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The "euro" and competition

According to the Commission of the European Communities, the introduction of the euro will have a profound impact on competition in Europe. The Commission gives three reasons for asserting that, "in general, economic and monetary union will intensify competition". The first is that it will reinforce the positive effects of the single market programme: it will eliminate exchange rate risk and transactions costs arising from currency conversion and thereby increase trade flows. It will help to broaden geographic markets, create new opportunities for economies of scale and lead to an increase in mergers and acquisitions. There may, however, be an element of wishful thinking here, as there was in the years leading up to the planned completion of the internal market by the end of 1992. In practice the savings in costs, resulting from the use of a single currency, may not be a decisive factor in commercial decision-making. Moreover, inasmuch as the opportunities for savings will apply equally to traders, they may turn out to be a neutral factor in competition. They may encourage traders generally, but not necessarily one competition against another.

There is some force in the second reason given by the Commission for thinking that the euro will stimulate competition: this is the likelihood of an increase in price transparency. It is perhaps under-estimating the acuity of consumers to suppose that the euro will make a decisive difference to the accuracy of their price comparisons; but it should help. At the same time, price transparency is only one factor in the assessment of trading advantages. Quite fairly, the Commission itself adds some cautionary words. Price transparency, it says, may enable traders to monitor more readily their competitors' prices.

A more persuasive, though inevitably more speculative reason for thinking that the euro will encourage competition is the Commission's view that economic and monetary union will reduce the cost of capital and that new financing techniques and markets can be put to work for a new generation of entrepreneurs in the European Union, thereby facilitating market entry. If the premiss is correct, and the cost of capital is reduced, the Commission's conclusions seem reasonable enough. In particular, the prediction that cheaper capital will lead to more acquisitions and mergers is probably correct. Whether acquisitions and mergers in turn benefit competition is another matter. The Commission does its best to ensure that they do not jeopardise competition, but recognises that they do not necessarily increase competition. □