

From the EU Single Market to the UK Single Market?

David Bell and Willem Sas, Stirling Management School, University of Stirling

1. The European Single Market is a long-term programme to eliminate barriers to the free movement of goods, services, capital and labour. Its rules are interpreted and enforced by the Court of Justice of the European Union.
2. At present there is no equivalent within the UK. There is an internal market, which does not encompass all of the regulatory powers covered by the EU single market. How the powers that were previously administered at EU level are to be distributed between the UK government and the Scottish Government is a matter of dispute.
3. However, the UK internal market does not capture all of the economic interrelationships between Scotland and rUK. These include:
 - a. sharing of a single currency and therefore a single monetary policy. The UK Government imposes limits on the Scottish Government’s freedom to vary fiscal policy, which it sees as a potential risk to overall UK monetary stability.
 - b. risk sharing between Scotland and rUK, implying automatic fiscal support for areas that experience adverse economic shocks that do not affect the union as a whole. The extent of these automatic stabilisers has diminished considerably, mainly due to the decline in the real value of working age benefits.
 - c. Common regulatory frameworks in key industries such as competition (the CMA), communication (Ofcom), gas and electricity (Ofgem), finance (FCA) and civil aviation (CAA). Scotland has its own regulator for other market-related activities such as water (the Water Industry Commissioner for Scotland), the environment (SEPA) and charities (Office of the Scottish Charity Regulator).
4. Now that the UK intends to negotiate its own trade arrangements, all of these institutional structures have the potential to form part of these negotiations if other countries take the view that they weaken access to UK markets for their own producers. This may lead to intergovernmental tensions if the Scottish government feels its freedom to act is being curtailed by such trade considerations. Examples of policies which may be challenged are listed below:

| Policy | Scottish government policy/rationale |
|---------------------------------------|---|
| Minimum alcohol pricing | Public health |
| Payment of living wage by contractors | Public procurement - fair work |
| Less favoured area support scheme | Support for rural and remote communities |
| Regional selective assistance | Creating or protecting jobs |

The case for each of these policies can be rationalised within the Scottish Government’s policy framework, but they may fall foul of arguments made by countries engaged in trade negotiations with the UK who may argue that they unfairly protect domestic production. Note that the UK, with a domestic market of 65 million, will always be in a weaker negotiating position than is the EU, with a domestic market of around 500 million. Third countries stand to gain much more by accessing the EU market than the UK market. This will place the UK Government in a difficult position - not having the same bargaining strength as the EU and having to maintain relationships with the devolved parliament and assemblies.

5. Arguments that the Scottish government is protecting Scottish producers may also emerge from companies in other parts of the UK if they feel that Scottish government policies inhibit their access to Scottish markets. A key issue therefore is how such disputes are resolved within the UK internal market. Some may fall to existing regulators e.g. (Ofcom, FCA), whereas others may require new mechanisms to be put in place. It seems essential that a clear structure for all such dispute resolution is established and that, in order to protect the devolution settlement, the Scottish government has an established role within this structure.
6. Note that the arguments in favour of minimising trade barriers both within the UK and externally, rely on the well-established argument that increased trade stimulates economic growth. Whereas the growth of world trade in recent years has certainly aided income growth in some parts of the world, there is a growing realisation that much of the growth has occurred in large cities which have been able to benefit from economies of agglomeration. In addition to asymmetric spatial distribution of benefits from trade, there is also a clear asymmetry of benefits at the personal level. While trade has helped grow average incomes in developed countries, not all individuals have benefited to the same extent: the issue of the “left behind” has become prominent in economic, social and political debates in recent years. This issue will be of concern within the UK single market, just as it is presently within the EU.
7. The design of competition policy is likely to play an important role in the development of the UK single market. The role of the Competition and Markets Authority ([CMA](#)) is to protect the interests of consumers by making markets work. It has offices in Edinburgh, as well as London, Wales and Northern Ireland. The Edinburgh office is intended to build stronger relationships between the CMA and bodies in Scotland, including the Scottish government. Whereas there is no reason to doubt the willingness of the CMA to engage with competition issues in Scotland, there is perhaps a need for a more formal arrangement between it and the Scottish government.
8. A key concern going forward will be how the CMA regulates digital enterprises. Whereas consumers may well have benefited from their recent expansion, there have clearly been adverse effects on, for example, the retail sector. In turn, this has led to many of the difficulties faced by high streets in Scottish towns. There is a growing argument that regulators around the world have failed to appreciate the consequences of increased concentration in digital markets. This is an area of such importance to consumers and businesses in Scotland. It also has a significant negative effect on Scottish business rates income. It seems clear that this is the type of issue which would benefit from formal interaction between the Scottish government and the CMA.
9. Whereas, as mentioned earlier, areas within economic unions that have suffered cyclical downturns are generally insured against such risks by payments from central government, an analogous policy for areas facing long-term decline due to changing trade patterns has yet to develop. For example, there may be a case for rolling back on the free flow of production

factors as one way of eroding market power. However, such a policy would likely be controversial and would have to be carefully negotiated at different levels of government.

10. There is a question of whether it is best to oppose such decline on all fronts, or to concentrate resource in areas with greater potential. Such judgements are difficult both in economic and, particularly, political terms. Nevertheless these issues are being faced by other countries, such as the [USA](#) and [Japan](#), which face more pressing problems than does Scotland. Again, regulators can have an important role in influencing these developments.
11. Agriculture may well be the first area of contention. The UK government wishes to implement a policy of “public money for public goods” as the guiding principle for agricultural support payments in England. This policy is essentially designed to support natural capital and biodiversity - it does not address the social impact of agriculture. However, sparsely populated parts of Scotland are [forecast to lose more than ¼ of their population](#) by 2046. It is therefore very unlikely that the Scottish government would be willing to concede that agricultural support should solely be based on environmental considerations. Whether direct payments intended to support populations in sparsely populated areas in Scotland will be accepted by third countries in trade negotiations will depend on how willing the UK government is to argue this case. Again, intergovernmental relations in the UK will be crucial to this process.