding occupational closure and the creation of occupational monopolies. The directive on a proportionality test before the adoption of new regulation of professions, which was adopted in summer 2018, aims to facilitate market access but is unlikely to be sufficient. Overall, Vetter argues that an excessive “home bias” in trade persists when the EU is compared with the US. Although the US may not be a realistic benchmark, trade barriers would need to be lowered to encourage trade between EU Member States.²⁰

16 R. Vehrkamp, W. Merkel: Populismusbarometer 2018. Populistische Einstellungen bei Wählern und Nichtwählern in Deutschland 2018, WZB and Bertelsmann Stiftung, 2018.

17 E. Bublitz: Misperceptions of Income Distributions. Cross-country evidence from a Randomized Survey Experiment, HWWI Research Paper No. 178, Hamburg Institute of International Economics, 2016; G. Cruces, R. Perez-Truglia, M. Tetaz: Biased perceptions of income distribution and preferences for redistribution: Evidence from a survey experiment, in: Journal of Public Economics, Vol. 98, 2013, pp. 100-112.

18 N.F. Campos: The Future of European Growth Policies: Resetting Integration, in: Intereconomics, Vol. 51, No. 6, 2016, pp. 348-352.

19 University of Cambridge: The EU single market at 25, Report on the conference “Review of Industrial Organization Celebrating 25 Years of the EU Single Market”, 2 May 2018, available at <https://insight.jbs.cam.ac.uk/2018/podcast-eu-single-market-at-25/>, here M. Kyle: On pharmaceuticals and the 1995 founding of the European Medicines Agency, podcast.

20 S. Vetter: The Single European Market 20 years on: Achievements, unfulfilled expectations & further potential, EU Monitor – European integration, DB Research, 2013.

The mobility of capital is still a work in progress. The capital markets union has outlined a number of objectives to achieve by 2019: a) further remove barriers for cross-border investment; b) diversify the funding in the economy; and c) reduce the cost of raising capital. These goals should, in turn, support job creation and growth, e.g. by improving the opportunities for start-up financing. A more integrated financial services market would also allow the financial sector to become a better credit provider to the real economy even in times of a downturn or shock. It is also necessary to establish swift insolvency proceedings to allow for an efficient liquidation of companies. Setting up new firms requires access to seed financing and to capital for later rounds of financing. By facilitating cross-border investments, start-ups would have easier access to various sources of funding.

Although it may be difficult to determine an optimal level, the mobility of persons has not increased as much as may have been expected. The low share of other EU nationals within the Member States suggests that significant mobility obstacles still need to be eliminated. Recognising academic degrees and qualifications obtained abroad as equivalent to domestic certifications could be made easier. This would include, in certain circumstances, relaxing the national conditions for obtaining authorisation to practice a profession. Another major obstacle to increasing mobility is language. Expanding the network of European schools (bilingual state schools) or university programs that span European countries would improve language training at an early age. In addition, language programs could be offered to EU citizens who work in another country, which is currently the case for non-EU citizens under the EU Blue Card system.

In order to make it easier to temporarily change jobs within Europe and provide incentives for “brain circulation”, the EU is working to improve the coordination of social security systems. Even though working conditions and mobility requirements have improved, the general public may still not be adequately informed about their options. This could be remedied with a targeted information campaign and easily accessible information on how to find and start work in another Member State. A potential measure would be to improve cooperation between European employment agencies. This could be used to extend Europe-wide job placement services. The recent initiative to establish a European Labour Authority may also make a contribution in this regard. Currently, the European Job Mobility Portal (EURES) already offers a platform for jobseekers and employers across Europe with a focus on applicants from the university and polytechnic sectors, and for those who have higher qualifications in general.

While the Single Market has contributed to the visibility of the EU among citizens, it has not fulfilled expectations regarding the creation of a European identity (the most prominent example being Brexit). After reviewing current levels and determinants of EU support and European identity, Ciaglia et al. suggest various initiatives to foster the European identity, including transnational party lists, an EU Citizens’ Assembly, EU consular offices, Pensioners’ Erasmus, a ‘European Waltz’ program (exchange program for workers), and an EU public service broadcaster.²¹ Although it would be costly to implement all at once, the lack of interactions between EU citizens may also be a costly decision.

Conclusions

The degree and speed of progress made within the Single Market varies between policy areas. Over the past few years, around 3,500 Single Market measures were adopted,²² but there is still room for improvement. It will indeed be interesting to see what measures the Commission will present on the occasion of the Single Market’s 25th anniversary.

It is important to look beyond the economic effects of the Single Market and take social and environmental aspects that impact welfare into account. The challenge is not to simply to suggest more or less integration but to identify the most effective method of integration – while respecting and appreciating cultural differences. Also, in light of resurgent protectionism, the Single Market can continue to be a hallmark of the benefits of multilateralism. Success is not only a result of trade liberalisation between Member States but also of ambitious trade agreements with third countries and of the multilateral trading system advocated by the World Trade Organization.

Single Market arrangements need to be consistently assessed to see whether the full potential of integration is being achieved through the current means and how to further improve existing regulation. This also includes updating previous academic studies and investigating whether the Single Market has fulfilled expectations. At the same time, we as Europeans make up the Single Market, and the four freedoms only come to life when we take advantage of them. It is safe to say that the Single Market has matured tremendously since its foundation. However, rather than attempting to complete the Single Market, we should prepare for a process of lifelong learning.

21 S. Ciaglia, C. Fuest, F. Heinemann: What a feeling?! How to promote “European Identity”, EconPol Policy Report No. 09-2018, European Network of Economic and Fiscal Policy Research, 2018.

22 E. Thirion: EU single market: Boosting growth and jobs in the EU, EPFR Briefing European Added Value in Action, European Parliamentary Research Service, 2017.