Single Market, Four Freedoms, Sixteen Facts

– Economic Effects in the EU

Kommerskollegium
National Board of Trade

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Introduction

The European single market launched in 1992, is an extensive legal and political project. It was created and maintained to improve the economic performance of Europe. Through the free mobility of the inputs and outputs of production across a larger market, European firms have greater opportunities to innovate and compete. This should, in turn, boost economic growth.

When the debate over the "added value of Europe" becomes loud and questions are raised about the possibilities of limiting the free movement, it is important to assess what the single market has – and has not – delivered.

This is a short version of the National Board of Trade's literature review *Economic Effects of the European Single Market – Review of the empirical literature*. Its purpose is to present the findings in a more accessible way. The reader is referred to the full review, and additionally to the reviewed articles themselves for more details on methodology, theory and results. The reviewed articles share the feature that they all analyse observed (actual) effects of the single market on various topics, in contrast to predictions or forecasts. They are organised into five chapters: one for the free movement of goods, services, capital and persons, followed by a chapter with articles that give an account for the effect of the single market on economic growth and integration.

The main results indicate that goods and capital appear to be able to circulate rather freely across the single market. Both trade in goods and investment flows have increased over the single market's lifetime. This has contributed to a higher European GDP. While this certainly is not solely due to the existence of the single market, there is good reason to believe that the efforts taken to remove barriers across Europe have contributed to a significant extent.

However, the same does not seem to be the case for the free movement of services. Several barriers remained through the 1990s and into the 2000s. In 2009 the Services Directive was transposed across Europe in order to remove such barriers on a large scale. Its effects have yet to be properly evaluated, but early evidence suggests that there is reason to be optimistic about its effects.

The flow of persons across the single market has been fairly small and predominantly from the East to the West. This has not led to any robust effects on wages or unemployment rates. Public finances have not been significantly affected – if anything, the average EU citizen living in another EU country is more likely to be working than the average native. There are still several barriers to be overcome before the free movement of persons across Europe becomes a reality.

The review summarises the literature in sixteen 'Single Market Facts'. Their purpose is to boil down the scope of the research into one or two concise sentences. The National Board of Trade hopes that these facts will make the ongoing discussion on the "added value" of the European Union and its single market more accessible. When debates become loud on the future of Europe, we need to have the facts on what the single market has – and has not – delivered clear in mind.

Free Movement of Goods

Creation of the single market

When the European Community (EC) was established its primary objective was the creation of a customs union for goods. Most efforts to integrate the European economies were thus focused on removing the barriers to trade in goods. The establishment of the European customs union in 1968 meant that all border barriers, such as customs or import quotas, were removed. However, the decade and a half that followed did not continue on the integrating path. In the wake of harsher economic times across the world, many member countries imposed national (product) regulations to protect domestic industries from foreign competition.

Following this "protectionist" era and its failure to revive the struggling European economies, trade liberalisation and further integration was once

Timeline

Major events in the development of the free movement of goods

1957 The principle of the free movement of goods is established in the Treaty of Rome.

1964 European Community (EC) law is ruled to be superior to national law in the case of *Costa v ENEL* (C-6/64).

1968 The EC Customs Union enters into force.

1974 In the Dassonville Case (C-8/74), the European Court of Justice (ECJ) establishes that all trading rules raised by member states directly or indirectly hindering trade within the Community are prohibited (including rules that may *potentially* hinder).

1979 The principle of mutual recognition – whereby a product that is lawfully marketed in one member state should be allowed to be marketed in any other member state, without further testing or adaptation to national rules – is established by the ECJ in the *Cassis de Dijon* case (C-120/78).

1987 The Single European Act (SEA) enters into force. The introduction of qualified majority voting on single market issues enhances the EC's ability to remove obstacles to trade. Thus, "completion" of the single market becomes feasible.

1992 The Maastricht Treaty is signed, establishing the single market and the EU. All remaining barriers to trade are to be eliminated within the EU, for example through harmonisation of product standards.

1994 The EEA agreement enters into force, expanding the single market to several non-EU countries.

2011 The Single Market Act (SMA) is launched to further deepen the single market through removal of remaining barriers

again a priority for the EC. This led the Commission to propose the Single European Act in 1986, containing almost 300 legislative measures aimed at reducing remaining barriers to trade. By 1992, the single market was launched across the twelve member states of the new European Union (EU).

The development of EU trade since 1992

The creation of the single market was expected to lead to increased trade across the member states. One common way to measure this is to look at how much a country, or a group of countries, trade with each other in relation to their GDP. Indeed, when the single market was launched the EU countries traded 9% of their GDP with each other – today, the share has risen to 21%. The major part of this increase occurred during the 1990s. The EU's trade with the rest of the world has risen from 6% to 12% of GDP, and over the same period of time, the EU countries have become more trade-oriented than the US and Japan. However, trade within the EU is still roughly two-thirds of the trade between the US states, when measured as a share of the respective GDPs.

Is this due to the single market?

A natural question is of course how much the single market has contributed to this increase in trade. Nevertheless, answering such a question is easier said than done. The optimal way would be to compare the actual trade development to an identical group of countries that did not form a single market in 1992. Since this cannot be done, economic (econometric) methods have to be relied upon. The most common way is to calculate how much countries "should" trade with each other, and then compare this with how much they actually trade (known as "gravity estimations"). Furthermore, such methods allow for the estimation of how the existence of the single market has affected the trade development.

The available analyses conclude that the single market has indeed had a substantial positive effect on trade within the EU (trade creation), without significant damage to trade patterns with non-members (trade diversion). The reviewed analyses vary in the number of countries they include and the time period they cover, hence the estimated trade effects range from 18 to 55 per cent.

Can increased trade be ascribed to the single market? The answer is: yes, to a certain extent. The single market has facilitated trade across the single market, but other factors (such as lower costs of transportation, greater abilities for cross-border communication etc.) have also played a significant role.

Single Market Fact #1

The single market has created new trade within the EU, without any significant trade diversion from non-EU countries.

The European home bias

"Home bias" is a concept used for the fact that consumption of domestic goods exceeds consumption of foreign goods, even after relevant factors that affect trade have been accounted for. Home bias reflects that the existence of a national border (or a state border in the US) significantly decreases trade (even though there are no formal border barriers). In essence, one measures how much of a country's consumption that is domestic and how much that is foreign. The interesting aspect is not so much the level of the home bias but rather how it evolves over time. Since the aim of the single market has been to facilitate cross-border trade through the removal of national barriers, one would expect the European home bias to have fallen.

The empirical literature offers two robust facts regarding the home bias. First, the European home bias is significantly lower today than in 1992. Second, the European home bias is significantly higher than the US equivalent. Most studies on European trade patterns conclude that the home bias – or border effect – has decreased since the single market was launched. It was primarily during the 1990s that the sharpest fall occurred.

Single Market Fact #2

National borders still play a significant role across the single market. However, the border effect has decreased since the launch of the single market.

More products to choose from

To deepen the understanding of the trade effects of the single market, one can measure how many available products the consumers in a country can enjoy. If trade with other countries becomes easier, one would expect an increase in the availability of foreign products in the member countries. One study has examined trade statistics of more than 10,000 products, to see whether the single market has led to more available products in the national markets. Furthermore, the study identifies whether products come from a single market country or not.

The results show that consumers in most EU countries have been able to enjoy a significantly larger variety of products. The increase in available products comes from single market countries as well as from other countries. The analysis shows that the increase in available products from the single market has made consumers better off (i.e. the value of the "consumption basket" of available products in a country has increased). This is particularly true for consumers in the smaller member states of the EU, for which the single market is relatively bigger than the home market than it is for the larger countries. In fact, the average effect for the larger countries is insignificant, whereas the Eastern European countries that joined the EU in 2004 and 2007 have seen the largest gain.

Price convergence and competition

When barriers to trade are removed and consumers become more readily able to buy the products they want from other countries in the single market, competition intensifies. In order to test whether this has actually been the case, one can look at the development of firms' price mark-ups, i.e. the price firms charge in addition to their production costs. If the single market has led to more competition, mark-ups should decrease.

It has indeed been found that price mark-ups in manufacturing sectors have decreased by 32% since the launch of the single market. The same can however not be said regarding the construction or services sectors. Since the primary focus of the economic integration in Europe has been devoted to trade in (manufactured) goods, these findings are perhaps expected. It has also been found that the manufacturing sectors that have seen the most active liberalisation efforts (e.g. clothing, footwear and alcohol) are also the sectors in which price mark-ups have dropped most dramatically.

Single Market Fact #3

The single market has made European consumers able to enjoy a greater variety of products, particularly in the smaller and/or newer member states.

Single Market Fact #4

The single market has increased competition in the manufacturing sector, which has led to lower prices for consumers.

Free Movement of Services

The single market for services

The free movement of services covers two general types of cross-border business relations: the right to freely provide services across borders and the right to establish a business in another member state. Member states are allowed to set up national regulations for services to guarantee certain levels of quality, consumer protection and environmental protection etc., as long as the regulation does not discriminate against foreign agents. The principle does not only apply to regulation that is formally discriminatory, but also to regulation that is practically discriminatory.

Services are not as mobile as goods – services make up roughly 70% of EU GDP but merely 20%

Timeline

Major events in the development of the free movement of services

1957 The principle of the free movement of services is established in the Treaty of Rome.

1974 The ECJ rules that a citizen of a member state must not be discriminated against if he/she wishes to set up a business in another member state (*Reyners* ruling, C-2/74). The same ruling applies to any citizen who wishes to provide a service within the Community (*van Binsbergen* ruling, C-33/74).

1989 A directive on mutual recognition of higher-education professional qualifications is adopted, in order to promote the ability for citizens (e.g. doctors) of a member state to provide services in other member states.

1992 Supplementary directive on mutual recognition of professional qualifications not covered in the previous directive (e.g. car repairers). These two directives have later been reformed in the Professional Qualifications Directive (revised in 2013: 2013/55/EU).

2004 The Commission proposes a new horizontal Services Directive, based on a 'country of origin' principle. A service provider should be able to provide his/her service anywhere in the single market as long as the regulation governing the service in the country of origin (i.e. the provider's home country) is met. The proposal was blocked, due to risks of undermined national working and social conditions.

2006 A re-negotiated Services Directive (2006/123/EU) is adopted, from which the 'country of origin' principle is absent. Instead, some national restrictions on services provisions were banned while others were permitted. Additionally, some sectors were excluded from the directive, such as social services and broadcasting.

2009 On 28 December, the deadline for transposition of the Services Directive into national law is reached, resulting in over a thousand pieces of national legislation across the single market.

Single Market Fact #5

The single market for services has traditionally been, and is still to some extent, suffering from "behind-the-border" barriers.

of cross-border trade, according to the most conventional measures of trade. However, such figures hide the fact that many goods exports today also entail a number of services (e.g. sales efforts, maintenance, software and advertising). This is especially true for the European economies, since most hold a comparative advantage in services "production". Parts and components are often imported (from outside the EU), and the added value in Europe consists of services. The improved possibilities for online communication have facilitated trade in services across borders, but they are still not as tradable as goods.

Barriers to trade in services

The barriers have historically been found in national regulation (behind-the-border), making it difficult to provide services across borders. Services are not as easy to define as goods and it is therefore difficult for countries to agree upon a common definition that can be liberalised across the single market. Services are also to a large extent part of nations' 'backbone structures' (infrastructure, healthcare, education, general business environment), making their free movement politically sensitive. Due to these preconditions, free movement of services has historically not seen the same magnitude of integrating efforts as the free movement of goods.

Studies that map the single market for services have found that considerable regulatory barriers to trade in services still exist, despite the launch of the single market in 1992. It has been noted that *differ-*

ences in countries' regulation have severe effects on the ability to provide services in the single market, even if each regulation in itself is not very restrictive. The screening process of the Services Directive, taking place between 2006 and 2009, revealed that there were still significant barriers to the free movement of services. The aim is to remove the identified barriers that cannot be justified.

The importance, and lack, of a well-functioning ICT market in Europe

It has been noted in various studies that American productivity has outpaced European productivity since the mid-1990s, and it has also been suggested that the reason for this is the American firms' greater ability to make use of the progress made in information and communication technology (ICT). European GDP would have been significantly higher had firms in Europe been as able to incorporate modern digital technologies into their business models.

The market for ICT services is fragmented in Europe. The lack of coherent regulation in Europe makes necessary large-scale investments too costly. As such, providers of digital services are restricted to smaller markets and, perhaps most importantly, firms in all sectors are restricted to those services available in their local market. This is reflected in large differences in the prices firms and consumers have to pay for phone subscriptions, broadband and other digital services.

Single Market Fact #6

The European ICT market is fragmented and its further development is crucial for all sectors of the EU economy.

Competition in European business services sectors

Business services are, just like digital services, important for growth in themselves but even more so for the performance of all sectors in an economy. Business services is the common term for accounting, engineering, law, marketing, employee recruitment, industrial cleaning, and security, to name some, and they serve as inputs for all kinds of firms. The creation of a single market for business services should lead to increased competition and increased productivity.

The evidence does, however, reveal that there are no signs of increased competition in the business services sectors. Many unproductive firms manage to survive. It is suggested that most firms in these sectors fail to grow outside their small, local markets and conversely, outsider firms fail to enter new markets. The aim of the Services Directive is to change this picture.

Single Market Fact #7

Business services competition has been poor across the single market.

The Services Directive

The previous sections of this chapter have described how the free movement of services does not seem to have been practically realised, despite the launch of the single market in 1992. This is perhaps not too surprising, since the free movement of services have not received the kind of full-scale integrating efforts that the free movement of goods has. The Services Directive aims to take a large step towards realising the *free* movement of services across the single market.

The Services Directive was adopted in 2006, to be transposed into national law by December 2009 at the latest. The aim of the directive is to minimise the (behind-the-border) barriers to trade in services in the included services sectors, covering 46% of EU GDP. The implementation of the Directive is an ongoing process. All new pieces of legislation should be notified and evaluated, to ensure that they do not constitute unjustified barriers to trade.

So far, it has not been possible to thoroughly confirm the *actual* effects of the Services Directive through econometric methods, due to its relatively recent implementation. Consequently, sufficient data has not been available. There is, however, early evidence offering useful insights.

The Services Directive has been found to have a positive effect on trade in services across the single market; the data are, however, not sufficient to statistically conclude such effects. It is also noted that implementation in each member state takes time and that the Directive therefore may come with so-called adjustment costs.

The European Commission has used data on the actual removal of barriers under the Services Directive. They find that it has the potential to have a large positive effect on trade in services across the single market. Through econometric methods, they show that the *already achieved* removal of barriers in the member states *should* lead to increased trade and higher GDP. Furthermore, they also find that further barrier removal in all member states will lead to even larger trade and GDP effects.

Single Market Fact #8

The Services Directive is work in progress and its effects have yet to be properly evaluated. Early evidence suggests that there will be significant positive effects.

Free Movement of Capital

Capital flows across Europe

During the first decades of the EC, capital flows across countries were seen as the reason for repeated banking and other financial crises. Hence, capital movements were only liberalised to the extent necessary for the functioning of the free movement of goods (e.g. export credits). Additionally, at that time, the European countries operated with fixed exchange rates. In order to maintain sovereign monetary policy, capital could not be freely mobile; this can be compared to today's Eurozone where the member states have fixed exchange rates against each other, free capital flows, but no monetary sovereignty.

Timeline

Major events in the development of the free movement of capital

1957 The principle of the free movement of capital is established in the Treaty of Rome, to the extent such that the function of the common market is ensured. As such, the free movement of capital was viewed as "secondary" or "supportive" to the other freedoms.

1993 The Maastricht Treaty establishes that all restrictions on the movement of capital are prohibited across the single market. Some exceptions are allowed, however, related to macroeconomic stability, tax differences and national security issues, for example.

The launch of the single market brought with it a rapid development for the capital movements, since all restrictions to capital mobility were abolished across the market. This literature review has looked into the development of foreign direct investment (FDI) in order to assess the effects of the free movement of capital in Europe.

Foreign direct investment

FDI is the term for when a firm invests capital in another country with the intention of a lasting interest and a significant degree of influence. Prominent examples are when firms open up factories or subsidiaries abroad. Furthermore, an FDI can be both the merger and/or acquisition of an existing firm in the foreign country, or the establishment of a new firm. The basic criterion is often that the investment has to account for at least 10% of the voting power in the foreign firm.

Since 1992, the flow of FDI within the single market has increased. When European firms invest abroad, 70% of those investments go to other single market countries (in the mid-1990s, the share was 50%). Suggestions have been made that this is in part due to the creation of the single market, which has forced previously protected firms to seek new ways to maintain their profit margins and/or market positions. It has, however, also been noted that there are large differences between regions in Europe – some have seen large inflows of capital, while others have seen very little of the kind. FDI from the US into Europe has also been affected – when the single market was launched, American

FDI into the soon-to-be insiders (i.e. the EU countries at that time) received a boost that was absent for the soon-to-be outsiders.

Effects of the single market

Several studies have analysed the flow of FDI through applying similar methodology as when analysing trade flows (i.e. analysis of how the single market has affected the flows of FDI). Most studies find a positive effect of the single market. The increase in FDI activity in Europe – both from fellow European countries but also from non-European countries – can to a significant extent be ascribed to the existence of single market.

The free movement of capital has made it easier and/or more attractive to invest in Europe and, similarly, increased European firms' ability to invest in other countries. One study has identified that when countries have announced that they will join the EU (and thus the single market), their inflow of FDI has received an extra boost. Another study has found that the single market, not the introduction of the Euro, was the significant contributor to increased FDI activity in Europe.

Investment in emerging Europe

One extensive and rather complex study has analysed how joining the EU (and thus the single market) raises the inflow of foreign capital. Specifically, it studies the inflow of FDI into those Eastern European countries that joined the EU in 2004 and 2007, compared to Eastern European countries that did not. In addition, they compare how different industrial sectors have grown in each country; sectors that require large external investments are compared with sectors that rely more on reinvested profits.

They find that sectors that rely heavily on external capital have grown faster than other sectors and, interestingly, that this is only true for those Eastern European countries that have joined the EU. Sectors that rely on external capital in non-EU countries have not been able to outpace other sectors. It is argued that this is due to countries' political integration with the EU – when an emerging country joins the EU (and its free movement of capital), it boosts investor's confidence for that country. Joining the EU has thus made it easier for emerging countries to attract foreign capital, to further develop their economies.

Single Market Fact #9

The free movement of capital has substantially contributed to facilitate FDI activity within, to and from the single market.

Single Market Fact #10

Eastern European countries that have joined the EU and the single market have been able to attract foreign capital to a greater extent than non-EU countries in Eastern Europe.

Free Movement of Persons

The importance of personal mobility

It is of fundamental importance that the factors of production are mobile across a single market. When firms are better able to compete and capital can flow freely to where it is most efficiently utilised, people must be able to move to where the jobs are. In a Europe where languages and cultures vary greatly, moving to another country is a big project in itself. But once a person has decided to move, legal and administrative barriers should not create further obstacles. We have reviewed articles and studies to get a picture of how the free movement of persons has affected labour markets and public finances across Europe.

Movement across Europe and labour markets

To begin with, it has been documented that Europeans are not very mobile in general – people do not move much within their countries. In 2008, 1% of the EU15's population moved within their country of residence and 0.1% moved to another EU15 country. Today, mobility is still rather low, despite high unemployment rates. A striking finding is the lack of a clear South-to-North flow of people. However, there is a fairly distinct East-to-West flow, where citizens of the newer member states that joined in 2004 and 2007 move to the older member

Timeline

Major events in the development of the free movement of persons

1957 The principle of the free movement of persons exercising economic activity is established in the Treaty of Rome.

1968 Restrictions on the movement of workers and their families are abolished.

1985 The Schengen agreement on elimination of border controls is signed by Germany, France and the Benelux countries. Five years later, the same countries agree to eliminate border checks between themselves.

1990 The principle of free movement of economically non-active persons (i.e. self-sufficient, students and retirees) is established across the EC.

1993 The Maastricht Treaty formally establishes 'EU citizenship', granting EU citizens the right to reside anywhere across the Union.

2004 The Free Movement Directive (2004/38/EC) replaces most previous regulation to consolidate the right to free movement for EU citizens. Regulation 883/2004 coordinates the social security systems across the Union.

2007 Most EU15 member states impose transitional arrangements in response to the enlargements of the EU in 2004 and 2007, whereby citizens of the new member states only have limited access to labour markets (for a period of maximum seven years).

states (EU15). Ireland was the country that received the highest share of foreign EU citizens as a share of the working-age population, 2%, in the years following the enlargements.

Impact in net receiving countries

The literature does not offer any *robust* findings of increased rates of unemployment or decreased wage levels, following the enlargement. Most studies have found that most EU movers (EU citizens living in another EU country) complement the native workforce by finding jobs in sectors where there was excess demand. The impact on public finances has been found to be slightly positive, since the average EU mover is more likely to be of working age and in employment, compared to the average native. EU movers are, however, over-represented in low-wage sectors and therefore on average earn lower wages than natives.

Single Market Fact #11

The intra-EU flows of persons have been fairly small and so have the economic effects, in net receiving countries.

Impact in net sending countries

The possibility to move abroad has helped to ease high unemployment rates in some of the new member states. This is helpful in the short term but may lead to a problem in the long term if the most qualified workers stay abroad for a long period of time (even if they do not perform “qualified work” in the host countries). Some net sending countries have seen labour shortages in sectors where specialist knowledge is required (e.g. doctors). Remittances (i.e. the money sent home from people working abroad) have, to a certain extent, helped to ease the effects of such “brain drain”, but the structural problems of productivity and economic growth may be vast if the most productive workers leave the country on a regular basis. According to some studies, an example of such effects can already be seen in Romania.

Single Market Fact #12

The average EU mover is relatively skilled, which has led to a fall in productivity and wages in some net sending countries.

Welfare tourism?

It was not only the effect on labour markets that was debated prior to the EU enlargements of 2004 and 2007; fears of so called "welfare tourism" were also pronounced. Some commentators argued that the new citizens of the EU would move *en masse* to the older member states to exploit generous welfare systems, and that the principle of free movement would prevent the older member states from doing anything about it.

The Swedish case is a useful example, since its welfare system is relatively generous and there were no transitional arrangements imposed, following the enlargements in 2004 and 2007. Several studies have been carried out to investigate whether EU citizens are over-represented in Swedish welfare recipient statistics. The results reveal that it is rather the opposite – Swedes are more likely to receive welfare transfers. The picture is the same across Europe – foreign EU citizens are more likely to be in employment than natives (thus contributing to the public finances). As such, one can conclude that the main driver for moving across the single market has been employment – not welfare – opportunities.

Single Market Fact #13

There are no signs of welfare tourism following the Eastern enlargement. Movers from the new member states are more likely to be in employment than natives, often in low-income jobs.

Economic Growth and Integration

After having gone through the four freedoms and how they have affected trade, investment, labour markets, public finances and competition, we have reached the end station of the review: the effect of the single market on economic growth.

Various growth models

The Commission published an extensive assessment in 2007 that analysed various aspects of the single market. In addition to the general conclusion that the goods market in Europe was well-integrated while the services market was not, they calculated that the EU15 countries' GDP was 2.2%, and employment 1.5%, higher than it would have been without the single market.

Another study has calculated that the observed increase in trade across the single market has the potential to increase EU GDP by 2.5-10%. Out of this interval, roughly one-third had actually been realised in 2008 (when the study was published). Another study analysing the effects of increased trade on growth argues that the market integration has enabled European GDP to be 7% higher, whilst yet another study suggests 5%. However, growth effects have differed across countries. The principle of mutual recognition (whereby goods sold in one member state are allowed to be sold in any other member state) is a prominent example of how the single market has promoted trade and growth. It has also been argued that national governments were able to "take cover" behind the EU to perform unpopular but necessary liberalisation measures.

Single Market Fact #14

The single market has made a significant contribution to EU GDP. The effect per member state depends on the economic structure of the individual country.

Economic convergence among the member states

In addition to contributing to overall GDP, the single market seems to have enabled countries with lower GDP levels to catch up with the richer ones. This converging effect grows stronger the longer a country has been a member of the EU. It is suggested that the single market has enabled the countries with a lower technological development to have greater ability to access new technology than they would have had outside the single market.

In a similar vein, when one only examines the EU15 countries, it has been observed that the smaller countries have seen a GDP boost compared to the larger countries. For a small country, the single market is proportionally much larger compared to the national market, than it is for a large country. Hence, the increased market size for firms in smaller countries is vast. However, it has been noted that the single market is not "perfectly" integrated, since firms from the larger countries still seem to benefit from a larger national home market.




Single Market Fact #15

The single market has had a converging effect on the EU economies' GDP levels, but significant differences between members persist.

The EU index of integration

Two economists have developed an EU index for measuring the level of integration for each member state. The index consists of four groups of indicators: Single Market (measures trade, capital and labour integration), Homogeneity (e.g. similarity in GDP per capita), Symmetry (of business cycles) and Conformity (with EU law). These sub-indices form the overall EU index.

The EU index reveals two distinct findings. First, it shows that all EU15 countries became more integrated with each other between 1999 and 2012. Second, the level of integration varies between countries, both in terms of overall index score but also in their respective sub-index profiles (i.e. some countries may have similar business cycles but different levels of conformity with EU law). For example, Denmark, Sweden and the UK share a fairly similar index profile. Belgium is the most EU-integrated country.

Single Market Fact #16

Almost all EU15 members have become more economically integrated.

Concluding Remarks

Available economic literature shows that the free movement of goods and capital has had positive effects on the European economy. Since the creation of the single market in 1992, trade in goods and investment flows have increased. This has led to a greater variety of available products for consumers, tougher competition and lower prices. The EU members of Eastern Europe have been able to attract foreign capital to a great extent after joining the EU. Consequently, economic growth has been boosted.

However, the free movement of services does not seem to have worked as smoothly. The single market does not seem to have facilitated trade in services during the 1990s and early 2000s, nor did competition in services sectors. The early evidence suggests that the Services Directive will be able to change this, but its actual effects have yet to be properly confirmed.

The free movement of persons has not had any large economic effects. Primarily, this is due to the fact that there has not been much intra-EU movement. However, those EU citizens that do move within the union have been shown to be more educated and more likely to be in employment than natives of the host country. Fears of negative effects on public finances, wages and employment have turned out to be unfounded.

Where the single market has been properly implemented, the expected positive effects have occurred. The efforts for deeper integration of the single market for services and enhanced possibilities for people to move across Europe should therefore continue. The single market has come a long way in removing barriers across Europe, but more can still be done.

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Free movement of goods

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