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Article

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Will the EU's Fourth Freedom Be Further Challenged by Present Members of the Single Market?

Abstract

The creation of a single market in Europe, conceived as the application of the so-called four freedoms (goods, services, capital and manpower) of movement was in vogue in the 1990s. What has happened to this dream? At the time not only business communities but also consumer associations, and even labour unions were all in favour of opening their national economies to the winds of continental competition. Three decades after, some national communities seem to have turned their backs on the free movement of people. The case of Eastern European immigrants settling for work in the UK after 2004 comes to mind, something which arguably was one of the main reasons for the Brexit vote in 2016. The issue could again become the focus of populist governments or parties (e.g., in Italy, France, Sweden, Austria, Hungary or The Netherlands), should the danger of an EU-wide recession or an idiosyncratic crisis in one of the poorest member states (MSs) materialize. Actually, a new intensification of intra-EU migration flows could be one of the outcomes of the unravelling of supply chains as a result of the COVID epidemic and geopolitical considerations, such as the EU's wish to diminish trade dependence from China and Russia. The ground is slowly eroding under the feet of those adamant to cling to the free movement of people as part of the *acquis*. The EU Commission should give thought, before it is too late, about the fourth freedom particularly in view of future EU enlargements.

Keywords

intra-European migration | 4 Freedoms | European Union Law | Brexit

JEL Codes

F22, F15, J61

1. Introduction

It has been said time and again by many political economy experts that the creation of a Monetary Union (MU) in 1999 after the apparently successful completion of the Internal Market in the course of the 1990s was in fact premature, or “a bridge too far.” The European MU would be very far from being an optimum currency area, it was said; hence it would be doomed to failure in the medium or long term. The degree of economic integration achieved among EU member states (MSs) by 1999 did not warrant the launching of the MU, so went the argument. This author is among those in line with this way of thinking. Of course, he is aware that the way back or out of the MU would be now too painful to contemplate and therefore the MU must go on.

The contention of this paper is even more severe. It posits that maybe the application of the fourth freedom

in the EU-28 (including the UK) by tearing down remaining obstacles to the movement of workers among 31 very different labour markets so as to complete the single market was itself “a bridge too far.” Thirty-one is the real number, not twenty-eight, because the three European Economic Area (EEA) members must be included (Norway, Iceland and Liechtenstein). In fact, for all purposes, one must consider 32 countries because Switzerland must be counted in, at least until the referendum of 2014 initiated by the People's Party led by Mr. Blocher. Take note that in an additional referendum in 2020, the position of the Swiss people changed again in favour of the free movement of people between the EU and Switzerland, probably in view of the tough response of Brussels to the initial referendum. The compromise reached in 2016 by the Swiss Federal Council did not seem enough to the EU to revert the freeze of relations between the Swiss and

the EU. Those relations continue to be frozen since 2016, now for 7 years.

One important reminder and underlying issue is addressed in this paper. The creation of single markets, conceived as the application of the so-called four freedoms (goods, services, capital and manpower) of movement over more than one sovereign state was in vogue in the late 1980s and the 1990s, particularly in Western Europe. What has happened to this dream? At the time not only business communities of all Europe, but also consumer associations, and even labour unions were all in favour of opening their national economies to the winds of continental competition. Optimism prevailed in that it was thought that a single market would be an engine of growth and a win-win proposition. In the mid 1980s, the champions of this idea were of course the UK Prime Minister Margaret Thatcher but also the President of the European Commission, Jacques Delors, who made the main task of his new European Commission in 1985 to “complete the European single market by 1992.” Business elites everywhere including in the United Kingdom and Switzerland (the latter not an EU MS) were enthusiastic backers of the idea. While these two countries rejected any idea of further development of the European Integration process, they were all for their country being part of the single market, at least. Three decades after, the national communities of these two European states, as well as other EU MSs, seem to turn their backs on the free movement of people even among seemingly culturally similar national identities. The case of Eastern European immigrants settling for work in the UK after their entry in the EU comes to mind. But also, the referendum in Switzerland won by those against the free movement of people and obliging the Swiss Federal Council to find a solution in relation to EU citizens in 2016 is another example. Even freedom of movement of short-term service providers across the EU is being questioned at times, as protests against the “Polish plumber” in France shows. Fast forward, the issue of the fourth freedom could become again the focus of populist governments or parties (e.g., in Italy, France, Austria, Hungary, Poland and more lately Sweden), should the danger of an EU-wide recession materialize in 2023. Moreover, a new intensification of intra-EU migration flows could be one of the outcomes of the recent unravelling of supply chains as a result of the COVID epidemic and geopolitical considerations, such as the EU’s wish to diminish trade dependence from China and Russia. Re-shoring and near-shoring can mean relocation of production

in rich EU MSs and attracting cheap labour from Eastern European fellow countries. Is there a danger that the anti-immigrant sentiment in many rich EU MS be extended increasingly to other fellow MS citizens? The question to be addressed by this paper is how to explain this change in the national mood in many EU MSs. Was the completion of the EU’s single labour market a step too far? Or is it simply that no provisions were being made to compensate all those groups that would lose from the creation of the EU’s single market? In fact, the much more controversial question is whether European citizens are prepared to accept the principle of a unified European labour market. This is because the purpose of freedom of movement (whether of goods, services, capital or labour) is to integrate and hence fuse separate markets by arbitrage into one single market. From Economics we deduce that fusion will have been accomplished when eventually one price will prevail across the geographical area covered by the 32 single market members (abstraction made of possible natural obstacles but not artificial ones anymore).

First, a minor reminder. Until Delors’ “1992” there was no real single market for labour even if it was officially inscribed in the Treaty of Rome’s article 48. It is really the completion of the single market by the end of last century that substantially changed the situation. It consisted of eliminating huge barriers to intra-EU labour movements, like mutual recognition of professional competence, making transferable social security rights, access to health services, and so on. However, note that nobody mentioned nor were there included in the Maastricht Treaty provisions to compensate all those groups that would lose from the creation of the EU’s single market. It is that negligence or aloofness of governments that leads one to think that given the inexistence of those provisions for European citizens, if they were asked at that time by referendum, that they would not have accepted the principle of a unified European labour market. The latter would have been implied as it is highly likely that the price of labour in the richest MS would be pressed downward. Of course, we are still very far from that. Pelkmans (1997), in his well-known textbook on European Economic Integration¹ stated that there was not yet an EU labour market to speak of. He reminded us then, that for instance, there is no union-wide access to social security and that there are still many other disincentives to migrate from one

1 Pelkmans, J. (1997). *European Integration, Methods and Economic Analysis* (p. 140). Netherlands Open University.

MS to another. Never mind these objections, it is a well-known fact that intra-EU migration flows have increased by leaps and bounds since the beginning of this century essentially for two reasons: 1) the 2004, 2007 and 2013 EU enlargements, and 2) the great recession of 2008, leading mainly to migrations flows from Southern Europe to Northern Europe. In sum, since 2004 east–west and south–north intra-EU migration flows have notably increased. Note that I am not referring here to the 2016 refugee inflows from outside of the EU, nor to the Ukraine refugees in 2022, as the latter is not (yet) a MS.

In summary, the main aim of this paper is first to try to understand what the initial expectations were of those postulating the so-called fourth freedom for it to be an integral part of the Treaty of Rome at the end of the 1950s. The second aim is to clarify the huge difference in political and sociological terms between the free trade for goods and services and free labour movements across the area to be integrated economically. The third aim is to question the sustainability of the fourth freedom in the medium run, in view, first, of what the Theory of Customs Unions tells us, and second, of what the effects of past and future EU enlargements have been or might be.

The paper proceeds in the order of the three aims just described and concludes by suggesting some policy recommendations.

The novelty of this paper is that it deals with research questions that cannot be found anywhere in the existing literature about customs unions and common markets.

2. The Modern Theory of Free Trade

This paper is focused around one of the so-called “four freedoms” available to the more than 450 million inhabitants of the EU. These freedoms are part of the ACQUIS COMMUNAUTAIRE. I am referring to the freedom of movement of labour, or if you wish, workers, which is as central for any political supporter of the EU as much as the other three freedoms, namely freedom of movement of goods, services and capital.

Freedom of movement of goods is assimilated to the old concept of free trade (FT) dating back to the XVIII century. Although it relates only to goods, it is frequently extended to services (but not concerning

Adam Smith nor Marx, both of whom denied any utility or added value to services). Observe that Classics would never speak of FT in factors of production because for them they were immobile. In fact, in their models there was only one production factor, namely labour. Capital was frozen labour, hence proportional to labour; therefore, it could be neglected, for example, by Ricardo when positing the famous theory of comparative advantage. As well known, Classics (Smith, Ricardo and Stuart Mill) proved that FT in goods (and services) was a win–win for both (all) trade partners in this game called trade, provided that workers adjusted (at least in the long run) to the move to FT. They argued this in the sense that FT would be good for all the citizens as consumers (in any case) and probably as producers (as well). Why would producers win according to the Classics? They thought quite cogently that by specializing, people would gain in productivity.

However, when two Swedish economists in the 1930s, Eli Heckscher and Bertil Ohlin, enlarged the model to make it more realistic to include two production factors (capital and labour) which were present in various proportions in prospective trade partners, results were slightly less clear-cut. They proved that FT was still good for both countries as a whole and for each person as consumer. They did not pronounce themselves about the fate of the two factors of production with the advent of FT. However, in 1941, Samuelson and Stolper in a famous article showed that the relatively scarce production factor in and of each country would lose absolutely as a result of the specialization in goods using intensively the other factor, namely the abundant one. So, more concretely, workers in capital-rich countries (e.g., the US) would lose and capitalists in labour-abundant countries (e.g., India) would lose as well. This was very bad news indeed which, by the way, many economists chose to ignore until around the year 2000, sixty years later.

But one should be reminded here for the sake of fairness to Samuelson that he himself as well as Kaldor and other modern economists, asserted that the bad news for the scarce factor was no big deal because the winners in each country could always entirely compensate the losers and still be better off. Samuelson and other neoclassical economists were obviously referring to fiscal transfers from the winners to the losers (e.g., corporate taxes and tax exemptions for low-paid workers). One did not even have to be a social democrat to be for FT. One could simply be for progressive taxation like the one prevailing already in

the US at the time of Roosevelt, who was not a social democrat. In other words, the fiscal system would take care of the bad news for the scarce factor when moving to FT. One could be a neoliberal Anglo-Saxon economist and yet be for FT (e.g., Samuelson).

And if that was not enough, it was suggested that:

- 1) The introduction of social democratic policies in some countries in the West had made workers also capitalists by obliging them to save by law for their health and future pensions. So, in rich countries, the losers due to moving to FT (namely the workers) would gain as capitalists.
- 2) In rich countries most workers could be retrained and educated so as to accumulate human capital and become human-capital rich.
- 3) In modern economies there was a non-tradable sector (mainly devoted to services such as health, education, distribution and public service) not suffering from international competition to which losers could be directed to.

However, observe already that this third important solution to possible unemployment of manufactures' workers unravelled (albeit partially) with the extension of FT to services in the 1990s when the GATS (General Agreement on Trade in Services) was created. The revolution in communication technology allows for the provision of services between two partners that are geographically distant; not in the same place. Until then service providers were protected by geography, sometimes extremely so, as when a hairdresser needs his client to be in his immediate proximity to deliver the service. More graphically, suppose a textile worker in an Italian factory lost his job when his factory closed in 2000 as a result of new competition from China and was retrained to become an X-ray technician. Now with computerized medical diagnosis being exchanged across borders, he might lose his new job again, because Indian X-ray technicians provide the same service to Italian hospitals for much less money.

To sum up, developed countries' governments relied on the above analytical arguments, to make further trade liberalization in goods and by extension services over time (inside the EU but also at the World Trade Organization) palatable if not acceptable to the electorates. In particular, trade unions in the richest countries of the EU appeared to accept the idea of implementing intra-EU FT in goods and services. Actually, it has been shown, both theoretically and empirically, that FT in goods led to some convergence of wages among the six original EC member countries,

but that this took place without wages in Germany and the Netherlands being pulled downwards.

3. The Incredible Audacity of the Treaty of Rome

What was really quite revolutionary in the 1957 Treaty of Rome creating the EEC was that one of the goals of the Treaty was to have one labour market across the 6 original MSs (but for national civil service jobs). This is what article 48 of the Treaty of Rome was contemplating when it approved the freedom of movement of workers. In fact, the common objective was not only to create a Customs Union for goods and a Free Trade Area for services leading to one single market for goods and services, but also the creation of a so-called Common Market leading to the unification of the six labour and capital markets. Counting on the fact that the EU was widely enlarged over time and the EEA was created, the unification is not of 6, but of 32 labour and capital markets. If all went smoothly, the end game would be one single hourly wage rate for a given job or task across 32 MSs of the single market, namely the 28, 3 non-members of the EU part of the EEA and Switzerland.

It is obvious that the unification of labour markets is bound to leave many more people on the side of losers than in the case of having only FT in goods and services. This was obviously not well thought-through at the time that the Treaty of Rome was being discussed (1955–56). Probably, the founders of the EEC thought that people in the six states were not very eager to move. They assumed people did not have the instruments for successful migration to another MS: the right age, right education, right knowledge of language, and so on. At the time as well, migration was a family decision, very far from being an individual decision, as is more likely today. This is not to speak about the time and money to commute or to communicate back home. Emigration from a MS to another MS for most would be a dangerous proposition; a kind of adventure. Maybe they were right in the mid-50s to think so; of course, but not now, more than six decades after.

What is quite astounding, is that the drafters of article 48 of the Treaty of Rome were the same that also included article 235 in the Treaty (adhesion of new members). Did they not give a thought that the latter might be countries with much lower standards of living,

hence labour costs than any of the six? Maybe, but then they probably thought people in those poorer countries would not avail themselves of the right to move for work inside the EEC. The reasons for that would be the same as those given above when referring to citizens among the six. Maybe they thought that people in those potential member countries (e.g., Greece, Portugal) were even less mobile than Italians and were regardless further away from the core rich countries of the EEC (such as Germany, France and Benelux countries) than Italy, after all, a neighbouring country. They must have thought that distance and border crossings would be an additional deterrent to move.

At this stage it is worthwhile to note that in 1992 the Swiss people organized a referendum to decide if they wanted to accept the proposal made by the Swiss government to enter the EEA. The resulting vote of the people was against it mainly because the EEA contemplated the free movement of people between the EU and Switzerland. In fact, at the time more than 15% of the resident population in Switzerland were foreigners, mainly hailing from the EU. People spoke about *Ueberfremdung*, “over-foreignization,” an excess of foreigners. That was the time of the so-called “Schwarzenbach Initiative” (1970).

4. The Problem with the fourth Freedom

Was the fourth freedom accepted democratically in 1955–57? Surely not. It was imposed from above. This author contends that it should have been submitted to much more to scrutiny in national parliaments in view of the possibility that the Treaty of Rome contemplated already in article 235 that the EEC could legally be expanded beyond 6 members to all European countries (in fact all the members of the Council of Europe including Turkey!). To put it graphically, was for example, Paul Henry Spaak, one of the architects of the Treaty of Rome, really contemplating the possibility of having a single labour market including Turkey?

Quite interestingly, there was no questioning of the fourth freedom until the Eastern enlargement in 2004. The main reason was that there had not been a migration crisis as an outcome of the Southern enlargement (1981–86). Maybe that explains as well why the fourth freedom was re-conducted in the Maastricht Treaty without raising objections when

it was ratified in 1991–92. Take note, however, that until 2000, there was no social media. Nowadays the question of migration can be easily politicized. For instance, anybody could argue over the Internet that the fourth freedom both in the Treaty of Rome and in the Maastricht Treaty was imposed by elites and academia, and they would be not totally wrong. Of course, at that time the Internet was unavailable. Note as well that low-cost air carriers, such as Easy Jet, Ryanair and Wizz Air, were created only after the Maastricht Treaty was adopted and that took place paradoxically as one of the successful outcomes of the creation of a single market in air transport services.

There is a doctrinal element here that is not well understood. Economic liberalism involves among other aspects the equality of opportunity; but this is only reserved to nationals of that state, i.e., citizens. When one says there is equality of opportunity in, say, Greece, he means for all Greek citizens. If the nation-state extends it to non-citizens (e.g., of other EU MSs) it is extending a right without many corresponding obligations (e.g., Greek obligatory military service).

The burden of national defence lies entirely on its citizens. Why? Democracy implies a common *demos*. Equality of opportunity and obligations is applied to the members of the *demos*, including common defence. Extending the right to other Europeans to access the labour market without limitation is a right that has no counterpart in terms of military obligations (common defence), but only in fiscal obligations. This is quite awkward, particularly in a Europe contemplating since 2022 the war between Russia and Ukraine. Some EU countries are not even members of NATO (a sort of common defence union), such as Austria and Ireland. What is a Finish national doing his military service and putting his life at stake going to think about an Austrian national permanently residing in Finland and whose country is not even in NATO?

More generally, can there be free movement of labour between two or more countries if there are no common *demos*? After all, laws on social security, taxation of labour (income tax), military service and so on are decided democratically in a democratic parliament.

One can question the fourth freedom also from another angle. Free labour movements in the EU, leading to a convergence of labour costs, will be for the overall benefit of member countries (i.e., a simple application of Smith and Ricardo’s theory of FT to labour markets). However, as in the theory of FT in goods, there will be negative consequences for some

of the actors involved, namely the labour force in the well-off countries of the EU. Kaldor or Samuelson would argue then that to convince trade unions in those countries to be for the fourth freedom, there should be a mechanism of compensation from the less well-off countries to the well-off ones. But anyway, the EU is not equipped with a common budget big enough for the poor to compensate the rich. Moreover, there is no apparent intra-EU solidarity between the trade unions of the different member countries. Can one imagine that Polish trade unions would gladly recognize that the free movement of Polish workers to Germany and the UK has contributed to the rise of the wage rate in Poland? And that as a result of this, they would ask the Finance Minister of Poland to transfer some funds to the UK or Germany to compensate those British or German workers having lost their jobs or seen their wages reduced?

The truth of the matter is that there is no compelling necessity to include this fourth freedom to make sustainable a single market based only on the other three freedoms. This is what a group of experts of Bruegel, a Brussels think tank argued in a report published after the Brexit referendum in the summer of 2016, but the issue has strangely disappeared from the public debate.

5. Clarification needed: the fourth Freedom, Schengen and the Temporary Movement of Workers

There is much confusion and amalgamation being made among a wide spectrum of public opinion regarding these three concepts. Schengen relates (domestically) to the passport-free area that covers most EU MS and 4 non-EU ones. The Schengen area does not cover Bulgaria, Romania, Cyprus, Ireland and (before Brexit) the UK. It means “only” that inside this 26-country space can anyone including non-residents, non-nationals of countries not in the Schengen area move without being controlled at intra-Schengen borders. For many of the latter an entry visa to the area must be obtained previously (e.g., Tunisia) but not for others (e.g., Bulgaria, Israel). In short Schengen is there to facilitate short term movement of tourists, non-workers (such as pensioners or students), business visits. However, for non-nationals not legally residents

in the Schengen area it is limited to three months. Schengen is also all important when it comes to asylum or transborder criminality but note that it is irrelevant when referring to the fourth freedom as shown now. The latter is a different ball game altogether. It implies total freedom to any national of the MS inside the single market to migrate for work purposes in that a large geographical area containing more than 450 million people (much larger than the US labour market). This includes the right to move to search for a job with no time limitation, not necessarily to have a job before moving. Of course, the principle excludes public service jobs (e.g., the Army).

The limitation of three months, all important for Schengen, is irrelevant for nationals of the states that are part of the single market without being members of the Schengen area, namely Bulgaria, Romania, Cyprus, Norway, Iceland and Liechtenstein. Add Switzerland to that. Thus, all the citizens of more than 30 sovereign states (residents or non-residents in the area) have the right to work and hence automatically live and establish themselves in all of them. Therefore, any citizen of one of those fourth-freedom states can legally migrate for work to any of the other states in that group. This is by sheer application of the fourth freedom. In passing, this astounding right is what explains the rush of many Israeli citizens, residing in Israel to try to obtain a passport from one of the European states from where their family members originated (e.g., Poland, Spain, Portugal). Of course, when doing the application, they have no intention to join the labour market of the country in question (e.g., the Polish one) but the supranational European labour market.

FT in services includes as one of the modes of cross-border delivery the temporary movement of the service-provider across the border. It is the fourth mode of delivery using GATS jargon. Note that it does not mean that the service-provider can change his residence nor live in one of the other single-market states. So, it is important to underline that Mode 4 of GATS has nothing to do with migration. The confusion in the mind of many in the establishment comes from the fact that some call this mode “temporary migration.” What is temporary? One benchmark could be the definition of the UN of what a migrant is: a person living for more than one year in a country other than that of its birth. So FT in services is definitively not a migration which implies a change of residence. The “Polish plumber” in France is not a Polish migrant in France. Note also that there are other forms of delivery of labour services

across borders not involving migration, hence not involving a change of residence, nor in the medium term a family reunification. Two examples come to mind: “frontaliers” (cross-border inhabitants of one state working daily in the neighbouring one) and seasonal work.

Finally, one hears frequently that the Schengen agreement has been violated by many MSs recently; one is told that Germany and Netherlands were backed by the ECJ when they claimed they wanted to deny immediate welfare benefits to Eastern European migrants. But this has nothing to do with Schengen. It has to do with the fourth freedom.

6. The Difference Between the Fourth Freedom and Free Trade in Goods and Services

Goods and services do not have a soul. Goods are not alive but for some exceptions (animals). That makes all the difference. Migrants are humans. Importing workers on a permanent basis means not only providing them with public services (including health and education) but also housing; all this in order for them to be able to work. It can also mean importing the migrants’ problems. In other words, the degree of involvement of local indigenous populations must be much larger than with goods. The amount of friction and contact between locals and newcomers is also much higher than when speaking about temporary delivery of services. Local populations might see housing prices go up; neighbourhoods over packed; public services deteriorate; schools not being able to cope with the mixture of students of different origins. Whereas temporary movement might involve unfair competition with local workers if not well regulated, hence creating an economic problem, there are no social consequences. The Polish plumber coming for a weekend to work in Paris is not a social problem and does not question French collective identity. Nor are the thousands of frontier workers flocking daily from France or Germany to Switzerland around Geneva and Basel. The emergence of a new Romanian-inhabited neighbourhood in the periphery of Nice might. It is likely that most EU citizens are not aware of the simple fact that by their country being a member of the EU’s single market, intra-EU migration is as feasible and

legal as is intra-regional labour movements inside their own country.

This unawareness is particularly acute and relevant to small states in the EU27. The principle of free movement means that a migration destination that is a small country, say in the EEA (such as Norway, Liechtenstein or Iceland) or the EU (such as Luxembourg, Malta, Slovenia, the three Baltic states or Cyprus), could be easily swamped by entry of a sizable number of other EU citizens and see their demographic equilibrium suddenly change.

The probable reason why voters of small states are unaware is because most of the small countries in the EU have an average income per capita which is equal or lower than the average income per capita for the EU as a whole. The perception is then that it is unlikely that economic migration from the rest of the EU could be substantial at some stage. In some cases, the insularity or remoteness of some EEA MSs (including the ones in the EU proper) helps to sustain this belief (e.g., Malta, Iceland and Cyprus). In other cases, the belief is sustained by the existence of harsh weather conditions and a language barrier. This is the case of Norway, one of the richest countries in the world.

That leads straight to the special cases of Luxembourg, Liechtenstein and Switzerland, which are at the other extreme: no real language barriers; no harsh weather; no remoteness; three countries centrally located in the continent; an income per capita much above the average of both the EU and the EEA. It is only natural that many citizens of both states question the meaning for their country to have free movement across 32 countries, even if all are European. Not surprisingly, as explained in another part of this paper, the ECJ has already granted to Liechtenstein exceptions in the application of the fourth freedom.

7. Nationalism and Foreigners

What is a “foreigner,” commonly speaking, if not a stranger? Being foreign is being strange; not typical; hence not normal; sometimes the word foreign is assimilated to unknown and not conforming. Hence the attitude of the local towards the foreigner or newcomer ranges from prudence to precaution, maybe to apprehension and even hostility; it is the so-called “the other.”

Contrast the term “foreigner” with “national.” The latter has his own hymn, flag, culture, folklore, ceremonies, kitchen/dishes, holy days, sports, language, literature, humour and music. Add to that in many cases common defence (including sometimes compulsory military service as in Greece and Finland) and common institutions of authority (public function). In some rare cases for present-day Europe, even religion.

Where is the rub when confronting the concept of “National” “with the fourth freedom”? Simply that “National” is assimilated to “citizenship”; “nationals” are “citizens”; in spite of what the Maastricht Treaty of 1992 postulated, European citizenship has not penetrated in national consciences of the different MSs, not even with the delivery of same-format European passports. Non-national citizens living in a particular MS are considered still “foreigners,” not “fellow Europeans.” A couple of examples will suffice. When the current Prime Minister of the Netherlands, Mr. Rutte, who is otherwise a liberal, said in an electoral campaign that foreigners should “behave normally or go away” he was including all other Europeans, not only Arabs or Africans. When former PM of Britain Theresa May qualified migrants as “citizens of nowhere” she included other Europeans. More extreme politicians will openly say what more moderate ones won’t dare to say, namely they fear a contagion by “foreigners”. A leader of an extreme-right party in the Netherlands with two parliamentarians in the Chamber said that migration leads to a watering-down of Dutch culture. Clearly, he meant among foreigners who were also non-Dutch Europeans. Simply stated, what remains national, as perceived by politicians and individual European citizens alike, is what is not shared and not to be shared with citizens of other MSs and not only non-EU MSs. When Victor Orban said that “Hungary will never become a country of migrants,” he was not attacking the Schengen Agreement but the fourth freedom.

The rise of identity politics and Euro-populism contrary to what is thought has been going on since the 1980s in Europe and accelerated after 2000. The vote going to populist parties has tripled on average from 2000 (8%) to 24% in 2017, according to an issue of *The Economist*. Dealing with European populism. Identity politics in Europe rejects multiculturalism, otherwise considered a failure where it has been tried. What is striking for this author is that it implies by the same token rejecting the emergence of a new culture

away from the strictly national one, e.g., a European culture.

8. The Role of Social Media

Globalization has exacerbated nationalism. On the one hand it has led to cosmopolitanism cherished by some social classes (the jet set; IO staff; academics; media figures including artists). The latter are looked with jalousie, but also irritation, spite and even hate by other citizens, either because the latter don’t have the instruments of cosmopolitanism (passport, language, income) or because they reject it, openly seeing globalization as a danger.

What is well accepted now is that the emergence of social media has led to polarization between the two groups mentioned and in fact research shows that those individuals in the anti-globalization camp tend to communicate more among themselves than with the rest of the world. In other words, many people are becoming more local, not more global.

9. What Can We Learn from the Example of Brexit?

It will be remembered here that former PM Tony Blair thought, quite daringly as it were, that the UK would not submit citizens of countries becoming EU members in 2004 to the 7-year transition period provided for in the Treaties of Accession (and which, e.g., was applied by Germany). Apparently, the UK government overlooked that the Polish unemployment rate reached 19% in 2003, at a time when British trade unions were totally disorganized.² It is a fact that one result of this decision was that a substantial number of Eastern Europeans (mainly Polish citizens) settled down in the UK over a short time span. The phenomena took some time to sink down in the minds of both UK politicians and the electorate. Was it an error of calculation by Mr. Blair? This author clearly thinks so. He was misled by the forecasts made previously by the European Commission. It backfired against the re-election of Gordon Brown, the successor of Blair.

² This contrasts with the Swedish case, where the trade unions quite discreetly worked in cooperation with business interests to limit in the early years of Enlargement immigration from the new entrants.

Surely the Great Recession played a role in the reversal of attitudes on intra-EU migration in the UK as well. All together it led some time later to new PM Cameron to ask for some EU concessions from Brussels on the fourth freedom to no avail.

We know now that the primary concern of the Leave voters in the 2016 referendum was immigration³, but lead politicians of the Leave campaign preferred to speak about sovereignty: “taking back control of borders.” Observe how confusing this argument was as those spelling it knew perfectly well that the UK was not in Schengen.

Another quite bewildering research finding is that there are actually regions in the UK where the relative number of EU inward migration was low that voted for Leave; the contrary happened with London. Hence, a contention of this author is that it is not always real friction between locals and migrants that leads to rejection of migrants but rather it is the perceived or imagined friction that counts, which in the UK is conveyed by the yellow press and by social networks. (In passing much of the same happens in Swiss referendums).

In a show of unity mixed with feelings of revenge but also fear, the other 27 MSs but even more so the Commission have always asserted that the fourth freedom is sacrosanct, in other words part of the *Acquis Communautaire*. It was certainly believed in Brussels that any concession in the negotiations on Brexit with the UK on the fourth freedom, would have led other MSs to ask as well for a revision of the current system (e.g., the Netherlands). When some experts have evoked since 2016 the possibility of offering a Swiss solution to the UK, they have been systematically turned down by the Brussels institutions. They have been told that the Swiss formula of having separate bilateral agreements between the EU and Switzerland was an error allowing Switzerland to do too much cherry-picking. They say this was the error. They reject the idea that the fourth freedom should not be an integral part of the *Acquis Communautaire*. The reason for that position is more politically-inspired than based on economic reasoning as explained in the next section.

³ A poll two months after the referendum showed that 87% of Leavers wanted to reduce immigration and 40% thought it the top issue facing the country, see Bagehot (2018, November 3). Explaining Brexit. The Economist, pp. 34

10. The Fourth Freedom and the Theory of Customs Union

From the theory presented by Viner (1950), we know that Customs Unions have not only positive welfare effects (trade creation) but also negative ones (trade diversion). The latter are a consequence of each partner's discrimination in favour of the other partners. In fact, the same theory can be applied to the fourth freedom. By opening migration selectively to citizens of other MSs, each EEA partner country is going to partly import workers from other MSs performing more than local ones, but also workers substituting for even cheaper and more productive workers from third countries outside the EEA. A frequently-heard argument in the UK before Brexit against the fourth freedom presented by the few free traders in favour of leaving the EU was that the UK would be better off by introducing, as far as migration goes, a points-based system rather than by sticking to the fourth freedom. Such a system is successfully applied in Canada or Australia. In fact, such a system has been applied by the UK since January 2021 and “polls suggest Britons are more comfortable with the new system, with its emphasis on skills and control than with the free movement from Europe that preceded it. Polling by Ipsos shows that more feel that immigration has had a positive effect on Britain than a negative one. In 2015 the same survey revealed the opposite.” The result has been a surge of immigration of highly skilled immigrants in recent years, particularly from India. Germany is increasingly leaning towards adopting such a system without actually questioning the fourth freedom. That is a nonstarter for Brussels. The EU assumes that free labour movements are *de jure* part of the political *acquis* and not only part of the economic one. This is pretty contradictory with another argument defended by EU lawmakers whereby being a member of the EEA, such as Norway, is sharing with the EU “only” the economic *acquis*.

11. Some Final Thoughts and Policy Conclusions on the Sustainability of the Single Market

The analysis presented in this paper points to the obvious fact that those drafting the Treaty of Rome

did not give much thought to the implications of including the fourth freedom at the same time they contemplated already the possibility of future enlargements of the EEC to be created (as per article 235 of the Treaty of Rome). Four decades after, in the wake of the 2004/2007 enlargements, questions started to arise about the wisdom of including the fourth freedom as part of the political *acquis*. For the EU Commission, it was too late to ask this question.

The only thing that could be done is to draw some lessons from the experience posed by the different enlargements and devise some policy conclusions. This paper does not pretend to be comprehensive. We suggest now some practical measures that could be adopted to lessen the inherent contradictions between the fourth freedom and future enlargements.

From the example of Brexit, a lesson can be drawn and that is that when the income gap between old MSs and new MSs is large, the length of the transition period for the adoption of the fourth freedom should be modulated in a way that the number of net annual migrants from the new MSs is not too visible to the electorate.

To make the fourth freedom acceptable to those citizens bound to lose economically fiscal transfers and retraining should be seriously considered. President Kennedy, for example, after deciding to liberalize manufactured trade in the context of the so-called Kennedy Round of the GATT, launched a program explicitly called Trade Adjustment Assistance, directly linked to the liberalization made before. Other US presidents proceeded in the same way later on.

Nothing of the sort has been tried in the context of the 2004 enlargement neither in the UK nor elsewhere. It goes without saying that such ideas should be discussed in the context of future accession of the Western Balkan countries (e.g. Albania, Serbia), Georgia and in the far future Ukraine. For the EU, the unification of European labour markets to become in the end a single one stands on its own. The only thing Brussels is sensitive to is that a level playing field should be established between the more than 30 different labour markets, something that can be praised. But it is clearly not enough when taking into account the huge gap between hourly wage rates in Luxembourg and in Romania, for instance; not to speak about the gap between those in Luxembourg and Ukraine.

More practically some EU MSs have in a discrete way worked to restrain the free movement of workers

as the only solution they see. Liechtenstein has obtained from the ECJ an exemption in view of the exiguity of its labour market. It can limit the entry of EU-originating workers to given amounts. After the Swiss referendum in 2016 against free movement, the Swiss government negotiated an amendment to the pre-existing bilateral agreement on labour movements whereby Switzerland was authorized to advertise jobs for Swiss first. In the EEA agreement, countries like Norway can invoke articles 112 and 113 to apply an emergency brake to migration from the EU if needed. Germany and the Netherlands have been studying the possibility of limiting free inward migration from the rest of the EU to those people who have a job before migrating. That could be done by a system of a priori registration. It has been also suggested that EU migrants that would not be able to find a job in six months could be deported back to their origin countries. Another indirect deterrent to the free movement of people suggested has been to impose limitations to the purchase of properties freely, as the rules of the single market oblige at present.

In the view of this author, the ground is slowly eroding under the feet of those adamant to cling to the free movement of people as part of the *acquis*. It is not only socially speaking being questioned because it pulls down wages too quickly in many sectors affecting negatively the incumbent local populations. It is also questioned by politicians practicing identity politics, e.g., the former Interior Minister of Italy Salvini when he charged against Roma, thinking mainly about those hailing from other EU countries. Take note that he is a prominent member of the current Italian government presided by Mrs. Meloni. By saying what he said, he has in fact acknowledged explicitly that he could not do anything about Italian Roma. The same attitude towards Roma prevails in France.

To conclude, this author thinks that in view of what is presented in this paper, the EU Commission should give a thought about the Fourth Freedom in view of future EU enlargements, but also in view of the on-going de-industrialization which should particularly affect this time Germany and other Northern European MSs (e.g., Sweden, Denmark, the Netherlands, Austria) that are traditionally very sensitive to anti-migrant feelings in extensive parts of their electorates. This is not to speak about the prospective entry of Ukraine into the EU, a promise made by European leaders not long ago.

Moreover, if the issue for some rich EU MSs is the lack of young people in their labour market (because

of rapid aging of the population and low fertility rates), migration flows can be regulated by introducing a point-based system or being more open-minded regarding seasonal work.

A final suggestion for further research. It is time for econometricians to come up with empirical evaluations of the effects of the fourth freedom properly speaking (isolated from other freedoms) on labour costs, say, in the UK between 2004 and 2016. A study about the costs and amount of labour diversion to the detriment of citizens of non-MSs along the lines of the Theory of Customs Unions inquiry on trade diversion would also be welcome.

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