Has the creation of the Single European Market been a success?

The Single Market was contemplated in the Rome Treaty. It consisted of an eight-year programme to be completed between 1985 and 1992 and one of the main objectives was to eliminate barriers that existed to trade in the then European Community. Its completion was considered to be one of the most ambitious targets and one of the most enduring successes.[1]

The Single European Act provided the legal framework that made the attainment of the target of a Single European Market by 1992 a realist possibility, through a process of harmonisation for existing legislation. The mobility of capital, labour and goods and services became reality in simultaneous with the establishment of a new European trading block in which competition between countries and companies has increased. The key objectives of the Community are in the Rome Treaty.

In this essay I will analyse whether or not the Single European Market has been a success, defining success as ‘a favourable accomplishment’.

The original plans for a Common Market as known in the Treaty of Rome, which emphasized the creation of a Common Market and Customs Union between the member states, meant the removal of tariffs and other obstacles to trade between the original Six and, as expressed through the Common External Tariff (CET), the adoption of a Common Trade Policy towards non-members.[2] Factors such high unemployment, business operations generating unlevelled growth, among other, were understood to overcome the serious economic problems facing the EC institutions and the private sector needed to address problems created by the internal market.

There was realisation that major institutional change was necessary with the main purpose the elimination of the still existent barriers, extending the EC’s competence and laying the foundation for the Economic and Monetary Union (EMU), therefore a legislative programme was proposed in the White Paper, which sought to identify the areas within EC where the problems existed and deal with them through a new approach known as mutual recognition and equivalence.

According to Archer C. in The EU, p. 71, the widely circulated Cecchini Report showed that to maintain the barriers to the freedom of movement of goods, services, labour and capital in the EC would cost more than the liberalization of these restrictions that would bring a 4.5 per cent benefit to the EC’s Gross Domestic Product. Still according to Archer C. even the British Prime Minister, the euro sceptic Margaret Thatcher saw the Single European Market in positive terms, and the SEM was “intended to give real substance to the Treaty of Rome and to revive its liberal, free trade, deregulatory purpose”.[3]

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[1] Monti M., The SM & Tomorrow’s Europe, p.ix
[2] Archer C., The European Union, Structure and Process, p.69
[3] Archer C., The European Union, Structure and Process, p.71

The White Paper that was drafted by the British Commissioner, Lord Cockfield who had previously been a minister in Mrs Thatcher's government, during Jacques Delors presidency, advanced 300 measures of which only 205 have been rectified. The aim was to remove physical barriers understood by customs controls at the borders between member states. The costs were those of delays in journey times leading to extra transport costs as well as the extra administrative burden – the 'red tape' and the question of regulation of transport which ultimately lead to the deregulation of road haulage and air transport with directives from 1987 to 1992 was brought up by the reduction of the physical barriers.

The technical barriers were removed by harmonization of technical standards, the liberalization of public procurement and service provision, the resolution of conflicts in business laws and practices together with the removal of impediments to the free movement of labour was another step. It cemented the way for the signature of the Schengen Agreement in which the elimination of all border formalities by all member states with the exception of Britain, Denmark and Republic of Ireland, which opted out citing security reasons. The Amsterdam Treaty incorporated the Schengen Agreement.

The Fiscal barriers which translated into national differences in indirect taxation levels, impacted negatively on proposals to approximate VAT rates when governments realized that they might lose useful sources of income and might have to impose or increase tax in certain goods, such as children clothes or shoes, measures that produced a backlash from voters and created difficulties. In the meantime, luxury goods were abolished and a standard rate of 15 per cent or more was agreed and an agreement was signed, to the Single Market.

Over time, many member states became richer and more confident of their own stability and lifted restrictions unilaterally. In the White Paper three directives aimed to complete the process gradually leading to complete liberalization by the end of 1992, which consisted in; liberalised rules on long–term commercial loans, securities transactions, liberalized rules governing cross-border securities transactions, admission of corporate securities to capital markets in other member states, e.g. stock exchange and in 1988 it obliged member states to lift all restrictions on capital movements except measures intended to ensure the continuing liquidity of local banks or temporary restrictions in response to major disruptions in foreign exchange markets.[4]

In Agriculture, at the time of the Rome Treaty too many people in the original Six depended of farming; around 25 per cent of the total labour force was employed in agriculture. This was compared to less than 5 per cent in the United Kingdom having to do a lot with the fact that farms in Britain had been restructured by the enclosures of the eighteenth century. These developments had pushed workers out of the British agriculture. But at the same time the process of industrialization attracted rural workers into factories to where they were attracted by higher wages.

In turn, in the continent such factors had not operated to the same degree and the agriculture labour force remained worse off than most groups. Many farms were

[4] Dinan D. Ever Closer Union, p.336-353

economically small and the effects of drought, flood or livestock disease very often resulted in a smaller production than that hoped for by the farmers. In Western Europe there was a tendency for a relative fall in demand for farm products with farming incomes behind the incomes of groups engaged in non-farming occupations.

Under Article 38 of the Treaty, the development of a Common Market for agricultural goods should be accompanied by the establishment of a Common Agricultural Policy, which was designed to ensure that a Common Market could extend to agriculture and agricultural products; to ensure, a fair standard of living for the agricultural population, to stabilize markets, to guarantee regular supplies and to ensure reasonable prices for consumers.

According to the Wallaces (H & W), by creating a functionally segmented and politically insulated policy the CAP helped to take agricultural policies out of divisive domestic distributional conflicts. Agriculture groups retained their representational monopolies in the low politics of agricultural policy-making and find hard to be heard in the high politics of decision making.[5]

The Common Agriculture Policy, as Dennis Swann pointed out, "its original creation was an outstanding political achievement, and without such a developed common policy the EC would have became less integrated institution"[6] and its existence gave the EC a forum for collective international policy making, and allowed the various agricultural support systems that existed in EC countries to be replaced by a common but slightly more complicated system. The pressure on the farming sector has had implications for business generally.

On business services, Perry K ascertained that through increased demand, more competitive supply, and additional employment, this was expected to have a positive impact. But he warned that at the same time it could not be ruled out some negative effects through a concentration of supply and distortions of competition.[7]

According to the Report on the Implementation of the 2001 Broad Economic policy, "progress towards a fully integrated and efficient internal market has been mixed" with EU markets for goods becoming more and more integrated, even with the continued delay in cross border activities due to differences in standards and regulations. The market for services has advanced slowly. On the other hand, progress has been made in transposing internal market directives into national legislation, opening up public procurement reinforcing the powers of the competition authorities and in reducing State aid. As a result, price reductions started the liberalisation of the telecommunications and electricity market. Only the market in rail transport and postal services remained less advanced.[8]

In terms of achievements, taking into account that the adoption of the legislation is the first step although regulations have automatically the force of law in the member

[5] WallaceH.& W., Policy Making in the European Union, p. 207
[6] Perry K., Business and the European Community, p.105
[7] European Economy Social Europe, Reports & Studies, No.3 - 1993
[8] European Economy European Commission Journal, Report on the Implementation of the 2001 **B**road Economic Policy – Guidelines , No. 1 / 2002

states, by 1997 the member states had transposed more than 90 per cent of the required measures. However, only 60 per cent of the Single Market directives had been transposed by all member states. There are still certain sectors in which a significant amount of legislation still awaiting full implementation, namely in public procurement and insurance.

The EMU will contribute to the efficient operation of the Single Market eliminating transactions costs of almost 1 per cent of the GDP, and promoting convergence and a more homogeneous economic environment the single market will contribute to the right conditions for the EMU success.

According to Ponti M. in 'The Single Market and Tomorrow Europe, p. 144, politically, the Single Market still is a key instrument through which the priorities of the Union can be delivered. Jobs remain a major challenge and signs are that even during a severe recession period the Single Market can make a positive contribution to the overall employment levels in the Union.

In terms of development of the EU and as a major step in European Integration, the Single Market was a major success, in terms of eliminating barriers to trade and of initiating a process of change that consisted levelling the playing field in terms of the rules of the market and equally important, the attitudes of economic operators. The results will build on one another.

However, in the opinion of analysts such as Buiges and Sheely, it is not easy to attribute economic benefit with precision, although according to economic theory, the reduction of barriers to trade and the factors of production result in a higher level of economic activity rather than economic development. Nevertheless, economic development in the EU has been a result of many factors and not solely of the Single Market programme. In any case, positive indications do exist that sharp increases were registered during that period, in direct inward investment and in merger and acquisition activity. The flows of intra-EU trade appear to have been affected by the reduction of barriers .[9]

An assessment by the Commission in 1996, concluded that the Single Market Programme had created not a enormous but significant benefit including 1.1 to 1.5 percent higher income, more jobs (300.000 to 900.00), 1 to 1.5 percent lower inflation, higher investment, intensified intra-EU trade, greater economic convergence among EU regions and reductions in road and other transport costs [10]. In the opinion of political commentators, the single market that was launched through a formal and broad programme of legislative measures should be seen as a continuing process in economic integration.

A major success of the Single Market programme was the eradication of barriers between national markets. Controls have been removed on the physical movement of goods at EU internal boundaries. By the end of 1992, the EC had adopted about 95% of the measures under the Single Market Programme and an liberalization of capital movements increasing capital flows occurred further integrating financial markets.

[9] Buiges and Sheely, 1995, The Internal Market Program, Document II/133/95
[10] Commission (1996a) & (1996b), The Impact and Effectiveness of the Single Market.

A challenge facing the Community is the increasing globalisation trend through which many of the world's markets are becoming one huge trading centre. Nonetheless, the Single Market Programme has been considered as a successful model in international trade.

Word count: 1,929

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