Flash Economics

N° 85
August 27th, 2026

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In reality, the European market does not exist

In theory, one of the advantages of the European Union is the establishment of an integrated market for goods, services, labour and capital. In reality, this integrated market does not exist:

- Barriers to trade in goods and services are very substantial (regulation, public procurement directed towards domestic products and, in services, the absence of pan-European firms), to the point that the IMF estimates trade barriers between European countries to be equivalent to a tariff of 44% for goods and 110% for services;
- Capital mobility is limited by the absence of pan-European banks or asset managers, by the multiplicity of national regulators, by the small size of pension funds and by the obstacles to transferring capital or liquidity from one country to another;
- Labour mobility between European countries is low, compared with that observed between US states.

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In theory, one of the advantages of the European Union is the creation of an integrated, barrier-free market for goods, services, labour and capital.

The European Union is a very large market, shown both by its population (**Chart 1**) and by its income level (**Chart 2**).

Chart 1
Population (millions)

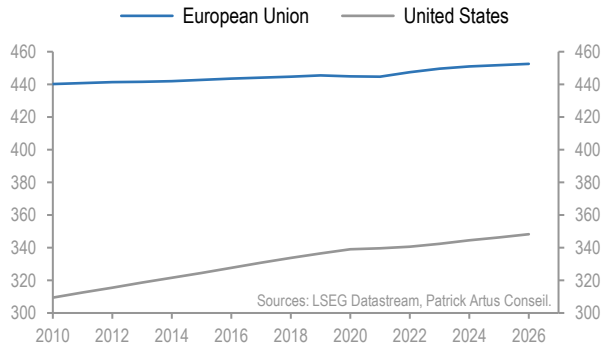
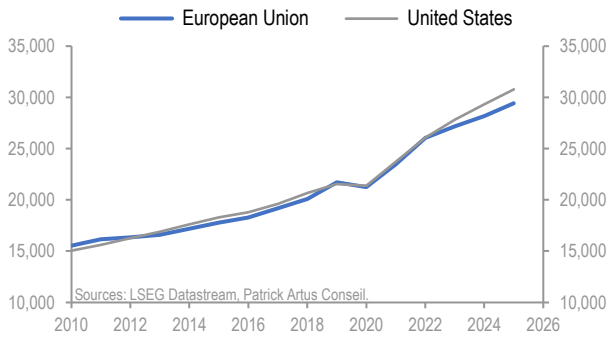


Chart 2
GDP (current PPP dollars, billions)



If this market were integrated, it would be larger than the US market and therefore more attractive for corporate investment; scale effects would be favourable to the efficiency of European firms. This is not the case, however: the investment rate in Europe is low (**Chart 3**), and labour productivity is stagnating (**Chart 4**).

Chart 3
Private non-residential fixed investment (as % of GDP)

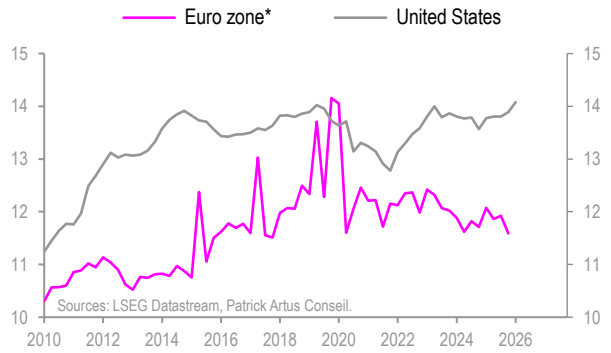
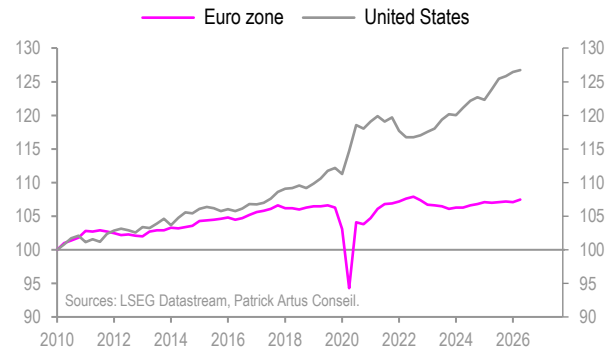


Chart 4
Labour productivity per worker (2010 Q1 = 100)



*Euro zone : non-financial corporations' investment

Barriers to trade in goods and services

The IMF estimates barriers to trade between European Union countries **at a tariff equivalent of 44% for goods and 110% for services**, to be compared with the European Union's external tariff, which is of the order of 3%. These estimates are, however, debated in the literature. **These barriers to trade in goods and services**[1] stem from:

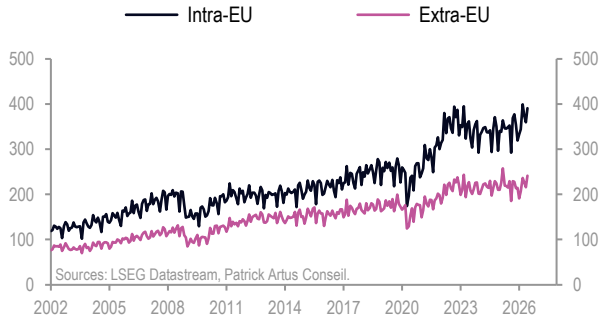
- the presence of **protected sectors** (energy, transport, etc.);
- the rules and practices governing **public procurement**;
- **the absence or small size of pan-European firms** in many services (telecommunications, transport, financial services);
- **the heterogeneity of regulators and regulations** (labour law, bankruptcy law, environmental standards, industrial safety standards, etc.);

[1] "Europe's Productivity Weakness: Firm-Level Roots and Remedies", IMF Working Paper, European Department, February 2025.

- **the lack of coordination of industrial policies,** which, according to IMF simulations, entails a welfare loss of 3.4 percentage points[2].

A **comparison of intra-European trade with trade between European Union countries and the rest of the world** (**Chart 5**) shows that the former remains abnormally low, even though it is growing faster than the latter.

Chart 5
European Union (EU-27): Exports
(EUR bn, monthly data)



Barriers to capital movements

Of the ten largest asset managers in the world, nine are American and only one is European. This reflects **the fragmentation of European savings,** which limits **the size of the continent's asset managers**. This fragmentation is compounded by the juxtaposition of national financial market regulators, in the absence of a single regulator.

Europe's large banks (BNP Paribas, Crédit Agricole, Banco Santander, Société Générale, BPCE, Deutsche Bank, Crédit Mutuel, ING, Intesa Sanpaolo, UniCredit, BBVA) hold **a majority share of domestic assets.** According to ECB calculations, this share reaches 92% in France, 88% in Germany, 92% in Spain, 88% in Italy and 93% in the Netherlands.

ECB research[3] shows that **home bias in euro zone countries** stands at 22, meaning that the weight of the domestic market in investors' assets is twenty-two times greater than its weight in global market capitalisation. Even in the large euro zone countries, home bias is high: 2.4 in Germany, 3.1 in Spain, 2.1 in France and 3.0 in Italy.

In the banking sector, national supervisory authorities restrict the ability of institutions operating in several euro zone countries to transfer capital or liquidity from one country to another (a practice known as ring-fencing).

Low labour mobility between European countries

As of January 1st, 2025, **only 4% of the population residing in the European Union had been born in another Member State**. This share is 7.6% in Germany, 3.3% in Spain, 2.9% in France and 2.7% in Italy.

In the United States, **the rate of mobility between states,** although it declined during the 1980s and 1990s, remains high: **between 1.5% and 2.5% of Americans**, depending on the source (tax statistics, the American Community Survey or the Census), **change state each year**[4].

Low labour mobility in Europe is explained by the lack of portability of pension rights, by language barriers and by the incomplete recognition of professional qualifications.

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[2] A. Hodge, R. Piazza, F. Hasanov, X. Li, M. Vaziri, A. Weller, Y. C. Wong (2024), "Industrial Policy in Europe: A Single Market Perspective", IMF Working Paper, WP/24/249, European Department, December 2024.

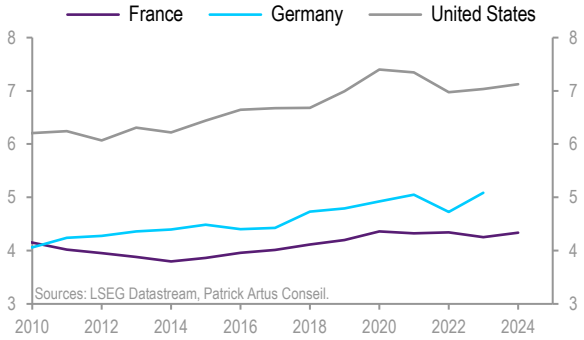
[3] C. Lambert, L. Molestina Vivar, M. Wedow (2024), "Is home bias biased? New evidence from the investment fund sector", ECB Working Paper Series, No. 2924.

[4] A. Foschi, C. House, C. Proebsting, L. Tesar (2025), "Inter-State Labor Mobility and the U.S. Economy", paper prepared for the Jackson Hole Economic Policy Symposium, August 2025.

Summary: the European single market is not delivering on its promises

Underinvestment, stagnating productivity and the weak development of digital services (Chart 6) stem partly from the fact that **the European single market does not really exist**.

Chart 6
ICT sector value added
(as % of GDP)



This results from:

- barriers to trade in goods and services;
- barriers to capital movements;
- low labour mobility between European countries.

As long as Europe does not further unify its markets for goods and services, its regulations, its banks and financial markets and its labour markets, and as long as it does not coordinate its industrial policies, **the European market will remain segmented, resulting in a very substantial loss of activity, with an absence of economies of scale and an abnormally high price level**.

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