



EUROPA

briefing

The four freedoms in the EU: Are they inseparable?

The four freedoms govern the movement of goods, persons, services and capital within the EU. They are the cornerstones of the Single Market and the common currency. Many citizens see them as the greatest achievement of the European unification project. Brexit has reignited the discussion surrounding the free movement of people – that is the opportunity to live and work in any EU country. Technically speaking, it is possible to separate the four freedoms, but does it make political sense?

What role do the four freedoms play in the EU?

The four fundamental freedoms have been legally guaranteed since 1986: They state that goods, services, capital and persons can move without restriction within the EU. Four out of five EU citizens believe that these four freedoms sit alongside peace on the continent as the greatest European achievement ever.

These freedoms are cornerstones of the European Single Market. They strengthen trade within the EU. Two-thirds of all goods produced in the EU are exported to another EU country. Since the EU is the world's largest single market, this free exchange generates positive **welfare effects**. Studies show that the EU's gross domestic product (GDP) has grown by several percentage points thanks to the Single Market.

The euro is also supported by the four freedoms. They contribute to evening out economic imbalances among the euro-area member states. Booms and downturns are mitigated, because goods and capital in particular can go wherever there is demand. These powers of adjustment apply to jobseekers and

services as well provided that language barriers and regulations permit this. At the same time, the euro facilitates the integration of the Single Market: the exchange rate risk disappears and prices can be more easily compared.

The four freedoms set the EU apart from other free trade zones, although, technically speaking, it is possible to implement only some of the fundamental freedoms: for example, CETA, the free trade agreement between the EU and Canada, provides for the removal of tariffs but not for the free movement of people. In fact, the majority of international trade agreements, such as NAFTA – the North American agreement between the United States, Canada and Mexico – reduce trade barriers but do not create a single market. The four fundamental freedoms are controversial within the EU, even if the European Single Market serves as a model for many regions.



Welfare effects

The sum of advantages that exist for producers and consumers. In the Single Market, welfare effects arise primarily due to lower production costs in a market of 500 million consumers and lower prices resulting from increased competition among 32 million small and medium-sized companies (SMEs).

Free trade area

In a free trade area, all tariffs and other trade barriers are gradually dismantled by participating countries. However, they usually retain sovereignty over their trade policy vis-à-vis non-member states.



“Access to the single market [is] only possible under the condition that the four fundamental freedoms are complied with. Otherwise, compromises need to be negotiated. There can be no cherry-picking when it comes to these [Brexit] negotiations, because that would have fatal consequences for the other 27 member states. We cannot allow such consequences to occur.”

Angela Merkel, German Chancellor
in a speech at the dbb annual conference in Cologne
on 9 January 2017



“The EU says there cannot be any cherry-picking, that there can only be free trade if there is free movement of labour. From an economic viewpoint that's nonsense because when people cannot migrate the profits from free trade are particularly large on all sides.”

Hans-Werner Sinn, President Emeritus of the ifo Institute
in the Frankfurter Allgemeine Zeitung on 16 March 2017

Can the four freedoms be separated?

The → **free movement of workers** is especially under discussion across the EU. The Brexit debate centres around national control over immigration and restricting social benefits for other EU citizens. In some EU countries, there have been calls to regulate workers' pay from lower-wage EU countries so that they cannot undercut domestic wages. Others have demanded that locals should be given priority in the search for work in sectors with high levels of unemployment. Still others fear that recently-arrived Europeans may abuse the social benefits system without working. Yet, the evidence suggests that → **national social welfare systems** are used less often by other EU citizens than by locals: the average employment rate among other EU nationals has stood at around 82 percent, while that for the local population was just 77 percent.

Problems with implementing the four freedoms exist elsewhere too: The transport of goods is the most integrated sector to date. But although services now account for more than two-thirds of the European economy,

cross-border exchanges still face numerous legal obstacles that limit mobility. In particular, the Single Market lags behind in the integration of digital services. According to European Commission estimates, an integrated digital single market could increase EU gross GDP by more than 400 billion euro a year. Moreover, the differences in interest rates for the private sector and the high level of unemployment in some countries underline that there is still no uniform capital and labour market.

At the political level, the EU retains the fundamental freedoms; however, their implementation has been sluggish. At the same time, suggestions that, in the future, there should officially be two models – one with all four freedoms and one with restrictions – have not found majority support even though slow implementation of the measures has often seen the Single Market fall short of expectations.



Free movement of workers

EU citizens are free to choose their place of work and have the same legal rights as locals regarding access to employment. For the purposes of their employment, both they and their family members have a basic right of residence. Jobseekers, however, may be asked to leave the country after six months.

National social systems

EU member states can regulate access to their social welfare systems. In several cases in 2016 the European Court of Justice decided that EU migrants may be refused social benefits during the first three months of their stay.



“But – as I have often said in recent months – you cannot fall in love with the single market. [...] This is why I am constantly stressing the need not only for a frontier-free area but also for the flanking policies which will open up new horizons for the men and women who make up this Community of ours.”

Jacques Delors, former President of the European Commission in a speech to the European Parliament on 17 January 1989



“European leaders have said many times that membership means accepting the “four freedoms” of goods, capital, services and people. [...] And that is why both sides in the referendum campaign made it clear that a vote to leave the EU would be a vote to leave the Single Market.”

Theresa May, British Prime Minister in her statement on the Brexit negotiations on 17 January 2017

FOUR FREEDOMS



A look ahead

SCENARIO 1

Restriction of the fundamental freedoms

There have already been various temporary restrictions on the free movement of persons within the EU. Following the enlargement phases of 2004, 2007 and 2013, the "old" EU countries could limit immigration from the new member states for up to seven years. EU critics repeatedly demand restrictions on other freedoms as well, such as cross-border services not subject to the same regulations as local ones and hence available at a lower price. The transport of goods could be restricted in this scenario, too. Individual countries could demand temporary exemptions from regulations to shield start-ups from competition.

Such measures could ease conflicts in the short term. In the medium term, however, the effects would be difficult to predict, as the fundamental freedoms are part of a political agreement relying upon all countries involved respecting it equally, even if it gives them different benefits. Some countries gain substantially from the free movement of capital and goods, while others make particular use of the free movement of people. It remains unclear how the Single Market, the euro area, and therefore the EU could remain intact if the fundamental freedoms were restricted over the longer term.

SCENARIO 2

Partial deepening: "Single Market light"

In March 2017, a European Commission strategy paper raised the possibility of concentrating on deepening core areas of the Single Market in the future while at the same time holding back in other policy areas. In this scenario, for example, the EU could introduce a uniform set of rules for economic sectors with cross-border activities such as energy or transport. Moreover, current bureaucratic obstacles, such as different national approval laws, could be dismantled if necessary.

Advances could therefore be made more quickly in less controversial areas, while disputed ones would eschew further integration. Nonetheless, this scenario ignores the fact that the Single Market is not a compartmentalized system. It is not only a key component of the euro area; accompanying elements such as a social policy that protects workers from dismissal or encourages their mobility through the transferability of services from one country to another would also fall by the wayside.

SCENARIO 3

Completion of the Single Market

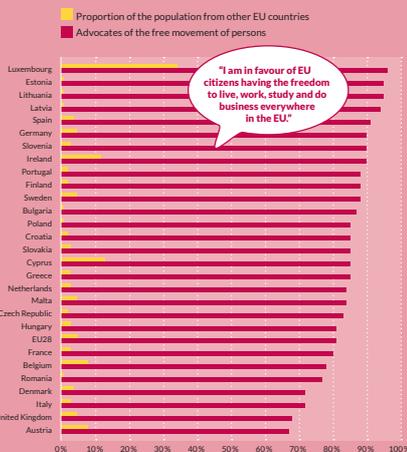
The third scenario would see all obstacles restricting the free movement of goods, services, capital and persons dismantled. Unlike the "Single Market light" scenario, this option would do more than just select individual areas where deepening could take place. According to opinion polls, the majority of EU citizens favour implementing all four freedoms. Estimates suggest that EU GDP could grow by several percentage points if the service sector were completely integrated. The digital sector also has unexploited growth potential. The Capital Markets Union and a deeper banking union, which would drive forward the expansion of cross-border lending, would also be on the cards in this scenario. A coordination of social welfare systems, such as in unemployment benefits, long-term care or parental allowances, is conceivable here too.

The third scenario also represents a political challenge. Most EU countries have implemented only a few country-specific reforms to deepen the Single Market during recent years. Full implementation of the four freedoms would require a large number of national reforms and compromises at EU level. At the same time, many fear that opening up the economy could exacerbate growing inequality. For this reason, the political challenge in this scenario has two elements: national governments would need to implement the reforms consistently but, equally, they would also have to offer new and secure prospects to those citizens who would lose out under any further integration of the Single Market. These could include, say, retraining programs or investing in new occupational fields.

FACT #1

What Europeans think about the free movement of persons

In percentage

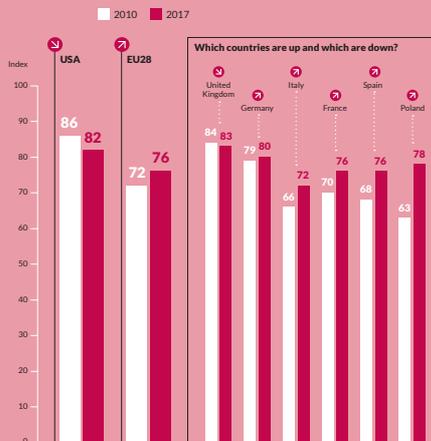


Sources: Eurostat 2016, authors' calculations; Eurobarometer 86; data collected in the autumn of 2016. Respondents = 27 705.

FACT #2

The European Single Market has become a more attractive business location since the crisis

Distance to the frontrunner in 2010 and 2017



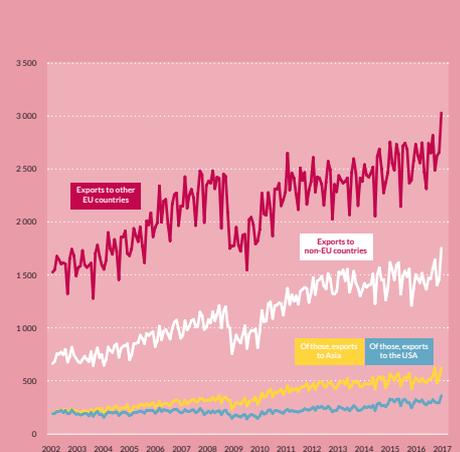
The so-called Distance to Frontier score describes the distance to the best-possible conditions for doing business in an economic area. If a country were to be the leader in all of the more than 40 indicators that make up the index, it would have a value of 100. The EU has generally performed worse than comparable economic areas, but it has managed to lower the distance since 2010. New member states and crisis countries in particular have caught up.

Source: World Bank 2017, authors' calculations.

FACT #3

For EU countries, the Single Market is the most important sales market

EU exports in billion euro



64 percent of all EU exports go to other EU countries. In 2017, this corresponded to goods worth over 3 000 billion euro. Within the EU, Germany is the most important trading partner for most countries.

Source: Eurostat 2017.



"The EU should not separate the four fundamental freedoms, but instead adhere to the political agreement: firstly, because only then can the EU exploit the positive effects of the Single Market; and secondly, because otherwise the euro could become unstable."

Dr. Anna auf dem Brinke
 The author is Research Fellow at the Jacques Delors Institut - Berlin.

EUROPA

briefing

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