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Damage at the heart of Europe's single market

di Mario Monti

The single market, a key pillar of the European Union since its foundation, is in danger. Several member states are reluctant to proceed further in building it; they oppose, for example, the services directive. They even try to undermine the working of those components of the single market that are already in place - and oppose foreign takeovers.

Worryingly, the epicentre of this revolt against the single market lies in countries that are at the core of the single currency. The eurozone, in order to deliver the benefits expected from the euro, needs to have more of a single market than the rest of the EU, but already it is getting less.The euro, meant to be the crowning achievement of the single market, looks increasingly like a currency in search of its market.

The recent signs of a re-emerging economic nationalism are a reason for concern but also an indicator of success. The current wave of cross-border mergers, which is inducing some governments to act, would simply not be there if the single market and competition had not advanced so much in the reality of the economy and in the mindset of the business community.

After a phase of mainly domestic mergers and acquisitions, business is taking advantage of the single market by engaging much more in cross-border transactions. Business leaders are no longer prepared, as they often were in the past, to renounce plans for cross-border acquisitions simply because national authorities give discouraging signals with their words - or just their eyebrows.

Only a few years ago, Santander, the Spanish bank, was the exception in turning to the European Commission to dismantle the obstacles erected by Portugal to the merger with Champalimaud. Now this assertiveness is becoming the rule when a company is confronted with obstacles that it regards as illegal. ABN Amro, the Dutch bank, took a similar approach in relation to Italy last year.

No doubt Germany's Eon and Italy's Enel, the energy groups, would do the same, were they to be faced with by measures or behaviour of the Spanish and French authorities, respectively, that they considered illegal.

As "moral suasion" or veiled threats become less effective, it is not surprising that governments feel more tempted to use outright opposition.

Before they succumb to the temptation, however, they should reflect on whose patrie they really serve with their patriotisme économique. On many occasions, it turns out to be the patrie of specific patrons, rather than of the business community at large, let alone of consumers and the whole economy. (I am using French expressions here only because they lend themselves better to connote a rather widespread phenomenon across continental Europe.)

Reluctance to open up the market for corporate control is indeed strongest in France and Germany, the countries that also led the opposition against more liberal directives on takeovers and services. These and other eurozone countries have been holding back in many ways, for some years now, the completion of the single market for the EU as a whole. In addition, they refrain from letting the single market, to the extent that it already exists on paper, operate fully in the fabric of their domestic economies. In fact, they are slower in transposing single market directives into national law and are brought to the European Court of Justice more often than others for infringements of single market rules.

Adherence to the single currency, but not really to the single market, is a recipe for poor economic performance domestically and may pave the way to problems for the euro, or at any rate for its acceptance by public opinion.

Governments should reflect not only on substance but also on perceptions. Take the case of Gaz de France and Suez. Financial markets will decide whether the announced merger will in fact take place or whether other potential bidders for Suez (Enel or others) eventually succeed. And the European Commission will say whether the merger presents problems with respect to the rules on the single market and competition.

But one effect is already irreversibly there. The French government's choice that the merger should be announced by the prime minister and the finance minister, alongside the chairmen of the two companies, has probably stamped on the minds of millions of citizens across Europe that this is not exactly a market operation like any other.

The moral and political aid by the government - not only as shareholder of Gaz de France - could not have come out more clearly. Whether this is "state aid" also in a legal sense would not really matter for those citizens. There should be no surprise if, on future occasions, in different countries, cross-border transactions are politicised.

In this overall context for the single market, so promising and so critical at the same time, the role of the European Commission as an impartial enforcer of the rules will continue to be of the utmost importance.