The Single European Market (SEM)

EU Integration after Lisbon

Outline

- Intro
  - Benefits from integrated markets
  - History of European Market Integration
    - 1960s - early 1980s
    - The reform program
- The Single European Market
  - Market integration policy
  - Predictions, realities, problems
  - Competition
  - Effect on other policy domains
- Summary

Intro

The largest economy in the world:

- 500 million customers
- One third of the largest corporations
- Roughly one quarter of the global GDP
- A trading giant
  - Largest exporter
  - Largest importer
  - Largest trading partner of China, India, US
- Plus internal trade

Why market integration?

Two outcomes of economic policies

1. Redistribution: one group loses, one group gains
2. Efficiency (Pareto optimality): nobody loses, at least one group gains

- Free markets are very efficient in theory (but: market failures)
- Larger markets are even more efficient
  - Economies of scale
  - Benefits of international trade through absolute and relative advantages
  - Increased competition

Economies of Scale and Trade

- Producers have fixed costs (e. g. machine) + variable costs (e. g. raw materials)
- If they can shift more units, per-unit costs fall
  - Profits go up
  - Prices *might* fall
- Trade makes for larger markets

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Country A

- Can sell 100 units of x to domestic customers
- Costs: 0.8 €

Country B

- Cannot produce x (but y, z)
- Unhappy

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Country A

- Can now sell 200 units of x to domestic + foreign customers
- Costs: 0.4 €

Country B

- Gets x cheaply
- May trade y, z
- Happy

Absolute advantages (Adam Smith)

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  - 80 units of wool
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- Specialisation (+ economies of scale) and trade are beneficial

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- A country does not even have to be the most efficient/cheapest producer
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- A and B can be drunk *and* obese on the cheap

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- Larger markets are more difficult to dominate (more players) $\rightarrow$ more competition
  - Prices should go down
  - Production should go up
  - More innovations $\rightarrow$ *competitiveness* of whole sector should increase

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- By the 1980s, European industries fragmented, inefficient, not competitive

Stages of economic integration

Level of integration	Main features	Period
Free Trade Area	Free Trade among members	From 1958 to early 60s
Customs Union	Free trade with a common external tariff	From the early 1960s until 1993
Common Market	Free mobility of factors across member states	1993-1999
Economic Union	Harmonisation of economic policy	Early stages in 1993, partial economic union in 1999
Economic Integration	Completely unified economic policy	Not yet

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- "Neo-liberal" preferences in the US, then in many European States
- Increased competition from US and Japan
- Entrepreneurship by the Commission (Delors)
- Interest groups:
  - European Round Table of Industrialists
  - Union of Industrial and Employers' Confederations of Europe (now BusinessEurope)

The Single European Market programme

- "New Approach" by the Commission
  - Based on "ECJ Cassis de Dijon" ruling (mutual recognition of equivalent national rules, essential safety requirements)
  - Commission + France, Germany, UK → formal adoption of New Approach in 1985
  - Scope for national legislation, delegation of technical standards to CEN/CENELEC
  - "Home country control" for financial services
- Delors (1985): "completion" of the single market by the end of 1992
- European Council endorsed Commission White Paper calling for 300 measures (mostly de-regulation)
- Schengen Agreement (outside community framework)

The Single European Act

- First major reform since Merger Treaty
- QMV in Council of Ministers → fewer national vetos
- More powers for EP → (some) legitimacy for (controversial) market agenda

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- "Positive" Integration
  - Different national rules replaced by common European rules
  - "New Approach": Common objectives + voluntary standards (20%)
  - "Approximation": Common detailed rules (30%)
  - "Common authorisation" (of individual products): pharmaceuticals, (GM)

Services

- Early measures and even 80s/90s programs focused on goods
- But services account for about 70 per cent of EU GDP and employment
- Still dominated by national regulation, explicitly so for financial services (home country control)
- Intra-EU trade in services = five per cent of GDP, vs. intra-EU trade in goods: 17 per cent
- (Highly controversial) 2006 services directive
- Financial Crisis of 2008 → impetus for regulation
  - Approximation of national rules
  - Competences for European regulators
  - An ongoing political and economic battle

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- Allows countries outside EC/EU to participate in SEM (w/o agriculture, fisheries)
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- After 1995: applies to Iceland, Norway, Liechtenstein
- Bilateral agreements with Switzerland, much to the same effect

The costs of "Non-Europe" Chechini 1988/91

- Physical, technical, fiscal barriers should be removed → benefits
- All sorts of direct indirect benefits for state, consumers, industries
- Estimated benefits
  - 4.5-7 per cent extra GDP
  - 2m extra jobs
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  - 4.5-7 per cent extra GDP
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- By 2006
  - Probably 2 per cent extra GDP
  - about 2.8 m extra jobs
  - 30 per cent increase in intra-EU trade
  - 10-30 per cent savings for public authorities
  - Reduced price variation + price reduction of about 5 per cent

No completion yet

- Directives require implementation by member states
- In late 2008, 1,300 open infringement cases
- Huge differences in national regulation of services
- Problems with more complex goods
- Cultural differences and preferences
- (Perceived) national interests

Competition policy

- Efficient markets require large numbers of independent players $\rightarrow$ regulation
- European Commission
  - Merger control, abuse of dominant position, monopoly
  - Prohibition of unfair market protection and restrictive practices
  - State aid and Liberalization of utilities
- Political and bureaucratic role
- Permanent conflict with really big companies *and* member state governments

State aid

Forbidden in theory, but ...

- Natural disasters
- Aid to depressed regions
- Aid to promote innovation
- Other special circumstances

Policy linkage

- In modern societies, everything linked to the economy
- Creeping Europeanisation of social policy
  - Entrepreneurs want level playing fields
  - National publics and politicians concerned about social and cultural implications of SEM
  - Healthcare, education, media are important and growing *markets*
- SEM affects all (potential) trading partners
- SEM linked to EMU and JHA

Summary

- SEM program first step in relaunch of European Integration
- Incomplete, but created largest economy in the world
- Profoundly affects people in Europe and anywhere else

Class questions

- To what extent have the obstacles to an internal European market been removed by the 1992 programme?
- How has the market developed in the last 19 years and why is it still not completed?
- *Should* it be completed?