The blurred frontier of single market policies

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The single market is one of the most ambitious projects Europe has ever undertaken and has been one of the core objectives of the EU since its creation. Now, more than twenty years after the launch of the single market agenda, the EU has decided to relaunch the project, which has been showing signs of exhaustion.

Things have changed over the last twenty years. The world economy is much more globalised. The idea of expanding national markets in order to achieve a European scale has been overtaken by the emergence of increasingly global markets. Economies of scale and scope are no longer the main route to increasing productivity, especially in the case of services. Technology and innovation do a much better job. Services are by far the fastest growing sector of the economy.

The EU's recent services directive seemed to mark the end of an era characterised by large-scale projects designed to remove barriers to entry and trade. What is the next step? The answer provided by the Commission in its proposals for relaunching the single market project is not very encouraging. The new EU initiative involves a series of none-too-specific proposals in fields ranging from the environment to international trade, from consumer protection to professional qualifications. But the general message is clear. The creation of a single market is no longer about removing the more visible obstacles to trade and to movement of capital, products and workers. Obstacles still exist but they are not so obvious.

Services do not cross borders because their regulation is often too local and diverse across regions and countries. Companies do not trade across borders because they are subject to different legal regimes. People do not migrate because their professional qualifications are not recognised in other countries.

A recent report by Bruegel[1] shows that EU companies as a whole are not benefiting from the emergence of global markets. Only very few firms - the happy few - are responsible for a large share of EU exports. In Belgium, for example, the top 10% of exporters account for more than 80% of aggregate exports. The single market is currently only for a select club of companies. These companies are also generally more productive than those operating only in domestic markets.

[1] The Happy Few: The internationalisation of European firms. By T. Mayer and G.I.P. Ottaviano. Bruegel Blueprint 3/2007

Why do European small and medium-sized companies not export? Recent research by the OECD shows that firms in the US are smaller at the initial stages than their European counterparts but then grow much faster in the initial years. Access to financing easier in the US, administrative entry costs are higher in the EU which makes entry more difficult for small firms. Finally, product and labour market rigidities make post-entry adjustments more costly in Europe. Entry and growth prospects are more limited for European companies.

Obstacles to entry and growth are no longer at the border but at home in the form of restrictions to market entry and constraints on the operation of firms and professionals. This is especially relevant in the case of services, which not only represent an important share of the economy but are also crucial to facilitating the proper functioning of other markets. A competitive retail sector facilitates the distribution of products from all over the world. A competitive financial sector facilitates access to funding. Functioning telecoms markets result in cheaper access to technology, faster dissemination of innovation and lower transaction costs.

For firms and consumers to benefit fully from an enlarged market - European or global - reforms must start at home to allow successful entrepreneurs to enter the market and expand their businesses. Enabling competition at national level for both domestic and foreign firms is at the core of any policy aiming to prepare Europe for a more globalised world.

Policies aiming to deepen the single market can no longer constitute an independent branch of the policy agenda but should be an integral part of any national and European policy.