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A modernised European single market for a new reality of economic security

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Single Market Economics Papers

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A modernised European single market for a new reality of economic security

Philippe Pochet, Taube Van Melkebeke and Friederike Möller

Abstract

This paper argues that the potential of the European single market in providing economic security within a dramatically changed context has been overlooked. It aims to fill the gaps in current understandings of economic security by developing an expanded framework that incorporates the key element of economic resilience, and more specifically environmental and social security. Through a mixed methods approach, including an extensive literature review and an interactive knowledge production process with a selection of diverse stakeholders and practitioners, this paper seeks to provide an addition to the current debate on the reform of the single market and its underlying notion of economic security. It concludes that reforms of the single market should include an extended understanding of economic security, addressing existing, but also emerging threats to the European economy.

1. Introduction

This paper aims to outline various entry points for a wide scope of reforms of the single market in light of the work programme of the 2024-2029 European Commission, specifically the Single Market Strategy that is due to be revealed this year. First, the introduction will address the impact of environmental and social security on economic security and resilience, outline why the single market is a valuable tool to contribute to the evolved concepts of economic security and resilience and argue that there is a mismatch between the current understanding of economic security in the single market and emerging threats to it. Second, the discussion section gives a brief overview of the history of the single market and its role for Europe's economic security. It then traces three often overlooked factors of economic security: environmental, social, and functional risks. Building on this, the paper then puts forward proposals on how the single market can be reformed to drive economic security in light of the aforementioned risks. To conclude, the paper argues that an extended and risk-informed conceptualisation of economic security should be used to inform further discussions on the economic resilience and competitiveness of the European single market.

The authors conducted a collaborative, participatory research, embedded within a mixed methods approach. Central to this approach is the establishment of structured networks for knowledge production and exchange. This process involved an initial, extensive literature review of the current academic discourses and recent findings. The authors then conducted a political stock-take, synthesising current trends and

challenges and formulating innovative proposals for further investigation. These proposals were then subjected to discussion and critique within a broad group of experts and practitioners, collectively referred to as a Knowledge Community. The iterative process of knowledge co-production fosters the development of evidence-based, politically informed, relevant findings representing the collective outcome of these collaborations and merging multiple perspectives with the goal of informed policymaking.

A. Economic, environmental and social security

Tagliapietra and Trasi (2024) found that definitions of economic security have been responsive to the historical threats and geopolitical developments of the last two hundred years but have broadly been used to emphasise “supply diversification to avoid overreliance on external suppliers of technology, raw materials, food and energy” (p.89). In the current European context, the term has been popularised by both France’s Emmanuel Macron and the German foreign ministry, was picked up by the European Commission, which released a European Economic Security strategy in June 2023 and is now for the first time an explicit part of the mandate of a Commissioner (Commissioner for Trade and Economic Security, Maroš Šefčovič) (Tagliapietra & Trasi, 2024). Economic security also was subject to discussion in the three high-level reports by Draghi, Letta and Niinistö, albeit with different interpretations and focus on the topic.

Economic security is often mentioned in the same breath as economic resilience. This concept has not been defined consistently but its roots are found in ecology and regional economics. Economic resilience is often referred to as being a product of economic security and as a positive state of the economy to achieve. In that sense, resilience extends economic security as it also describes preparedness and stability in the face of domestic or exogenous shocks that threaten economic security (Tagliapietra & Trasi, 2024). These shocks have various sources, amongst others social and environmental shocks that vastly undermine economic security (see below).

Based on these findings, this paper proposes a broad conceptualisation of economic security. In what follows, we on one hand consider the various social and economic challenges that threaten economic security, and on the other hand the emerging risks, often linked to ecology. In this understanding, economic resilience is a product of social and environmental stability, opening up an extended, holistic model of economic security.

B. Single market as an influential tool to contribute to economic security and resilience

The European single market is a key provider of economic security and resilience for Europe. It boosts economic performance - the European Commission estimates that the economic benefits of the internal market amount to an 8 to 9% increase in GDP across the EU and the creation of millions of jobs (in ‘t Veld, 2019). After more than 30 years, it

has become an established driver of European integration, connecting 449 million people and forming the largest market in the world. As a regulatory space, too, it holds tremendous leverage, both abroad (see the Brussels effect¹) and nationally, regionally and locally.

Being the largest open market in the world, the single market is the engine behind the European Union's pole position in international trade (ranking first in the world for service exports and second for goods export), thereby being a critical driver of its economic security (European Commission, 2025, p. 23). As a tool, it is one of the most powerful at the disposal of EU policymakers, but it is dependent on keeping up with changing internal dynamics and external evolutions. Niinistö (2024) has described this deep integration of the single market as an asset and tool for common European crisis preparedness and effective crisis management. Today, it needs to be reformed to enable and bear with the pressing issues facing the EU, its citizens and its companies.

Domestically, the single market pools demand, diversifies supply sources and can so expand productivity growth (European Commission, 2025), fitting within the narrow reading of the concept of economic security. However, it also plays a crucial role in enhancing economic resilience. The strategic importance of the latter functionality became especially apparent during the pandemic when the single market provided e.g. the space to coordinate the supply of PPE and the intensification of vaccine production (European Commission, 2023). This is mirrored in the Letta report, in which Letta credits the single market as the reason as to why the EU was able to react swiftly and comprehensively to the energy crisis. The mismatch between new threats and the current conception of the single market.

C. The mismatch between new threats and the current conception of the single market

The European single market faces increasing pressure for reform as the global rule-based system becomes more volatile, presenting geopolitical challenges. At the same time, new social and ecological threats are also introducing a strong need to adapt. Geopolitically, the European Union has to take increased responsibility for the ability of Ukraine to defend itself against Russia's invasion: economically, there are emerging threats of a potential trade war with the US, while European productivity levels lag behind those of China and the US. Ecologically, the frequency and intensity of large-scale natural disasters increase year after year while the planet continuously warms. Six out of the nine planetary boundaries have been breached in 2023 (Richardson et al., 2023). Socially, inflation left lasting damage on the population, with more than one in five EU citizens at risk of poverty or social exclusion in 2023 (Eurostat, 2024). Income inequality

¹ The so-called Brussels effect, coined by Bradford in 2012, describes how European rules and regulations are spreading even outside of Europe, and ascribes this to leverage that the access to the single market holds (Bradford, 2020).

strongly influences the quality of life of Europeans, with 44% of citizens in the bottom income bracket in 2022 self-reporting that they find it difficult to make ends meet, while it is only 3% of those in the top income bracket (Social Europe, 2024). The dormant danger of these arising social risks in the context of future reforms of the single market has also been voiced by Letta in his report, stating that “further development of the Single Market can only be successful if it includes a genuine social dimension that ensures social justice and cohesion” (2024, p.101).

In the face of these threats, the European single market should be transformed into a market which guarantees the economic and societal resilience of Europe in an increasingly turbulent world.

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2. Discussion

In this discussion section, the findings of the mixed methods methodology are presented. First, the role of the single market as a product of its history and the theory behind it are outlined. Then, the blind spots of the economic security understanding of the single market are critically analysed in terms of their vulnerability to three groups of threats (environmental, social, and functional), followed by a suggestion of broad lines of reform and specific policy recommendations to put these into practice.

A. History of the single market and its role in Europe’s economic security

The European single market is an open market and a regulatory rulebook at the same time. Legislatively, the European single market started taking shape with the relaunch of European integration in the mid-1980s, which was prepared by the adoption of the Single European Act and the White Paper on the completion of the internal market (1985). Its creation is a story of competing interests, of a wide range of actors from different sides of the political spectrum that forge a common European consensus to create a specific European form of capitalism.

This early phase was based on a common political understanding between the centre-left and the centre-right, grounded in a desire for European integration: its outline was built on a compromise between deepening the internal market and the development - to a certain extent - of a social dimension, illustrated for example by the establishment of the European social dialogue and by the Community Charter of Fundamental Social Rights of Workers and the accompanying social programme (1989). These stages were quite successful insofar as they led to the expansion of internal European trade, increased competition and foreign direct investment, created jobs and revived labour markets (Hafner, 2017).

The single market is an important milestone and lever of European integration, at economic, social and political levels. However, these three types of integration have not

proceeded with the same speed and political momentum. While economic prosperity has advanced as the internal market integrated further, there is also a widespread understanding that integration has not been even across all areas, Member States, or even regions within countries. This results from the asymmetric nature of this important EU flagship initiative, which is built on a deep market integration, in contrast with much shallower social integration.

The asymmetric and unsystemic approach to integration left the EU with many blind spots: the envisioned economic and social convergence did not happen and, even with the support of the EU funds, huge national and even greater regional disparities remained. This became more and more apparent as globalisation progressed in the 1990s, with the European single market gradually evolving to become a regional example of the worldwide progression towards global capitalism, deviating from the initial goal to establish a unique, European version. Deregulation of social protection at national levels became the norm, with, for example, the Bolkestein Directive (2005) attempting to expand the rules of the internal market to services, and the rulings of the European Court of Justice putting economic rights before social ones (see Laval, Viking and other cases). These evolutions were compounded by the pressure to deregulate as an answer to the economic crisis of 2008-2009, supported by the first (2004-2009) and particularly the second (2009-2014) Barroso Commissions, as well as a huge majority of centre-right and right-wing governments (Pochet, 2019).

Meanwhile, tensions surrounding the internal market grew. The Monti report aimed to rebalance the social with the economic dimension, as many felt that the central premise of the single market had not come to fruition. Around the same time, in the mid-2010s, enthusiasm for globalisation started to decline, influenced inter alia by China becoming a technological and political force to be reckoned with. In the member states, populist movements critical of European integration were still on the rise, with, for example, British conservative elites considering global trade agreements to be more important than full access to the EU's internal market, ultimately leading to Brexit.

It's important to understand the theoretical underpinnings of this historical context. When considering the important competing interests, their eventual consensus and the state of this balance in the 21st century, the baseline is that these dynamics have followed economic considerations and imperatives to improve the economic integration and performance of the Union and its member states. This is a consequence of a narrow understanding of economic security, approaching the concept in mainly geopolitical, competitive framings. It follows the logic expressed, for example, by Chimits et al. (2024, p. 21), who state that, "as simple as it sounds, the first step, and sine que non, of achieving economic security is to generally improve the economic performance of the EU". It follows that the single market is understood as an engine to boost economic performance and economic security. Chimits et al. (2024) have at the same time also

outlined a critique of the application and execution of the aforementioned understanding of economic security and voiced issues with execution and the policy goals (e.g. resource diversification) it sets. In what follows, we explore these issues and gaps.

B. Theoretical gaps in the conceptualisation of economic security of the single market: what are overlooked factors that impact economic security?

This paper argues that the current conception of the single market is liable to various present and emerging threats to economic security that are not understood in a narrow theoretical understanding of economic security. The following paragraphs outline in particular three groups of threats (environmental, social, and functional) that affect economic security and urge us to extend the single market's theoretic scope.

i. Environmental threats to the single market

Current climate and environmental impacts are unprecedented and extremely disruptive. Numerous International Panel on Climate Change (IPCC) reports, among others, point to irreversible environmental and societal impacts if climate and environmental preservation targets are not achieved by the middle of the twenty-first century. The impact of both transforming European society to mitigate this crisis, as well as adapting it to the consequences of the climate emergency is thereby huge, including on the EU's economic security, resilience and thus the single market. A concrete example of this blind spot is the natural preconditions for economic activity, which are increasingly threatened by climate change. It has been found that "environmental resources, which are not infinite, form the very foundation of economic activity: for example, 72% of the 4.2 million companies in the euro area are highly dependent on at least one nature-related service such as pollination, clean water, healthy soil, or timber" (European Commission, 2023, p.10). It follows that the current framework of economic security needs to be extended to include the preservation of functioning ecosystems as a precondition for economic activity, as well as the negative repercussions of their absence on economic security.

Similarly, risks to public health such as pandemics pose significant threats to economic security, most importantly through contraction of growth, supply issues and public welfare systems. A recent case, the Covid-19 pandemic, highlighted the fragility of supply chains and elevated them into a "strategic" issue for European politics (see, for example, European Parliament, 2021). More importantly, the rising risks of climate change for welfare systems, especially those related to employment and health, raise the imperative to reform these systems to become robust and resilient (see here Pochet and Van Melkebeke, 2024; Letta, 2024). A clear example of these risks would be heatwaves and other extreme weather events, which we know will become increasingly

frequent in the future. Laurent (2021) puts forward the creation of an ecological social protection system for heatwaves, inspired by existing regulations.

ii. Social threats to the single market

Experts raised that the lack of social integration within the single market is a significant threat to Europe's economic security. According to the treaty, the EU is a social market economy model (in the European sense of the term), in which social welfare states and other social aspirations have found – with both successes and failures - their place. These measures include the establishment of a floor of rights, particularly in domains such as health and safety at work, gender equality, non-discrimination, free movement of people, worker rights and worker voice (Pochet, 2019). The current picture, however, is far from complete. Much like any regional agreement ultimately aiming for a free market, the European internal market is based primarily on the fundamental economic objectives of harnessing competitive gains through comparative advantage and regional specialisation, combined with the free movement of goods and people (Akgüç et al., 2022). Social cohesion and integration at the EU level remain fragmented. Various shocks, such as the 2008 financial crisis and the prevalent focus on austerity and cuts in public spending, have moreover left their marks in the social domain (Degryse et al., 2013). To put it briefly: there is a lack of a strong and systematically applied social focus, with strong destabilising effects.

Because the current framework of the single market is heavily biased towards corporate interests, there is significant social inequality within and between member states - in 2021, the bottom fifth of Europeans only received 7.9% of the total income in the EU (European Commission, 2023, p.18). Income as a guarantee for quality of life is also diminishing, with housing affordability for both renting and buying being at its lowest (European Commission, 2023, p. 21). Social inequality and poverty are also reflected in exposure to pollution and other environmental degradation, with 13.7% of EU citizens self-reporting exposure to these hazards (European Commission, 2023, p.14). These dire developments led to 81% of Europeans believing that income inequality is too high (European Commission, 2023, p.18).

This has also caused the perception that the internal market is unfair and that it generates significant inequalities, both between and within countries in Europe. It finally – and unsurprisingly - resulted (in Monti's words) in the erosion of political and social support for the single market. Adding to the existing field of tension, many new social risks are currently arising. For example, through a shift of industrial priorities, the wage divergences between the centre and the periphery could be reproduced or reinforced, potentially leading to a redirection of production towards low-cost European countries and increasing (geographical) inequalities. It follows that the single market needs to rebalance the pace of integration in favour of social integration to provide individual, regional and national economic security.

iii. Functional threats to the single market

The increasingly turbulent and complex history and reality of the European single market come with consequences. As already presented elsewhere (Pochet, 2022), the ‘Alibaba’ model - perhaps the best analogy of the way the internal market developed after 1992, i.e. providing the consumer with ever cheaper products from further and further away without any real regard for social and ecological concerns - has become outdated.

Experts of the Knowledge Community argued that trying to implement at all costs (and they are high) the current internal market project - as many are vocally calling for - is inherently flawed and politically unwise, as the current set-up of the single market is not resilient to increasingly turbulent geopolitics (Akgüç et al. 2022). The geopolitical situation to which the EU has to respond, countering and developing resilience to a plethora of different dynamic situations, most pressingly the Russian invasion of Ukraine and the ensuing energy crisis, the situation in the Middle East, China-U.S. trade tensions, and an overall overhaul of the rule-based order - bring yet another dimension to the debate. These conflicts are, in addition to their other human, political and social consequences, heavily disrupting the transport of goods and international trade more generally. The single market, because of its heavy dependence on ‘on-the-move’ and ‘just-in-time’ goods, as well as on unreliable and unethical partners, is not resilient to deal with these circumstances. These findings are also reflected in the Niinistö report, which argues that the aforementioned model needs to be balanced with a preparedness-by-design framework for European economies and the single market. In turn, it follows that a single market whose economic security relies on long supply chains and decreasing prices cannot face these challenges by relying on diversification alone. Economic resilience will have to be achieved with different means in a reimagined single market.

C. How can the single market and its upcoming strategy be adapted and or extended to drive economic security?

Starting from the aforementioned extended notion of economic security, the following section will outline how the single market can be adapted to answer current challenges, by developing two pillars on which to base the single market 2.0 on and then citing concrete policy tools for reform.

Firstly, as discussed above, the history of the single market is currently in its fourth stage, in which an unprecedented range and scope of challenges are facing the market. As a response, the rules of the internal market have to change in response to multiple crises and the regional reconfiguration of globalisation to provide economic security. From an economic resilience perspective, focusing on quality and high standards and thus delivering societal goals, is a more effective driver. A focus on quality will be responsive to current and future risks, but also deeply reflective of the intentionality of the single

market project. High standards, it should be noted, were one of the explicit objectives of the 1992 internal market and must again sit at the core of the Single Market 2.0.

Secondly, the process of formulating reforms for the single market, and with it the rethinking of European industrial policy should have a strong European dimension, focused on solidarity, cooperation and cohesion. Aiginger and Rodrik (2020) thereby underline that: “Correcting market failures, whether they be static (monopoly, provision of public goods) or dynamic (path dependency, neglect of the distant future and lack of international cooperation) is important, but the goals of industrial policy are wider, including market shaping, mission orientation, and providing new basic technologies” (p. 202). They further specify the importance of societal goals, which, according to them include “climate, health, poverty prevention, good-job creation, and the reduction of inequality”, and their corresponding measurement tools. We can notice the first attempts in that direction with new - albeit modest - European industrial policy efforts (McNamara, 2023). That said, a lot is still to be defined, and there is no clear pathway nor fully fledged European industrial strategy leading the way. This calls us to refocus away from price (after all, an average Indian or Vietnamese subcontractor will in the foreseeable future be cheaper than a German or Scandinavian subcontractor), towards product (and service) quality.

These new perspectives can only take shape if we move beyond the traditional economic approach to wealth, often measured via and focused solely on GDP. Instead, alternative indicators will have to be adopted to measure wealth from a well-being perspective, focusing on the quality of life. This evolution is a critical requirement to deliver the EU’s climate goals while also delivering on the social front. The recent ESPAS Strategic Foresight Report 2023, for example, also highlights this. Taking into account alternative measurements such as a life expectancy-adjusted GDP also creates a very different context for the state of Europe’s economic security. The report states that, for example, the “upward adjustment for the EU’s GDP would be 15.5 % in 2040, exceeding that of the US (12.0 %), China (11.7 %), and India (1.3 %)” (European Commission, 2023, p.12).

D. Policy recommendations to strengthen the Single Markets' economic security leverage

In this section, the proposed policy recommendations, building on the aforementioned threats and extended understanding of the economic security angle of the single market, as proposed by the stakeholders of the Knowledge Community are presented. Through social conditionalities, restorative industrial policy, broad enabling and adoption of circular economy measures, quality of goods, consumer protection and public procurement, the economic security of the single market will be adequately extended to face present and emerging risks.

To reinforce the social sustainability of the single market, social conditionalities should follow the objective of creating and developing quality jobs that make sense (see for example the discussion on good jobs by Rodrick and Sabel, 2022; or bullshit jobs by Graeber, 2018), and of adopting also social conditionalities to industrial choices. As mentioned above, indeterminate increased consumption of low-quality products can no longer be part of the agenda and must be replaced by a circular economy and a focus on high quality. This shift should be managed carefully to avoid increased inequality (through higher prices), bringing the just transition dimension into the debate (see e.g. Pochet, 2024 on the evolution of the role of the welfare states). To be efficient, social conditionalities should be coupled with green collective bargaining and workers' participation at all levels. Rethinking workplaces and production processes are also much more efficient through participatory models, than by imposing technocratic solutions.

Redesigning the single market with the aforementioned objectives in mind would also imply reshoring certain production lines to Europe as well as shortening and diversifying stretched supply chains to drive economic resilience. This suggestion is building on the Letta report, which states that the external and internal dimensions of the single market have to be considered simultaneously, striking a balance between European security concerns and integration into international trade. These implications raise fears of possible refracturing of the single market for many stakeholders, who are concerned that more national industrial policies could favour bigger and richer member states. Given the emerging risks, these tendencies would have to be addressed to prevent further widening.

The potential of the circular economy (CE) sector for the EU's economic security and resilience is thereby undervalued. While Draghi has cited recycling as a key tool to support the "harnessing" of domestic resources, and in turn the EU's competitiveness, this paper argues that a broader scope is needed to adequately address economic security concerns. To support the economic security of the single market, the reforms should aim to develop a holistic European circular economy through a focus on design, demand reduction, reuse, repair, and recycling amongst other material circularity tools, allowing for the creation of a different approach to the manufacturing process.

- Firstly, the quality of goods will be increased if CE principles are applied consecutively. This begins with the design process, which determines recyclability, reuse and product longevity.
- Secondly, demand reductions are especially potent for economic security as they contribute to climate change mitigation, reducing one of the current and future threats, but also reducing dependencies on other countries for critical raw materials. Demand reduction comes with strong impacts on the internal market, as it is a clear shift from the 'Alibaba' model (focus on cost) towards sufficiency

(focus on quality). As a policy tool, they are quite effective: demand reduction in consumer behaviour, lifestyle or infrastructure use has been found to possibly reduce emissions by up to 40 to 70% through 2050 (European Commission, 2023, p.13). Only with such an approach to quality will it be consistent with the environmental emergency.

- Thirdly, quality goods will increase consumer protection and have a direct positive impact on European consumers, e.g. through delivering maintenance and repair options to buyers, as well as transparent ecological footprint information of the product they want to purchase (consumer rights).
- Fourthly, a European CE can provide important gains for the quality of jobs. The circularity of companies goes hand in hand with strategies to preserve employability, reskilling, suitable health and safety safeguards and good working conditions (ETUC, 2021). A holistic lens for CE is crucial here, as the repair and reuse sector might create more jobs, with creative tasks that require fewer capital investments as it increases the lifespan of virgin materials. European regulations linked to the green transformation and its implementation (i.e. the EGD and beyond) can impose higher health and safety standards and guarantee better wages (including by using public procurement, see below). This would foster good working conditions in a sector which is key for the environment but also for economic resilience (e.g. reducing the import of strategic (raw) materials). What is important here is that the emerging sectors linked to the circular economy can – and must – go hand in hand with job quality and worker participation and that the EU institutions can play a dynamic role in guaranteeing good working conditions.

Public procurement, it was argued by the contributing experts, is a strong driver for stronger social and environmental provisions based on quality and sustainability and represents the most obvious lever to strengthen systemic quality. While the procurement directive includes some green and social provisions, they lack enforceability and are rarely used in most EU countries (see Caimi and Sansonetti, 2023; Sapir, 2022). Even here, the framework is still embedded in the ‘Alibaba’ model as low prices continue to be the main driver and those wanting to have more local, sustainable and social procurements are often faced with opposing interpretations of the directive by their national courts. Stakeholders such as the trade union movement and institutional voices such as the European Parliament have called for the creation of new rules, including through a long overdue revision of the public procurement directive. A new, modernised framework should therefore activate the potential of public procurement to drive economic security.

3. Conclusion

Above, this article proposed a new direction for the economic security of the single market, which merges environmental and social sustainability, as well as economic resilience. In conclusion, time is of the essence in aligning our productive systems with both environmental and social goals. To achieve this, it is essential to leverage all available European tools - the single market being the most potent instrument. However, unlocking its full potential requires the adoption of a new strategy based on a reformed sense of economic security.

The persistence of path dependency and a reflexive attachment to the status quo has left the single market ill-suited to meet the needs of its citizens. The upcoming 2025 Single Market strategy is an appropriate window of opportunity to overcome outdated frameworks and reflect on the intentionality and construction of the single market, with a strong focus on a holistic notion of economic security.

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