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A Fair Single Market for EU Prosperity

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European Parliament elections in May 2019 come at a critical time in the evolution of the EU as these will be the first elections after the expected departure of the UK (March 2019) and at a time when divergence on many issues characterises member state relations. Wider global developments weigh heavily on Europe with the return of hard geopolitics and efforts to undermine the global multilateral order. The European University Institute (EUI) wants to highlight the major issues that are at the heart of the political agenda at this juncture as a contribution to the debate. The papers are part of a wider programme on the elections including the development of a Voting Advice Application (VAA), euandi2019, and an online tool specifically tailored for mobile EU citizens voting either in their country of citizenship or residence, spaceu2019.

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Abstract

The EU is about values and about prosperity. When it comes to prosperity, the single market is and will remain the core of European integration. It is critical for the EU's prosperity to further deepen and modernize the single market whilst strengthening EU policies and regulations pursuing fairness. This means that the prosperity generated by the single market reaches all citizens and regions whilst temporary losers are protected and enjoy opportunities. This paper explains why the single market is so important, why it is not always recognisable as many distinct names are employed, why and how 'fairness' has become a major issue in terms of legitimacy and to what extent the EU can do something about it, what today's single market strategy is essentially about and how the EU has attempted to match deepening with 'fairness.' Principal policy options are suggested for the near future.

Keywords

Market integration, single market, integration deepening, European Union, addressing fairness.

1. Why is the single market so important?

As far as prosperity is concerned, the single market is the core and indeed the 'workhorse' of European economic integration. It combines the *free movements* of goods, services, workers (and persons) and capital (including direct investment) and the right of establishment of any business, big or tiny, in any Member State, with *proportionate EU regulation* where justified by market failures,[1] and with *cross-border investments* or networks where required. The upshot, ideally, is a genuinely EU-wide market with minimal market failures and proper connectivity. Such a 'deep and wide-ranging' single market is known to engender a profound and permanent stimulus to internal trade and dynamic continental competition (whether in goods and services and/or via foreign but intra-EU direct investment and intra-EU flows of workers with all types of skill, together with codified technology such as patents, trademarks, designs and intra-company standards). Whereas the EU can serve as an anchor in terms of values, it acts as a magnet in terms of prosperity, given the size and the design of its single market. The anchor and magnet effects reinforce each other: with a large and vibrant single market, complemented by the economic clout of its trade policy, the anchor function can also be exercised much more forcefully. The EU *without* its single market would add up to little more than a symbolic mirror of the Council of Europe in terms of values, combined with a European OECD for economic policy-thinking and soft cooperation. It would have a purely WTO-based trade policy if indeed a customs union were still a part of it; if not, trade policy would inevitably fragment over time, lose its economic clout and become much less effective.

It would be a serious mistake to 'read' what the single market is from the division of tasks within the European Commission or from the committee system of the European Parliament. In fact, many EP committees cover aspects of the single market; the same goes for many DGs in the Commission. The two principal reasons for the splintered treatment of the single market in the EU institutions are (i) the need for specialization given the complexity of regulatory solutions and both hard and soft infrastructure, and (ii) sectoral specificities which ought to be addressed with special expertise. Altogether though, the single market is the preponderant concern of EU institutions but under different labels, as Box 1 illustrates.

[1] The five most important market failures relate to health risks (to humans and animals), safety, environment, saver and investor protection and consumer protection. Together, this is called 'risk regulation.' Usually, scientific risk assessment underpins EU regulation and as long as EU regulation is proportionate to such risks it can be 'justified' for proper market functioning. EU regulation is used here in a generic sense and can (and often does) include, e.g., a reference to carefully drafted European standards.

Box 1

The single market by different names

- Generic single market properties, such as the four free movements and the right of establishment, industrial goods (typically harmonizing objectives of national technical regulation, with reference to technical standards, for moderate-risk goods as well as intrusive high-risk regulation for, e.g., chemicals, medicines, cars, pesticides etc.) and basic services regulation (especially the very broad Services directive), mutual recognition (goods, services, diplomas), enforcement, market surveillance and frontier checks for single market purposes etc.
- Banking Union, shorthand for the appropriate regulation, supervision and financial stability features of the single market for financial services and for capital markets, including 'resolution funds' for failing banks and issues of deposit insurance.
- Capital Markets Union, shorthand for EU and national reforms enabling a stronger reliance in the EU on equity rather than bank loans, fostering greater economic resilience during financial crises (i.e. smaller losses and swifter turn-around).
- Energy Union, shorthand for the creation of an effective common gas and electricity network and systems (including cross-border interconnectors, i.e. costly infrastructure) and the appropriate regulation, technical standards, technical network codes and EU competition policy, whilst at the same time applying a radical shift to a low-carbon economy in energy use.
- Digital single market, which began as an offshoot from telecoms and broadcasting, quickly broadened with a huge 2010 Digital Agenda and has now grown into a prominent and dynamic aspect of the single market; it is both a stand-alone area for (better) free movement of services and it encompasses ever more elements related to the digitalisation of business and the collaborative economy, with innovation and new business models which ought to be facilitated (within the competition and free movement disciplines).
- Mobility packages, three successive clusters of complex measures, updated regulatory proposals and funding options (e.g. for infrastructure and its management) for several modes of surface transport (such as road and maritime; rail was dealt with in successive packages before, plus the nine freight rail corridors) and related modern initiatives (e.g. large batteries for storage); they refer to safe and clean mobility, connected and automated mobility, related new infrastructure issues and a series of technical measures.
- The agri-goods complex, with highly technical sanitary and plant health rules and controls (plus recognition and licenses) and horizontal and specialized food and ingredients regulation and its alert system (RASFF).

The importance of the single market is also a function of its long-run economic benefits. This was the motive in the 1957 Rome treaty (higher growth together) and it is still an overriding aim today: achieving greater prosperity together than each of the EU countries could realize on its own. Technically, it is next to impossible for economists to simulate the entire growth stimulus from the EU since the very beginning and compare it to a counterfactual over 60 years.[2] But the BREXIT experiment now offers a unique explosion of empirical economic research on the benefits of the single market and of EU membership. When the UK leaves the EU, it will give up the economic benefits of the single market in the wide sense (as in Box 1) partly or entirely, depending on the relevant exit strategy. Table 1 summarizes the most important empirical results in the literature.

[2] Two attempts have gone back to 1973 (Campos et al, 2014) and to 1965 (Straathof et al., 2009), which suggest respectively some 12% average GDP gain for all the EU countries (since 1973, except Greece) and 10% average GDP gain (since 1965). However, there are considerable caveats.

Table 1

Simulated UK BREXIT losses in GDP, for WTO and ´no deal´ scenarios

source	**date**	**Basic explanation**	**Effect on GDP or GDP trend in future**
EP report by Emerson, Pelkmans et al.	Feb 2017	Average of 8 early empirical simulation studies on GDP effects of BREXIT	- 4.21%
UK Treasury and Kierzenkowski/OECD	Both 2016	Average of 2 similar studies based on the same rich underlying economic model, both also in EP study above	- 7.5%
Vandenbussche et al	2017	Richer trade model with global-EU value-chains, ½ million job losses too	- 4.5%
Rabobank	2017	Explicitly models the determinants of long-run productivity growth	- 18%
Mayer et al	2018	Newest and rich gravity (trade) approach, with intermediate goods (note: in the WTO scenario with tariffs, 80 % of the negative effects are due to the exit from the single market, not to tariffs)	- 2.9%
UK government	Nov 2018	i. ´no deal´ [trade-only] ii. FTA [idem] iii. ´no deal´ [trade plus zero inflow of EEA workers] iv. FTA [idem]	- 7.7% - 4.9% - 9.3% - 6.7%
Bank of England	Nov 2018	´no deal´ (´disruptive´ or ´disorderly´)	-7¾% to -10½%

Sources: see list of references

Table 1 shows a range of GDP losses or simulated GDP growth trends until 2030 or (Bank of England) until 2023. In trade models, the GDP losses remain limited though by no means trivial (from 2.9% to 4.5%) whereas in large economic models (some with simplistic productivity effects, but in one case with a fully specified productivity sub-model) the effects are much more negative, ranging from 7.5% all the way to a 18% GDP loss from a calculated trend growth. It should be noted that Table 1 is based on a worst-case scenario of a full break with the single market, that is, the UK would become no more than any other WTO partner. This is done in order to get a rough idea of the benefits of staying ‘in’ the single market. It is also interesting to observe that throttling the free movement of workers causes more negative GDP effects. The single market is not only the core of European economic integration, it is also the source of *significant economic benefits*.

2. The single market should be ‘fair’ and benefit ‘all.’

That the broad idea of the single market is not controversial can be seen from the European Council’s unwavering support of it over many years.[3] The devil is often in the details and so is shrewd lobbying and selective resistance, but this is not for the present paper to discuss. However, even when the EU

[3] This also explains the well-maintained unity of the 27 in the BREXIT negotiations.

'cake' is growing, the distribution of the cake and the issue of (who bears) the adjustment costs are often regarded as 'unfair' or at least as 'not benefitting all,' if not creating some losers. MEPs and other EU policy-makers need to take this question seriously. If 'unfairness' were found to be correct in some general fashion, it would undermine the legitimacy of EU market integration, which would be disastrous.

Nevertheless, taking it seriously does not get us very far because these issues are complicated, blending many factors and determinants, only some of which are directly attributable to the single market. There are two clusters of such issues: multiple and worsening *inequalities,* and compensating the '*losers.*'

There are four types of inequality: inequality between EU countries; inequality between regions, within and among EU countries; inequality (trends) between income-earners and households; and wealth-based inequality. The last two of these might have at most a weak and indirect relation to EU market integration, but adverse trends might nevertheless feed sentiments against more market, and hence against more single market too. Worsening income inequality is largely due to falling or stagnant low-earner real income. These are often low-skilled workers and frequently living in what the World Bank calls "regions with low economic potential."[4] There is a long-standing skill divide in Europe and it has only narrowed marginally over the last 15 years and solely in the richer member states. This quasi-permanent skill divide blocks upward social mobility for those already beginning with a cognitive handicap caused by their family circumstances. Changes in the EU's sectoral specialisation and comparative advantages clearly favour medium- and high-skilled work, whilst low-skilled work incorporated in relatively simple goods and services suffers from stagnating wage pressures, given globalisation, and – perhaps even more – technological change. Some groups regard the single market as an 'agent' of globalisation and hence connect 'the EU' with bad news for the low-skilled. This linkage is *not* a credible construct: if the EU (or at least its single market) somehow collapsed tomorrow, technological change and globalisation and its drivers would remain just as relevant. Moreover, introducing national protection would cause serious and permanent damage to growth trends and therefore also to public spending and private consumption. In the longer run, it would not address the need for change either. People's sentiments might also become mixed up with other perhaps understandable grudges, such as cuts in social spending, precisely during a crisis following very costly bank rescue operations with huge sums of public money, without – it seems – any adverse consequence for the managers or shareholders responsible. With such a record, the legitimacy of 'more (single) market' is bound to suffer. In other words, both objective and subjective grounds for linking inequalities at the personal level with a lack of legitimacy of the single market can be found and will only slowly recede with the return of a more healthy growth trend in the EU.[5]

The link between the single market and trends in inequality between EU countries and between EU regions is more robust. When a developed country grows more slowly than other EU-15 countries, there can be many reasons for it, including the local business environment, the quality of institutions and governance, the insider/outsider problem in the national labour market,[6] the overall skill composition of workers, the country's innovation ecosystem and the sectoral composition of its goods and services. Similar factors play a role for 'new' EU member states, but they start with a much lower overall productivity level and a sharper divide between capital city areas and the rest of the country. With the intensity of competition in the single market, internationalisation via incoming FDI and links with European and global value chains, productivity improvement in relatively low-income countries can be fast and catch-up growth will be observed. This is the main reason why the EU's single market became

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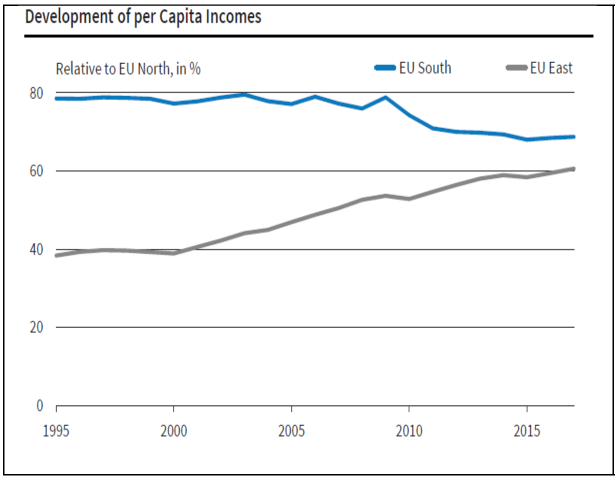
4 World Bank (2018), chapters 1 and 3.

5 See World Bank (2018, op. cit.) on 'growing dissatisfaction among Europeans,' pp. 61 – 63 for more data.

6 Causing powerful barriers against entry into the regular labour market for workers, in turn leading to high youth unemployment (often, irrespective of their skill levels) and marginalized jobs without prospects.

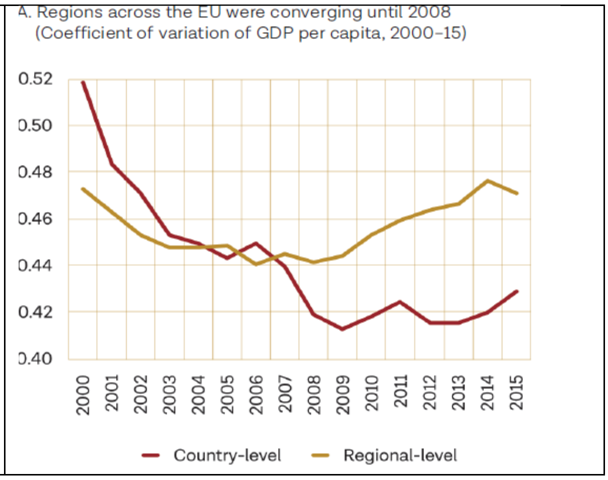
known as a 'convergence machine.'[7] Figure 1 shows this steady trend: starting from 39% of the EU-15 average in 1995, per capita incomes in new member states rose to 61% in 2017.

Fig. 1 Convergence for new Member States



Source: CESifo (2018), p. 67

Fig. 2 Convergence among regions interrupted



Source: World Bank (2018), p. 45

However, this economic convergence between EU countries coincided with divergence at the regional level, or, more precisely, there was modest convergence between regions before 2008 and a divergent trend until 2015, after which convergence set in again. When zooming in on regional convergence, however, it turns out that lagging regions tend to fall behind even today, probably due to their low economic potential. Competition and trade within the single market might not stimulate enough growth in these structurally weak regions but neither would a departure from the single market. Such low potential regions need to be supported with education programmes, upskilling, other soft and hard infrastructure, better governance and targeted investment programmes but, unfortunately, there should be no illusions about short-term catch-up growth.

Protecting, or at least supporting, the 'losers,' such as workers in comparatively disadvantaged sectors which shrink or are transferred to low wage countries in (say) Asia, is important for the legitimacy of economic openness under globalisation and in the single market. However, it is just as much part and parcel of the economic 'gains from trade': compensation of losers using the overall gains from trade. Usually, such justified compensation is a mere fraction of these societal gains. In Europe this protection is much stronger than in the US [8] but the differences between EU countries are nonetheless considerable. Social systems in Europe rely much less on 'trade adjustment assistance,' which is typically low and project-bound and (e.g. in the US) only applied to a small share of the unemployed. Moreover, why single out the loss of a job due to 'trade' or 'the single market' (if this can be determined in the first place – there are other reasons too) instead of technology (like automation) or a mistaken business strategy? The European welfare states give some degree of security for a while with initial incomes close to the former salary so that adjustment can be organized without undue pressure. It is not without importance to underline that 'losers' are normally temporary losers; slipping into permanent unemployment is caused by structural factors which have little or nothing to do with the single market and which have to be addressed by re-skilling and personal guidance under 'active labour-market policies.'

Finally, the nature of work is changing with modern technology and the platform economy. People doing simple routine jobs run the risk of excessive flexibility in their contracts or even multiple instances

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7 World Bank (2012).

8 Metivier, di Salvo & Pelkmans (2017).

of joblessness. This generates uncertainty, on top of wage pressure and reduced opportunities. This is not attributable to the single market as such, yet it is often associated with 'more market' by those affected.

Furthermore, fairness is also linked to the state of public investment in the EU. What the Juncker Commission has actively stimulated (though too late to fight the crisis) is a public/private EU investment framework with mixed funding (EFSI). This has been successful and has paved the way for complementary EU investment funding linked to the single market and SME access to capital. The direct link with fairness seems weak, but the impact on growth and indeed on legitimacy is positive.

3. The current EU single market strategy

Deepening the single market is like pushing down a spring: it gets harder all the time. The Commission[9] openly complains about this problem and broadly puts the blame on the member states: "… deeper integration today requires more political courage and determination than 25 years ago and greater efforts than ever to close the gap between rhetoric and delivery. … Even when [they] express support for further market integration or further harmonisation, member states often promote only their domestic approaches as the basis for European rules. … We therefore need … a renewed commitment by leaders to all dimensions of the single market." The Commission also notices that of all EU policies the single market acquires the highest level of support from citizens (2018 Eurobarometer, 82%).

There is no doubt that much progress was achieved in the period 1993-2010,[10] even when Mario Monti (2010) concluded that the to-do agenda was enormous and fragmentation still rampant. Ticking off the ambitious agenda implicit in Box 1, a rough judgement would yield the following:

i. *Generic single market properties*: refinements of goods regulations and reference to European standards, their implementation (a major dossier is REACH) and enforcement (e.g. of mutual recognition and market surveillance, and also misuse in e-commerce); improvement of EU consumer law and cooperative enforcement of rights, and the new GDPR;[11] initially great efforts to properly implement the Services Directive, which also removes barriers to the right of establishment (but leaves a host of problems, nonetheless) and related issues of qualification for professional services (such as adequate proportionality tests of the restrictiveness of national regulation).

ii. *Banking Union*: much has been accomplished, and some refinements of financial regulations were adopted during the crisis; a gradual tightening of common supervision and stress tests; a common bank resolution and its institutions/funds in place and functioning; a harmonisation of deposit insurance but no EU/eurozone deposit insurance (shared risks) yet and non-performing loans need to be further minimized.

iii. *Capital Market Union*: many proposals have been submitted but few adopted as yet; resistance.

iv. *Energy Union*: given the far-reaching adaptation of networks and significant investments, a single gas/electricity market is gradually emerging; ACER, ENTSI-G and ENTSI-E turn out to have considerable added value (e.g. network codes); however, since the ambitious climate strategy strongly favours renewables, the emerging single gas and electricity market has become distorted and private investments have again begun to be replaced with state subsidies (for capacity, less so for renewables).

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9 COM (2018)772 of 22 Nov 2018, The Single Market in a changing world, a unique asset in need of renewed political commitment, p. 1.

10 See Pelkmans (2011).

11 General Data Protection Regulation.

v. *Digital Single Market*: since 2015, digital has been more systematically coupled to the single market, including pro-competitive e-commerce,[12] platforms, fintech (with a Fintech Action Plan), the collaborative economy and a series of new technologies for innovation (e.g. artificial intelligence, blockchain), the data economy (e.g. free movement of non-personal data, GDPR and ePrivacy) and standardised digital contracts and best (B2B) practices; cross-border consumer protection has been somewhat strengthened; there is resistance to mimicking EU-wide patents and trademarks (namely, EU-wide copyright instead of solely national) and to an EU digital tax.

vi. *Mobility packages*: besides a largely successful updating of EU regulations, this is above all about clean mobility (tougher emission rules and EU-led enforcement, which as usual is accepted with difficulty by member states) and automated mobility (with digital, new standards, connectivity and infrastructure issues) which requires time, innovation and new funding; the great potential of the EU freight rail corridors should be better exploited.

vii. *Agri-goods complex*: largely a matter of enforcement; the application to BREXIT is troublesome.

Of course, this rough judgment is far from complete – the single market is simply much too massive for a careful assessment in a short paper. However, its technicality and splintered sectoral nature render it next to impossible for effective high-level decision-making. Unfortunately, the fear is that the EU will have to live with single-market lists in the future too.

A special additional difficulty is found in 'regulatory heterogeneity' between member states, which is a serious barrier against the Europeanisation of business, and particularly for SMEs. It is also costly. Regulatory heterogeneity is distinct from 'diversity.' Diversity in the EU is defined as (regulatory or other) differences between EU countries as a result of distinct preferences, which should be respected if the ensuing national regulations or other policies do not fall under EU competence or are covered by derogations. Regulatory heterogeneity, however, emerges without any reference to local preferences and is therefore, from the point of view of the single market, a purely cost-increasing 'friction.' There are countless national regulatory provisions which differ from analogous provisions in other EU countries for the sole reason that decision-making is decentralized. National decision-makers generate (often merely administrative) differences which are irrelevant to the (often similar) objectives of EU countries. Business complains a lot about these pointless differences and the EU level cannot do much.

4. Recent EU action to match deepening with 'fairness'

Under the Juncker Commission, EU social regulation, its enforcement (helped by CJEU cases) and aspects of 'fairness' in the single market have been pursued more firmly. The most important move has been a package on 'fair' worker mobility, including two crucial accomplishments with respect to posted workers: an Enforcement Directive (2014) and a revised Posted Workers Directive (2018) based on the slogan 'same wage for the same work on the same site.'[13] The 2018 Directive has also increased social certainty for posted workers in a range of other respects, which are crucial for legitimacy. Similarly, the coordination regulation for the social security of all mobile workers has been tightened, including strict disciplines to prevent the establishment of fake (e.g. postbox) companies for dubious social purposes. In the same spirit, a European Labour Authority has been proposed to fight fraud, more effectively inspect labour practices and pursue harmonized penalties. Proposals on the social aspects of cross-border

[12] But this is based on new directives, without unjustified geo-blocking for consumers and without excessive pricing of cross-border parcel delivery; a 2017 directive applies VAT to e-commerce.

[13] Even though politically difficult, this slogan has been followed at least probably because east-west convergence in the EU has been successful (see Figure 1). However, it should be noted that this slogan disadvantages workers from the east when moving to the west on temporary postings, as 'the protection of workers' has been interpreted as local (i.e. western workers). Thereby, other things being equal, the demand for eastern workers will shrink and their benefits from free movement will consequently be smaller for a number of years until convergence approaches the EU average.

road transport are pending but highly sensitive. These are complicated as transport is by definition very mobile. They are seen as urgent for two reasons: the dreadful circumstances of eastern drivers operating in western Europe, and the desire for a level playing field particularly in this respect. The prevention of fake establishments with the sole purpose of exploiting the east-west wage gap without fairness is a priority. Recently, in, e.g., Germany, Belgium and the Netherlands, national courts have not accepted postbox companies with extremely low wages in eastern Europe as a proper framework for services provision, and so have imposed local wages.

More generally, with ever deeper market integration and a degree of convergence, the consensus about an EU-level ‘floor’ of basic social rights has grown. In a first wave, after the Hannover European Council in 1988 a number of minimum social ‘standards’ were codified during the 1990s (on maternity leave, working hours, work agencies, part-time work etc.). In 2017, an EU Pillar of Social Rights was agreed in Gothenburg, so far without legal effect. However, it defines a kind of European Social Model which might well become relevant to the perceived ‘fairness’ of the single market. For sound subsidiarity reasons, however, social welfare and other policies will remain with the member states.

As far as inequalities of a structural nature are concerned, national policies imitating ‘best (e.g. OECD) practices,’ targeted support from the Cohesion and Structural Funds and the Skills Agenda should be helpful in the medium term for regions with ‘low potential.’

5. Policy options

The European election and the arrival of a new Commission are welcome occasions to further explore the basic policy options for the single market. The best option for the single market is – certainly after BREXIT – for the European Council to give justified and unwavering priority to the single market in all its dimensions. This was not the case under Juncker, or more accurately, it was partly done via the three ‘unions’ (banking, capital markets, energy) in Box 1 and the digital one, with other major aspects left as routine matters. The first two were, correctly, prioritized as critical elements of the ‘genuine EMU’ in the aftermath of the great recession. What matters now is that these ‘unions’ have to be completed. The digital single market is the prime candidate for priority in the ‘single market by different names.’ The rationale for this consists of the urgency of removing lingering barriers against upscaling, the belated consolidation of eComms and audio-video business, and the opportunity to exploit a range of new technologies and specialisations with a highly innovative character which require a truly single marketplace of continental size (if only for competition between large players). One can think of biotech, nanotech, mobile and cloud technology (5G, etc.), big data, 3D printing, artificial intelligence, the internet-of-things, robotics and energy storage (e.g. large batteries). This, combined with the EU Unitary Patent, given low costs and the large market size, forms a formidable incentive to innovate. One might surmise that the advocacy for such a new industrial revolution is a plea for good old industrial policy, but that would be mistaken. It is precisely the large market size and its systematic exploitation that should render the industrial strategy as much market-based as possible. Member states talk about these technologies and digital start-ups but seem incapable of addressing regulatory heterogeneity and other fragmentation, which prompts such start-ups to relocate to the US.

Another heavyweight will be climate strategy and climate-related technologies and regulations. This is closely connected with the Energy Union, where the ‘union’ label too often conceals uncooperative action by member states. This is ‘justified’ by the treaty provision that the choice of energy sources is a national competence. There should be a vision of an EU energy and climate union where such absolute prerogatives at the national level are effectively constrained by the possibly adverse repercussions for the single market and other member state policies and their costs. The serious distortions which once built up in the single energy market as a result of an open-ended renewables subsidy jungle should never happen again.

Beyond these two dominant priorities, a way ought to be found for government leaders to assume more visible responsibilities in terms of delivery of the entire single market. The most problematic elements of such responsibilities are implementation and enforcement, as it is easy to endorse general statements on the desirability of such actions but politically unattractive to actually assume visible responsibility, that is, '*ownership,*' for delivery. Still more importantly, what leaders of EU countries should also do is actively pursue single market activities inside their countries (Pelkmans [2016]), including a single market test in national impact assessments for all relevant national draft laws, with possibilities of open consultation for EU nationals and EU business.

Another ambition would be to create modes of cooperation between European business and member state administrations with a view to systematically reducing the most costly, yet pointless, regulatory differences between EU countries which impede cross-border business. Such regulatory heterogeneity cannot easily be addressed by the three principal EU bodies in Brussels. OECD attempts to simulate the benefits of greater regulatory homogeneity generate impressive benefits.[14] This is directly linked to 'red tape barriers' against starting a new business and exporting. Ciriaci (2014) shows empirically that birth rates of firms are positively influenced by a reduction of overly heavy red-tape barriers in member states and Canton & Petrucci (2017) demonstrate empirically that good business (e.g. start-up) regulations and public administration improve business performance, including business dynamics in the single market.

Finally, assuming further steady economic convergence in the EU, the question arises as to whether and to what extent the issue of the fairness of the single market demands closer EU cooperation. More generally, the big societal trade-off between efficiency and equity cannot remain entirely a national choice but it seems that today's EU is still far removed from what might be termed a 'social union' (even one without a tax base).

6. Conclusions

The EU disposes of a golden goose *only if* it manages to firmly further deepen and widen its single market and endow it with critical flanking policies (such as innovation-oriented new sectors, with the appropriate research and uniform standards) and funding (e.g. for EU-wide and cross-border infrastructure, soft and hard). The digital single market and the several links with new technologies and (lower) regulatory heterogeneity ought to assume the lead. As has happened in the last four decades in other domains, the resistance in, e.g., certain prominent services such as professional services (some 23% of all employees in the Union!) and the difficulties in some network industries can be overcome even when this requires engagement as high as in the European Council and even when it does not go at lightning speed. It is equally critical for efficiency (generated by the single market, in particular in a dynamic sense) to be convincingly combined with equity for workers and citizens in all regions and EU countries. Neither from an economic point of view (gains from trade must be used to compensate temporary losers) nor from an EU legitimacy point of view (the single market should not be seen as only 'good for big business' but 'for all') can a narrow efficiency drive be defended. BREXIT has shown beyond any doubt how crucial the single market is, even when the intention is to depart from the EU. But without the single market, as it has been shaped today and even more in the near future, the EU would merely be a European OECD, respectable no doubt but not generating extra income and jobs.

[14] See Nordas & Kox (2009); and Fournier (2015). However, note that the OECD measures take diversity and heterogeneity together without distinction, so their results are an overestimate.

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