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THE EU'S SINGLE MARKET

More than a market, less than single

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Summary

- For over thirty years, the single market has been celebrated as the European Union‘s greatest achievement. It has contributed to the prosperity of its member states by lowering barriers to cross-border exchange and increasing trade, competition, and welfare.
- The single market is one of the main incentives for joining the EU, contributing to many successive enlargements of the Union including the ’big-bang‘ enlargement twenty years ago, which transformed Europe and contributed to the economic convergence of new member states.
- However, in the last two decades, a gap has emerged between the EU’s political statements on the significance of the single market and the enforcement of its principles by member states.
- EU institutions and their advisors like Mario Monti and Enrico Letta have tried to expand the notion of the single market to include the harmonisation of many sectoral and redistributive policies. At the same time, analysts and business associations have been increasingly vocal about the lack of progress in removing discriminatory barriers to cross-border exchange – in particular, the provision of services – and the disproportionate regulations adopted at the EU level.
- The European Parliament elections in June 2024 started a new political cycle of the EU. Together with other EU institutions, the newly formed European Commission will have to decide on many complex and diverse tasks, ranging from continuing collective efforts to support Ukraine and managing the resulting geopolitical tensions to convincing increasingly sceptic voters in the Union‘s member states about the value of European integration.

- Renewed, more focused efforts aimed at advancing single market integration, and consistent attention to enforcing its principles on the ground, should be among the new priorities of the European Commission and Union's member states.
- The actual (as opposed to rhetorical) advancement of the single market and its enlargement remains a significant potential source of economic growth and shared prosperity. This growth will be necessary to generate the finances required to fund defence, education, healthcare, and other public services in the future, in addition to managing structural transformations and cross-border crises.

The relaunch of Europe in mid-1980s

The single market is often referred to as ‘one of the European Union’s greatest achievements’, which is ‘at the heart of the European project’ (European Commission 2020: 1). The first mention of the single market – at the time called the common market or the internal market –can be found in the Treaty of Rome (1957), which established the European Economic Community (EC). The single market is understood as a combination of ‘negative‘ and ‘positive‘ integration measures that, in combination, establish a space of free cross-border exchange and subsequently enforce its proper functioning (Pelkmans 2019: 2). Negative integration consists of removing barriers to the free movement of goods, services, capital, people – and, more recently, technology and data – backed up by centralised and decentralised implementation and enforcement. Positive integration entails implementing appropriate and proportional EU-level (supranational) regulations, policies, and institutions, enabling the proper functioning of the single market.

The removal of barriers to the free movement of goods, services, people, and capital – known as the four freedoms – was expected to generate significant static and dynamic economic benefits for participating member states (Pataki 2014).[1] Initially, progress beyond abolishing customs duties was slow. But after a period of economic stagnation in the mid-1980s, and in the face of growing evidence that protectionist policies had failed to strengthen European companies' competitiveness, political elites of the EC and its member states agreed to relaunch the single market by 1992.

The adoption of the Single European Act in 1986 leading to the acceleration of the removal of barriers to 'four freedoms' by the end of 1992 received significant scholarly attention. It has been described 'as a milestone' in achieving 'the removal of all barriers to commerce' among its member states (Kelemen and McNamara 2002: 920). The European Commission leveraged the renewed political momentum in favour of economic integration to advocate the establishment of the Economic and Monetary Union, arguing that one market needed one money (Delors 1989). Although the actual adoption of legal norms aimed at removing the barriers to the 'four freedoms' was slower than initially planned, the late 1980s and early 1990s are remembered as a time of advanced European integration, laying the foundation for EU's future development.

From today's perspective, it is worth remembering the main factors that – according to prominent European integration scholars – led to the adoption of the Single European Act. Although explanations diverge regarding the relative importance of supranational institutions such as the European Commission and member states' governments in forging the Single European Act, several common themes can be found in these accounts (Sandholtz 1989: 533-560; Moravcsik 1991: 19-56; Garret 1992: 533-560).

The emerging consensus that the national protectionist policies of the 1970s had led to stagnating growth for EC economies – coupled with the economic rise of Japan – led to greater interest in new recipes of economic

1 A plethora of studies have been produced to demonstrate the significant potential economic benefits of the removal of barriers to cross-border exchange among member states. These potential economic gains have been often framed as 'the cost of non-Europe' – a concept can be traced back to a report by Michael Albert and James Ball for the European Parliament in 1983. The concept gained wider prominence in Paolo Cecchini's study for the European Commission in 1988. Since then, many other studies adopted this approach to repeatedly highlight the lack of progress in advancing the removal of barriers to the 'four freedoms' and demonstrate the untapped potential for economic growth and prosperity by quantifying the costs of retaining discriminatory barriers. For a summary of more recent studies on the potential savings that could accrue from promoting the free movement of goods, services, digital products and services, public procurement, and consumers, see Pataki (2014).

growth. Led by Jacques Delors, the European Commission began persuading governments of the need for joint solutions, in particular, accelerating the removal of barriers to cross-border exchange. Their agreement led to the legislative programme that facilitated the removal of barriers to cross-border exchange and the decision-making reforms that enabled the adoption of single-market norms.

The European Commission came up with concrete proposals for completing the internal market and was able to increasingly rely on the mutual recognition principle to facilitate the removal of non-tariff barriers (Bulmer 1998: 365–386).[2] The initiative was also strongly supported by business organisations. Although the national preferences of particular EC member states differed, they agreed on the need to ‘achieve a single market by 1992 thereby creating a more favourable environment for stimulating enterprise, competition and trade’. Member states agreed to use qualified majority voting to accelerate the adoption of legislative proposals that could advance this goal (European Council 1985: 4).

2 On the importance of the European Court of Justice rulings in cases such as the Casis de Dijon principle for the use of the mutual recognition principle, see Bulmer (1998).

Fake single market several decades later?

2023 marked 30 years of the single market established by EU institutions and member states. However, while we celebrate its economic benefits and contribution to the competitiveness of EU businesses and the prosperity of its consumers, we must also acknowledge that 'work on tackling barriers continues' (European Commission 2023: 4).

It became apparent in the 1990s that political rhetoric on the completion of the single market was only partially matched by the practical steps taken by member statesin removing existing barriers to cross-border exchange. For example, in 1999, the European Council's Helsinki Conclusions referred to the need for 'improving the functioning of the product, services and capital markets', stressing the internal market's 'vital importance for the competitiveness of Europe's companies, for growth and employment' (European Council 1999). Economic reforms for 'a complete and fully operational internal market' formed a critical element of the EU's Lisbon strategy adopted in 2000. The strategy aimed at making the EU the most competitive and dynamic knowledge-based economy in the world in the next decade. Back then, it was stressed that 'rapid work' was required to complete the implementation of the internal market (European Council 2000).

A decade later, in 2010, the Monti Report – prepared for the European Commission's president – observed that 'in many areas the single market is far from being completely in place' (Monti 2010: 3). The report noted a sense of complacency among member states, as if the single market had been implemented fully and could thus be put to rest as a political priority. It proposed a comprehensive strategy to relaunch the single market with new, concrete measures. These measures went beyond removing barriers to ‘four freedoms’ and included tax, social, regional, and industrial policies. The report also suggested approaches to building political consensus. For example, it proposed that member states be grouped into four clusters – Continental, Anglo-Saxon, Central-Eastern European, and Nordic. A complex ‘package deal‘ could be drawn up that would reflect some elements of each cluster‘s concerns, important enough to justify concessions relative to their past positions. It also called for stronger enforcement ‘by establishing a coherent system infringement actions, informal problem solving mechanism and private enforcement [to] form a seamless web of remedies against breaches of EU law’ (Monti 2010: 9).

Following the Monti Report, the European Commission launched a series of legislative initiatives such as the 2011 Single Market Act I, which proposed 12 levers – as actions to boost growth and citizens’ confidence were described – and the 2012 Single Market Act II, which proposed an additional set of legislative measures in the diverse policy areas discussed in the report.[3] The Commission attempted to use the eurozone crisis as an opportunity to convince member states that consolidation of the single market was the main path to restoring economic growth (Guimaraes 2017: 223–239). However, consensus-building among member states was slow, and achievements in advancing economic integration could be described as modest at best.

Analysts, commentators, and stakeholders have also been critical of the weakening political commitment to continue the removal of barriers to cross-border exchange. In 2016, a Centre for European Policy Studies (CEPS) special report marking thirty years of the single market acknowledged the ‘impressive progress’ made, but it also argued that empirical evidence indicated that market integration had stalled on many fronts and found implementation wanting, with national policies often being ‘insufficiently supportive, if not downright hostile, towards the goal of market integration’ (Micossi 2016: 30). In 2019, on the occasion of the new European Commission‘s appointment led by Ursula von der Leyen, *The Economist* called for reanimation of Europe’s single market. It argued that ‘if Europe wants to create prosperity and world-beating firms, it needs not just to reinvigorate the single market, but also to rediscover that original vision in neglected areas of trade such as services’ (*The Economist* 2019).[4]

3 See concrete proposals on the European Commission’s website: https://single-market-economy.ec.europa.eu/single-market/single-market-act_en.

4 ‘Why Europe’s Single Market is at risk‘ *The Economist* , 12 September 2019 (https://www.economist.com/leaders/2019/09/12/why-europes-single-market-is-at-risk?frsc=dg%7Ce).

In 2020, at the request of the European Parliament‘s Committee on Internal Market and Consumer Protection, a team of experts from several European think tanks prepared a study on legal obstacles in member states to single market rules (Salvo and Pelkmans 2020). It focused on various aspects related to the free movement of goods and services, the right of establishment, the Digital Single Market, consumer protection, and public procurement. It pointed to the enduring relevance of ‘old‘ issues that remained unaddressed as well as emerging new obstacles. The latter included national regulations regarding standards, marks and certificates, and labelling requirements for food and beverages, with mutual recognition principle being seriously underused. Furthermore, there were around 6000 national rules on professional services, many of which lacked transparency, the cumbersome process of posting workers, and divergent national rules on VAT filing and consumer protection, which were particularly challenging to navigate for smaller e-merchants. The authors also noted that it remained ‘very difficult to fully assess the extent and magnitude of national obstacles restricting free movement’, and advocated for a more localised scrutiny of proposed national rules that potentially conflicted with single market principles.

More recently, the director of the European Centre for International Political Economy (ECIPE) has argued that the problem with the single market is that it does not really exist. It is ‘unsingle’ – ‘a political illusion’ that exists only nominally (Bauer 2023: 2). Looking back at the single market‘s 30-year existence, the paper concluded that regulatory convergence had halted in most policy areas. It also criticised recent EU initiatives to regulate technologies and digital business models for creating new layers of regulation and legal uncertainty, for example, the Digital Market Act demonstrating that EU institutions and member states favoured protectionism and discretionary enforcement over innovation.

Business organisations have expressed strong concerns about the lack of political ambition and administrative inaction to consistently advance and enforce the single market agenda. For example, five European business associations issued a joint statement in June 2022 calling for fresh political engagement to renew economic integration in the single market. Pointing to the need to generate growth in the wake of the economic fallout following the Russian invasion of Ukraine, rising energy prices, the COVID-19 pandemic, and Brexit, the associations urged jumpstarting the single market since it presented the best opportunity to create new growth and jobs (BusinessEurope et al. 2022).

The associations stated that businesses no longer experienced the single market as a true free trade area because EU legislation too often allowed for differentiated transposition among member states. Moreover, the European Commission's enforcement policy lacked teeth to prevent member states from introducing national rules or administrative requirements, leading to further market fragmentation. They also pointed to the apparent discrepancy between 'the lofty ambitions to further complete the single market, as expressed by the EU institutions over the past decade, and the lack of determination for effective follow-up, implementation and enforcement by member states and the European Commission.'

The statement called for a 180-degree shift in how policymakers and public administrations across 27 member states deal with the single market. This shift would enable member states to uphold EU Treaty provisions obliging to ensure 'an area without internal frontiers'. It recommended reinstating the single market and making the 'four freedoms' a top political priority. It also called for removing all barriers to cross-border business operations and intra-EU investments, forming a fully-fledged, truly single market for all economic activities.

Regarding regulatory tools, it urged to strengthen Better regulation agenda with a single market test as a filter for any new EU-level proposal that could potentially allow for market fragmentation[5]. This would ensure a regulatory regime that either provided complete harmonisation with the law, or the effective application of the country of origin principle to address over-implementation and gold-plating[6]. It also recommended regulation on a need basis only, commitment to the one-in-one-out principle based on the proper evaluation of compliance costs and simplification, and avoiding disproportionately prescriptive regulation – i.e., the use of delegated acts beyond non-essential technical issues or as a replacement to market-driven standards.

5 For more about Better regulation measures see Better regulation: Why and how', European Commission (https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation_en).

6 The OECD defines gold-plating as 'over-implementation of an EC directive through the imposition of national requirements going beyond the actual requirements of the Directive […], resulting in extra costs and burdens'. *See* European Commission, Organization for Economic Co-operation and Development. Better Regulation in Europe: an OECD Assessment of regulatory Capacity in the 15 original Member States of the EU, (https://www.oecd.org/gov/regulatory-policy/44952782.pdf).

A similar joint statement by European business associations was issued two years later in February 2024 in anticipation of the Letta Report (BusinessEurope, et al. 2024). It listed evidence of the EU economy falling behind and of its powerhouse – the single market – coming to a halt, arguing that their 2022 Joint Statement remained more relevant than ever. Additionally, it presented another list of recommendations for policy directions and regulatory tools to re-energise the single market and break down existing national barriers, while preventing new ones at the EU level.

The 2024 BusinessEurope report, based on a survey of national member federations in member states, pointed to the increase in regulatory burdens due to the European Commission‘s legislative initiatives – particularly the Green Deal (BusinessEurope 2024: 4-5). It recommended a fully-fledged strategy to rejuvenate and further develop single market integration in physical and digital goods and services, and deliver on the EU's commitment to reduce reporting requirements by 25% for companies as a first step towards implementing BBetter Regulation principles and tools.

It should be noted that the European Commission has been coming up with new legislative initiatives to propagate the 'four freedoms' and monitor how member states have been complying with existing initiatives for the past decade. In 2015, the recently formed new European Commission, led by Jean-Claude Junker, presented a communication on upgrading the single market, which called for a deeper and fairer single market with a list of new initiatives in different policy areas planned for coming years (European Commission 2015).

In 2020, a long-term action plan for the better implementation and enforcement of single market rules was issued by the European Commission. Three years later, a comprehensive report titled 'Single Market at 30' noted enabling factors responsible for its advancement and current challenges. The report proposed novel ways to collaboratively advance the single market together with member states (European Commission 2023). However, as it was noted before, these initiatives have been criticised as lacking consistent follow-up in terms of practical implementation.

Over the last two decades, the European Council has issued multiple statements on the importance of deepening the single market, removing the remaining barriers, and enforcing free movement rules. Traditionally, European Council meetings in March were dedicated to issues concerning the single market and economic competitiveness. In recent years, however, crisis management – especially since Russia's large-scale war against Ukraine in 2022 – has competed for political attention.

Still, references to the importance of the single market can be found in most conclusions of the European Council.[7] Particular attention was paid to the single market at the special meeting of the European Council on 17–18 April 2024, where a new competitiveness deal anchored in a fully integrated single market was announced (European Council 2024). It called for deepening the single market by removing barriers to it – in line with recent communications such as the European Commission 2020 report and the 'Single Market at 30' report – by fully implementing and enforcing free movement rules, focusing on the provision of cross-border services and movement of goods, improving transport links and mobility within the EU, advancing work on the capital markets union, achieving a genuine energy union, and a true single market in digital services and data – among other recommendations.

The persistent gap between official statements and practical policy implementation by member states led to calls for a conceptual reframing of the single market. This was reiterated in the 2024 Letta Report (Letta 2024). In an interview with the *Financial Times*, Enrico Letta used strong words to describe the situation. '[It] was a fake communication that we had for 20 or 30 years… it is not a single market'.[8] In his extensive report – which could be considered as an updated version of the Monti Report – he proposed a diverse set of new initiatives across energy, finances, defence, and health. Some of these had already been proposed fourteen years ago in the Monti Report, such as the use of regulations instead of directives to advance the single market with more clarity, stability and effectiveness, and the implementation of the '28th regime' – an EU framework alternative to but not replacing national regulatory norms that could expand options for businesses and citizens operating in the single market.

The European Council welcomed the Letta Report and invited future presidencies to take its recommendations forward. The Council also urged them to 'decisively and swiftly' move forward on several competitiveness drivers, including the deepening of the single market, with a focus on the cross-border provision of services and the development

7 See the collection of the European Council Conclusions since 2004: https://www.consilium.europa.eu/en/documents-publications/public-register/euco-conclusions/.

8 'EU faces decline without market reform, report warns' *Financial Times*, 15 April 2024 (https://www.ft.com/content/ad287f49-4292-4c4a-9b3d-8e46f210c21c).

of a new horizontal strategy for a modernised single market by June 2025 (European Council 2024).

Dealing with the gap between growing ambitions and actual delivery

Given the widely acknowledged and persistent gap between the political rhetoric and policy decisions of member states on consolidating the single market, it remains to be seen if current calls by EU institutions and European business organisations can lead to its relaunch, as it took place in the mid-1980s. It could be argued that recent initiatives to advance the single market have suffered from the problem of high-hanging fruit. In other words, since the removal of customs duties in 1968 and many non-tariff barriers in the 1980s and 1990s, it has become politically more difficult to remove discriminatory norms that touch upon long-established domestic policies or threaten particular interests. In this respect, the single market has become a victim of its own success. The EU has already deepened and widened the single market to a significant extent. As maintained by some scholars, the single market of the EU has become more integrated in regulating interstate exchange than in the US (Matthijs and Parson 2022: 165-176).

At the same time, the single market project is suffering from conceptual overstretch. Although its primary goal was the removal of discriminatory barriers to cross-border exchange among member states and establishing an economic area without internal frontiers, in recent decades, it has been transformed into a much broader concept that includes policy areas such as energy and taxation.

Initiatives such as the Banking Union, Energy Union, Health Union, and Capital Markets Union could be seen as the attempts of EU institutions to reformulate the debate on advancing the single market (Pelkmans 2019:

2-4). They could be seen as efforts to come up with terminology that is politically more attractive and extends EU powers into policy areas that could be functionally linked to the single market but extend beyond the central principle to remove barriers to cross-border exchange. Besides, using economic integration for political purposes on the path 'towards an ever closer union' was one of the foundational reasons why the idea of the European Union itself was attractive to different centrist ideologies supportive of joint policy-making and supranational interventionism.

As illustrated by the Monti Report, 'package deal' proposals aimed to offer something attractive to different member states and stakeholders. This has led to a significant widening of the single market agenda. It is also partly an outcome of EU institutions attempting to demonstrate the benefits of economic integration to less mobile voters who do not experience the other direct benefits of easier cross-border exchange. This motivation is also visible in the proposals and title of the Letta Report – 'Much More than a Market'. The report has been rightly characterised as containing 'proposals on everything from the need for high-speed rail, investments in outer space, and a more united health sector, to more quotidian efforts to improve EU law-making processes' (Berg and Mayers 2024: 1).

The section of the report dedicated to the Capital Markets Union – branded as the Savings and Investments Union – is a case in point. It proposes policy ideas that extend significantly beyond removing obstacles to cross-border capital flows. They include rolling out EU-wide auto-enrolment pension products, creating an EU stock exchange for deep-tech, strengthening the European Securities and Markets Authority, establishing a unified European safe asset by centralising EU-level bond issuances, and introducing a digital euro (Letta 2024: 28-38). Including a cohesion policy to support the 'freedom to stay' in declining regions, and tackling issues such as house affordability, are other examples of extending single-market policy proposals beyond removing barriers to cross-border exchange.

Redistributive policies aimed at compensating less prosperous regions or mobilising investments for EU-funded infrastructure projects to facilitate the single market's functioning have been part of EU policies since the 1980s. If these were well targeted and based on European value-added principles while respecting subsidiarity, they could be instrumental and politically necessary in facilitating further removal of barriers to cross-border exchange among the current EU member statesand extending the single market to prospective members.

However, the widening of the single market agenda by trying to harmonise national, fiscal, and social policies may risk stronger resistance from member states concerned about the EU‘s overreach. Although multiple cross-border crises have shown the functional benefits of EU membership and joint crisis management, they have also increased the politicisation of the EU agenda. Therefore, proposals that aim to harmonise taxation policies are resisted by many member states driven by sovereignty concerns. Packaging such policy measures by stating their importance for the removal of the remaining administrative and regulatory barriers to cross-border exchange has not succeeded before. It is obvious why they may not succeed now, in the context of growing politicisation and the rise of Eurosceptic parties as shown by the European parliament elections in 2024. Similarly, supranational solutions like the European Industrial Policy, which consider national state aid and other measures that distort competition as risks to the single market, might lead to a political stalemate. However, the appropropriateness of the EU’s competition policy rules in the face of global competition deserve a serious debate.

Focusing on the remaining discriminatory cross-border barriers to exchange – i.e., the ‘conventional’ single market – without trying to harmonise member states’ social or taxation policies could be the more effective way forward. It should be stressed that the EU‘s regulatory powers have expanded into new policy areas while the original aim of removing barriers to the ‘four freedoms’ remains only partly and unevenly implemented. The single market is still much more developed in terms of the exchange of goods compared to the cross-border provision of services and movement of labour (Egan 2019).

Admittedly, removing discriminatory national barriers to the movement of services and people in modern societies is often linked to domestic policies that extend beyond purely technical regulatory matters. Still, one could argue that given the EU‘s limited political attention and administrative capacity, initiatives to expand its powers have diverted its attention from its most important goal: consolidating the single market.

Similarly, as some analysts have noted, the European Commission‘s drive to enhance its geopolitical position has weakened its focus on its primary functions – of being a technocratic body drafting new laws based on evidence (for example, impact assessments) and best practices and impartial monitoring of member states‘ compliance with single market norms (Meyers 2024). Studies on EU compliance monitoring point to a decline in the number of infringement cases initiated by the European Commission in recent years, leading to the observation that it did not take a stringent approach 'precisely when it was most needed'.[9]

This lax approach is related to a trend of overregulation and increasing the administrative burden, which contributes to a loss of competitiveness and prevents member states from realising the single market's potential. Although this issue recently featured most prominently in the farmer protests against the EU's Green Deal measures, it can be observed in other policy areas as well, such as regulation of the digital sphere.[10] The primary focus should be on reducing discriminatory barriers related to cross-border exchange and on increased EU and national level scrutiny of the impact of draft regulatory norms – instead of trying to forge a political consensus on complex package deals involving policy proposals which extend beyond the scope of the single market.

9 The curious case of the EU's disappearing infringements', *Politico,* 13 January 2022 (https://www.politico.eu/article/curious-case-eu-disappearing-infringements/). According to the Financial Times, European Commission action against internal market infringements by member states fell by 80 percent from 2020 to 2022 – 'Policing of EU market rules drops under von der Leyen's commission', *Financial Times*, 9 May 2023 (https://www.ft.com/content/b81c0d86-4837-42a5-bf01-d4768791f2cf),

10 For analyses of regulatory burdens and obstacles to the single market, see the joint statement by BusinessEurope et al. (2022) and assessments by think tanks such as the Lithuanian Free Market Institute (https://en.llri.lt/news/economic-policy/business-regulation).

Enlarging the single market in the context of competition fatigue

Another important obstacle to advancing the single market has to do with the economic integration successes of the past, i.e., the EU's enlargement. Extending the single market's 'four freedoms' through successive waves of enlargement contributed to spectacular economic convergence and growth in prosperity for all participating countries (Barta and Durana 2024).[11] This is well illustrated by Lithuania's GDP per capita (in purchasing power parity), which increased from around 50% at the time of its EU accession in 2004 to almost 90% in 2022.[12] The benefits of enlargement primarily accrue from stronger competition, originating from the removal of barriers to cross-border exchange. However, too much of what is good in this respect might not be good for further economic integration.

Interest groups faced with stronger competition have begun to direct their dissatisfaction at national policymakers by asking for protection. The revolt against competition has become an important obstacle to further consolidation of the single market and is likely to pose a challenge to the EU's enlargementin the future. Since adopting the famous Copenhagen criteria for EU membership in 1993, EU institutions have stressed that candidate countries must meet membership criteria.[13] This includes having

11 For a recent assessment of the benefits of the single market for Central and Eastern European countries as well as proposed EU policy directions to maximise them see Barta and Durana (2024).

12 'GDP per capita, PPP (current international $) – European Union, Lithuania', World Bank Group (https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=EU-LT).

13 'Accession criteria', European Commission (https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/glossary/accession-criteria_en).

a functioning market economy and the ability to withstand competition pressures within the single market. Paradoxically, as the EU enlarged, it was France, Belgium, and other old member states that have faced challenges in coping with competitive pressures from new member states.

Public demonstrations and protests were held against the Services Directive presented by the European Commission in 2004, around the time of the ‘big bang‘ EU enlargement. It should be noted that the Services Directive originated in the Lisbon Strategy adopted by member states in 2000, and was drafted by the European Commission in response to a request from the Council. It represented an important legislative initiative for removing regulatory obstacles to the cross-border provision of services inside the EU, through the application of mutual recognition principle to the provision of services, i.e. a horizontal ‘country of origin’ principle when services legally provided in the country of registration should be allowed to be provided freely in other member states.

However, the directive was met with protests from trade unions in France, Germany, and other member states concerned about the potential increase in competition from new members within the enlarged single market. Eventually, France‘s plan for a referendum on the Constitution for Europe and Germany‘s parliamentary elections led policymakers in these countries to water down the directive which was adopted in 2006.[14] Some useful elements such as the compulsory screening mechanism managed by the European Commission were included. However, by reducing the scope of its application regarding the services covered and removing the ‘country of origin’ principle, the directive now represented the lowest common denominator. Its potential to advance the removal of barriers with regards the provision of services in the single market has been reduced. This dilution has happened despite its initial strong political mandate and its potential welfare gains.

The adoption of regulatory norms concerning road transport, known as the Mobility Package, in 2020, provides another example of how difficulties faced by certain old member states in coping with competition have led to the adoption of more restrictive rules going against the initial intention to liberalisethe provision of cross-border transport services. Lithuania and many other countries that joined the EU between 2004 and 2007 have contested rules that require trucks to return to their country of registration

14 For an analysis of the political process leading to this outcome see Jensen and Nedergaard (2012).

every eight weeks, restrict cabotage operations within the EU, and enforce drivers' rest despite the lack of necessary infrastructure. The Lithuanian government filed two lawsuits at the EU Court of Justice arguing that these new rules went against EU law and Green Deal goals.[15] It argued that the regulations and directives that formed the Mobility Package were adopted without considering their economic, social, and environmental impact. Due to pressure from France, Germany, and other old member states, the legal norms of the Mobility Package proposed by the European Commission had aimed to restrict road transport services to protect national operators in these member states from competition from Lithuania, Poland, Romania, Bulgaria, and other member states.

Since 2023, similar revolts have erupted across other member states. Farmers and truckers in Poland and other Central European countries have been protesting against competition from Ukraine. This has created an important political obstacle to further enlarging the single market. In this case, the protest‘s origins go back to the European Commission‘s response to Russia's large-scale war against Ukraine, when it proposed a temporary suspension of existing import duties and other restrictions with respect to Ukrainian trade. The proposal was approved by member states and was rightly considered an important measure to support Ukraine. It allowed Ukrainian companies to gain from liberalised exchange with the EU (or exporting their products through the EU) and was an act of political solidarity in line with the promise of EU membership.

However, in 2023, farmers and truckers started blocking crossing points between the Polish and Ukrainian border, protesting against unfair competition. The protests were supported by a majority of the Polish population. Competing political parties before and after the Polish parliamentary elections in 2023 maintained that the country‘s economic interests were more important than respecting EU norms and supporting free trade with Ukraine.

Eager to restart political relations with Donald Tusk‘s newly formed coalition government and concerned about the potential effects of the protests on forthcoming European Parliament elections in June 2024, the European Commission hesitated to exercise its power to address infringements. Importantly, there were indications that the drop in grain prices was

15 'Lithuania contests Mobility Package in EU Court of Justice', *Baltic News Service*, 26 October 2020 (https://www.lrt.lt/en/news-in-english/19/1261992/lithuania-contests-mobility-package-in-eu-court-of-justice).

orchestrated by Russia, which had allegedly exported large amounts of grain to the world market and launched disinformation campaigns to direct the anger of EU farmers towards Ukraine.[16]

Irrespective of external manipulation, protests in Poland, Hungary, France, and other member states indicate the potential difficulties associated with the future enlargement of the EU's single market, despite repeated pledges of 'unwavering support' for Ukraine and descriptions of the EU enlargement as a 'geo-strategic investment in peace, security, stability and prosperity' (European Council 2023: 4).

However, competitive pressure from Ukraine's farming sector – even if it operates in full compliance with existing regulatory norms – is likely to exert a strong pressure on agricultural businesses inside the EU to restructure. The logic of economic gains from free exchange in the single market and the geopolitical imperatives of EU enlargement both point to the need for targeted compensatory measures to assist businesses, farmers, and other stakeholders facing difficulties due to economic restructuring. In other words, targeted and temporary EU financial support for businesses that face difficulties to cope with competitive pressures is a more effective method of forging domestic political support for geopolitical objectives of the EU and advancing its single market.

16 'Europe's farmer protests have been fertile ground for Russian propaganda', *Politico*, 13 March 2024 (https://www.politico.eu/article/europe-farmer-protest-russia-war-propaganda/). 'Russia is winning the global grain war', *Politico*, 19 March 2024 (https://www.politico.eu/article/russia-winning-global-grain-war-farmer-ukraine-putin-agriculture/).

The way forward: towards a more single and wider EU market

There is strong evidence that Europe's single market remains fragmented, especially in the areas of service provision and movement of labour. Studies show that national legal rules that discriminate against the enterprises and nationals of other member states proliferate. National and EU regulatory norms that do not comply with proportionality and other principles of Better regulation continue to be adopted, including in the areas of green and digital transition.

This state of affairs was acknowledged in the 2010 Monti Report and the 2024 Letta Report. As a way forward, they both proposed an expansive agenda of supranational policies extending well beyond the removal of legislative barriers to free cross-border exchange and stronger enforcement of single-market principles. The package deal approach proposed by Monti did not work, although the EU has evolved considerably in its management of external crises in the last fifteen years. It is doubtful that the diverse and ambitious policy proposals listed in the Letta Report would be acceptable to policymakers in member states or if they are functionally justified.

Unlike the 1980s, there is a lack of convergence of views in member states regarding the costs of protectionism and the need for coordinated action to improve economic growth through market integration. The Industrial Policy – actively practised in the US – is back in fashion in many European countries, framed in EU debates as a call for strategic autonomy. These calls have recently been strengthened by uncertainty regarding a possible further inwards turn of the US after the 2024 presidential elections and selective weaponisation of economic relations by Russia and China. The views of member states on how to de-risk their economic relations with China diverge.

Geopolitical pressures and the rise of Eurosceptic parties in many member states – including its largest founding members – exert contradictory pressures on national policies and create fluid coalitions inside the EU. Germany and France seem to disagree on many policy issues.[17] The results of the European Parliament elections have weakened the position of both Emmanuel Macron and Olaf Scholtz. In France and some other Southern and Central European countries, voices protesting against free trade agreements and EU enlargement are growing louder, especially among farmers. Nordic countries remain supportive of competition and free trade, although their approach to immigration is becoming increasingly restrictive. In this area, the EU is likely to continue moving towards stricter regulations on external immigration if it is to preserve the free movement of labour internally.

The divergence of national positions with respect to economic interventionism has been visible in the debates around the EU's response to the energy and cost of living crisis in 2022 and various combinations of national measures aimed at softening the effects of high prices for companies and households (Sgaravatti, et al. 2023).

These divergent approaches to economic policies and political constraints – originating from domestic politics at play in many member states – caution against ambitious package deals aimed at advancing EU integration beyond single market measures. The alternative is to go back to the 'conventional' single market concept, which focuses on removing existing legal obstacles to cross-border exchanges between the EU member states as well as with candidate countries in various policy areas including food, medicines, energy, transport, digital technology, and others. This should be accompanied by consistent and more vigorous use of Better Regulation measures, more resources dedicated to detecting noncompliance, and enforcement of single market principles in member states.

This requires regular screening exercises by the European Commission in coordination with national authorities and active communication with stakeholders. In terms of legislative solutions to societal problems, the

17 'Creaking Franco-German tandem delays EU decisions', *Financial Times*, 5 October 2023 (https://www.ft.com/content/a1cf0a96-4eaf-4222-86f0-d2144161f008).

focus should be on the quality and enforcement of legislation rather than the proliferation of poorly designed policy measures. Governance tools and methods proposed in the Monti and Letta Reports for better enforcement of single market norms as well as other studies that emphasise mobilising political attention and administrative capacities for the thorough enforcement of single-market principles should also be considered (Pelkmans 2024).[18]

Admittedly, there are important political reasons that push policymakers in the EU and member states to come up with new policy proposals, often in reaction to accidents, crises, and demands from interest groups and voters. Focusing on quality instead of quantity, or on streamlining administrative procedures, is usually time-consuming. It is rarely rewarded by media attention or with the appreciation of voters. However, the most likely impact of such reactive policy proposals is either the continued fragmentation of the EU‘s greatest achievement – or incremental layers of supranational policies added on a half-finished fundament, i.e., the single market. It should be remembered that a monetary union was advocated by the European Commission of Jacques Delors in 1980s and 1990s by claiming that one market needed one money, implying that a properly functioning single market was soon to become a reality. This might have sounded like a catchy political slogan back then, but it referred to intentions rather than actual accomplishments. The situation several decades later is that both the single market and the currency union are incomplete, with the fragmentation of the former negatively affecting the functioning of the latter.

To be sure, the single market will never be fully complete. Technological, structural, and other changes require constant adjustment of public policies, while national legislators work under conditions of information asymmetry and pressure from interest groups. The single market – like national policies – will continue to be in the making. But as the studies on the cost of non-Europe show, there is still significant room for potential welfare gains from improving conditions for cross-border exchange and paying more systematic attention to the early detection and prevention of new distortive measures. According to the European Commission’s estimates, the benefits of removing barriers to the single market for goods and services could amount to €713 billion by the end of this decade – a sum close to the whole funding under the EU‘s Next Generation Recovery and Resilience Package (European Commission 2020).

18 For a recent list of proposals (although rather extensive in terms of areas covered) see Pelkmans (2024).

Reinvigorating Europe’s single market is an obvious step to realising economic development and prosperity. However, the EU‘s recent record of political overpromising and member states‘ failure to remove barriers to cross-border exchange have created the need for a different way ahead. This new path should also take into account competition fatigue and the rise of Eurosceptic parties in major member states.

Therefore, the new approach should prioritise practical delivery and actual implementation at the expense of expanding the EU’s integration agenda. In other words, the original goal of removing regulatory and administrative barriers to cross-border exchange should be a core priority. The next European Commission should dedicate more attention to jointly working with member states’ authorities and market participants in screening existing regulatory norms with a view to prohibit their distorting effect on cross-border trade. More attention and time should also be dedicated to assessing the ex-ante impact of new legislation on the EU and member states.

This focus might appeal to a wider range of political parties and stakeholders since it prioritises the reduction of administrative burden and red tape. It is less attractive politically as it often involves technical work that does not make media headlines and requires persistence and constant political attention, which are short in supply in times of multiple crises. Still, focusing on a narrow, evidence-based integration agenda seems like a more feasible alternative than ambitious and radical supranational initiatives.

At the same time, given forthcoming negotiations on the new financial framework for 2028–2034, there is a need to redirect more resources from current cohesion and agricultural support programs for the targeted support *to* help farmers and other businesses cope with economic restructuring should be discussed and appropriate instruments should be agreed upon. Rapid technological and demographic changes as well as future EU enlargement are likely to continue exerting pressure on established businesses and different professions. Adopting best practices from EU member states such as flexicurity – focusing on a flexible and open market accompanied by active training and employment policies – could generate the political momentum needed to advance the single market among existing member states and prospective members (Sapir 2005).[19]

19 Policies concerning assisting workers and companies with structural changes are mostly within the competencies of member states. The recommendation of the flexicurity model as the appropriate response to structural changes caused by the EU enlargement, competition, and technological and other global changes has been suggested before. See Sapir (2005).

The relaunching of Europe in the mid-1980s illustrates the importance of political leadership and convergence of national approaches when dealing with economic challenges. The start of a new political cycle after the 2024 European Parliament elections provides a new window of opportunity for the European Commission and EU's member states to advance the single market as the main engine of economic growth. The world has changed considerably since the 1980s. However, in certain aspects, Europe finds itself in a similar position – it still lags behind the US in terms of economic dynamism and technological innovation.

Currently, EU and its member states are faced with a geopolitical and other challenges. These include the need to support Ukraine and, invest in their own defence, manage the expectations of voters concerned about social, economic, and environmental changes, and deal with growing competition between the US and China amid fast technological and demographic changes. The EU has to deal with external and domestic challenges at a time when its economic development is slow, while demands on public spending are growing.

As Emmanuel Macron and Olaf Scholtz claimed in their joint statement recently, 'Europe is experiencing its *Zeitenwende* [historic turning point]. We can't take for granted the foundations on which we have built our European way of living and our role in the world. Our Europe is mortal and we must rise to the challenge' (Macron and Scholtz 2024).[20] They stressed the need to reap full benefits of a modernised single market, reducing fragmentation and barriers, fostering connectivity, enhancing skills, promoting mobility and convergence. They also called for 'an ambitious bureaucracy reduction agenda to deliver on simpler and faster administrative procedures and cutting bureaucratic burdens for businesses of all sizes.'

The key question is whether the European Commission and member states could take leadership and forge a consensus on how to turn these repeated calls for advancing the single market into coherent and – most importantly – practically implementable policy measures.

20 'Macron and Scholz: We must strengthen European sovereignty', *Financial Times*, 27 May 2024 (https://www.ft.com/content/853f0ba0-c6f8-4dd4-a599-6fc5a142e879).

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