2023-05-01

Wither on the vine?

The unfulfilled EU Single Market for services

Mårten Blix

Almega

Executive summary

Liberalization of services in the EU has lost steam. Compared to the Single Market for goods, trade in services remains tethered to an adolescent stage, resulting in slower growth, lower employment and subpar competitiveness.

The obstacles to trade in services are as diverse as the services themselves. By combining different indices, this report presents a macro picture of regulatory obstacles. Based on OECD data, there are specific sectors (such as legal, distribution and rail freight transport services) where reform should be possible at little cost to governments. But red tape and bureaucracy challenge all businesses in the EU. More than 90 percent of EU GDP stems from countries that rank lower than 20 in the 2020 World Bank's *Doing Business* assessment.

"Notably, about 140 non-medical professions are regulated in one EU country only (such as florists in Luxembourg and wine tasters in Slovenia)."

The more than 5,700 regulated professions in the EU are another area ripe for reform. Notably, about 140 non-medical professions are regulated in *one* EU country only (such as florists in Luxembourg and wine tasters in Slovenia). There are also curious regional differences in regulating professions *within* countries (especially in Belgium). The many regulated professions thwart the full potential of the Single Market; they could be reduced and harmonized with political will. If only professions common to a reasonably large number of EU countries (say twenty) were subject to regulation, the list of such professions would shrink dramatically.

This report concludes that the cost of inaction on service liberalization is high and risks EU competitiveness.

Keywords: Single Market, competitiveness, trade obstacles, red tape, regulated professions.

Θ Ratio, email: marten.blix@ratio.se. I am grateful for comments from Magnus Lodefalk, Hildegunn Kyvik Nordås, David Wästberg and Cemille Üstün. I would also like to thank Nelly Åkesson for her excellent research assistance. This report is written for Almega. All opinions expressed are those of the author.

Table of contents

Question: What are the regulatory hurdles to trade with services in the EU?

ChatGPT:

„The European Union (EU) has a single market for goods and services, which means that service providers from one EU country can generally offer their services to customers in other EU countries without facing tariffs or other trade barriers. However, there are still regulatory hurdles that service providers may need to consider when offering their services within the EU. These may include: professional qualifications... regulatory compliance...VAT ...data protection.“[1]

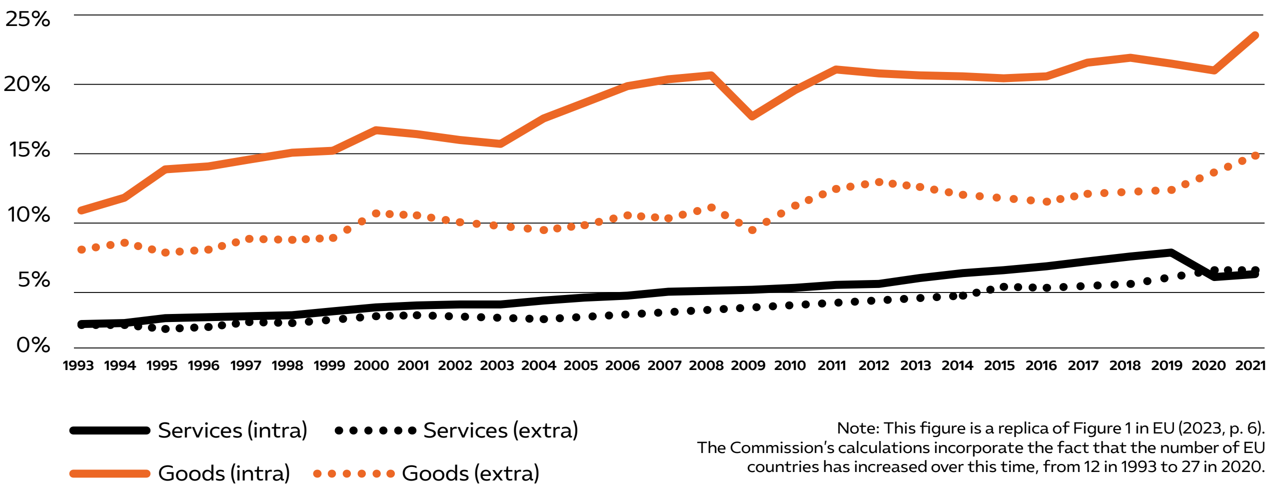
Introduction

The Single Market has increased economic growth and contributed to job creation across the EU. Without it, EU countries would be poorer than they are. But a core question remains: to what extent do red tape and regulation keep the Single Market from fulfilling its potential? Some regulation is necessary to uphold safety and trust.

Still, there can be too much of a good thing – especially when the mechanisms for creating new rules are more vigorous than those for pruning anachronist ones. As time passes, old regulations accumulate while their original motivations grow obsolete, and their benefits are outweighed by their detrimental effects on growth and innovation. The extent to which this is happening in the EU is far from an academic question, as member countries struggle to gain competitiveness vis-à-vis Asian and North American economies.

While trade in goods has expanded significantly since 1993, when the Single Market was created, trade in services remains tethered to an adolescent stage (see Figure 1.1). As a share of EU GDP, trade in goods has increased from about 11 percent in 1993 to 23 percent in 2021.[2] By contrast, trade in services has increased only modestly, from about 3 percent in 1993 to about 6 percent in 2021. Even considering the somewhat higher pre-pandemic level of trade in services (8 percent in 2019), this increase of 3 percentage points is lacklustre compared to the 11 percentage point increase for trade in goods over the same period. On one estimate, the Single Market has only reduced trade costs in services by about 7 percent, compared to 20 percent for goods.[3]

Figure 1.1. Trade as a share of EU GDP within the Single Market (intra) and with the rest of the world (extra)



Note: This figure is a replica of Figure 1 in EU (2023, p. 6). The Commission's calculations incorporate the fact that the number of EU countries has increased over this time, from 12 in 1993 to 27 in 2020.

"According to one calculation, such restrictions cost the EU as many a 705,000 jobs per year, depleting some professions by as much as 9 percent in some places."

This subpar performance for trade in services is further highlighted by the contrasts between intra- and extra-EU trade in goods and services, as can also be seen in Figure 1.1. In 2021, trade in services with countries outside the EU represented about the same share of EU GDP, while the gap in goods between intra-EU and extra-EU trade was almost 9 percentage points. This indicates that trade frictions for goods inside the Single Market are an order of magnitude lower than those for services. In addition, intra-EU trade in services should be much higher than extra-EU trade, and that gap should be expanding. Instead, for thirty years intra- and extra-EU trade in services have grown in lockstep, as if glued together, and only by a few percentage points.

This report argues that the regulatory hurdles for intra-EU trade in services remain onerous, especially for small and medium size companies. Copenhagen Economics, a consultancy firm, has argued that full implementation of the Service Directive could add some 2 percent to the EU GDP.[4] But the effects could be more significant if the Service Directive's coverage were expanded and archaic regulations were eliminated. The Directive currently covers less than half of the EU GDP, while services comprise about 70 percent. Careful review and assessment of the Directive with the aim of further liberalisation would strengthen the Single Market and increase economic growth.

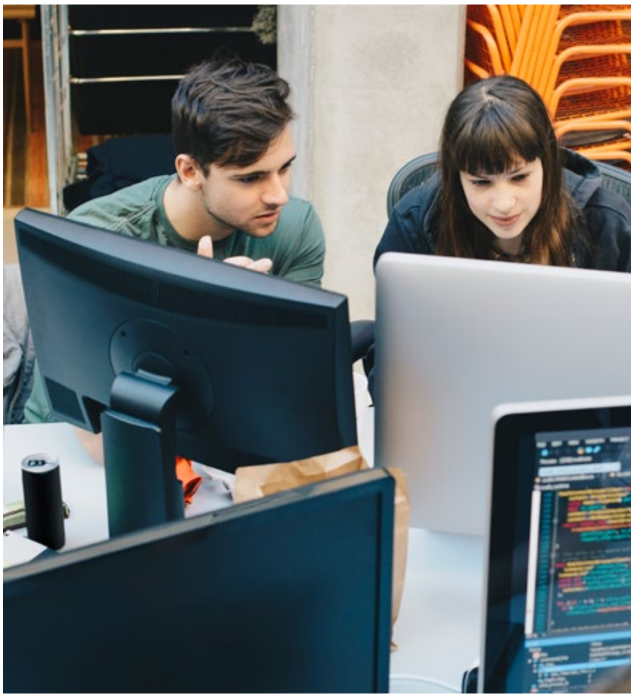
The obstacles are multi-dimensional. Regulation in the form of requirements on professional qualifications typically imply the need to hold a specific a degree, exam or membership of a professional body. Few would question the need for such regulation in areas such as medicine. But there are many regulated professions in areas where the benefits are unclear and that should be subject to liberalisation. Essentially, the regulated professions create administrative hurdles that hamper the movement of labour and thwart the full benefits of the Single Market.

The regulated professions in the EU are diverse, ranging from crane operators to mountain guides. According to one calculation, such restrictions cost the EU as many a 705,000 jobs per year, depleting some professions by as much as 9 percent in some places.[5] Restrictions on exporting services to other EU member states (MS), assessed annually by the OECD's Services Trade Restrictiveness Index (STRI), clearly decrease trade: a one basis point reduction in STRI can result in a 4 percent increase in trade with services.[6] But it is not only country-specific regulations that introduce barriers and costs. Differences between countries make it harder for companies to benefit from economies of scale. In fact, trade restrictions mean that expanding into multiple MS can instead induce significant extra ad valorem equivalent trade costs—by some estimates, 20 to 75% at low levels of the STRI index.[7]

We should view all this holistically. Restrictions on professional qualifications, together with trade obstacles measured by the OECD STRI index, act on businesses that are also reckoning with language and cultural differences between EU countries, and larger economic trends, such as the servification of economies, not least of digital services.[8] There is a clear risk that the combined effect of all obstacles is greater than the sum of the parts, not merely adding to the cost of doing business in the EU but multiplying them. Though administrative burdens are levied on all, they are likely to weigh heavier on companies that provide services in several MS and must comply with the idiosyncrasies in *each* country, thus making it more costly and time-consuming to scale across the EU. As the EU Single Market celebrates its first three decades, it is high time to address these issues. The long-run competitiveness of EU countries depends on overhauling and pruning the Single Market's regulatory framework.

” Red tape and bureaucracy curtail the benefits of scale when exporting services across the EU. ”

This report is organized as follows. The next section discusses how various regulations are amplified, and the subsequent effects on growth and innovation. The third section discusses the World Bank's assessments of obstacles in all countries, notably those regulatory hurdles that may be more onerous for non-domestic businesses. The fourth section discusses the OECD measure, STRI, on restrictions of services. The fifth section discusses rules about professional qualifications and the EU mechanism for a single point of contact. The penultimate section uses these different measures to summarize country rankings in obstacles to trade in services. The last section concludes.



Obstacles amplified and competitiveness

Is there an optimal degree of regulation?

Opponents of regulation will sometimes criticize all obstacles for businesses. Maybe they have been captured by the Silicon Valley credo: 'move fast and break things'. This view is too simplistic. Clearly, very stringent rules that require governmental approval for the most minute matters do stifle growth. However, between the extremes of no regulation and draconian rules, there can exist good (or 'optimal') regulation that balances different concerns. Such regulation can help establish standards, both for businesses and households, as well as build trust. Good regulation can create a market and lead businesses to innovate.

Rules that promote green technology are a case in point. By imposing rules on emissions and a price tag on those emissions, governments incentivise private companies to improve their manufacturing processes and to innovate.

To criticise obstacles to trade in services in the EU is not to say that there should be no rules at all, but that there are too many anachronist rules with high cost to growth and employment, as we discuss in this report.

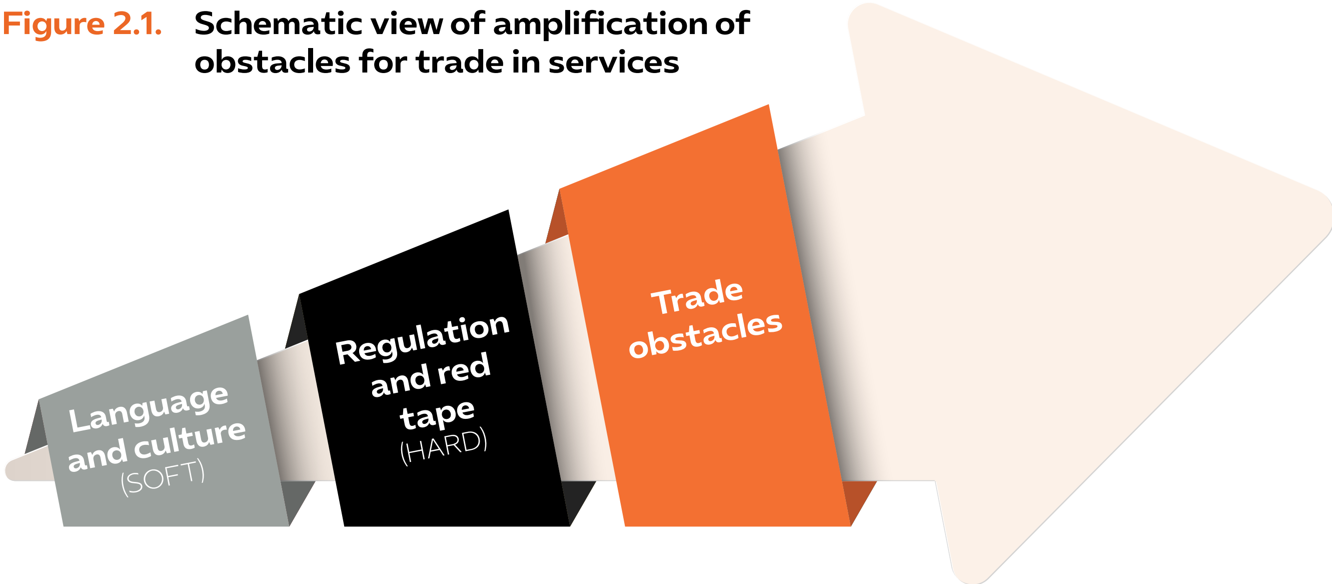
The business case for exporting services to other EU countries

In a 2016 survey, firms reported that the three largest obstacles to trading goods and services in the EU are the following:[9]

- Having to conform to national regulations;
- The remaining regulatory dichotomy between domestic and non-domestic firms;
- The treatment of VAT.

The choice of selling services to other countries in the EU should in principle be based on a calculation of the costs and the benefits of entering those markets. One measure that helps in this regard is the *ad valorem* equivalent of non-tariff (AVE) calculated, for example, by the World Bank. It is defined as the additional costs associated with the presence of non-tariff barriers. While this is a useful starting point, the measure may not fully capture the time and costs associated with complex regulation. We illustrate this schematically in Figure 2.1.

Figure 2.1. Schematic view of amplification of obstacles for trade in services



Let us discuss these in turn.

First, language and cultural differences may have large effects on the type of services available and that are feasible to export. While there are clear national proclivities in the types of goods that are demanded, the differences are likely to be larger and more heterogenous for services, depending on culture, climate and geography. A case in point is the job of baker/pastry maker, which is regulated in France and 8 other countries but not, for example, in Denmark, Finland or Spain. Since language and cultural differences reflect national identities, they are typically not covered in multilateral harmonisation efforts. Another cultural difference can manifest itself in design choices or preferences. For example, architects tend to draw apartments or houses according to the expectations in that country, which may differ across EU countries. Such soft obstacles may serve to amplify the effects of more tangible barriers and are hard to measure.

Second, some obstacles are levied on all firms, both domestic and non-domestic. On the surface, such rules are non-discriminatory, as all businesses are required to fulfill them. This may range from how VAT is reported to licensing requirements. In practice, institutional knowledge can bring considerable advantages to domestic firms compared to non-domestic ones in services. One way to address the regulatory burden is to use the World Bank's *Doing Business* ranking as a measure of red tape and bureaucracy.

Third, several restrictions explicitly create hurdles for trade in services by non-domestic firms. The OECD has created a methodology to measure such restrictions. Notably, there are vast and inexplicable differences between sectors, which in part stem from the success of special interest lobbying. Heterogeneity in regulation across countries brings in another form of complexity and increases costs for countries that operate across countries. Another expression of restrictions is the largely unexplainable variety in ways that EU countries treat requirements for professional qualifications.

The total effect of all these types of obstacles is likely to be *multiplicative* rather than additive. For the sake of argument, we could think of each 'unit' of difference in language and culture making it that much harder and more time-consuming to overcome various tangible obstacles.

Examples of language/ informational hurdles in EU Single Point of Contact

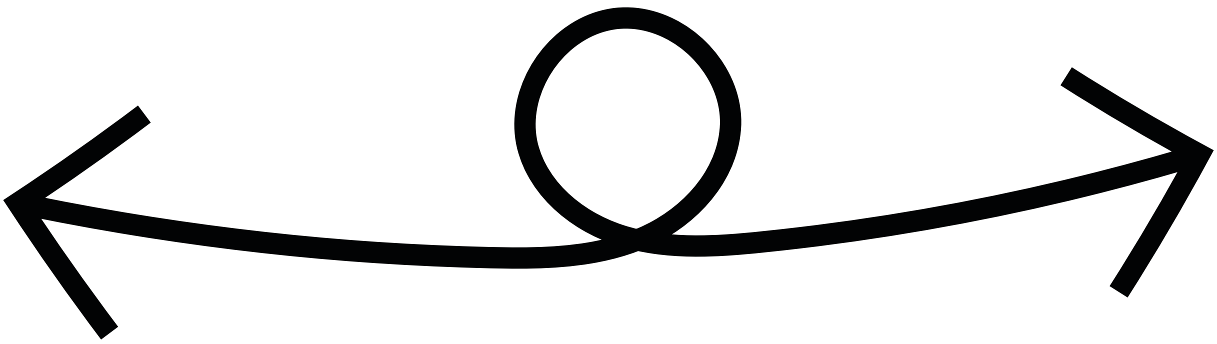
The EU provides a service for a so-called single point of contact to make it easier for firms and individuals to export goods or services to other MS.[10] It is a website operated by the 'EUGO network' of national coordinators. It provides information to 1) explore business opportunities in other EU countries; 2) requirements to set up businesses abroad; 3) rules that apply; and 4) complete administrative procedures online.

In theory, the website collects links to all countries in the EU and those in the EEA, potentially mitigating the need for businesses to find and navigate domestic websites. In practice, there are vast differences in the kind of information provided and how easy the sites are to navigate. Beyond one or two mouse clicks, webpages may no longer be in English and there are also different rules within countries, depending on region.

Some examples of awkward framing and accessibility of information include:

- For Germany, clicking on the region Rhineland-Palatinate in a map yields an error message and notification 'page not found'.
- For France, clicks result in a pop-up box with the message 'Title of browser page in markdown' (in Safari).
- The page for the Czech Republic quickly lands in text provided only in the Czech language.

More generally, the landing page for each MS may seem functional but the digital information below the landing page tends to be hard to navigate and core material is often available only in the local language. But some EU countries have relatively good websites for the Single Point of Contact, notably: Denmark, Finland, the Netherlands and Sweden.



The EU Service Directive and the professional qualifications directive

The EU Service Directive from 2006 set the foundations for trade in services in the EU.[11] Its purpose was to create a Single Market also for services, but not all sectors were included in the initial agreement. Indeed, in the years leading up to the agreement, more fundamental reforms were debated, including the idea of basing trade in services on the country of origin principle. Had this been done, a service approved in one country would also have been approved in other EU countries. This was not to be and a final agreement was watered down compromise and local regulations remaining in place.[12] Notably, in Article 2(2) the following exclusions are listed for services:

a. non-economic services of general interest;
b. financial services;
c. electronic communications services and networks;
d. services in the field of transport;
e. services of temporary work agencies;
f. healthcare services;
g. audiovisual services;
h. gambling;
i. exercise of official authority;
j. social services;
k. private security services;
l. services provided by notaries and bailiffs.

There is a variety of reasons for special treatment of these areas and typically, they are covered by other sector-specific directives. Importantly, healthcare is a core welfare area that largely falls outside the scope of EU competence. There is a system of automatic recognition of professional qualifications for health care workers, but the process takes time (more on professional qualifications below). More broadly, the Directive references the concept of *'overriding reasons relating to the public interest'* that motivates exemptions in areas like air transport.

Perusing the list of excluded areas above, it is possible to conceive of motivations related to the concept of the public interest. But it is also fair to characterize some of the exemptions as rather vague and growing more anachronistic.

Mechanisms to resolve regulatory obstacles

The European Commission and EU countries have implemented a framework to uphold the Service Directive and to address issues. The resulting apparatus provides channels and procedures to remove obstacles inconsistent with EU laws and regulations, but it lacks teeth and is short on enforcement.

"There is a well-established mechanism to address trade obstacles inconsistent with regulation in the EU but the procedures lack teeth and venues for enforcement."

The European Commission continues to receive notifications of obstacles. In 2022, for example, DG GROW in the European Commission received almost 200 complaints of malfunctions in the Single Market for assessment, many related to the bad application of EU law.[13] There are several mechanisms to remove or alleviate obstacles to trade in services. SOLVIT is a service provided by each MS to which citizens and businesses can address their grievances when, for example, the application of local regulation may be at odds with EU law. While SOLVIT reports having an 85 percent success rate and has resolved about 28,000 cases in the EU over the last 20 years, the process takes time, and not all MS report cases to the system.[14] The number of SOLVIT cases has also increased over time.[15] It is to be expected that number of cases should rise in the first few years, then stabilize and begin to decline. This has not occurred, and the number of cases now is at about the same level as it was in 2014. More recently, in 2021, the Swedish authority responsible for SOLVIT reported that only about half of its cases were resolved.[16]

It is fair to say that the mechanisms to resolve trade disputes in services are far less forceful than those for goods. There are few direct consequences for a MS that is slow to resolve issues or that does not fulfil its obligations. The Swedish Chamber of Commerce has recommended strengthening SOLVIT by shifting to legally binding rules for compliance and ensuring that national centres are adequately staffed.[17]

Peer pressure has a poor track record in politically charged decisions

Peer pressure is one mechanism in the EU, notably in areas where is no penalty for those MS that deviate from the rules. Perhaps most prominently, the EU Stability and Growth Pact largely relied on peer pressure. In 2000, for example, Germany and France exceeded the rule against deficits larger than 3 percent of GDP (and so did several other countries).[18] The peer pressure mechanism did not withstand the perceived political need for fiscal expansion in those countries. The subsequently revised Stability and Growth Pact relies on a similar aspiration that the peer pressure mechanism induces member states to uphold reforms or keep within agreed budget rules. One example is the EU Macroeconomic Score Board in the Macroeconomic Imbalance Procedure (MIP). After the fallout of the 2007–09 financial crisis, the idea was to identify economic aspects in MS that might indicate an unsustainable path, for example rising private debt. By making it explicit which MS exceeds certain threshold values, the Score Board has improved the conditions for the peer pressure mechanisms to take effect.

Another effort in the EU is the Single Market Enforcement Task Force (SMET) set up in 2020 to strengthen implementation and enforcement of Single Market rules. Its work supplements other enforcement mechanisms. In 2022, the SMET reported concrete results in two areas:[19]

- It removed potentially protectionist measures in the agri-food sector, that supported local production but hampered trade;

- It removed restrictive measures on non-harmonised construction products.

The SMET works to identify obstacles and suggest improvements to the functioning of the Single Market. One fear, however, is that its recommendations are not sufficiently backed by political will. Overall, the extent to which there has been an actual strengthening in enforcement mechanisms is unclear. The experience from the peer pressure mechanism in the MIP is that measures may be toppled by political calculus at home. In the most recent MIP, the number of EU countries that exceeded the thresholds for public and private debt remained essentially the same over the period 2018–2023.[20] Looking ahead, the peer pressure mechanism is likely to remain anaemic and it may even take a turn for the worse. Notably, there has been criticism against Hungary and Poland for eroding EU core ethical standards by subjugating the independence of the judiciary. Compared to such critiques, incomplete implementation of the Single Market, for trade in services in particular, appears decidedly less consequential.

Challenges to competitiveness in Europe

The European Commission routinely publishes various measures related to competitiveness, including unit labour costs, labour productivity, and various measures of exchange rates. In an assessment for 2022, the Commission highlights that:[21]

- Unit labour costs are expected to rise in almost all EU countries, driven by wage compensation that exceeds productivity growth;
- Differing inflation rates in EU countries affect the effective exchange rates;
- EU export market shares in the world economy are expected to fall due to the high energy costs and supply-side disruptions.

These measures are useful to examine the relative changes between Europe and the rest of the world in the *short* term. But the current relative situation is reflected in many years of accumulated actions that affect the *long-run* competitiveness of EU countries and businesses. One simple way to capture the long-run impact of competitiveness is to examine how successful businesses have been. Notably, Europe and the United States have about the same population size but companies in Europe have not become as large as their US counterparts. In terms of market capitalization, only one EU company (LVMH Moet Hennessy, France) is included in the world's top twenty companies, a list dominated by companies from the US and Asia.[22] In terms of sectors, four of the top five companies are US tech firms (Apple, Microsoft, Alphabet and Amazon). The list of top fifty companies by market capitalization includes only a few businesses in EU countries.

The gap in the valuation of companies in the EU compared to its trading partners is a cause for concern. Explanations for this development are wide and varied. EU countries cannot directly control population aging and rising demands on public spending in welfare states. But developments highlight the importance of structural issues that EU countries *can* control, such as the regulatory framework for businesses. In the next section, we discuss and compare the effects of regulation between EU countries and their trading partners.

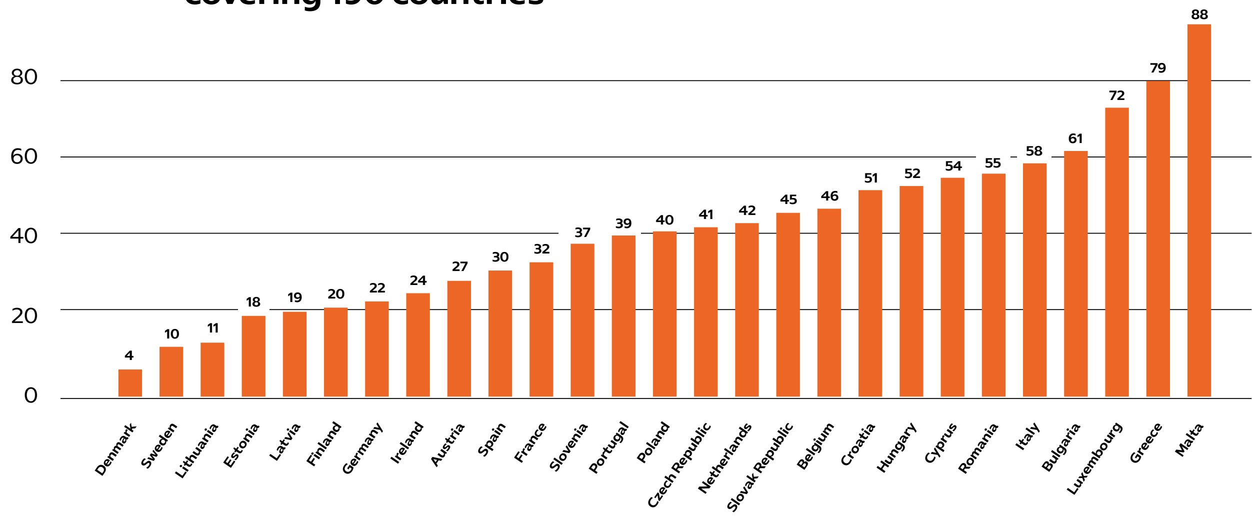
World Bank *Doing Business* captures red tape levied on both domestic and non-domestic businesses

All countries regulate businesses, ranging from requirements to start the business to the payment of taxes and the fulfillment of fiduciary duties.

We can think of this kind of regulation as general, because it applies to all firms, whether they are domestic or foreign service providers. But even when regulations apply to all, they tend to be more burdensome to non-domestic businesses. There are several reasons for this. For one, language and culture present obstacles. Information about requirements might not be available in other languages. Though the European Commission provides an information site to serve as 'a single point of contact', in practice information in other languages tends to be fragmented and sites are easier to navigate for domestic users.

Until 2021, overall hurdles that affect all businesses were collected by the World Bank and published in its *Doing Business Report*. The report has since been discontinued, but the last available publication provides some general information about red tape for businesses in twelve categories. Figure 3.1 lists the EU countries that are included in the 2021 publication. It is noteworthy that only six EU MS made the top twenty ranking, and only ten were included among the top 30 out of 190 countries. Nine EU countries were ranked *below* 50 in the world (in Figure 3.1, Croatia and countries to its right).

Figure 3.1. Rank of EU countries in the World Bank *Doing Business* 2020 covering 190 countries



Source: World Bank (2021). Note: The last available assessment is from 2020, after which the survey was discontinued due to concerns about data irregularities, mainly in non-OECD countries. The ranking includes an assessment in the following twelve categories: 1) Starting a business; 2) dealing with construction permits; 3) getting electricity; 4) registering property; 5) getting credit; 6) protecting minority investors; 7) paying taxes; 8) trading across borders; 9) enforcing contracts; 10) resolving insolvency; 11) employing workers; and 12) contracting with the government. The average rank for EU countries is 40 (both mean and median).

Explicit trade obstacles

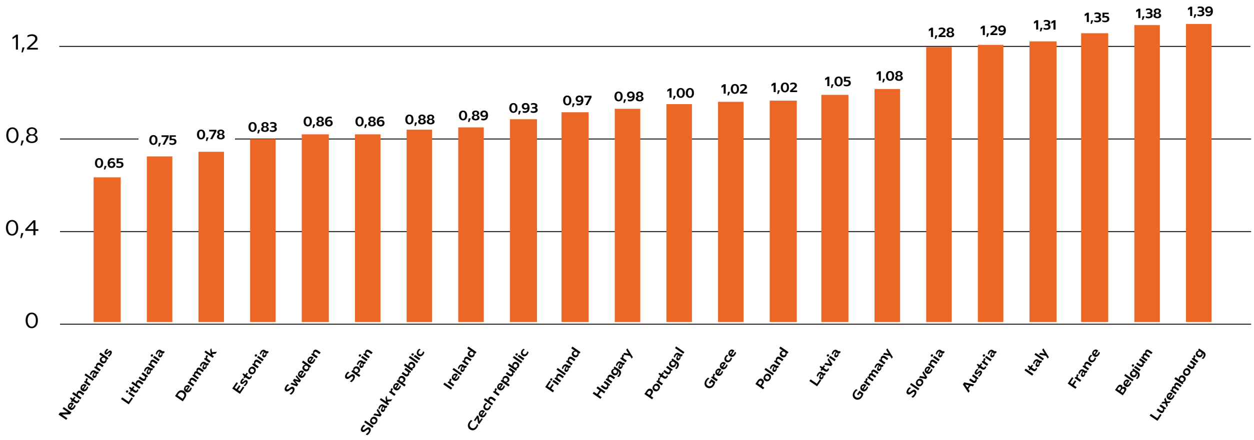
The OECD launched the Services Trade Restrictiveness Index (STRI) in 2014. The publication of the index is an annual exercise where trade restrictions in services are assessed and updated by trade experts, resulting in an index that has a value of zero for no restrictions and one for a completely closed economy.[23] There are 22 sectors in the index and it covers fifty economies, including the OECD countries.

In this section, we analyze a subset within the OECD STRI database that focuses on intra-EEA trade in services only. In general, the intra-EEA measure is an order of magnitude lower than those that include the full set of countries.[24]

Service trade restrictions by country

The STRI database is comprehensive, and it is helpful to summarize the data in easily discernable dimensions. We will consider three ways to extract information from the STRI database to better understand service trade restrictions across EU countries. The first, and most straightforward way, is to list countries according to their total intra-EEA STRI score, obtained by summing all the sectors per country (see Figure 4.1).[25] According to the intra-EEA, the Netherlands has the least number of restrictions and Luxembourg the most within the EU single market.

Figure 4.1. OECD measure on trade restrictions in services, intra EEA STRI, 2022.

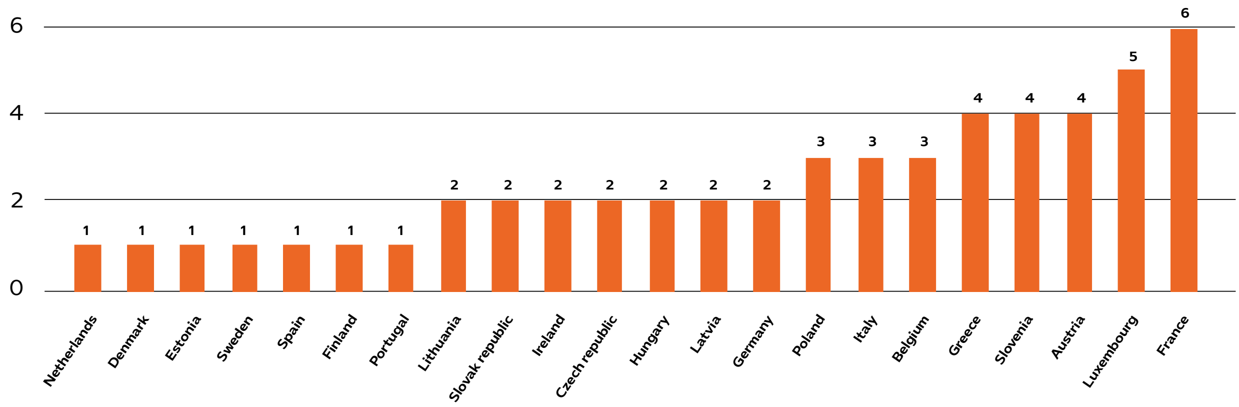


Source: OECD (2023).

”With the inclusion of Portugal and Spain in the set of countries with few restrictions, it is worth underlining that the distribution of trade obstacles (as measured by the intra-EEA STRI) only partially represents the ‘frugal’ north.”

Secondly, we can aggregate the information to determine how many times a country has a sector that is above some threshold. This is done in Figure 4.2. The threshold is computed as the level of the intra-EEA STRI that represents the top quintile of countries (i.e. the twenty percent of MS with the highest trade obstacles in the intra-EEA STRI). In this way, it is clear that there is a group of countries with consistently low barriers to trade in services, notably the Netherlands, Denmark, Estonia, Sweden, Spain, Finland and Portugal; conversely, the countries with consistently high barriers to trade in services are France, Luxembourg and Austria. With the inclusion of Portugal and Spain in the set of countries with few restrictions, it is worth underlining that the distribution of trade obstacles (as measured by the intra-EEA STRI) only partially represents the ‘frugal’ north.[26]

Figure 4.2. Number of sectors with a high STRI per country, 2022.



Note: Own calculations based on OECD (2023). The threshold for a high STRI is set to 0,087 defined by 20% of the countries being above that number across sectors.

A third way to extract information on the distribution of trade obstacles is to count the number of times a country has the *highest* intra-EEA STRI score for a given sector. In Table 4.1, we can see that this list to a large extent overlaps with the countries in Figure 4.2 that exhibit relatively high trade obstacles. One difference is that Slovenia now has the top position instead of France. How can we understand these different ways to view obstacles to trade in services? Figure 4.2 captures countries that belong to different groups in terms of trade restrictiveness, whereas Table 4.1 picks out those countries that are the most extreme in a particular sector.

Table 4.1.
EU countries with the highest trade restrictions in selected service sectors

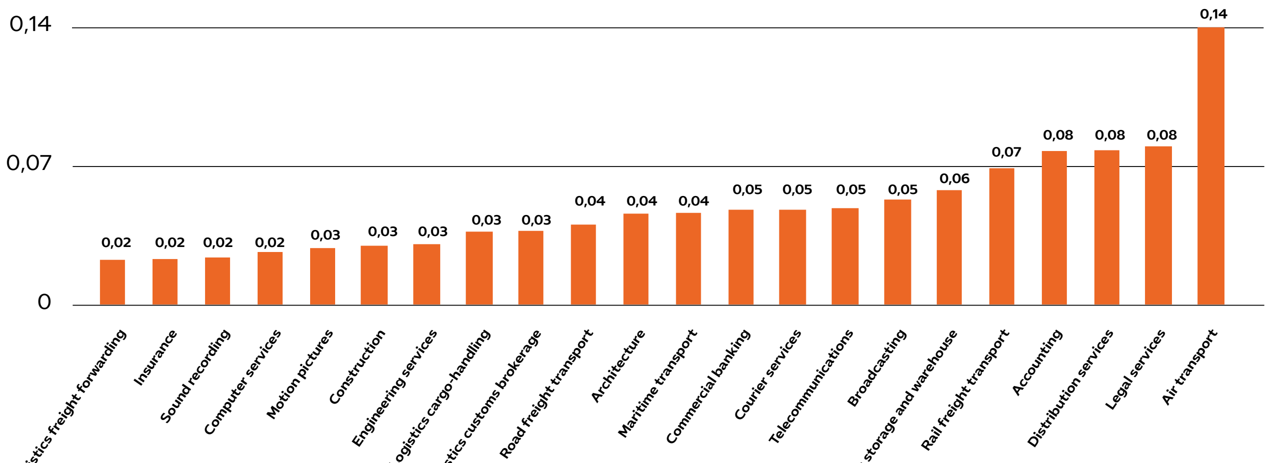
Country	No	Sectors
Slovenia	5	Insurance, logistics cargo handling, logistics storage and warehouse, maritime transport, and motion pictures
Belgium	4	Architecture, courier services, logistics customs brokerage, and telecommunications
Luxembourg	3	Accounting, construction and engineering services
Italy	2	Broadcasting and sound recording

Note: Own calculations based on OECD (2023) data. Included countries have at least two of the highest STRI scores across sectors. Column Nr denotes the number of times a country has the highest STRI in the EU for a given sector, and these sectors are listed in the last column.

Trade restrictions according to sector

There are considerable differences in the number of restrictions across sectors. As can be seen from Figure 4.3, the area with the most restrictions in the intra-EEA STRI is *Air transport*. It is exempted from the EU service sector agreement (EU 2006) and has its own rules and regulations. The area with the lowest trade restrictions is *Logistics freight forwarding*.

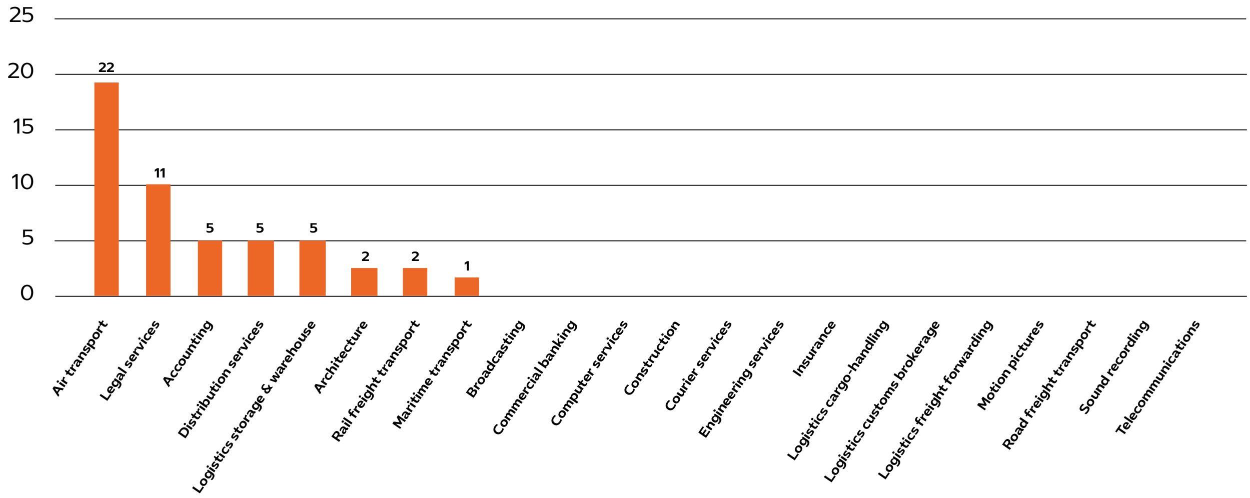
Figure 4.3. Average intra-EEA STRI scores across sectors.



Note: Own calculations based on data in OECD (2023).

As can be seen in Figure 4.4, air transport, legal services, accounting and distribution services are especially prone to regulatory hurdles. In the figure, we calculate the number of times a country is above a certain threshold, using the same threshold as in Figure 4.2, i.e. the point above which 20 percent of countries are above that number across sectors.

Figure 4.4. Number of countries with a high STRI per sector, 2022.



Note: The threshold for a high intra EEA STRI is set to 0,087, defined by 20% of the countries being above that number across sectors in the OECD (2023) database.

Conversely, we can ask the reverse question and find which sectors have *low* intra-EEA STRI measures across EU countries, as shown in Table 4.1.

Table 4.1. Sectors with low levels of intra EEA STRI restrictions across EU, 2022.

Sectors with few restrictions	Sectors with medium restrictions
Logistics freight forwarding, insurance, sound recording, computer services, motion pictures, construction and engineering services	Logistics cargo-handling, logistics customs brokerage, road freight transport, architecture, maritime transport, commercial banking

Note: Own calculations based on OECD (2023) data.

Given all this information about regulatory hurdles and obstacles, which areas should be at the top of the list for regulatory reform? One way to think about this issue is to consider the *level* of trade obstacles together with their *dispersion* across countries (i.e. the variance). Using these measures, we can use benchmarking for sectors and countries. For simplicity, we sort the countries according to the size of their intra-EEA STRI and divide them into two groups, one below and one above the median country. We do the same for the variance.

This results in four sets of sectors:

- Sectors with both a high intra-EEA STRI and variance;
- Sectors with a high intra-EEA STRI but low variance;
- Sectors with a low STRI but high variance;
- And sectors with both a low intra-EEA STRI and a low variance.

Areas to the right in Figure 4.5 (with white background) are arguably less ripe for reform.

Or at the very least, these sectors should not be on the top of a reform agenda. With a low level of trade obstacles as well as small differences between countries (the lower right-hand quadrant), the conditions for competition from other EU countries are already relatively favourable. Turning next to the situation with high trade obstacles and low dispersion (the top right-hand quadrant), an argument can be made for the 'public interest' perspective to override competition concerns.

By contrast, a case can be made for regulatory reforms for those sectors on the left-hand side of Figure 4.5. When both the dispersion and the level of obstacles are high, this indicates that EU countries make heterogenous assessments. Countries with high intra-EEA STRI in legal, distribution services, etc. would do well to re-assess, asking if the original motivations for these restrictions still hold, and whether they reflect the public interest or merely the successful influence peddling of special interest groups. Finally, the same argument can be made for those sectors with high dispersion but low average levels of restrictions (the lower left-hand quadrant). For these sectors, some countries stand out because of their high restrictions, for example, Belgium's restrictions on architectural services and Slovenia's on logistics cargo handling (see also Table 4.1 above).

> **"...whether they reflect the public interest or merely the successful influence peddling of special interest groups."**

Figure 4.5. Identifying areas for regulatory reform

STRI DISPERSION

STRI LEVEL	High (dispersion)	Low (dispersion)
High	Legal, distribution services, accounting, rail freight transport, logistics storage and warehouse, telecommunications, commercial banking	Air transport, broadcasting, courier services, maritime transport
Low	Architecture, logistics cargo-handling, engineering services, motion pictures	Road freight transport, logistics customs brokerage, construction, computer services, sound recording, insurance, logistics freight forwarding

Note. Own calculations based on data from OECD (2023). STRI is for intra-EEA trade restrictions.

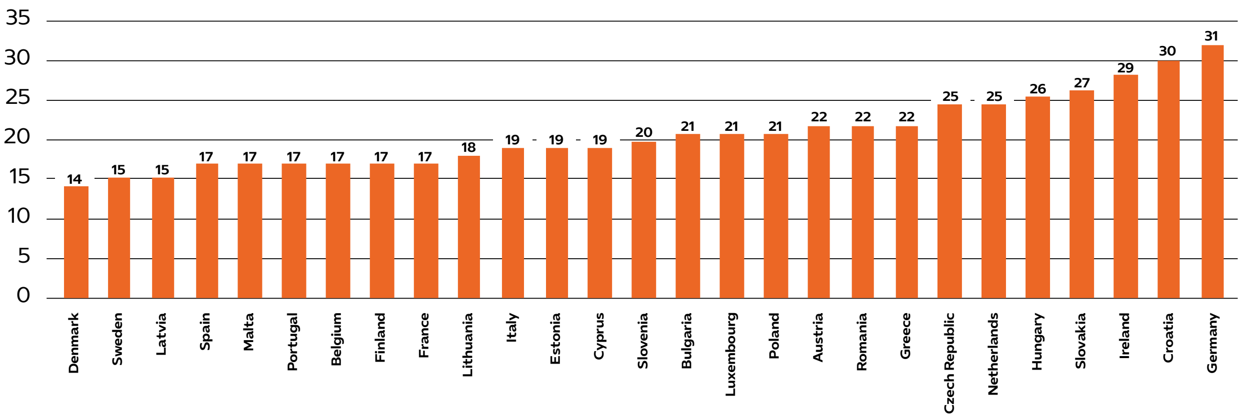
Restrictions on professional services

The 2015 survey on regulated professions

A 2015 survey examining 6,690 regulated professions in the EU showed that occupational regulation affects about 22 percent of workers in the European Union.[27] In the aggregate, licensing of workers is associated with a wage premium of about 4 percent and larger wage inequalities within sectors. Also, employment levels are estimated to be about 3–9 percent *lower* as a result of licensing.

The survey revealed large disparities between EU countries. Denmark, the country with the lowest proportion, requires licensing for 14 percent of jobs, while Germany is at the other end of the spectrum with 33 percent (see Figure 5.1).

Figure 5.1. Proportion of licensed workers in the European Union, 2015. Percent.

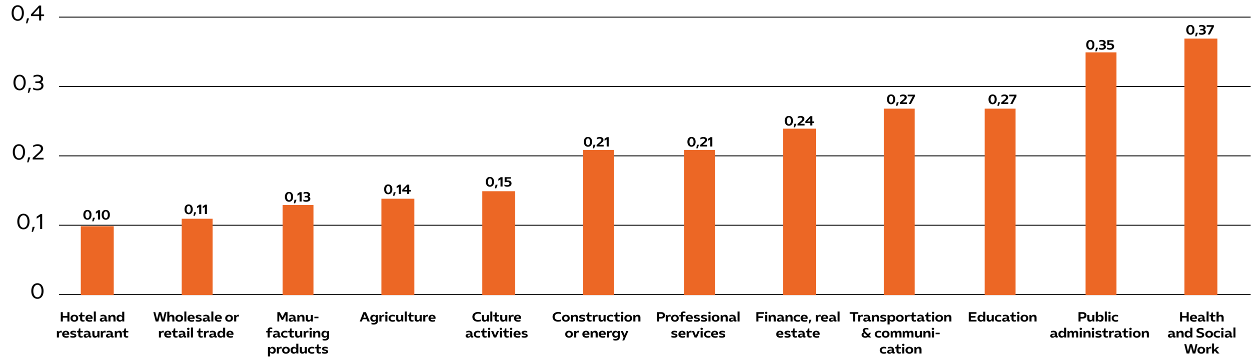


Source: Koumenta and Pagliero (2019). Survey conducted during March-April 2015.

Behind the aggregate values in Figure 5.1, there are some notable sector differences. In 2015, Germany had the highest number of restrictions in the EU in three areas (manufacturing products, finance & real estate and public administration); Croatia had the highest number of restrictions in three areas (health & social work, professional services and culture activities). At the other end of the spectrum, Luxembourg had the fewest restrictions in three areas (agriculture, manufacturing products and finance & real estate).

We can also analyse the differences between sectors based on the 2015 survey data. These tend to be somewhat larger than the differences between countries. It can be seen from Figure 5.2 that the sector with the least restrictions is hotel & restaurant services, and the area with the most restrictions is health & social work. This is not surprising, as health and social work involve the medical professions and other sensitive jobs that have been accorded special exemptions in the EU Service Directive.

Figure 5.2. **Licensing restrictions per industry, 2015.**



Source: Koumenta and Pagliero (2016).

For a few select professions, the EU has introduced the European Professional Card (EPC). By applying for the card, workers can receive a qualification that may be recognized by other EU countries. For now, however, the EPC it is limited to a small selection of professions: mountain guide, nurse, pharmacist, physiotherapist and real estate agent.[28]

> **The European Commission's Points of Single Contact portal leads to country websites of uneven quality.**

The EU *Points of Single Contact* portal's uneven quality

To help individuals and businesses export within the Single Market, the European Commission has introduced the *Points of Single Contact* portal.[29] It collects links to each country's PSC website in the EU and EEA, thereby centralizing information. While the service is helpful, the quality of the different country websites is uneven. In many instances, the information is hard to access and navigate (see Table 5.1).

Table 5.1. Points of single contact on restricted professions.

Country	Other languages	Quality of information content	Examples of restricted/ sensitive professions
Austria	English but not complete	Fairly complete, but requirements may differ depending on region. Some information only available in German. One regional web sites do not load (Carinthia, 1/1/2023)	Baker, foot care, forest assistant, mountain guide, chimney sweep, repair of motor vehicles
Belgium	English, French, German and Dutch	Information on restricted professions only provided in French in an awkward table	Baker, real estate agent, mountain guide
Bulgaria	English	Have to choose one of 28 regions and then muncipality, information is then rudimentary and some not accessable	After clicking on information for temporary construction work, information only provided in Bulgarian
Croatia	English, but most detail is in Croatian	Overview good, but site lacks specific information in English	Driving schools, tourism
Cyprus	English	Fairly easy to access	Real estate, tax consultant, caterer, Swimming pool operator
Czech Republic	English but fragmented	Information difficult to access and refers to specific sites for different municipalities	Information not in English
Denmark	English	Provides overall information but hard to access specific professions	Cook, steward at sports events
Estonia	English but limited information	Web site leads to information primarily related to social security, pensions, car ownership etc	Search for restricted professions lands in awkward information list
Finland	English	Simple and clear structure	Chimney sweep, refrigirator fitter, security guard
France	English but awkward website	Web site easy to navigate but partially malfunctioning	baker, confectioner-ice cream parlour, mountain guide
Germany	Limited in English, some Polish	Requires to click on each region. Four regions have links that lead to empty or unused web sites 1/1/23 (Schleswig Holstein, Rheineland-Palatinate, Saarland, Baden-Württemberg)	Baker, Call center, perfume worker
Greece	English	Information is fragmented and awkward	Sports operator, diving instructor. Search function requires a minimum of 5 characters and so excludes for example cook
Hungary	English	Provides an easy to read excel file with restrictred professions and which is the relevant authority	Driving instructor, machine operator, sculptor, shoemaker
Ireland	English, French, Polish, Italian, Spanish and German	Information easily summarized but details are unavailable in other languages	Crane operator, driving instructor, restaurant, tourist guide

Country	Other languages	Quality of information content	Examples of restricted/ sensitive professions
Italy	English	Information on restricted professions is easy to access and links are provided to relevant authorities	Mountain guide, hairdresser, real estate agent, pest control, driving instructor, fencing master, ski instructor
Latvia	English	Accessable but lacking information	Clicking on professions leads to a non-informative search site
Lithuania	English	Web site does not list regulated pro-fessions and instead refers back to the European Commission's web page	Lists some medical and veterinary professions
Luxembourg	French, German and English	Website gives overview of requirements on businesses but lacks specifics	Hard to find
Malta	English	Website gives overview of requirements on businesses but lacks specifics	Hard to find
Netherlands	English	Website gives overview of requirements on businesses but lacks specifics	Hard to find
Poland	English	Website gives overview of requirements on businesses but lacks specifics	List of regulated professions is in Polish
Portugal	English	Overview only	Hard to find
Romania	-	No website	No information
Slovakia	English	Rudimentary website but provides information on professions	Brewer, driving school instructor, tour operator, testing of chimneys
Slovenia	English	Rudimentary website but provides information on professions	Cave guide, librarian, fisherman, ships cook
Spain	Basque, Catalan, Galic and English	Minimalist information and links that lead to error messages (for English version)	Hard to find
Sweden	English	Simple overview and easy to navigate	Diving work, mountain guide, Real estate agent

Sources: Links from EU (2023b), *Points of Single Contact*. Note: Own compilation in April 2023.

The following issues emerge:

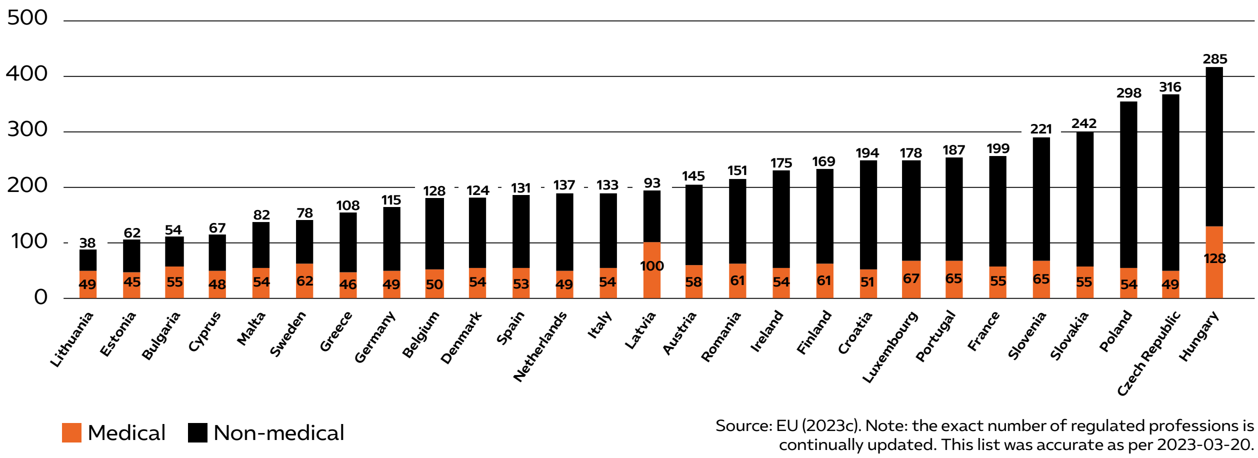
- Not all information is available in English.
- Each domestic site has a different structure and logic.
- Some also provide information on social security and non-business-related governmental services.
- For some federal MS (such as Germany and the Czech Republic), the user first must select a region and then a municipality.
- It is unclear how current the information is and how often it is updated.

Regulated professions in 2023: Regional differences and population size

The current vintage of regulated professions in the EU can be accessed through another EU webpage.[30] This allows the user to search for a specific profession and determine the current regulatory requirements in the country of interest as well as what qualifications are needed. For example, searching for 'cook' yields a list of 10 EU countries where there are various forms of accreditation requirements; for driving instructor, there are 21 countries; for chimney sweep, there are 10.[31]

In the European Commission's database for 2023, there are 5,701 regulated professions in total for the 27 MS, about 15 percent lower than the 2015 tally of 6,690. All countries regulate medical professions, such as doctors, veterinaries and nurses, which are specifically exempted in the Service Directive. Of the restricted professions, most are non-medical, but the proportion differs across countries (see Figure 5.3a). In 2023, there is a total of about 4,110 professions not related to the medical professions. Most countries have about 60 regulated medical professions; in Latvia and Hungary, the proportion is higher. Overall, most differences in regulation of services across the EU are explained by the number of regulated non-medical professions.

Figure 5.3a Number of restricted professions in the EU, 2023.

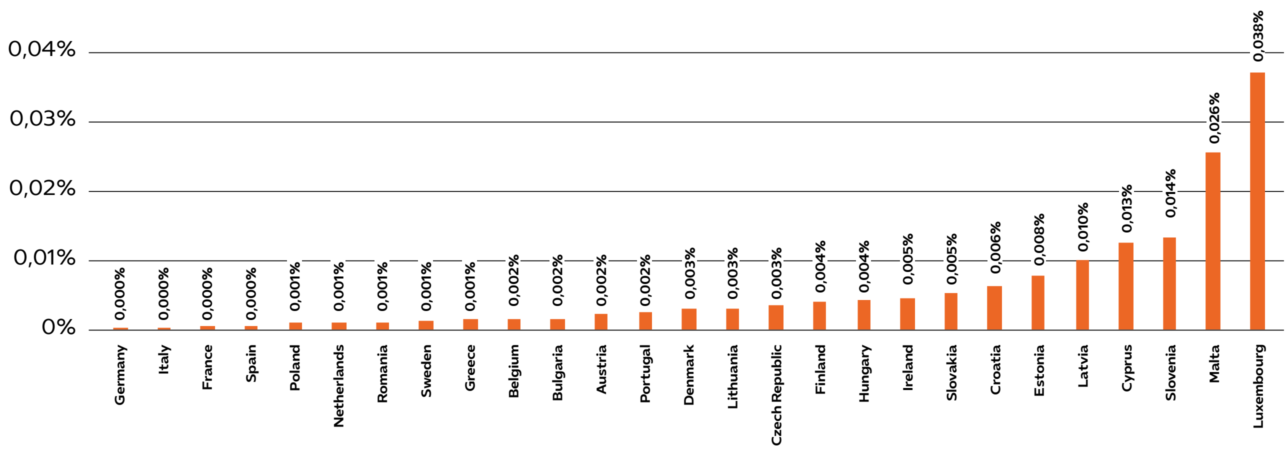


Source: EU (2023c). Note: the exact number of regulated professions is continually updated. This list was accurate as per 2023-03-20.

This list of regulated professions does not incorporate other information about the labour market and does not account for possible effects from population size. In large countries, the labour market may contain more types of professions and services than that of a small economy. Therefore, comparing regulated professions to population size provides crucial information. For example, if a small country has a large number of regulated professions, these will be more dominant in the labour market, and arguably a more problematic feature of the economy.

In Figure 5.3b, we can see that the order of countries changes compared to Figure 5.3a. Large economies (Germany, Italy, France and Spain) have the lowest number of regulated professions adjusted for population size. By contrast, Luxembourg appears at the opposite end of the spectrum, with many regulated professions relative to its population size. Arguably, the most useful way to read the diagram is not to 'excuse' large countries for having little regulation compared to their economy, but to highlight the small economies that should have fewer regulated professions.

Figure 5.3b. Regulated professions in 2023 as share of population size.

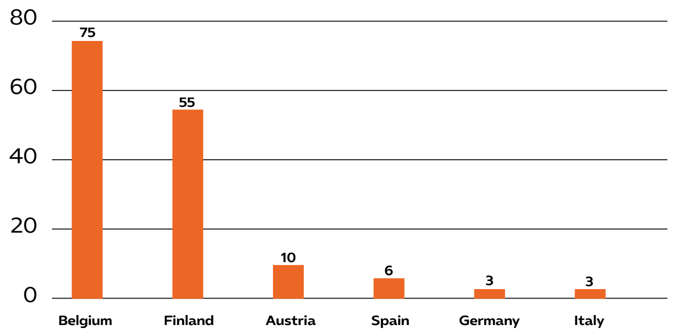


Note. Own calculations based on data on restricted professions from EU (2023c) and population data from Eurostat.

"Arguably, the most useful way to read the diagram is not to 'excuse' large countries for having little regulation compared to their economy, but to highlight the small economies that should have fewer regulated professions."

Some countries have different requirements for professions *within* the country, where some regions impose provisions that do not exist elsewhere. In 2023, 152 out of 5,438 professions had regional idiosyncrasies. Belgium stands out in this regard, with a fairly large number of regional differences (see Figure 5.4). For example, in the region of Wallonne, there is a special requirement on 'light vehicle standards officer'. In the Italian region of Lazio, there are special requirements concerning tattooing and body piercing.[32] Notably, Germany has only three professions that have different requirements despite granting its regions considerable autonomy. Two of these restrictions stem from the region of Bayern, which imposes special conditions on mountain and ski guides and on ski instructors.

Figure 5.4. Number of special regional regulations for professions, 2023



Source: EU (2023c). Note: For Finland, the main explanation for the high number of special regional requirements is related to the island of Åland. In Belgium, there are 103 regulated professions for all regions and 75 professions in the different regions, thus providing a patchwork of different requirements across the country. Countries not listed in the figure have no regional differences. This search was made on 2023-03-20.

> **Generally, harmonizing and reducing the number of regulated professions would make it easier to export services.**

Having different requirements inside the country results in an additional layer of complexity and hinders the free movement of labour. Given that most countries do not have special requirements within the country, those that Figure 5.4 highlights should consider reducing – or eliminating the within-country differences. Generally, harmonizing and reducing the number of regulated professions would make it easier to export services.

Towards fewer regulated professions

As noted in the previous section, in 2023 there are about 5,700 regulated professions in the EU obtained by summing the value for all countries (displayed in Figure 5.3a). The smallest number of regulated professions is in Lithuania (87) and the greatest is in Hungary (413). Each country makes its own determinations about when and why a profession should be regulated. This hampers competition and the free movement of labour in various ways. The European Commission has published a methodology that pinpoints the sources of ineffective competition related to several dimensions, including issues related to information asymmetries and service differentiation.[33]

It is unreasonable to view the total 5,700 as being a fair representation of the total number of regulated professions. Summing regulated professions across the EU ignores the fact that there will be a large amount of overlap. For example, requirements to become a driving school instructor cannot reasonably differ all that much in EU countries. For some professions, the requirements may be almost identical. In practice, this implies that the number of distinct regulated professions in the EU ought to be a lower number than 5,700.

This issue is important for at least two reasons. First, when regulatory idiosyncrasies are reduced and regulations harmonized across the EU, this facilitates the movement of labour. Indeed, research on regulated professions in the EU has shown that there is a robust positive relationship between recognition of qualifications and trade in services.[34] Second, reducing the regulatory burden is associated with lower costs of administration, both for governmental agencies and for firms.

One challenge is selecting the best criteria for identifying regulated professions that could be harmonized or deregulated. Another, more mundane challenge is that each profession is specified in the original language of the country in the EU database. While the database of regulated professions contains translations to English, the information is cumbersome to access as well as time-consuming. Moreover, the English translation does not have an 'official' status.

However, the English translation of each profession is still a useful starting point for creating a shorter list. This is not difficult; one way to do it is as follows. We used the English translation of each profession to make a list of regulated professions that contains the entries for all EU countries. This exercise is simple and results in a massive reduction in the number of professions, from about 5,700 to 535, as the aggregate number contains numerous duplicates of the same profession. This lower number is still above the maximum value of 413 in Hungary, but represents *all* professions in the EU.

It is possible to reduce this number of regulated professions even further. If many, or all countries, restrict some profession (such as medical doctor) this is a strong argument for the 'public interest' argument. But the converse also holds. If only one country regulates a certain profession, or only a few do, then the 'public interest' argument is weak. Perhaps the profession in question should not be regulated at all.

The starting point for the computation is the abridged list of 535 regulated professions. For the first step, we sum all countries that are *alone* in regulating a given profession. Table 5.1 lists examples of professions that are regulated in only *one* country.

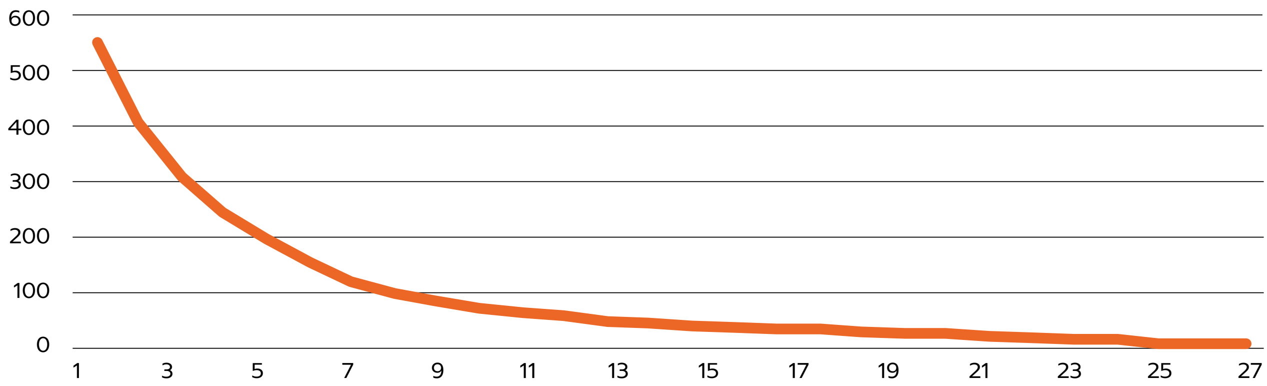
Table 5.1. Examples of professions regulated in one country only.

Accounting technician – Ireland	Agronomist-technician – Portugal
Arts therapist in the health service – Austria	Barrelmaker – Slovenia
Crane technician – Poland	Engraver – Luxembourg
Florist – Luxembourg	Itinerant trader – Italy
Kennel manager – Netherlands	Manufacture of cosmetic products – Sweden
Mountain sport instructor – France	Owner of a dance school – Austria
Sculptor – Luxembourg	Shipbuilding – Germany
Tailor (ladies/men's)/Dressmaker - Croatia	Wine taster – Slovenia

Note: Own compilations from EU (2023c). In total, 143 out of 535 professions are regulated in only one country. This list was compiled on 2023-03-20.

This thought experiment can be extended to illustrate one way to prune the number of regulated professions. More specifically, the same qualitative argument can be made for questioning the wisdom of professions that are regulated in only *two* countries, *three* countries and so on. This is done in Figure 5.5. In each step, the number of countries needed to exclude a profession increases. For example, after 6 steps, 111 regulated professions remain. Indeed, initially the reduction is quite rapid.

Figure 5.5. Reducing the number of regulated professions according to a simple rule



Note: Own calculations based on the database in EU (2023c). The rule is as follows: For zero (i.e. x=0), we have the abridged set of regulated professions (i.e. y=535). In the next step (x=1), we exclude all those professions that are regulated in one country only (y=392); the same is done in the next step (x=2) where all professions that are regulated in only *two* countries (y=295) and so on (for x=3,...,27).

How can this thought experiment be used? The method is illustrative but makes explicit the issue: when only a few countries regulate a profession, a good case can be made that the profession should be subject to liberalisation or harmonisation. For example, questioning all professions that are regulated in only two countries, but not in the remaining EU countries, yields a 45 percent reduction in the number of regulated professions, thus benefitting the free movement of labour and reducing administrative costs. Table 5.1 would be a good start for reviewing what professions should be deregulated.

This thought experiment can be extended further. Suppose we specify a threshold for how many countries need to be included to make a 'common' list of regulated professions in the EU. By increasing the threshold, the number of professions included becomes successively smaller (see Table 5.2). For example, if we require that a profession should be regulated in 23 EU countries, this yields a rather minimalist list of 9 professions, compared to the thousands in the EU database. This should not be seen as a precision exercise but rather an illustration of how some effort toward simplification and consolidation could yield a much shorter list of regulated professions. The table can also be used to show which threshold results in inclusion or exclusion for a specific profession. For example, kindergarten teachers are regulated in 17 countries and unregulated in 10. The medical professions are regulated in all 27 EU countries.

"The table can also be used to show which threshold results in inclusion or exclusion for a specific profession. For example, kindergarten teachers are regulated in 17 countries and unregulated in 10."

Table 5.2. A 'minimal' list of regulated professions in the EU

	Threshold for number of countries								
Profession	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**
Accountant/ Tax advisor	✓	✓	✓						
Architect	✓	✓	✓	✓	✓	✓	✓		
Chiropodist (podiatrist)	✓								
Dental hygienist	✓	✓							
Dental Practitioner	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dental technician	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dietician	✓	✓	✓	✓	✓				
Doctor of Medicine	✓	✓	✓	✓	✓	✓	✓	✓	✓
Driving instructor	✓	✓	✓	✓	✓	✓	✓		
Kindergarten teacher/ Nursery school teacher/Preparatory school teacher	✓	✓	✓						
Lawyer/Barrister/Solicitor	✓	✓	✓	✓	✓	✓	✓	✓	✓
Medical/Biomedical laboratory technician	✓	✓	✓	✓					
Midwife	✓	✓	✓	✓	✓	✓	✓	✓	✓
Nurse	✓	✓	✓	✓	✓	✓	✓	✓	✓
Occupational therapist	✓	✓	✓	✓	✓	✓	✓	✓	
Patent Agent / Trademark agent	✓	✓	✓						
Pharmaceutical technician/Pharmaceutical assistant	✓								
Pharmacist	✓	✓	✓	✓	✓	✓	✓	✓	✓
Physiotherapist	✓	✓	✓	✓	✓	✓	✓	✓	✓
Primary school teacher	✓	✓	✓	✓	✓	✓			
Prosthetist and orthotist / Orthopaedic technician / Surgical truss-maker	✓								
Psychologist	✓	✓	✓	✓	✓	✓	✓		
Radiographer / Radiotherapist	✓	✓	✓	✓	✓	✓	✓		
Secondary school teacher	✓	✓	✓	✓	✓	✓			
Security guard / Warden	✓	✓	✓	✓	✓				
Social worker	✓	✓	✓	✓					
Speech and language therapist	✓	✓	✓	✓	✓	✓			
Statutory auditor	✓	✓	✓						
Veterinary Surgeon	✓	✓	✓	✓	✓	✓	✓	✓	✓
Number of regulated professions	**29**	**26**	**25**	**21**	**19**	**17**	**14**	**10**	**9**

Note: The top row gives the threshold for how many countries are required for a profession to be included in the list (i.e. to have a ✓). For example, in the second column, '15' implies that there are 29 professions in common to 15 countries. Increasing the threshold yields fewer regulated professions.

Lacking the clarity of *'one obstacle to rule them all'?*

Services are heterogenous and each sector is different; correspondingly, skills requirements vary greatly. This puts the service sectors at a disadvantage, both in terms of harmonization and scalability.

Some regulatory hurdles get political attention, but many do not. Even when an obstacle may be large in a given sector, it may be small from a regulatory standpoint, in the larger scheme of things. Unless a question is considered sufficiently 'big', it may be hard to escalate up the political ladder to achieve action.

Notably, a European Commission study sampled several sectors and identified more than 50 obstacles to the Single Market, ranging from regulation of accounting and tax advice to waste management (see Table 6.1).[35] In waste management, for example, one issue is "non-harmonized end-of-waste criteria."[36]

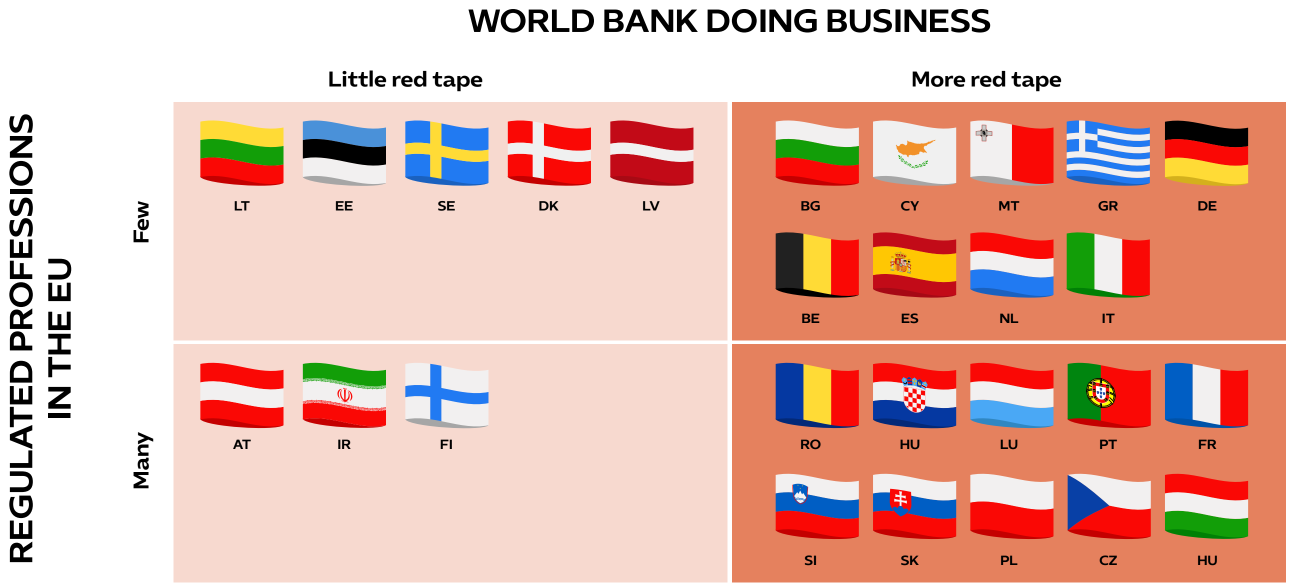
Table 6.1. Obstacles to services per sector identified by the European Commission

SECTOR	OBSTACLE
Accounting and Tax advice	National entry and exercise requirements for the profession of accountant/tax advisor; lack of comparability in national accounting/tax standards and practices.
Architecture and engineering	National entry and exercise requirements for architects and engineers.
Audit	National adaptation of audit regulatory requirements under audit directives and regulations.
Automotive	Different national rules on spare parts; market for used vehicles: different national rules for the import and registration of vehicles.
Chemicals	Few identified legislative barriers remain.
Construction	Market access and exercise requirements for construction services; burdensome and complex building permit procedures; Posting of workers and cross-border service provision by self-employed persons; Late payments; Additional national requirements for construction products.
Electronic communications networks and services	Economic and legal barriers to deployment of electronic communications networks; legal and economic barriers to accessing networks and services at reasonable prices and under non-discriminatory conditions.
Energy	Inefficient unbundling may create market distortions; access to markets for demand response aggregators; Retail price regulation hinders free competition; uncertainty concerning future regulatory developments; data critical for operations is difficult to access or of low quality; flat taxes and charges reduce importance of price signals for end-users.
Food and beverages	Additional national requirements on food labelling.
Hotels and accommodation	Authorisation and registration requirements for hotels or other accommodation providers and related detailed requirements.
Industrial machinery	Undue additional national markings, standards and requirements; uneven market surveillance and enforcement creating uneven playing field for industrial machines; Different regulatory requirements among Member States for modifying or refurbishing construction and agricultural machinery in use.
Intellectual Property Agents	National entry and exercise requirements for patents and trademark agents.
Legal	National entry and exercise requirements for legal services.
Pharma	Restrictions to e-commerce of medicines based on health grounds; restrictions regarding the establishment, ownership and advertising of pharmacies and health care service providers; labelling language requirements.
Retail	Restrictions on retail establishment; restrictions on retail operations; E-commerce: complexity and uncertainty of applicable rules for cross-border sales and purchases.
Transport	Information on market opportunities: difficulty for small road transport operators to have access to market information (market opportunities); information on market opportunities/network: lack of information on service facilities and services offered to railway undertakings; lack of information on posting rules, enforcement and road traffic restrictions; excessive complexity of rules on inland waterways; inconsistent and unclear rules in public procurement in transport, and access to these rules is too restrictive; lack of flexibility linked to driving time restrictions; restrictions on work time in inland waterways; different enforcement practices in road transport among Member States; staffing: Skills shortages and mismatches in the rail sector; territorial supply constraints and/or sourcing restrictions: availability of adapted rail rolling stock; restrictions on cabotage in road transport; lack of interoperability in railways; lack of harmonised processes for authorisation of railway products and for safety certification of railway operators; lack of rail network coordination; fragmented EU airspace with 28 separate air traffic management systems; fragmentation of the aviation radio band spectrum.
Waste management	Lack of information on the availability of materials; non-harmonized end-of-waste criteria; absence of standardised system to demonstrate the performance of recycled materials; insufficient enforcement of European environmental legislation; heterogeneity of extended producer responsibility schemes in Member States.

Source: EC (2020, p. 99–100).

It is useful to put these many minor obstacles into an overall macro context. One way to do this is by combining different types of rankings of red tape and bureaucracy. More specifically, in Figure 6.1 the list of occupational licensing for professions is combined with the ranking of countries in the World Bank *Doing Business* assessment. A brief explanation is as follows. The EU occupational licensing requirements are divided into two groups: one with the number of regulated professions below the median and one above the median; for *Doing Business*, countries are divided into those that are below the rank of 20 and those that are above.

Figure 6.1. Red tape and occupational licensing.



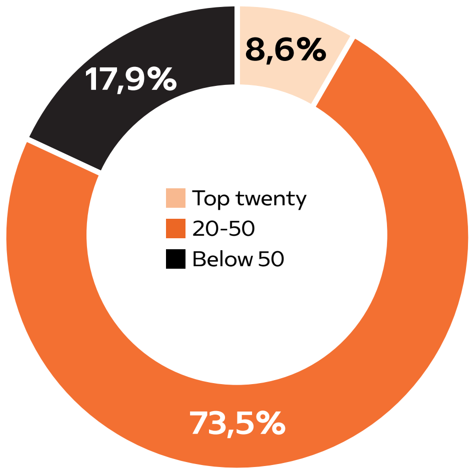
Note: The countries are grouped as follows. Countries in the EU are put into two groups separated by the median number of regulated professions in the EU (193) based on data from EU (2023c). For red tape, countries that have a better ranking than 20 in the World Bank (2021) assessment are placed into the 'Little red tape category'. The country order in each box is from the least to the largest number of regulated professions (i.e. not in alphabetical order). Country abbreviations: AT- Austria, BE – Belgium, BG – Bulgaria, CY – Cyprus, CZ – Czech Republic, DE – Germany, DK – Denmark, EE – Estonia, EL – Greece, ES – Spain, FI – Finland, FR – France, HR - Hungary, IE – Ireland, IT – Italy, LV – Latvia, LT – Lithuania, LU – Luxembourg, MT – Malta, NL – Netherlands, PL – Poland, PT – Portugal, RO – Romania, SE – Sweden, SI – Slovenia, SK – Slovak Republic.

What happens when we combine rankings of regulated professions, the red tape measure from the World Bank and the OECD STRI index? Not all EU countries are in the OECD, but it is still informative in giving a list of those countries that manage to curtail bureaucracy in several dimensions: Denmark, Estonia, Lithuania, Spain and Sweden. From the top-left quadrant in Figure 6.1, this list excludes Latvia because it has a mediocre score in the OECD STRI.

”The countries that consistently suppress bureaucracy are Denmark, Estonia, Lithuania and Sweden.”

Finally, let us combine the measure of bureaucracy from the World Bank with the size of each market in terms of GDP. It turns out that countries ranked highly in the World Bank's bureaucracy assessment represent a relatively small share of EU GDP (see Figure 6.2). The EU countries with a top twenty ranking in the survey (Denmark, Sweden, Lithuania, Estonia, Latvia and Finland) account for less than 9 percent of EU GDP. Large EU countries, such as France and Germany, are ranked 32 and 22, respectively; Italy is ranked 58. EU countries with a lower rank than 20 in the World Bank assessment together represent about 90 percent of EU GDP. As such, there is considerable scope for deregulation in substantial portions of the EU.

Figure 6.2. Share of EU GDP according to rank, from the World Bank's *Doing Business*.



Source: Eurostat for GDP data and World Bank (2021) for rankings.

"EU countries with a lower rank than 20 in the World Bank assessment together represent about 90 percent of EU GDP. As such, there is considerable scope for deregulation in substantial portions of the EU."

Summary and conclusions

Trade in services tends to be more complex to regulate than trade in goods, but this does not mean we should abstain from reforms. Intra-EU trade in services is at the same level as extra-EU trade in services, when measured as a share of GDP— a sign that much more needs to be done. Reductions in red tape and trade obstacles will increase employment and benefit both consumers and firms. The peer pressure mechanism in the EU needs to be more vital to yield improvements or substantial reforms. And it is time to put service trade liberalization high on the reform agenda.

After almost three decades with a Single Market that has not substantially grown trade in services, the EU should consider the following set of reforms:

- **The list of EU-regulated professions should be regularly pruned and harmonised;**
- **A comprehensive review should examine most sectors for areas that could be liberalized.**
- **Enforcement should shift from soft compliance mechanisms to legally binding rules.**

The lack of service sector reforms has consequences for competitiveness in the EU. A vibrant service sector supports the whole economy, including industry and manufacturing. Over many years, companies in the US and Asia have grown faster in terms of market capitalization. US tech companies dominate the absolute top.

There are many structural issues outside the direct control of governments, but regulation is not one of them. Without a comprehensive overhaul of regulation in the EU, competitiveness may further erode.

Endnotes

1. Answer given by ChatGPT on 2022-12-26.
2. EU (2023a, p. 6).
3. Copenhagen Economics (2018, p. 8).
4. Copenhagen Economics (2018, p. 9)
5. Koumenta and Pagliero (2016).
6. Nordås (2016).
7. As measured by the ad valorem equivalent trade cost, see Nordås (2016).
8. See, for example, Baldwin (2019).
9. In National Board of Trade (2016), almost two thousand companies were randomly selected and interviewed in the spring of 2016.
10. EU (2023b).
11. EU (2006).
12. Örtengren (2018).
13. EU (2023a, p. 52).
14. EU (2022a). Solvit aims to address cases within four months.
15. EU (2022a, p. 9).
16. National Board of Trade (2022a).
17. National Board of Trade (2022b).
18. Schuknecht et al. (2011).
19. SMET (2022).
20. For both, almost half the MS, see EU (2022b).
21. EC (2022b, p. 21).
22. Pwc (2022). Nestle from Switzerland is also on the top twenty list for market capitalization.
23. The STRI aggregates assessments from the following categories: 1) Restrictions on foreign ownership and other market entry conditions; 2) Restrictions on the movement of people; 3) Other discriminatory measures and international standards; 4) Barriers to competition and public ownership; 5) Regulatory transparency and administrative requirements.
24. See Figure 10 in OECD (2023b).
25. This aggregate results in some double counting, as some restrictions apply to all sectors. Nonetheless, it still provides an indication of how countries compare.
26. The frugal north is sometimes used in connection with budget negotiations.
27. Koumenta and Pagliero (2016, 2019).
28. EU (2023d).
29. EU (2023b).
30. EU (2023c). The number of regulated professions was accurate as per 20 March 2023, but the website is sometimes updated with changes to regulated professions.
31. The search was conducted on March 20, 2023. The number includes EU countries only and excludes EEA countries.
32. This data was accurate as of 2023-03-20.
33. EU (2023c, p. 10).
34. Nordås (2016).
35. EU (2020, p. 99–100).
36. EU (2020, p. 13).

References

Baldwin, Richard (2019). *The Globotics Upheaval. Globalization, Robotics and the Future of Work.* Oxford University Press.

Copenhagen Economics (2018). *Making EU Trade in services work for all – enhancing innovation and competitiveness throughout the EU economy.* November. Report prepared for the Ministry of Industry and Trade of the Czech Republic, the Danish Ministry of Industry, Business and Financial Affairs, the Finnish Ministry of Economic Affairs and Employment, and the Irish Department of Business, Enterprise and Innovation.

EU (2005). Directive 2006/123/EC of the European Parliament and of the Council on the recognition of professional qualifications. 7 September.

EU (2006). Directive 2006/123/EC of the European Parliament and of the Council on services in the internal market. 12 December.

EU (2020). "Business Journey on the Single Market: Practical Obstacles and Barriers." Commission staff working document. *European Commission.* SWD(2020) 54 final.

EU (2022a). *SOLVIT's helping hand in the Single Market, celebrating 20 years.* Commission staff working paper. November. SWD(2022) 325 final.

EU (2022b). "Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Alert Mechanism Report 2023." COM(2022) 781 final.

EU (2022c). "Competition and its economic consequences in selected business services professions in the EU." June.

EU (2023a). *Annual Single Market Report 2023.* Commission staff working paper. SWD(2023) 26 final.

EU (2023b). *Points of single contact.* Accessed: 1 March 2023.

EU (2023c). Regulated professions by country, with competent authorities. Accessed: 1 March 2023.

EU (2023d). European Professional Card – EPC. Website. Accessed: 1 March 2023.

Koumenta, Maria and Mario Pagliero (2016). "Measuring prevalence and labour market impacts of occupational regulation in the EU." Invitation to Tender no. 483/PP/GRP/IMA/15/15121. European Commission.

Koumenta, Maria and Mario Pagliero (2019). "Occupational regulation in the European Union: Coverage and wage effects." *British Journal of Industrial Relations.* 57:4. December. 0007–1080. P. 818–849.

National Board of Trade (2016). *Vad hindrar svensk utrikeshandel.* Kommerskollegium, Sweden.

National Board of Trade (2022a). *Årsrapport 2021 – Solvit Sverige*. Kommerskollegium, Sweden.

National Board of Trade (2022b). *How can SOLVIT further enhance compliance with EU law.* Kommerskollegium, Sweden.

Nordås, Hildegunn Kyvik (2016). "Does mutual recognition of qualifications stimulate services trade? The case of the European Union." *Applied Economics.* 48:20. P. 1852–1865. DOI: 10.1080/00036846.2015.1109042.

Nordås, Kyvik Hildegunn (2016). "Services Trade Restrictiveness Index (STRI): The Trade Effect of Regulatory Differences." OECD Trade Policy Papers. No. 189. *OECD Publishing.* Paris. http://dx.doi.org/10.1787/5jlz9z022plp-en.

Nordås, Kyvik Hildegunn (2018). "What drives trade in services? – Lessons from the Nordics." *Applied Economics.* Vol. 50. No. 33. P. 3532–3545.

OECD (2023a). *IntraEEA Service Trade Restrictiveness Index.* Accessed: 1 March 2023.

OECD (2023b). *OECD Services Trade Restrictiveness Index: Policy trends up to 2023.* February.

Pwc (2022). Global Top 100 companies by market capitalization. May. Accessed: 29 March 2023.

Schuknecht, Ludger, Philippe Moutot, Philipp Rother and Jürgen Stark (2011). "The Stability and Growth Pact – Crisis and reform." *European Central Bank*. Occasional Paper Series. No. 129. September.

SMET (2022). *Single Market Enforcement Taskforce. Report 2021–2022.* Accessed: 29 March 2023.

World Bank (2021). *Doing Business 2020 – Comparing regulation in 190 economies.* Accessed 28 Feb. 2022.

Örtengren, Emanuel (2018). Frihet på riktigt – Tre förslag för att fullborda EU:s inre marknad för tjänster. Timbro.

Almega