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PRESS RELEASE

EU Single Market boosts per capita incomes by almost 1,000 euros a year

The EU Single Market is the world's largest economic area. On paper, it guarantees the free movement of goods, services, people and capital. But what does the Single Market actually bring to Europeans? A comprehensive study by the Bertelsmann Stiftung has examined the impact of the EU's internal market on real incomes in European regions.

Gütersloh (Germany), 8 May 2019. The EU Single Market has not only led to the elimination of border controls, but has also brought Europeans a plus in their wallets. On average, the Single Market increases the incomes of its citizens by around 840 euros per person per year. Zurich and London are among the regions in which inhabitants benefit the most, with income gains of over 2,000 euros. This means that some of the biggest winners in the Single Market are currently not EU members or could be leaving the EU and the Single Market in the future. These are the results of a comprehensive analysis by the Bertelsmann Stiftung, for which economists Giordano Mion (University of Sussex) and Dominic Ponattu (Bertelsmann Stiftung) examined more than 250 regions in Europe with regard to income gains from the EU Single Market. In concrete terms, the study analyzes the effects of the internal market on the gross domestic product per capita and year.

"The EU Single Market is one of the biggest drivers of prosperity in Europe and has an effect typical of every market economy: Not everyone benefits equally, but everyone wins," says Aart De Geus, CEO of the Bertelsmann Stiftung, commenting on the results.

European trend: Core beats periphery

There are two major trends across Europe: Firstly, it is not the largest economies that are benefiting the most, but above all relatively small, but strong exporting nations. Secondly, countries and regions in the geographical center (the "core") of Europe see the strongest per capita gains from the Single Market and benefit much more than EU members in the south or east of the continent. The largest income gains per person and country are recorded by Switzerland (2,900 euros), Luxembourg (2,800 euros) and Ireland (1,900 euros). Belgium, Austria and the Netherlands are also among the top profiteers. "The biggest winners are small countries that trade a lot and have competitive economies," says Ponattu. For countries such as the Netherlands or Austria the Single Market is invaluable because they have competitive industries, but are dependent on exports given their small domestic markets," says Dominic Ponattu. In Southern Europe, on the other hand, income gains from the Single Market are much lower, partly because competitiveness lags behind. For example, this is the case in Spain (590 euros per capita and year), Portugal (500 euros) or Greece (400 euros).

At the regional level, the winners are mainly industrial and urban regions. These regions are also characterized by a strong influx of skilled workers and firms, as the removal of borders promotes the EU-wide agglomeration of industries in major hubs: Cities such as Berlin benefit from a growing start-up scene, London and Zurich from the financial industry. Zurich is one of the biggest winners with per capita income gains of 3,590 euros, followed by London (2,700 euros) and Brussels (2,470 euros). The lowest per-capita gains from the Single Market were achieved by the inhabitants of rural regions in Eastern and Southern Europe. Regions in Bulgaria, Romania and Greece are those with the lowest income gains (120 euros to a maximum of 500 euros). However, it should be noted that the EU is taking countermeasures and that countries such as Bulgaria, Romania and Greece receive significant funding from programs such as the EU regional policy framework.

United Kingdom: South profits more than North

In the UK, it is interesting to note that some of the regions that benefit most from the EU Single Market have voted in favor of Brexit. One example is the Kent region, in the south of England, where relative income gains from the EU Single Market are among the highest in the country. At the same time, the gap between UK regions' gains is particularly wide compared to other countries. In the south, many regions benefit strongly from the EU's internal market, such as London (2,700 euros per capita) and the Berkshire/Oxfordshire region (985 euros). In the north, on the other hand, income gains from the Single Market are well below the national average, which is at around 500 to 600 euros per capita. "A complete withdrawal of the UK from the EU Single Market would hit not only London hard, but also other productive regions in the country," says Dominic Ponattu.

Potential for more growth: Strengthen services trade, promote competitiveness in laggard regions

Although the EU Single Market is already having a positive impact on incomes across Europe, it holds the potential for further welfare gains. This is particularly true for trade in services: Although they already account for around 75 percent of value added in the EU, currently only around 30 percent of all EU exports are services. More common standards and EU-wide rules for competition can increase trade in services. At the same time, EU regions currently lagging behind should be supported with targeted investments in their digital infrastructure and innovation capacity. This would allow them to benefit more strongly from the Single Market and help these regions catch up.

Additional information:

The study "Estimating economic benefits of the Single Market for European countries and regions" analyzes the economic impact of the EU Single Market on the 28 EU states and on the 283 European regions (NUTS2 level). The study was written by economists Giordano Mion (University of Sussex) and Dominic Ponattu (Bertelsmann Stiftung). It is based on a modern "gravity model" of international trade that takes into account countries' and regions' trade volumes and their distance from trading partners. The analysis uses data on international trade flows and regional economic development in the Europe to calculate the effects of the Single Market on changes in income (GDP in 2016 prices), productivity and price markups. The study first estimates a measure capturing the importance of membership in the Single Market for trade costs using an econometric analysis. Second, it compares the status quo to a simulation assuming an abolition of the Single Market. The associated increase in trade costs due to tariffs and other barriers negatively affects incomes – both at the country level and at the level of the EU regions. The difference between the status quo and the simulation results gives the welfare gain related to the trade boosting effect of the EU Single Market.

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