Chapter 9
The internal market

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The name of the policy project that has been at the heart of the European integration process since the early days of the European Communities in the 1950s has not remained constant. Over the years, the term 'common market' has gradually been replaced in everyday usage by Single European Market, single market, and increasingly – and, since the Lisbon Treaty, the only name that is now used in the EU's treaties – internal market.

This chapter on the internal market begins with an explanation of why, more than 70 years after the EEC Treaty set out the aim of creating a common market, market-building still occupies a central place on the EU's policy agenda and a completely integrated internal market is still not in place. The chapter then considers the market's rationale and explains why market integration is seen as being desirable. The market's historical development is then described, with a central theme of the description being the ever-broadening nature of the market's reach. The fourth section of the chapter explains the methods the EU employs to reduce barriers to free movement. The fifth section summarizes the principal actions the EU has taken to establish the four core freedoms: namely the free movement of goods, services, capital and persons. The sixth section describes how the EU attempts to ensure that its policies on the four freedoms are implemented. The seventh section shows that notwithstanding the importance of the focus on the four freedoms, the internal market is also based on interventionist policies. The chapter ends with concluding comments.

A constantly ongoing process

Article 2 of the 1957 European Economic Community (EEC) Treaty specified:

> The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.

The TFEU reiterates the EEC Treaty's commitment to the creation of a common market, albeit in different terms, with Article 26 stating:

1. The Union shall adopt measures with the aim of establishing or ensuring the functioning of the internal market, in accordance with the relevant provisions of the Treaties.
2. The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaties.

A pertinent question to address here is why was it necessary to insert in the TFEU the phrase 'with the aim of establishing ... the functioning of the internal market'? After all, did not Article 8 of the EEC Treaty require that 'The common market shall be progressively established during a transitional period of twelve years'?

The answer is, quite simply, that the internal market project has never been completed. While the internal market has been the EU's principal policy achievement, it has always been a work in progress and will continue to be so in the foreseeable future. Four reasons mainly account for this apparent slow progress in completing the internal market.

First, European governments and citizens identify primarily – politically, socially, economically, and psychologically – with their member states. While member state governments generally subscribe to the rhetoric of the EU having a fully open and competitive economy, there are many circumstances in which they are prepared to accommodate, and even to press for, national market protections and variations. As in all federal and quasi-federal systems, the 'common good' often is not easily discerned, and considerable leeway is given to constituent units to deviate from central rules, and indeed to test those 'rules' to seek local advantages. These EU-level/national-level tensions result in the internal market being something of a leaky bucket, with some 'holes' having proved to be very difficult to plug, and new holes always likely to appear. Accordingly, much of the policy work undertaken on the internal market requires careful vigilance, especially on the part of the Commission (often working through the CJEU).

Second, there are many differences between the governments of the member states regarding the extent to which the internal market should be based on liberal (that is, non-interventionist) principles, on the one hand, and the extent to which it should have 'public responsibility' functions, on the other. Should, for example, 'public services' such as health, education and social welfare be part of the internal market, and, if so, to what extent and in what ways? And where should the balance lie between free market competition on the one hand and EU regulation designed to avoid 'races to the bottom' on the other? Ideologically based differences on such questions produce divisions both between and within member states.

Third, differences have arisen from varying perceptions of what a properly functioning EU-wide market needs if it is to operate with maximum efficiency. Are there, for example, certain infrastructure industries – such as energy and transport – that are best run on protected, and even perhaps monopolistic, bases? And when it comes to the single currency, while the governments of most member states have long accepted the case that a single currency enhances market efficiency, this has not meant that they have all wanted to, or even been able to, join such a currency.

Fourth, market forces, practices and products do not stand still but rather are in constant evolution. This is no more clearly demonstrated than with the EU, with the original plans for a common market being negotiated and agreed by just six West European states of comparable levels of economic development in quite different operating contexts than exist in the EU economy today. For the fact is that the EU's forerunner – the EEC – came into being before the intensification of globalization, before increased competition from the newly industrialized countries, before the shift to knowledge-based industries, before the acceptance in Europe of the dangers of global warming, and before the admission to the EU of states with per capita GDPs significantly lower than the EU average. Such changes in the nature of markets – both the internal market itself and the external markets with which the EU's market does business – have posed constant challenges to the EU's policy-makers to 'keep pace'.

The rationale for the internal market

The idea of European market integration is not a post-Second World War phenomenon. Continental Europeans have long recognized the desirability and advantages of removing cross-border barriers to trade. So, for example, in a petition for a German customs union (*Zollverein*) submitted to the independent German states in 1818 by a united German trade and tradesmen's union, the advocates wrote:

> To make a commercial shipment from Hamburg to Austria and from Berlin to Switzerland, one must cross ten states, study ten sets of customs regulations, pay six different transit duties. He who has the misfortune to reside at a frontier where three or four states touch each other, passes his entire life bickering with customs officials. (quoted in Viner, 1950, p. 62)

The subsequent *Zollverein*, which was established in 1818 and which was expanded to eventually include most of the German states, was credited with building a vibrant German economy while protecting its members from foreign competition in a period of early industrialization.

After the Second World War, not dissimilar arguments to those that produced the *Zollverein* were increasingly heard for forging stronger relations between the markets of Western European countries. The arguments were advanced in the context of the generally co-operative post-war mood that existed in the Western world, and particularly in Western Europe. To the background of this co-operative mood, in the early days of developing the internal market the rationale was both political and economic. Many of the European Community's founding fathers believed that impediments to free movement had contributed greatly to Europe's troubled history and that opening up Europe through economic integration would provide a firm base for peace. Many further believed that creating a common market would help Europe, which had become squeezed between the two post-Second World War superpowers of the US and the Soviet Union, to regain its 'rightful' place as a global economic and political power.

However, by no means all of the political leaders who participated in the building of European market integration from the 1950s were motivated by a desire to use market integration as a vehicle for the building of a more general European integration. Rather, there were many who saw market integration as being desirable in and of itself. They did so often as a consequence of looking to the large and very wealthy single market of the US.

This perception of European market integration as having its own intrinsic advantages and merits is, essentially, based on a belief that open markets are more conducive to the promotion of growth and prosperity than are protected markets. This is because lowering barriers to trade creates a larger and more competitive market by allowing a freer circulation of the factors of production, which in turn:

- fosters external and internal economies of scale in production and distribution;
- lowers production costs – thanks in no small part to the establishment of common product specifications and requirements throughout the market;
- widens consumer choice;
- increases technological advancement – through the creation of larger business enterprises, which in turn foster increased R&D spending;
- reduces the administrative costs of multiple customs authorities.

In response to such considerations, there is today a broad consensus at the heart of public discussions and actions in most EU circles that the removal of barriers to the conduct of economic activity between EU member states is, provided that appropriate safeguards are put in place, a good thing. It is deemed to be so because it is seen as assisting the pursuit of such economic desirables as increased trade, investment, employment, growth and returns on capital.

The development of the internal market

Early progress and difficulties

As part of its aim to create a common market, the EEC Treaty provided for the creation of a customs union (see Chapter 17 and Box 3.1 on p. 28). With the rapid removal of tariff and quota restrictions on trade between member states and the construction of a common external tariff, this was achieved, ahead of schedule, by 1968.

However, the common market was not to be achieved so easily. One key reason for this was, and indeed still is, that there are numerous potential restrictions on cross-border trade in addition to tariffs and quotas, and many of these are difficult to remove. The removal of tariffs and quotas does not automatically reduce, let alone eliminate, regulatory barriers to trade. On the contrary, indeed, the creation of a free trade area, and even more so of a customs union, can tempt states to cheat by implementing non-tariff barriers (NTBs) to trade – many of which take the form of technical barriers to trade (TBTs). The EU has had to struggle with NTBs from the very beginning of its attempts to create a fully open internal market.

Until the 1980s, harmonization (in the French text of the treaty) or approximation (in the English text) of product standards was the EU's principal legislative response to overcome NTBs. Approximation, however, was fraught with difficulties, not least because the complexity and technical character of many traded products made it impossible, and in many cases simply unnecessary, to agree on the standards applying to thousands of goods (let alone services),

In addition to the problem of NTBs and the imperfect solution offered by approximation, another very important reason why the internal market developed only slowly in the EC's early years was that policy promoting the free movement of people, services and capital was relatively neglected, with most attention being given to creating the free movement of goods. To take, for example, free movement of people, until the 1980s EC governments were much more focused on the national social, employment and security implications (perceived usually as threats) of permitting easy

and unchecked access into their national territory than they were on extending the rights of workers to move around, or the potentially dynamic effects that labour mobility might have for the European economy.

Prior to the mid-1980s, further core problems in attempts to make progress in removing barriers to the free movement of people, services and capital arose from the EC still being very much a fledgling polity: decisions in these politically sensitive areas depended on unanimity in the Council; the critical policy networks in the various policy fields that would later assist policy development were not yet much developed; the member states were still learning the art of bargaining in a quasi-federal structure; and the social construction of 'Europe' existed only for the most ardent federalists.

The White Paper 're-launch'

The internal market thus developed only slowly in the 1960s and 1970s. It applied in practice mainly to trading in goods, and much of that achievement was by-passed by the continuation, and indeed in some sectors the growth, of NTBs – and in particular TBTs. In the 1970s and early 1980s, dissatisfaction with the continuing fragmentation of most of the market, and the lack of progress being made in removing barriers to trade, grew considerably because it was increasingly apparent that Europe was becoming gradually less competitive. In the 'sunrise' industries in particular – that is, the new high-tech industries – Europe was lagging behind its major competitors. Europe's difficulties in being able to compete successfully against the US, Japan and the Asian 'tigers' of Hong Kong, Singapore, South Korea and Taiwan (all of which were pursuing export-led growth policies) created a sense of impending crisis for European business operating both at home and abroad. Prominent among those expressing concern about the situation was large-scale industry which, through the European Round Table of Industrialists (ERT) in particular, became highly active in the early 1980s in pressing EU decision-makers to launch initiatives designed to create a much more open and level internal market.

Many of the perceived necessary legislative requirements for constructing such an internal market were wrapped together in a Commission White Paper that was published in April 1985 and was strongly championed by the new Commission President, Jacques Delors, and the new Internal Market Commissioner, Lord Cockfield. Entitled *Completing the Internal Market*, the White Paper set the end of 1992 as the target date (European Commission, 1985), or the adoption of nearly 300 directives and regulations which would give the four freedoms a much broader and more solid base. The directives and regulations identified in the White Paper included measures for tackling distortions to trade in goods and services, the harmonization of VAT rates and excise taxes, the opening up of government procurement and liberalizing financial markets.

The White Paper was accepted by the heads of government at their June 1985 European Council meeting. At that meeting they also recognized that the required legislative measures would be unlikely to be passed unless the EEC Treaty was amended to allow most internal market proposals to be subject to QMV in the Council. Accordingly, they convened an Intergovernmental Conference (IGC), which resulted in the 1986 SEA that included most of the necessary changes to Council voting rules among its provisions. Most of the White Paper's measures were duly approved by the 1992 deadline.

An evolving and broadening internal market agenda

The incorporation into EU law of the measures identified in the White Paper did not mean, and has not meant, that the task of building a fully functioning open internal market has been completely realized. One reason for this has been that despite the use of the word 'completing' in the White Paper's title, there were in fact many requirements of a truly open market for which the White Paper did not fully provide, including many aspects of four freedoms. A second and closely related reason has been that the Paper contained only a rather narrow and limited understanding of what a fully functioning internal market requires. For example, relatively little was said about how to give effect in practical terms to the free movement of services and (the related) right of establishment. And a third reason has been the existence of significant ideologically based and nationally tinted differences between the member states on numerous policy preferences and key points of policy principles and specifics.

In short, there has never been a consensus among EU policy practitioners on just what the requirements of a fully operational, effective and open internal market are. However, it certainly is the case, as economic integration theory predicts, that the range of the perceived requirements has grown as economic integration has advanced.

Many of the disputes over the nature of the internal market, and, in particular, those that continue to arise between the Commission, as guarantor of the internal market, and member states, which are often inclined to protect domestic industries, can be understood in the

context of federal relations. Federal arrangements can exacerbate the perennial debate of 'equalization' versus 'efficiency' because sub-federal-level governing units retain a great deal of independent economic power. This can lead, and in the EU has led, to considerable debate and disagreement over, for example: should member states be able to offer favourable taxation bases or other incentives to incentivize companies to relocate (or remain where they are); should all companies operating in the EU be able to compete on open and equal terms for public contracts; and must sectors in which governments have traditionally dominated – such as postal services, telecommunications and energy – be opened up to bidding from other EU companies? In seeking to deal with such questions, the EU has moved progressively in an economically liberal direction, opening it up to accusations of being pro-business at the expense of labour, consumers and environmentalists as articulated by critical interpretations of EU policymaking (see Chapter 2). Despite this critical interpretation of an EU beholden to business interests, many of the market-opening moves – such as to open up state-run postal or transport services to competition, for example – have been protracted and subject usually to Commission proposals being both watered down and introduced only in stages.

Despite the many obstacles existing to market opening and liberalization, a number of policy devices have made market integration progressively easier to achieve. One very important such device, which was being established even in the years before the White Paper and SEA, is the principle of mutual recognition, which, as is explained below, greatly reduces the need for approximation legislation. Another device is QMV in the Council – which, thanks to expansions in every treaty reform round starting with the SEA – is now available for most internal market measures. A third device is the use of European standardization bodies, rather than EU legislation, to establish the essential requirements of marketed products. And a fourth device is increased use of the specialized and regulatory agencies described in Chapter 5.

The building of the internal market has thus been, and remains, a continuing project, with an increasingly wide range of activities being seen as requiring attention if the market is to be fully effective. Many of these activities have been incorporated within the framework of multi-annual and annual strategic internal market plans – which have been drawn up by the Commission and approved by the Council. Naturally, the focus and content of these plans reflect changing priorities, as with the way in which in recent years attention has increasingly focused on liberalizing, albeit on a regulated basis, service-based industries, and more especially financial services via a (still under construction) Banking Union and Capital Markets Union.

Methods used for reducing barriers to free movement

As has been shown above, free movement is at the very heart of the internal market project. The EU uses three – overlapping and interlinked – methods to achieve free movement: liberalization, approximation – which takes old and new forms – and mutual recognition.

There is, in practice, some overlap between the three methods, in terms of both their nature and their usage. Regarding their nature, the greatest overlap is between liberalization and mutual recognition, which at times almost blend together. A sharper distinction exists between liberalization and mutual recognition (neither of which use EU legislation) on the one hand and approximation (which does use EU legislation) on the other. Regarding the usage of the three methods, this varies greatly between market areas – though with more than one method being used in most cases.

Liberalization

In the internal market it is assumed that goods and services have an automatic right to enter the markets of all member states, except in circumstances in which the treaty has provided for exceptions (called 'derogations') or the CJEU has interpreted the treaty in such a way that limitations to free movement are permitted. Key reasons why limitations to free movement may be judged to be necessary and permissible include that a product or service may raise concerns about human health or public safety (including national security). On this basis, the sale of, for example, chemical products, could not be subject to full liberalization, while the sale of, say, men's shoes could.

So, for those products and services that do not need to be regulated 'free movement prevails automatically'. This means that that it can be difficult for national governments to defend barriers to free movement, especially when they do not themselves regulate the relevant products in their own markets.

Threats to free movement, therefore, are most likely to be associated with products and services that are regulated in national markets – which is where approximation and mutual recognition come into play.

Approximation

The words 'approximation' and 'harmonization' are used virtually synonymously in the TFEU, and more broadly throughout EU circles, to refer to the specification of EU-wide common rules, standards, and requirements pertaining to free movement (see Pelkmans, 2012, p. 4). 'Approximation', which is the word that normally will be used here, thus involves bringing the member states' markets 'into harmony' through regulation (Pelkmans, 2012, p. 4).

Approximation has had a firm treaty base from the EU's inception, with Article 3 of the EEC Treaty stating:

> the activities of the Community shall include…
> (h) the approximation of the laws of Member States to the extent required for the proper functioning of the common market.

Internal market approximation was for a long time based on a somewhat rigid and essentially top-down process in which whatever was to be regulated – be it the materials used for sofa stuffing, the minimum depth of tread on car tyres or the permitted additives in long-life milk – was subject to detailed legislation. In effect, approximation meant that standards had to be common throughout the member states. The main instrument for giving effect to approximation was EU directives.

But this sort of approximation was very difficult to achieve, with approximation measures – concerning products as diverse as chocolate, beer and lawnmowers – almost invariably taking a long time, sometimes years, to be passed – if they were ever passed at all. In consequence, the Commission attempts to approximate standards triggered calls for more public consultations, increased transparency and 'better regulation' in line with the New Public Management paradigm that took hold in OECD countries from the mid-1980s. In response to such perceptions and to complaints from member state governments and stakeholders of 'Brussels over-regulation', the Commission from the early 2000s, and more particularly the Juncker Commission after it assumed office in 2014, made 'better regulation' one of its key (and, importantly, visible) priorities, which culminated in the 'Better Regulation Agenda' as detailed in Chapter 7.

It is important to recognize that those who see the Commission as an agent of neoliberalism are less sanguine about the Better Regulation Agenda than those who see it as 'deregulation' dressed up as better regulation. This is because (as was eluded to in the discussion of critical political economy in Chapter 2), consumer protection and environmental groups often see Juncker's prioritization of better regulation as part and parcel of OECD attempts to overcome national regulations at the behest of transnational corporations. Given the ubiquity of global supply chains, transnational corporations do not want to have to deal with a multiplicity of national regulations. However, those groups that favour regulation argue that regulations are not just arbitrary NTBs (or only agreed in order to protect national businesses), but rather are carefully negotiated and agreed by national (and in the case of the EU, member state) governments and stakeholders. These regulations reflect the culture, and should not be overridden by a global notion of risk.

Taking the perspective of business seeking entry into another member state's market, even when the EU has passed legislation attempting to bring the member states into harmony on single market issues, the measures have often been weak because of the compromises that had to be made to enable decisions to be reached. Among the reasons for this highly inefficient approach to approximating standards have been the numerous and often very different natures of national standards and laws, rapid changes to both the nature of markets and marketed products, and the requirement in the Council's voting rules that market-related decisions had usually to be adopted by unanimity (a requirement that, as was noted above, the SEA changed to QMV for most market measures). Up to the mid-1980s, only very modest progress was therefore made in tackling the problem of internal market fragmentation.

In response to this problem of both ineffective and over-regulation, and in parallel with a developing new mutual recognition policy and a growing mutual recognition culture among OECD countries (see below), from the mid-1980s, the EU began increasingly to use a 'new approach' to approximation. Drawing on the basic precepts of mutual recognition, the new approach was based not on trying to establish common standards but only around 'essential features'. Approximation thus evolved from relying solely on the 'old approach' in which often detailed legislation was developed by the EU to a 'new approach' in which the EU stipulated essential requirements – covering, for example, health and safety conditions – but the specification of technical standards was now left to European Standards Organizations (ESOs).

There are three ESOs, which are largely industry-run and which develop European standards by consensus through committees comprising stakeholder experts. The most important ESO is the European Committee for Standardization (CEN), which covers more than 18 sectors including air and space

chemicals, construction, energy and utilities, and food. The other two ESOs – the European Committee for Electrotechnical Standardization (CENELEC) and the European Telecommunications Standards Institute (ETSI) – are, as their names indicate, more narrowly focused.

Since it entered into force in 2013, Regulation 1025/2012 (the so-called 'Standardisation Regulation') has provided the legal framework for the European standardization system. Under it, European Standards developed by ESOs are, strictly speaking, voluntary and are not legally binding, though national standardization bodies are obliged to withdraw any conflicting national standards once equivalent European standards have been established. Furthermore, CJEU rulings have sometimes given European standards legal force, especially when the standards specified in them are in conformity with EU legislation; around 30 per cent of European standards issued by ESOs are adopted in response to standardization mandates issued by the European Commission, so they are firmly located within the framework of EU legislation and are legally binding.

The new approach to approximation is guided by multi-annual and annual 'action plans'. So, for example, under the 2019 annual programme for standardization, amongst products and product types identified as particularly needing standardization are many of those in the following sectors: the digital single market, cybersecurity, data security, artificial intelligence, the energy union and the internal market with a strengthened industrial base (European Commission, 2018j).

Approximately half of all goods traded within the EU are subject to approximation legislation, while the remainder are 'non-harmonized'. As Figure 9.1 shows, standardization is used most frequently for high-risk products such as chemicals, pharmaceuticals, construction goods, toys, machinery, medical devices, automobiles and some foodstuffs. For example, the automotive sector is governed by 100 approximation and [illegible] implementing directives.

* * *

The movement from 'old' to 'new' approximation has greatly facilitated free movement in physical goods. It has not had the same impact on the other freedoms, which are more complex to disentangle and considerably more politically sensitive to standardize. Consequently, 'old' approximation – that is, top-down and often very detailed legislation laying down EU-wide, or sometimes just eurozone-wide, rules – remains the principal method still used for *removing* barriers to free movement in respect of most aspects of free movement of services, capital and persons.

Mutual recognition

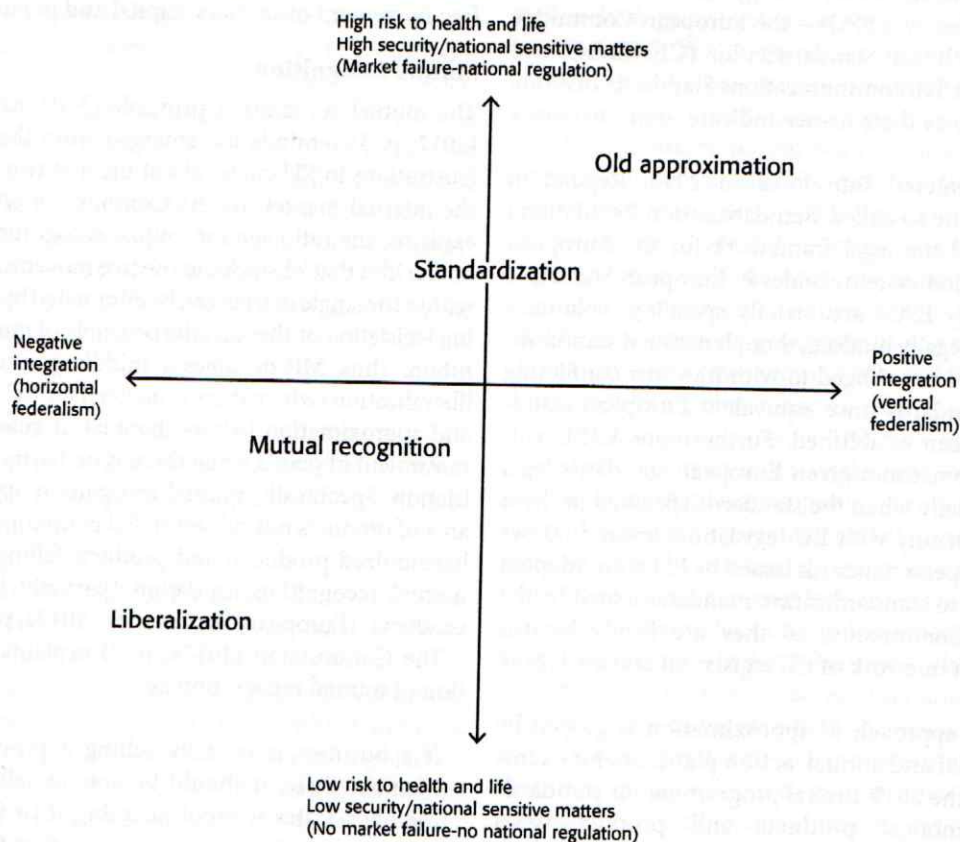
The mutual recognition principle (MR), as Pelkmans (2012, p. 3) reminds us, 'emerged from the profound frustrations in EU circles about the first two decades of the internal market'. As the Commission (2017a, p. 7) explains, the rationale for mutual recognition is based on the idea that 'obstacles to the free movement of goods within the single market can be eliminated by harmonizing legislation or through the principle of mutual recognition'. Thus, MR occupies a 'middle ground' between liberalization (where there is no need for EU regulation) and approximation (where there is). It guarantees free movement of goods when there is no harmonizing legislation. Specifically, mutual recognition applies in the area of products not subject to EU common rules (non-harmonized products) and products falling outside of mutual recognition legislation (partially harmonized products) (European Commission, 2017a, p. 10).

The Commission (2017a, p. 7) explains the operation of mutual recognition as:

> If a business is lawfully selling a product in one Member State, it should be able to sell it in other Member States without adapting it to the national rules of that Member State, even when there are no common European rules on how the product has to be manufactured (rules on i.e. characteristics of the product, size, composition, etc.). The right to sell a product lawfully marketed in another Member State can be refused only when the Member State of destination has diverging product requirements whose mandatory imposition is justified by the need to protect a certain public interest, and those requirements are necessary and proportionate for achieving that objective. This is the principle of mutual recognition in the field of goods.

Thus, MR involves EU member states recognizing and accepting the regulatory standards of other member states and is based on the assumption that member state governments share broadly similar objectives. The main sectors in which the mutual recognition principle applies in the EU are agricultural products, foodstuffs and beverages; furniture; bicycles; the environment (packaging and packaging waste, recyclable products, processing of biodegradable waste); and precious metals. (European Commission, 2017a, pp. 18–20). (See European Commission, n.d.-d for a list of products that are non-harmonized, and therefore falling under mutual recognition.)

Figure 9.1 Methods for opening up the internal market



The EU had been inching towards the concept of mutual recognition since its earliest years but, as with any federal construction, two factors prevented this principle from coming to the fore. First, levels of economic development varied enough among EU member states to cause concern among the more economically developed member states that regulations dealing with market failure were substandard in poorer member states. Second, building trust among member states would naturally take time.

The initial breakthrough was provided by the ECJ, which concluded in 1974, on the basis of the then Article 30 of the EEC Treaty – which stated that 'Quantitative restrictions on imports and all measures having equivalent effect shall ... be prohibited between Member States' – that 'trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions' (Dassonville decision, 1974). The ECJ, in its Dassonville ruling, had (seemingly) struck down all TBTs. The Dassonville decision thus underscored liberalization (Pelkmans, 2005, p. 90) as the primary goal of the EEC Treaty, but created a great deal of concern and uncertainty about situations where member states might be acting in good faith to protect their citizens from harmful products imported from other member states. The Court clarified Dassonville in its 1979 *Cassis de Dijon* ruling (case 120/78) by deciding that a product lawfully produced and marketed in one member state could not be prohibited in another unless it was authorized by a derogation provided in the 'safeguard article' – Article 30 of the EEC Treaty (now Article 36, TFEU).

Under the MR principle that was established by the Court, member states must thus mutually recognize and accept each other's standards where national regulatory objectives are similar. Where regulatory objectives differ, member states must attempt to agree on the objectives. The point of mutual recognition is that member states are obliged, without exception, to work together to find ways of ensuring free movement.

Subsequently, the EU has codified CJEU case law through Articles 34 and 36 of the TFEU and in Regulation (EC) No 764/2008 (the Mutual Recognition Regulation) which defines the 'practical

modalities of the Regulation's implementation' (European Commission, 2017a, p. 8). The Mutual Recognition Regulation is grounded in the principle of proportionality, whereby restrictions on trade should not be greater than they need be to achieve legislative aims. So, for example, if an aim is to protect the health of citizens by reducing their consumption of salt, it should be assumed that a label will usually do the job of protecting and informing consumers and that a ban on specified food products from other member states is unnecessary. In the same spirit, member states are required to include an MR clause in relevant national legislation, although compliance with this requirement has been weak (e.g. during 2012 and 2014, 2,168 draft national rules were notified, but only 205 contained an MR clause) (European Commission, 2017a, p. 19). So, too, the Mutual Recognition Regulation's requirement of the submission of annual reports on the application of the Regulation has not been followed by all member states (European Commission, 2017a, p. 21).

In an evaluation of the 2008 Regulation, the Commission reported several weaknesses to the trade in goods in the single market – particularly that it was sometimes unclear which products MR covers, difficulties demonstrating the product is already lawfully marketed in another member state, particularistic national rules, insufficient communication among all actors (Commission, national authorities, business), and difficulties in challenging the decisions of national authorities, which then served as the basis for the Commission's proposal in 2017 of a new MR regulation as part of the 2015 Single Market Strategy. Regulation 2019/515 (applicable from 19 April 2020) includes the following reforms (European Parliament, 2019b, 2019e):

- Member states must clearly justify any restrictions to market access.
- National authorities must rapidly assess goods.
- Simplified procedures for companies and national authorities.
- Enhance cross-border cooperation between contact points via an online platform that will contain national technical rules and application of MR.
- Voluntary Mutual Recognition Declaration – business operators certify the product is already for sale in other EU member states.
- Use SOLVIT mechanisms when disagreements arise (rather than relying solely on courts) to find amicable solutions'.

* * *

Each of the just-examined three methods of achieving free movement – liberalization, approximation and MR – involve disparate levels of product risk and different types of federal relationships, as depicted in Figure 9.1. Regarding the placement of the methods on this two-dimensional figure, these observations can be made:

- *Old approximation* is used mainly for the most 'risky' and 'sensitive' products. It involves vertical federalism in the form of EU laws (usually directives) that specify the standards goods must meet to be allowed market access. Thus, EU rules replace national rules.
- *Standardization* (new approximation) is used for products that are not as risky as those deemed to require old approximation. It involves a more flexible form of vertical federalism in that it is managed through EU-agreed essential standards (usually in the form of directives) rather than detailed top-down specifications.
- *Mutual recognition* involves lower-risk products than those subject to approximation. The process constitutes horizontal federalism because there is little direct EU-level involvement (other than in an overseeing capacity), although the 2019 (revised) Mutual Recognition Directive involves more Commission involvement. Member states may set national requirements for non-approximated products, but they must not obstruct free movement.
- *Liberalization* applies to products that are not deemed to be risky and that normally are not subject to national regulation. The process falls under horizontal federalism because EU institutions should not need to be involved and EU legislation is not necessary for markets to be opened up.

Establishing the four freedoms

The EEC Treaty and its successors have all emphasized the commitment and obligation of the EU to enhance the free movement of goods, services, capital and persons. The language used by the treaties has changed a little over the years, but the essential intent has remained constant.

Having noted in the previous section the methods used for removing barriers to free movement (mainly in goods), the main steps taken and the progress made by the EU in facilitating cross-border economic activity with respect to each of the four freedoms are now considered.

Goods

The removal of the most obvious barriers to the free movement of goods – tariffs and quotas – was prioritized in the Community's early years, and all were abolished by 1968. However, as was noted above, other obstacles to free movement of goods – in the form of NTBs – proved to be, and many of them continue to be, much more difficult to eliminate. This is partly because NTBs are often much less visible than tariffs and quotas, but is mainly because national standards and specifications, which are the main components of NTBs, are created for a variety of usually beneficial purposes – such as ensuring product quality and protecting product consumers – and therefore often cannot be removed without being replaced by EU-wide standards and specifications. So, except where liberalization or mutual recognition has been deemed to be acceptable, national deregulation has usually needed to be accompanied by EU-level re-regulation in the form of the establishment of either legislated, or at least agreed, EU standards and specifications (see discussion above). Negative integration has thus needed to be paralleled by positive integration, which has been a major challenge for EU decision-makers. But overall, the internal market in products has been the economic sphere in which the greatest amount of free movement has been attained.

Services

Services cover a wide range of major economic activities, including education, health, transport, communications, financial transactions, computer support, information, personal services (such as hair stylists and electricians) and many government activities. The Commission has become increasingly focused on intra-European trade in services because it is the area of highest growth among developed countries and accounts for 70 per cent of the EU's economy, 90 per cent of job creation and 40 per cent of the value of EU manufactured products stems from service inputs.

Taking, for example, the particular case of professional services to show how this area of service activities is handled by the EU, there are approximately 50 million people in the EU (22 per cent of the labour force) working in professional services (European Commission, 2017k). There are some 5,500 regulations on professional services throughout the EU member states (ibid.). But given that member states are highly sensitive to the licensed professions, and given also the power of professional associations of licensed professions in each member state, the Commission has been focusing on a 'proportionality' test for new service regulations under consideration by member states.

Article 59 of the EEC Treaty stated that 'restrictions on freedom to provide services within the Community shall be progressively abolished'. The Treaty also provided for the removal of restrictions on the freedom of establishment of nationals of a member state in the territory of another member state: removals that were vital if services were to be opened up to Community-wide competition. However, despite these Treaty provisions, for the first twenty years or so of the Community's existence relatively little attention was paid to the liberalization of the services sector. One reason for this was that agriculture and manufacturing accounted for the majority of jobs. Another reason was that the barriers in the way of opening up of services were generally more complex than they were for trade in goods: for services, there was no 'equivalent' to abolishing tariffs and quotas. And a third reason was that the UK, which had a competitive advantage in a number of service sectors, especially financial services, was not yet a member state. After the UK joined in 1973, services began to receive more attention, but as they did so an increasingly protective attitude towards the national provision of services became apparent in several member states.

The protective attitude in services is seen in the way member states strongly hold on to and vigorously seek to retain their varying comparative advantages. Another reason for the protective attitudes in the services sector is 'home state bias', which results in investors and purchasers often favouring fellow nationals when there is a choice in economic exchanges, and particularly when exchanges involve direct people-to-people contacts. Home state bias is widespread in public purchasing where, despite EU legislation requiring open tendering for many public contracts, in practice such contracts may, in effect, be closed – because, perhaps, they have been deliberately drawn up in ways that advantage home country suppliers. And, a third reason for national resistance to aspects of the liberalization of services has been because services inhabit disparate competitive frameworks. Utilities, such as postal services and the gas and electricity industries, have traditionally been protected from competition by being national monopolies; computer and information industries have been advantaged by near-monopolistic markets in which product distinctions have been protected by patents; and the market of major shipping lines has been characterized by oligopolistic competition. By contrast, retailers and purveyors of professional services operate in conditions more closely resembling perfect or atomistic competition.

The establishment of the principle of mutual recognition (see above) has not benefited trade in services as

much as it has trade in goods. One reason for this is that many services are provided locally, which brings cultural, linguistic and geographical distance factors into play. Another reason is that free movement of services has greater implications for cross-border movements of people and of establishment than does free movement of goods – and so it is more politically sensitive.

Nonethe less, although cross-border movements in services have been restricted for many reasons, the freedom to provide services across the EU has increasingly been recognized and clarified by the treaties, by EU legislation and by the CJEU. EU legislation has, for example, established in a number of directives where and when professional qualifications must be recognized in other EU member states, whilst the Court has been much to the fore in advancing EU law across a range of matters covering both services and establishment. However, despite repeated calls from the Commission for a comprehensive legislative approach to be taken to establishment and services, there was little movement on this front until the early 2000s, when EU policymakers linked competition in services to the Lisbon Strategy on growth and competitiveness. The main outcome of the intensive work that was undertaken to liberalize services was the Commission's issuing in March 2004 of a *Services Directive*. At the heart of the Directive was the idea that service provision in the EU should be based on the country of origin principle; that is, 'according to which a service provider is subject only to the law of the country in which he is established and Member States may not restrict services from a provider established in another Member State' (European Commission, 2004b, p. 6). The rationale behind the use of the country of origin principle in the Directive was to address one of the main complaints of service businesses when attempting to operate outside their home states: the byzantine number of government authorities (at different levels) involved in approving business operations. The Commission's intention with the Services Directive was to remove this barrier to cross-border business activity by putting in place a 'one-stop shop'.

For the Commission, for many centre-right politicians and for service providers in a position to operate in other member states, a *Cassis de Dijon* (the ECJ case that established the mutual recognition principle in goods) for services was highly desirable, because in all likelihood it would quickly begin to break down the barriers preventing a more open EU services market. But for much the same reason, the prospect was not welcomed by two very important sets of actors:

- For the governments of member states, many of the thousands of national, regional and local rules regulating service industries were seen as being necessary and appropriate. The public justifications for this usually covered such reasons as the maintenance of standards and the preservation of customs and traditions, but in reality the reason was often straightforward trade protection. For those states with higher wages and high levels of social protection, application of the country of origin principle to services posed a particular threat to many national businesses and jobs.
- Centre-left politicians and trade unionists saw the country of origin principle as a betrayal of the European Social Model. For both of these sets of actors, it was one thing for national regulators to be told to accept the alcohol content of a French blackcurrant liqueur (as happened in the case of *Cassis de Dijon*), but quite a different matter for Swedes, for example, to have to agree to a Greek construction company building port facilities in Sweden whilst employing Greek nationals subject to Greek wages and social protections.

It was not therefore unexpected that the Services Directive was amended as it made its way through the EU's legislative stages during 2004–6. Indeed, the country of origin principle did not survive the EP's first reading, and nor did some service areas: the EP deleted broadcasting, computer and information services, postal services, audio-visual services, temporary employment agencies, social services, public transport, gambling and healthcare from the remit of the Directive. (Financial services were already excluded because this sector was regulated via other directives.) The Directive, which was eventually adopted in December 2006, has been described as 'a neat retreat compared to the (over)-ambitious proposal of the Commission' (Hatzopoulos, 2008, p. 161). Most importantly, the 'free provision of services' principle – 'Member States shall respect the right of providers to provide services in a Member State other than that in which they are established' – replaced the 'country of origin' clause. Hatzopoulos (2008, p. 188) suggests that, nonethe less, despite the abandonment of the country of origin principle, the Services Directive represented a positive contribution by codifying the Court's case law in services, promulgating some rules to simplify procedures, providing limited approximation and setting the conditions to adopt more far-reaching rules in the future. (At the time of its adoption, service activities accounting for nearly 50 per cent EU

GDP were covered by the Directive, with business services representing the most important sector.)

Given the bruising negotiations and extensive compromises involved in the making of the Services Directive, no EU institution (especially the Commission!) wishes to reopen the Directive. However, this should not signify a complete acquiescence to gaps left by the Directive. Therefore, as part of the 2015 Single Market Strategy, the Commission focused on initiatives that would more fully implement freer movement of those services covered in the Directive (the lion's share being business services, construction and retail services).

Capital

The movement of capital is an essential component of the operation and performance of any economy. It determines whether or not borrowers can obtain relatively cheap money that is suitable for their needs and whether or not investors and suppliers of capital are to be able to offer their resources where there is the greatest need and interest in obtaining them.

Within Europe and beyond, capital has long been mobile. It has become even more so in recent years in the wake of the rapid increase in industrial and service sectors that do not have high fixed costs in immobile infrastructure, such as high-tech and internet-based industries. Capital is attracted to locations for several reasons, prominent among which are lower labour costs, lower corporate taxes, access to highly trained and specialist workforces, and less generously mandated employer-provided social benefits.

So, although the liberalization of capital was relatively slow to develop in the EU's early years, it picked up rapidly under the single market momentum and full liberalization has, with some restrictions and derogations, applied since 1988 (Directive 88/361/EEC). The Maastricht Treaty introduced the free movement of capital as a market freedom and, under Article 63 TFEU, prohibits all restrictions on the movement of capital and payments between member states and between member states and third countries. Subsequent legislation has clarified and regularized aspects of how the free movement of capital principle is to operate in practice, including specifying conditions in which it may be restricted – notably on grounds of overriding public interest (which Cyprus and Greece invoked when they introduced capital controls during the eurozone crisis).

Technically, free movement of capital is concerned mainly with cross-border capital transfers, but in a practical policy sense, it refers to all cross-border investment. It also covers the purchase of real estate and securities, and the portability of pensions. An example of the real estate dimension of EU capital movements is seen in the negotiations that led to the 2004/7 enlargements, where some CEECs were concerned about being priced out of their domestic real estate market by wealthy West Europeans: the EU's response was to include temporary derogations for some CEECs in the accession provisions.

Of course, providing for free movement of capital does not in itself ensure that the desired or required amount of capital will necessarily be realized for projects the EU wishes to see pursued, either by itself or by the member states. Indeed, as a result of underinvestment, the Commission took advantage of a window of opportunity – created by the economic and financial crises – to increase the EU's own capacity for financial investment when President Juncker persuaded EU decision-makers that there was an urgent need to generate a momentum behind increased investment for EU-wide purposes. To this end, he proposed the creation of a new investment fund capable of generating some €300 billion of 'new money', drawn primarily from the private sector. Soon after the new College assumed office in November 2014, a Commission Communication was issued detailing the nature and purpose of the fund (European Commission, 2014a), which was now called the European Fund for Strategic Investments (EFSI). The target figure was set at €315 billion, with the fund designated as being primarily for investing in infrastructure projects related to transport, energy, information technology and trading. The investment plan was approved in principle by the European Council at its December 2014 meeting and the target figure was exceeded by 2018 (see below).

Building on the EFSI, the Commission launched a Capital Markets Union (CMU) action plan in September 2015, which was aimed at removing still existing national barriers to cross-border capital flows and finding 'the best ways of tackling those that are either not justified by public interest considerations or are disproportionate' (European Commission, 2017, p. 2). Barriers identified and on which action is ongoing include a range of *ex ante* barriers (of immediate concern when investors consider engaging in cross-border activity), *in itinere* barriers (deterring investors from maintaining or increasing their cross-border exposure) and *ex post* barriers (difficulties at the end of the investment process). The actions that have been identified to remove these barriers are aimed at reducing fragmentation in financial markets, diversifying financing sources, strengthening cross-border capital flows and improving access to finance for business, especially SMEs. A key role in these actions is to be exercised by harnessing the opportunities presented

by technology-enabled innovation in financial services (FinTech), which were set out in another action plan of March 2018 (European Commission, 2018k) and which used the now-customary language of wanting to increase and better use capital to advance competitiveness and innovation.

Persons

Council Regulation (EEC) No. 1612/68 entitled all nationals of a member state to take up and engage in gainful employment in the territory of another member state in conformity with the relevant regulations applicable to national workers. Italy, with an approximate population growth rate of 13 per cent in the mid-1950s, had insisted on free movement of labour as the price of its signature to the EEC Treaty, even though France, with a population growth rate of 3 per cent, feared being over-run by job-seekers from southern Italy. In the event, a significant cross-border movement of people searching for jobs did not occur, and has never occurred.

Even today, despite very significant changes that have greatly facilitated free movement of persons in the EU (see below) and after also there was some increase in cross-border movement following the 2004/7 enlargement, less than 2 per cent of EU citizens live and work in a member state that is different from their country of origin: a percentage that has barely changed since the 1980s. What, then, are the obstacles to leaving one's home country to live in other EU member states? It is not a lack of clear treaty authorization, because in seeking to establish the conditions for the free movement of people there has always been full provision for both the employed and the self-employed (Article 45 TFEU).

Regarding the self-employed, the ability of people as varied as dentists, building contractors, hair stylists and accountants to obtain a licence and establish offices in another EU member state is a major litmus test of free movement of people. They are covered principally by Articles 49–55 TFEU which, subject to certain limited exceptions, prohibit restrictions on the right of establishment: that is, on the right of individuals and undertakings to establish businesses in the territory of other member states.

Over the years, these and related treaty articles have been supplemented and given added force in several ways. One way has been by the building of the Schengen System. A second way has been by the creation of EU citizenship, which was established by the Maastricht Treaty. In terms of free movement of persons, this took the focus away from the previous focus on employment status by granting EU citizenship to any citizen of an EU member state and by underpinning the right of all EU citizens to move and reside freely within the territory of the member states. A third way has been by legislation: especially Directive 2004/38/EC on the right of EU citizens and family members to move and reside freely within the EU) and application of the practice of mutual recognition. A fourth way has been by legislation being coupled with mutual recognition to provide for many educational, professional and trade qualifications being able to be used throughout the member states. A fifth way has been by the Court providing legal entitlements of various sorts to EU citizens when they live and work in another member state: entitlements in the form, for example, of access to education systems, healthcare facilities, social welfare payments and the purchase of property. And, finally, the EU has all sorts of mobility programmes for young people and professionals.

In the negotiations that led to the 2004/7 enlargement, the governments of many EU-15 member states responded to voters' fears that the accession of poorer countries would inundate West European countries with job-seekers by instituting derogations – that is, national restrictions on labour migration for transitional periods. But, in practice, in economic terms, the EU's 'movement of people problem' has not been that there has been too much movement but rather that there has not been enough. This is because movement of people is an important condition for the maximization of economic growth – with labour needing to move to where skills are required and where jobs are available. The 'Polish plumber' problem – a phrase that came to be used in the wake of the 2004/7 enlargement to describe fears in Western Europe that skilled craftsmen from the new member states would undercut higher-paid domestic craftsmen and take their jobs – proved to be largely unfounded. Such movement as has occurred has been a result of labour moving to where there is a demand for it. For EU economic policymakers, the problem is seen as being one of too much continuing labour immobility rather than one of too much labour movement. It should be noted that both perceptions and exceptions are important with respect to free movement of persons in the EU. Only three EU member states, one of them being the UK when Tony Blair served as prime minister, did not exercise the labour derogation in the 'Big Bang' enlargement. The result was a spike in CEEC migration to the UK for a variety of reasons, but mainly due to employment, schooling and/or the wish to join family members. After the 2016 Brexit referendum, EU inward migration to the UK levelled off considerably and this is likely due to a number of factors: regression towards

the mean (return to historically 'normal' rates after an unusual spike); concerns over the legality of residency rights after Brexit; improved economic conditions and job prospects in many CEECs (especially Poland); and economic improvements in some of the older EU member states, such as Greece and Spain.

So why is movement of people so low in the EU? One reason is that the EU is not a fully federal system: one does not just move to another 'state', but rather to another country – which has many cultural implications. A second reason is that, as explained above, while legal entitlements for education, healthcare and social services are mandated for all EU citizens, accessing some of these can in practice be difficult and time-consuming. And a third reason is language: most EU countries have their own national language or languages (and even regional dialects that are used exclusively in everyday discourse), which most other EU citizens do not speak.

Implementation of the four freedoms

In broad terms, the arrangements for policy implementation normally involve a sharing of responsibilities, with appropriate and designated authorities in member states being responsible for ensuring there is compliance 'on the ground' and the Commission being responsible for oversight and monitoring. Despite, however, the extensiveness of the formal implementation arrangements described in Chapter 7, the EU has had – as it has had with many of its policies – difficulties in ensuring that policies designed to advance the 'four freedoms' policies are fully implemented (see Egan, 2015). As Egan and Guimarães report (2017)): 'Business complaints suggest that single market law is not implemented on the ground and that *de facto* trade integration lags far behind *de jure* integration.' The main reasons for implementation gaps are misapplication, delay, or deliberate noncompliance. Whatever the explanation, the Commission's standard formal response to the existence of protectionist measures has been to inform transgressors of the nature of their breach(es) of EU law and then, if transgression continues, to initiate legal proceedings.

However, since the late 1990s, the Commission has accompanied its formal approach to dealing with legal breaches with more informal approaches and the promotion of problem-solving capacities Beginning with a 1997 action plan, the Commission began to produce an annual internal market scoreboard designed in large part to publicize the laggards and put normative pressure on them. This relatively soft approach, which was intended to encourage a culture of compliance with internal market rules, was only partly successful. So, starting with its Strategies for the Internal Market Priorities 2003–2006, the Commission added more capacities, notably with the creation of the problem-solving *SOLVIT* and pre-infringement *EU Pilot* procedures

Since the early 2000s, formal infringement proceedings by the Commission and referrals to the CJEU have remained as important implementation tools in respect of the four freedoms. But, informal processes – in the form of dialogues, codes of conduct and exchanges of information – all operating under a 'shadow of hierarchy'.

Beyond the focus on the four freedoms

So far, the chapter has concentrated on the ways in which the development and integration of the internal market have mainly been advanced by promoting the four freedoms. This focus on the four freedoms can be traced back to the founding treaties and to the prevailing centrist and broadly non-interventionist ideological orientations, policy objectives and historical legacies of the EU's founding and early member states.

The EU has, since the 1990s, focused on policies that directly impact economic growth, which can be traced to the Commission issuing a communication on the subject in 1990 (European Commission, 1990). Working closely with business and stakeholders, the Commission has been highly active in trying to create a European industrial policy and to this end has advocated and promoted a range of policy developments. So, for example, between 2010 and 2014, it issued no less than three communications setting out its views on what should be the EU's approach to and priorities for industrial policy (European Commission, 2010a, 2015c). Central themes in the communications have included integration of network-based and infrastructure industries and the convergence of information and communication technologies. Most recently, the European Defence Agency and PESCO have been conceived as platforms to promote European state-of-the-art R&D as it has long been recognized that defence research produces important technological advances applicable to commercial and consumer markets.

As is shown in Chapter 19, the EU's budget has always been relatively small – amounting to around just one per cent of the EU's total GDP and around three per cent of its total public expenditure. So, in so

far as there has been a desire to use EU and EU-tied financial resources to influence and help shape the operation of the internal market, and there increasingly has been such a desire in respect of increasing the market's efficiency and competitiveness, then non-budgetary financial sources have had to be found. One such source has been the European Investment Bank (EIB) and the European Investment Fund (EIF) which the EIB manages. The EIB has as its main goal to provide investment finance, especially in skills and innovation, for the 'balanced and steady development of the internal market in the interests of the Union', while the EIF's guiding motto is 'supporting entrepreneurship and innovation', by providing increased access to capital (particularly for SMEs). In 2019, the EIB granted loans totalling over €58 billion to EU member states and partner countries. Another non-budgetary source in recent times has been the (above-described) EFSI, which exceeded its targets for raising (mainly private) funds and had mobilized some €358 billion of investment spending by the end of 2018 (European Commission, 2018r, p. 1). As part of the 2021–27 MFF negotiations, the European Council directed the Commission to establish the 'Next Generation EU' fund to support economy recovery in EU member states hard hit by the coronavirus pandemic, which as detailed in Chapter 19 will collateralize the EU budget for the issuance of Eurobonds in capital markets.

And a likely further future source of non-budgetary investment capital will be via financial instruments being created and/or encouraged through the Capital Markets Union, such as covered bonds, which provide increased protection for investors against credit risk, and crowdfunding platforms, which improve access to funding.

Conclusions

The EU's internal market constitutes by far the most integrated market system between sovereign states that the world has seen. Its spread and depth is such that not only are most 'direct' market policies affecting member states now made at EU level, but a host of related policy areas – including environment, transport and social – are shaped in important ways by internal market considerations. Indeed, an indicator of the policy importance of the internal market at the EU level is seen in the fact that only a handful of the policy portfolios of the EU's Commissioners do not include important internal market responsibilities and/or have important internal market implications.

In the wider process of European integration, the internal market has been crucial in advancing the integration process in both institutional and policy terms. The most obvious example of it doing so in institutional terms is the 1986 SEA which, for the purpose of enabling much-needed internal market legislation to be passed, provided for more EU supranational governing mechanisms – especially with greater provision for majority voting in the Council and a strengthening of the powers of the EP. Examples of the internal market process advancing integration in policy terms range from the development of EU consumer safety measures (relating to such matters as GMOs, tainted food and defective products) to the driving of much of justice and home affairs policy as a result of the internal market provisions for free movement of persons.

What are the main obstacles and challenges facing the EU if the internal market is to be further 'completed'? The most important are the 'ideological' differences between the member states over where the balance should lie between economic liberalism and social protectionism, and related questions concerning the relationships that should exist between market actors, financial institutions and governments. As we discussed in Chapter 2, EU member states take disparate approaches to capitalism, and these different orientations are grounded in member states' historical experiences. Therefore, while all member states, whether governed from liberal or social democratic positions, support market integration, their degree of commitment to how liberal the market should be varies.

But although there are still considerable obstacles in the way of the further building of the internal market – for instance, with respect to strengthening integration in the areas of services, taxation, energy, network industries, the capital markets union, the banking union and the digital singe markets union – the advancement of market integration continues. The central explanation as to why it does so is that the same sort of reasons that led to the proposals in the 1950s for a common market and in the mid-1980s for a Single European Market still apply: a European internal market is widely viewed as being the most effective EU policy to achieve increased employment, growth and global competitiveness. As we learned in Chapter 3, federal systems are formed principally to deliver two attributes – collective security and a large domestic market. The EU has more than lived up to the hopes of its founders, being as it is the world's second-largest internal market, and by far the richest.