

“Completeness” of the EU Single Market in comparison to the United States



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Briefing | An unconscious uncoupling

The economic policy at the heart of Europe is creaking

anachronistic. In theory, at least viewed from Brussels, the EU's 500m citizens live in a single economic zone much like America, with nothing to impede the free movement of goods, services, people and capital.

This single-market policy has underpinned Europe's continued, if somewhat diminishing, importance to the global economy. But three decades after it was dreamed up, Europe's commercial unification is creaking. In parts it is incomplete and in others actively going backwards. At a time when Britain is attempting to leave the EU and trade wars loom, this is worrying. The health of the single market is vital to Europe's economy.

Might *The Economist* be wrong?

(or, Why did—or didn't—the chicken cross the internal border?)



California animal-welfare law
keeps out other states' eggs, pork



Austrian animal-welfare law
only applies to Austrian producers

Evaluating single market completeness

- Multi-jurisdictional single markets could be “complete” in two ***potentially separable*** ways:
 - Politically: economic activity across subunits takes place under a single set of rules
 - Economically: flows across subunits integrate economic behavior into shared pricing mechanisms

Political completeness:

EU and US openness regimes

	Legal standard for internal-market openness	Logic of exceptions	Legislative activity	Administrative systems
E U	Treaty violated by measures that “ hinder or make less attractive ” cross-border market access	OK if necessary for public policy objectives; non-discriminatory ; suitable and minimal to obtain objective	Systematic legislative project with many general statutes (i.e. Services Directive)	LOTS : Enforcement regime; notification of national measures; pre-infringement processes (SOLVIT, etc.); required Single Digital Gateways; e-Procurement system; etc.
U S	Constitution interpreted to bar only “ purposeful discrimination ”	OK if burden on interstate commerce is “ balanced ” by “ other public purposes ”	Sector-specific federal legislation focuses mostly on prudential goals ; little aimed at interstate openness	LITTLE : hardly any openness-related enforcement; federation cannot “commandeer” state resources

Political completeness:

across the four freedoms

	Goods	Services	Capital	Persons
EU	<p>80% of goods marketable under harmonized requirements and related standards</p> <p>Principle of mutual recognition otherwise</p>	<p>General regime based mainly on country-of-origin principle</p> <p>Harmonization or mutual recognition of professional qualifications</p>	<p>Passporting for banking, securities, insurance, market infrastructure, non-banking financial services</p> <p>ECB oversight of biggest banks, no deposit insurance</p>	<p>Member-states may set conditions on longer-term residency...</p> <p>...but much less so on work-related/time-limited mobility</p>
US	<p>“a business wishing to operate within the U.S. must also consider which additional requirements may be necessary in the state where their business will operate.” (ANSI)</p>	<p>Federal rules dominant in transport, telecom</p> <p>Otherwise: meet requirements of each state</p>	<p>Deposit insurance + Fed/Treasury oversight</p> <p>Variable state regulation of insurance + others</p>	<p>US states cannot set conditions on longer-term residency....</p> <p>...but any new resident or visitor must immediately respect all state rules</p>

Economic completeness

The United States of Europe: A Gravity Model Evaluation of the Four Freedoms

Keith Head and Thierry Mayer

Table C.3: Border effects: EU vs US

Region	EU15	US50	EU15	EU28	US50
Year	1997	1997	2017	2017	2017
Model:	(1)	(2)	(3)	(4)	(5)
Border ($i \neq n$)	-0.865 ^a	-0.545 ^a	-0.593 ^b	-0.382	-0.463 ^a
	(0.278)	(0.102)	(0.248)	(0.254)	(0.120)
ln(CES distance)	-1.1 ^a	-1.05 ^a	-1.06 ^a	-1.19 ^a	-1.16 ^a
	(0.102)	(0.054)	(0.109)	(0.105)	(0.059)
Common language	0.667 ^a		0.404 ^b	0.588 ^b	
	(0.100)		(0.184)	(0.262)	
Tariff equivalent of border	18.76	11.44	12.5	7.9	9.64
Observations	225	2,181	222	779	2,285

Note: Dependent variable is the share of i of total expenditure of n . Method is PPML with origin and destination fixed effects in each regression. Standard errors in (), significance levels: 1% (a), 5% (b), and 10% (c).

Estimated tax equivalent of crossing border (goods)

On second thought: how do we interpret this?

- Head and Mayer (like *The Economist*) assume the US is essentially barrier-free (“displays a plausible lower bound of impediments”)
 - So comparable flows in EU mean single market is “complete”
- But the US actually has many visible barriers
 - So isn't a clear comparative baseline for EU “completeness”...
- And gravity models, which are “highly sensitive to methodological choices,” assume the same *elasticities of trade and mobility* across these arenas...
 - Our ongoing research hints that might be a problem

How do Europeans and Americans experience and perceive internal-market barriers?

SINGLEMARKETS: 4 year project with Norwegian Research Council

- 400 interviews with business + state-level public officials
 - Three sectors: construction, spirits drinks, retail banking
 - Four states on each side (Germany, France, Poland, Norway; California, Florida, Pennsylvania, Oregon)
- 50 interviews with EU and US-federal officials
- Original survey on public views of markets and regulatory authority (4,000 Americans, 22,000 Europeans in 11 countries, with IPSOS)

Firms' challenges when crossing borders: more similar than we might expect

	EU	US
<i>Production</i>		
Materials	Low	Low
Building codes	Low	Low
<i>Finance</i>		
Insurance	High	High
<i>Human resources</i>		
Licences	Medium	High
'Detached workers'	High	Medium
<i>Commercialization</i>		
Public procurement	High	High

Firms' framing is more different: incomplete single market v. "just costs of doing business"

	EU	US
<i>Production</i>	Just business	Just business
<i>Finance</i> Insurance	Incomplete SM	Just business
<i>Human resources</i> Licences	Incomplete SM	Just business but...
Detached workers	Incomplete SM	Just business
<i>Commercialization</i> Public procurement	Incomplete SM	Just business

EU/federal policy discussions: radically different

	EU	US
<i>Central institutional mandates</i>	Complex of agents tasked specifically with Single Market project	No similar specific mandates
<i>Business attitudes/mobilization</i>	Associations very engaged in Brussels, generally pro-SM (including in construction, like FIEC, and even SMEs, like EBC)	Associations very engaged in DC, but little attention to interstate issues (in construction, AGC has so such agenda at all)
<i>Connection to pro-market political forces</i>	Mainstream conservatives broadly pro-SM, especially in most pro-market countries (The exception used to be Britain, where conservatives have more American-style views...)	Even “establishment” conservatives broadly opposed to federal authority “Only occasionally does business break through Republican resistance to federal action.” (past high official, Office for Information and Regulatory Affairs, OIRA)

Takeaways

- The EU Single Market and American internal market reflect profoundly different political projects...
 - US: prevent egregious protectionism across fairly similar subunits
 - EU: promote openness across much more diverse and robust subunits
 - ...with very different perceived relationships to pro-market politics
- In political terms, the Single Market is a truly extraordinary achievement
 - (even if discounted for implementation/enforcement)
- How “complete” in economic terms? Harder to say
 - May need to build indexes of barriers + empirical study of elasticities into economic models