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The Rome Treaty at 50:
More honoured in the breach than in the observance?

On March 25, 2007, the Rome Treaty turns 50. This anniversary marks a remarkable period of economic integration and cooperation in the history of Europe. The original six founding countries have been joined by an ever growing community of countries. In this new Policy Brief Fredrik Erixon, Andreas Freytag and Gernot Pehnelt assess the role of the Rome Treaty theme of closer economic integration in a wider context of globalisation and the world economy.

The Treaty of Rome is a manifest for closer economic integration between the countries of Europe. A direct consequence of the treaty was the liberalisation of trade in Europe; the incremental reforms of external trade policy and intra-European tariff cuts. These two parts formed the basis of a common commercial policy – a Customs Union. The external tariff rates decreased from about 15 percent in the late 1950s to 6,6 percent in the late 1960s. By 1968 all internal tariffs had been eliminated.

The Rome Treaty pushed trade liberalisation in Europe. France and Italy would probably not have reduced their external trade barriers to the extent they did without the common commercial policy. Intra-European trade also increased considerably. But freer trade in Europe complemented rather than substituted for freer trade with the rest of the world. The Rome Treaty also pushed multilateral liberalisation under the auspices of the GATT. Similarly, the Single Market reform programme a few decades later gave impetus to global reforms.

> The Rome Treaty liberalisations of trade in Europe boosted economic growth. Europe would have been considerable poorer without the common market. But regional reforms in Europe did not become an excuse not to liberalise globally. The common market in Europe pushed other regions to liberalise and leveraged substantial tariff reductions in GATT rounds. This was the heydays of competitive liberalisation said Fredrik Erixon.

It is not surprising that Rome Treaty liberalisations had positive economic consequences. What is surprising, however, is that fifty years after the treaty its free trade theme only applies to trade in goods. The service sector is the most important sector in European economies today. More than 75 percent of total value added is accounted for by service production and the service sector employs more than 150 million. But it represents only 20 percent of intra-EC trade. The chief reason to the low share of services trade in total trade is regulatory barriers to trade in services: government monopolies, restrictions to offer services abroad, quantitative and territorial restrictions, price and wage regulations. Agriculture also largely lies outside the boundaries of the Common Market.

Remaining protectionism in the agricultural and services sector does not only adversely affect Europeans. The lack of real trade reforms in Europe also limits the European Union's ability to advance liberalisation on a global scale. The Rome Treaty liberalisations assisted global tariff reduction for trade in goods. Today, remaining regional protectionism in services and the agricultural sector constrain multilateral reforms.

> The Rome Treaty should be celebrated as a success. But consecutive generations of European political leaders should be criticised for their inability to apply the basic theme of the Rome Treaty to a new generation of trade reforms. Today this theme is, to use a Shakespearean phrase, more honoured in the breach than in the observance, said Fredrik Erixon.

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The Rome Treaty principles at 50:
More honoured in the breach than in observance?

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