Main stages of European integration
- essential question after 1945: how to preserve peace in Europe? Economics as a tool for a mostly political project
- model: Communauté européenne du charbon et de l’acier (CECA). The Six (Germany, Belgium, France, Italy, Luxembourg, Netherlands), 1951: supra-national management of strategic industries
- 1957: treaty of Rome on European Economic Community with those six
- 1960: in competition European Free Trade Area (EFTA) Austria, Denmark, Norway, Portugal, Sweden, CH and UK
- Creation of 2 concentric circles of different weight (EEC was twice EFTA in GDP)
- Trade barriers are eliminated inside each zone (1969 for EEC, before schedule) but not between (bilateral agreements between each and the EEC)

- 1973: Denmark, Irland and GB get in
- 1970s: « euro-pessimism »; monetary integration fails
No further trade integration (re-fragmentation of the domestic markets through technical and regulatory barriers)
- 1981: Greece; 1986: Spain + Portugal
mid 1980s: integration process starts again with Delors as president of Commission
-Single Market program or “1992”
- 1985, « white book » 300 measures are identified to transform the Common Market into a Single Market
- 4 freedoms of movement: goods, services, persons and capital
- 1) Goods:
- elimination of border formalities
- liberalization of public market procurement
- harmonization and mutual recognition of technical and sanitary norms
- Some harmonization of VAT rates

-2) Liberalization of factors of production
- integration of capital markets
- liberalization of entry policies of domestic markets
- Freedom of movement for workers in Europe (still not entirely done in effect)
- 3) Movement of liberalization/deregulation
- elimination of subsidies
- European competition policy
- 4) qualified majority vote at the Council of Ministers on questions related to the Single Market
- 5) Substantial increase of Structural Funds : regional policies in favor of poorest regions and poorest countries (Irland, Greece, Portugal, Spain); 40% of budget
After 1992 other measures of liberalization: transport, insurance, energy…(services?)
- Treaty on EU: Maastricht, 1992, European Monetary Union
Fourth enlargement: End of 1980s, Single market was a pb for remaining EFTA countries: sign bilateral agreements that extend the Single Market measures (except CAP and external trade policy)
- But unbalanced: force them to accept present and future legislation (« Acquis Communautaire ») with no say
- Austria, Finland and Sweden join in 1995: 15 countries
- 2004: Cyprus, Estonia, Hungary, Leetonia, Lithuania, Malta, Poland, Slovak + Czech Republic and Slovenia
- 10 years after Single Market: transposition deficit
% of Single Market directives that not transposed as national law decreases from 21% to 2.1%
- Only 5 (Sweden, Finland, Denmark, Neth., UK) satisfy a transposition deficit of less than 1.5 %
- Three (France, Greece, Portugal) have more than double this.
- 30% of legal procedures on Single Market are against France + Italy

Figure 1: Le déficit de transposition a nettement chuté au cours des dix dernières années

Note: Le déficit de transposition montre le pourcentage de directives «marché intérieur» non communiquées comme transposées par rapport au nombre total de directives «marché intérieur» qui auraient dû être transposées au délai prévu.

Figure 2: Deux tiers des États membres n’atteignent pas l’objectif de 1,5 %

Note: Situation au 1er octobre 2002. Il existe actuellement 1 475 directives et 324 règlements en vigueur portant sur le marché intérieur tel qu’il est défini dans le traité.
Did regional integration in Europe increase trade above what would be expected from growth etc? What was the effect of integration on the border effect? Use gravity equations on the determinants of trade flows. Controlling for distance, a common language, size of GDP what is the effect of crossing a border on trade flows in Europe?

\[
\ln M_{ij} = \alpha \ln GDP_i + \beta \ln GDP_j - \theta \ln D_{ij} + z(\text{common language}) - \delta(\text{border}_{ij})
\]

Study (Head et Mayer) on 13,000 observations of bilateral trade (120 industrial sectors, 1976-95, 11 countries) 

\( i \) and \( j \) are regions or countries 

\( \delta = 1 \) if two countries, \( \delta = 0 \) if 2 regions inside same country
Results of estimations:

\( \hat{\theta} \) (distance) : -0.9 on the whole period
\( z \) (common language): 1.25 on average; multiplies trade by 3.5 \((\exp(1.25) = 3.5)\)

Border:

<table>
<thead>
<tr>
<th>Period</th>
<th>78-80</th>
<th>81-83</th>
<th>84-86</th>
<th>87-89</th>
<th>90-92</th>
<th>93-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-3.2</td>
<td>-3</td>
<td>-2.8</td>
<td>-2.7</td>
<td>-2.6</td>
<td>-2.7</td>
</tr>
</tbody>
</table>

Decreased but remains large:

78-80: \( \exp(3.2) = 23 \)
Two countries trade 23 times less than two regions inside a country
93-95 around 15

Fragmentation still important:

- Tariff equivalent of 36% on imports
- Still a strong bias of consumers for Home goods (the border effect is stronger for final than intermediate goods)

Other result: bilateral trade with US and Japan did not suffer relatively to what the gravity equation predicts (no Fortress Europe)

Other studies on border effect:

- Link to single currency (trade between euro countries has increased a lot)