

The Treaty of Rome's Influence on the Formation of the Common European Economy

Ivane Javakhishvili

Department of International Relations, Faculty of Social and Political Sciences, Tbilisi State University
erasmus@tsu.ge

Article Info

Received:15th March 2013
Accepted:25th March 2013
Published online:1st May 2013

ISSN: 2231-8275

© 2012 Design for Scientific Renaissance All rights reserved

ABSTRACT

In 1957, on March 2nd, two different treaties were signed in Rome: European Economic Community (often referred as the Treaty of Rome) and Atomic Energy Community, which are mentioned as the treaties of Rome, although concretely the European Economic Community is referred as the Treaty of Rome. The Treaty was ratified in the following month by the national parliaments and came into the force on the 1st of January, 1958.

1. Introduction

It is stressed out in the preamble¹ of the European Economic Community that the goal of the treaty signatory countries is to establish closer relations between the European nations. Did the treaty meet the expectations of the European leaders and is its result what they wanted?

Because of its goals, EEC is often referred as the common market. In this treaty, the member countries agreed to eliminate all tariff barriers in 12 years. The most important pre-condition for the establishment of EEC was the situation which was in the Europe. After the World War II, it was inevitable that some kind of alliance was needed which would guarantee the elimination of any conflict. The creation of the alliance would be possible on economical grounds, as long as economic dependence would prevent the member countries to go to war, as it would be harmful for everyone. That is why, Germany, France, Italy and Benelux countries signed the treaty of European Coal and Steel Community, having the modest aim of centralization the control of the previously national coal and steel industries of its member states, economic growth, decreasing the unemployment rates, increasing the international trade, modernization and development of the business, as well as decreasing the custom duties and taxes, reasonability of prices and creation of good working conditions.

The EU traces its origins from the European Coal and Steel Community. The achievement of the treaty goals made it possible to create practical pre-conditions for the implementation of the Rome treaty and the result, which was European Economic

¹ <http://www.historiasiglo20.org/europe/traroma.htm> 21/03/2011.

Integration. The Treaty of Rome has its advantages and disadvantages, however most of the times these disadvantages are not noticed, because the original goals were achieved, although it's necessary to take under the consideration the disadvantages as well, because the treaty could have lost its effectiveness because of them, as they could have put some realistic and insuperable obstacles on the way of treaty implementation.

Advantages of the Treaty of Rome:

- The Treaty of Rome was a ticket to greater economic growth because it started to break down the barriers to trade that had existed in Europe since the 1930s.
- It made economical as well as political integration possible.

Disadvantages of the Treaty of Rome:

- The Treaty set out an impossible goal of creating a united Europe - ignoring the cultural and linguistic barriers that divide the continent.
- The Treaty was fundamentally confused: while at one level it aimed to promote economic co-operation, it tried to do this through an undemocratic and unnecessary political processes.
- The institutions were allowed to make decisions behind closed doors thus it was discouraging open debate and participation.

Ignoring the linguistic or cultural barriers could have become a big problem. However, those barriers lost their importance, because the treaty was a matter of an economic sphere and besides that, in the post World War II period, European countries were devastated, poor and exhausted and economic integration promised the development and increasing living standards for them. Therefore, the problem was solved due to the fact that Rome Treaty was signed during the post World war period.

What was the reason that the treaty was confused and did not take into the account the democratic principles for the economic cooperation?

At first, we should mention that the initiative for the treaty belonged to a leader countries of Europe, such as France and Germany as well, aiming the centralization of control of the previously national coal and steel industries.

It is true that after the World War II, Germany was devastated, but it still had an industrial potential. In this case, the non-existence of democracy meant that the countries which had more industrial potential, as well as more physical capital, human capital, natural resources and technological knowledge would get more profit from the process of economic integration and they would have bigger role in the decision making process in the conditions of supra-nationalism. This is why, at first the treaty was signed by only 6 countries, because the rest refused to join as they did not want to lose their sovereignty and become a member of the supranational organization. Great Britain was one of them. Later every country was given the equal rights and with the establishment of the common market and abolishing the border control, their profits increased.

As for the problem, that institutions did not have to discuss the issues publicly and decisions were made behind the closed doors, I would say that when we deal with the economic integration and the establishment of the common market, the information should be available for everyone and the people and public institutions should be involved in the decision making process. Taking into the consideration that the number of consumers is the most important determinant for the industrial market, it becomes clear that during the economic integration and development, people rights and interests should be protected. Though, this problem was soon solved and it did not make any trouble for the European economic integration.

If the above mentioned problem had not been solved, the treaty of Rome might not have met the expectations of the European leaders and managed the economic integration of Europe.

"The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of member states, to promote throughout the community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the states belonging to it".

Now I will stress out what the Treaty of Rome concerns about and what changes did it bring to the establishment of the common European economy. The main goal was the establishment of the common market and progressively approximating the economic policies of member states.

Some other goals according to the Rome Treaty were²:

- An abolition of duties and all quantitative restrictions on importation and exportation between member states,
- Establishment of a common external tariff
- Free movement of persons, services, goods and capital among the member states
- Establishment of the common policy in the agriculture and transport sphere, promotion of the competition in the common market and harmonization the legislations of the member states.
- Establishment of the European Social Fund and European Investment Fund

The member states had to restrain themselves from establishing the duties and all quantitative restrictions on importation and exportation between member states. The schedule of the custom tariffs reduction looks like this: In the first stage, the first cut should happen after one year from the day, when the treaty came into the force. Second cut should happen after 18 months, third one in the end of the 4th year. At the first stage, it should decrease by 25 %, then by 50% and after the third cut, it should be abolished. As for the common customs tariff, the changes should have taken place like this: for the first and second time, the difference should have diminished by 30 %³. This schedule was only a plan. However, European economy, by this time, was devastated and needed some foreign help, which

² http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_eec_en.htm 21/03/2011

³ <http://www.historiasiglo20.org/europe/traroma.htm> 21/03/2011

arrived very soon when the United States financed the rebuilding the Europe through the Marshal Plan in 1947⁴. This plan was completed in 1952. The fastest period in the development of the Europe was between 1948-1952 years. The industrial production increased by 35 %, agricultural production substantially surpassed pre-war levels. The poverty and starvation of the immediate post-war years disappeared. The Western Europe blossomed for the next 20 years and the living conditions were changed for better.

Was The Treaty of Rome successful or not?

It is clear that the goals of the Treaty of Rome were achieved. The member states ratified it in the given dates, besides that the European institutions took their responsibility, that is why it became possible to establish the common economy, custom union and common policies for the European countries.

In March 2007, the 50th anniversary of the treaty was celebrated. The changes, which the common trade policy brought to the European economic development, should be marked as well. Economic liberalization is as important as multilateral trade liberalization in WTO.

The main advantages of the Rome Treaty were economic integration and market economy exchange progress i.e. the development of the market economy.

The biggest achievement of the Rome Treaty was the establishment of the common customs tariff and abolition of the internal trade barriers.

External tariff was cut by 15 % by the late 1950's and by 6.6 % by the end of Kennedy round, in the end of 1960's. Tariffs by the end of 1968 became equal. The establishment of the common tariff meant the tariff cut in GATT round⁵ (Appendix 1), which consisted of two rounds, Dillon Round and Kennedy Round. After the implementation of the Rome Treaty, trade increased and the GDP of the member states grew by 20 % from 1957-1961. This means that the treaty success cancelled all the bad sides of the treaty and the growth of the member states economies became equal.

It's clear that one of the most immediate influences of elimination of internal tariffs in the European Economic alliance was the change in the internal European trade. Internal trade increased after the establishment of the common commerce policy. It was less than 40 % by 1958 and it grew till almost 50 % and was growing incessantly till 1970's⁶. Other important results of the trade liberalization were the development of the internal industrial trade, high quality of the production, specialization and wide distribution of the resources among the sectors and the countries (Appendix 2).

Another important influence of the integration in the early stages is shown in several studies. The internal trade was changed with the third country trade. German example shows that the trade diversification played an important role for the next period of the Rome Treaty from 1960 to 1972. (Signing the free trade agreement between EC and EFTA) The trade of Germany to EFTA was decreased from 70 % to 30 %, but in 1989 it was increased till 60 %.

⁴ <http://www.spartacus.schoolnet.co.uk/USAmarshallP.htm> 21/03/2011

⁵ <http://aic.ucdavis.edu/oa/Smith.pdf> 22/03/2011

⁶ http://www.j-bradford-delong.net/econ_articles/ucla/ucla_marshall2.html 22/03/2011

The majority of empirical studies analyze the influence of the establishment of trade and trade diversification on EC, which increased the common trade⁷.

The establishment of European economical union increased the GDP at first with 1% with the growth of investments in 1960's. GDP grew again with 2.2 % by 1972 and with 5.9 % by 1981.

We should foresee that after the Rome Treaty, foreign investment played a significant role for the integration and development of Europe. In this period, 5 % of only American direct investments were put in the European Union member countries. It should be mentioned that American investments were put in EC countries and not in EFTA countries or the rest of Europe (Appendix 3). The growth of foreign investments means that Rome Treaty achieved its goal, i.e. the efficiency of production was increased, and trade and the general situation in the region became better. Europe became safer from conflicts, more stabilized and just.

The above-mentioned examples describe how the European integration took place in the economic sphere on the basis of Rome Treaty, which could be seen as the achievement of Rome Treaty for the integrated Europe.

Since 1986, there were several amendments for the Rome Treaty; the treaty was amended by the common European Act in 1986, Maastricht treaty, Amsterdam treaty, Nice Treaty, and Lisbon Treaty. Nowadays, due to this agreement, European Union consists of 27 countries, which have the common market, common economy and abolished border control.

2. Conclusion

I discussed the Treaty of Rome, its advantages and disadvantages, as well as its goals and the results of its implementation. Now I can freely answer the question, which was asked in the beginning of the essay, if the Rome Treaty met the expectations of the European leaders or not. Regardless all the problems, which appeared in the implementation process, this treaty met the expectations of the European leaders and made the economic progress possible in the second half of 20th century and what's the most important: it established the common European economy.

Appendixes:

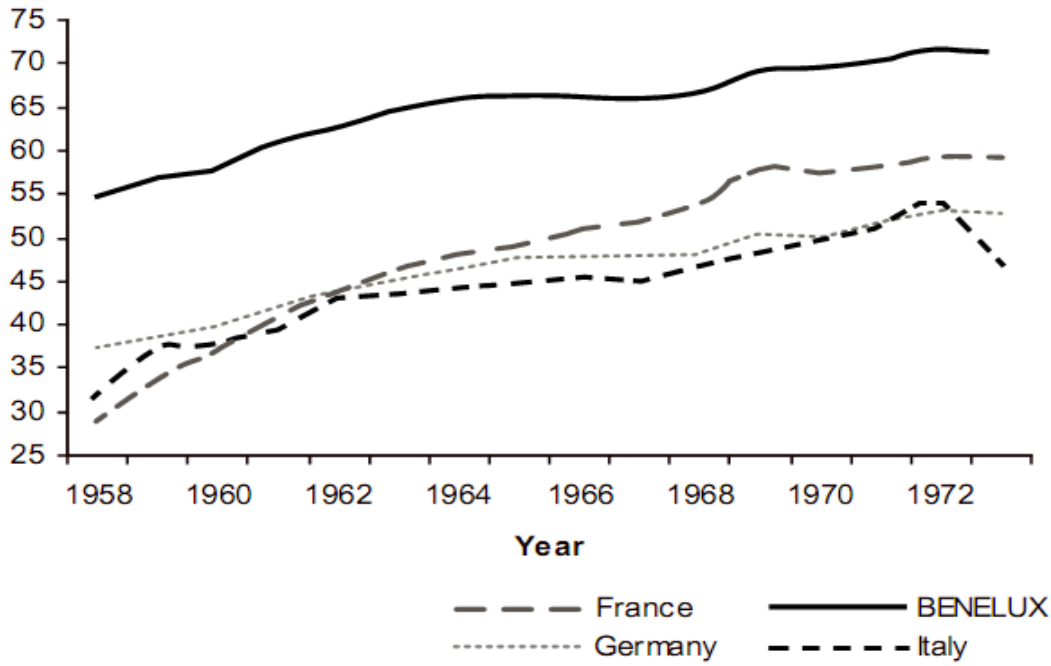
Appendix 1⁸

⁷ "More honoured in the breach than in the observance" Fredric Erixon, edrik Erixon, Andreas Freytag, and Gernot Pehnelt.

⁸ http://books.google.ge/books?id=tifacOtJpwAC&pg=PA78&lpg=PA78&dq=dilon+and+kennedy+round+statistics&source=bl&ots=CTmgl-2w7T&sig=BtArdg5LG_HlqFslSqiQd9xnpNA&hl=ru&ei=QQaRTeb4JY-hOv-

Countries:	Average tariffs by 1958	Average tariffs by the Dillon Round	External Tariff in 1968	External tariff after the Kennedy Round
Germany	6.4	5.8	10.4	6.6
France	17.0	15.3	10.4	6.6
Italy	18.7	16.8	10.4	6.6
Benelux	9.7	8.7	10.4	6.6
Great Britain	16.5	14.8	14.9	9.2
Denmark	5.6	5.2	5.2	3.2
Austria	14.9	11.4	11.4	8.2
Sweden	6.5	6.3	6.3	4.2
Norway	10.3	10.3	10.3	6.4

Appendix 2.



Internal trade of the European community

1958-1973 years⁹

Appendix 3¹⁰

	1950		1957		1964	
	\$US MILLION	SHARE (%)	\$US MILLION	SHARE (%)	\$US MILLION	SHARE (%)
EC	637	5.4	1,680	6.6	5,398	12.2
EFTA	986	8.4	2,245	8.8	6,045	13.6
OTHER EUROPE	110	0.9	226	0.9	624	1.4

Table 2: US direct investments abroad

⁹ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:EEC_Treaty 22/03/2011

¹⁰ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:EEC_Treaty 22/03/2011

Bibliography

<http://www.europeword.com/blog/europe/european-coal-and-steel-community/> 21/03/2011

<http://eur-lex.europa.eu/en/treaties/index.htm#founding> 21/03/2011

<http://www.eurotreaties.com/rometreaty.pdf> 21/03/2011

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:EEC_Treaty
21/03/2011

“More honored in the breach than in the observance” Fredric Erixon, Andreas Freytag, and Gernot Pehnelt. 22/03/2011

Institutions and policy of the European Union, Research fund for the Georgian Strategy and International Relations, series “European Integration”, Tbilisi 2006 22/03/2011

<http://www.eurotreaties.com/eurotexts.html> 22/03/2011

<http://www.pluralist.freeuk.com/learning/history/europeanunion.html> 22/03/2011

http://www.eipa.eu/files/repository/eipascope/20080509183728_SCOPE2008-1-2_EdwardBest.pdf 22/03/2011

<http://www.historiasiglo20.org/europe/traroma.htm> 22/03/2011