XVIII. Single Market

A. Macroeconomic Background - Lawrence & Schultze

EC unemploy 4.1% 9.6% 9.1% 11.5% 10.1% 8.2%

1. Slowdown of Structural Change - end of ag/nonag shift, exhaustion of tech catchup to US.
4. Inadequate Demand - after 1980 oil shock especially
5. Hysteresis - low employment reduces experience & cap. stock, leaves "outsiders" unable to influence labor mkt.
6. Persistent Unemployment - longterm share 54%, vs 7% US

B. Single European Act - agreed Dec 1985, ratified June 1987

2. Dooge Committee (1985) proposed Inter-Governmental Conference (IGC) to complete internal mkt, increase competitiveness, promote convergence, strengthen EMS, improve technology, budgetary resources.
   b. Majority voting on single mkt issues, except fiscal, migration, employee's rights.
   c. Parliament to be consulted by Council. May amend or reject majority votes, but not unanimous votes.
   d. Budget to promote "cohesion" (convergence)

C. Cockfield Report (1985) basis for single market; 300 items

D. Types of Non-Trade Barriers:

1. Physical Barriers - frontier controls for:
   a. customs - QR's unified to eliminate national quotas.
      (1) Automobile quotas vs. Japan (pre-EC)
         (a) France: 3% of domestic mkt
         (b) Italy: 2300 per year since 1956
         (c) UK: 11% of mkt since 1980
         (d) DE, BeNeLx: vol. quotas, 1981
      (2) Steel quotas - 1977 Davignon plan,
      (3) Textiles - MFA bilateral quotas since 1962, eliminated in Uruguay Round.
      (4) Electronics - color TVs, VCRs, etc.
   b. immigration & passport controls
      (1) UK concern over terrorists & drugs
      (2) French anti-immigrant bias
German concern over asylum seekers

c. required abolition of trucking quotas, cabotage
d. controls on plants & animals for health
e. Uniform Administrative Doc. 1988

2. Technical Barriers - harmonize or "mutual recognition"

a. standards & regulations for goods
   1. reinheitsgebot
   2. Italian pasta law on durum wheat
   3. safety standards
   4. environmental controls

b. qualifications for professionals & services
c. limits on capital flows abolished 1990
d. deregulation of transport cartels
e. govt. procurement and state aids
f. telecom & computer standards

3. Fiscal Barriers - different national VAT rates on goods act like
tariffs to affect choice.

a. Destination principle used to avoid double taxation, levy
   same tax on all goods in each mkt.
b. ex. UK good w/15% VAT vs Danish w/22%. Rebate tax on
   Danish export, levy 15% on UK import. Fiscal frontiers for
   border tax adjustments.
c. US contention that rebate is subsidy, rejected. Controversy
   over US DISC (Domestic International Sales Corporation)
d. EC Solution: harmonize tax rates, switch to origin
   principle. Removes need for BTA's.
e. VAT Rates: UK 15%, FR 18%, DK 22%, DE 14%, SP
   12%
f. UK zero rate on food allowed to 1997
g. Two brackets: industrial goods 15%+, necessities 5%+

E. Cost of Non-Europe - Cecchini Report

1. Observed Price Differences: Ford Escort June 1985:
   BG=100, UK=147, NL=92, IT=122. Exclusive Dealerships.

2. Direct costs of frontier controls: 2% of value of trade = ECU 9 bil
   in 1985 prices

3. Technical regulations & other identifiable barriers: 2% of cost =
   ECU 40 bil (1-2% in food & bev, constr, pharm, textiles; 5% in
   autos)

4. Public Procurement: 10-20% cost reduction = ECU 20 bil (energy,
   transport, office equip, defense, telecom)

5. Subtotal Direct Barrier Removal = ECU 70 bil

6. Lower Costs due to Economies of Scale: 1-2% of cost = ECU 60
   bil

7. Reallocation of resources, reduced X-inefficiency, reduced
   monopoly profits = ECU 46 bil
8. Subtotal Gains from Market Integration = ECU 106 bil
9. Total Gain (7 members at 1985 prices) = ECU 175 bil
10. Total Gain for EC-12 at 1988 prices = ECU 200 bil
11. 5% of GDP

F. Simulation Model - Smith & Venables EER 1988 "Completing the Internal Market in the EC" - prod diff w/ scale econ.
   1. 10 industries: cement, pharm, synthetic fibers, machine tools, elec. house. appliances, motor veh., carpets, footwear
   2. 6 countries: FR, DE, IT, UK, Rest of EC, Rest of World
   3. Assume observed price differences due to non-tariff trade barriers.
      a. Experiment 1: Reduce NTB's 2.5%
      b. Experiment 2: Fully integrate mkts.

G. Critique - Winters AER 5/92
   1. Welfare benefits of competition will arise only if EC allows increased imports from RoW, since intra-EC trade has smaller effects on price-cost margins (Jac. & Sapir).
   2. If EC firms prefer closed domestic markets w/high margins, they might not follow Smith & Venables example.

H. Progress - 300 proposals reduced to 282
   1. Rate of adoption
      |       | 12/92 | 4/94 |
      | Adopted | 92%   | 95%  |
      | Implemented | 79%   | 86% (by members) |
   2. 1,200 technical standards agreed, 2,000 close to agreement, 7,000 in process
   4. Veterinary checks stopped Jan. 1993
   5. Plant checks stopped June 1993
   6. Capital controls dropped 1990, allow cross-border bank a/c's, security purchases, loans & deposits
   7. Tax harmonization agreed but not implemented.
   8. Schengen Agreement on free movement April 1995, except France, UK, DK
   9. New car sales to individuals still on destination basis
   10. Delays in public procurement, company law, intellectual property rights
   11. Price dispersion not much reduced, except GR, SP, PT
   12. FDI/GDP up from Inflows 0.53% 80-86 to 1.16% 87-92
       Outflows 0.85% to 1.55%
   13. Mergers up from 300/yr in 1980s to 400-800/yr 86-92.
14. Growth and Unemployment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.2</td>
<td>1.4</td>
<td>3.2</td>
<td>0.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Investment</td>
<td>2.2</td>
<td>-0.5</td>
<td>5.4</td>
<td>-1.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Unemploy. Rate (end)</td>
<td>6.3</td>
<td>11.1</td>
<td>8.7</td>
<td>11.3</td>
<td>8.2</td>
</tr>
</tbody>
</table>

I. Remaining Market Segmentation - Flam JEP 1992
1. Automobiles - exclusive dealerships; liberalized in 1995, nat'l. registration permits allocation of sales by quotas
2. Pharmaceuticals - price controls, nat'l. approvals, nat'l. health systems
3. Telecommunications Equip. - 11 producers of switching gear in EC vs. 4 in US, 3% Euro-pref for public procure.