Finance

Deutsche Bank's Merger Is Inspired By Freddie Mercury

Europe's politicians are indulging in a new passion for European and national champions. But it's a terrible way to prop up weak companies.

By Ferdinando Giugliano
20 marzo 2019, 10:10 CET

Europe's politicians have been watching a little too much "Bohemian Rapsody." *Photographer: Fox Photos/Hulton Archive*

European politicians must have been watching a little too much "Bohemian Rapsody," the Freddie Mercury biopic. From rail equipment to banks, there seems to be no industry for which you can't hear them singing "We Are the Champions," as they insist that antitrust regulators drop their concerns and embrace *dirigisme*.

First came the failed rail merger between Alstom SA and Siemens AG, which the French and the German governments wanted as a bulwark "European champion" against Chinese rivals. Then we had the manifesto for a new European industrial policy, signed by the same two countries' economy ministers, advocating laxer rules for mergers within sectors and the right of governments to overrule Brussels sometimes. Finally there was Olaf Scholz, the German finance minister, opening the door to a merger between Deutsche Bank AG and

Commerzbank AG by supporting a "national champion" that could help German businesses around the world. Chancellor Angela Merkel has been much more lukewarm.

The trouble for politicians is that the technocrats are unpersuaded. Margrethe Vestager, Europe's combative competition commissioner, blocked the Alstom-Siemens rail merger because she says it would have pushed up prices for customers. She's skeptical too about the Franco-German idea for a new industrial strategy, arguing that European rules are already flexible enough to adapt to a changing global economy. Andrea Enria, the new head of the European Central Bank's supervisory board, doesn't "particularly like the idea" of European or national champions either, he told the FT. "Especially when you are a supervisor, you should not promote any particular structural outcome," he said.

Politicians should heed these warnings. The single market has been a tremendous success for the economy, helping efficient companies to sell across borders and consumers to benefit from lower prices. European champions only risk stifling competition and increasing prices. Even worse, a national domestic champion like Deutsche/Commerzbank would concentrate too much danger in one country. This is the opposite of what the European banking union was meant to achieve: A broader distribution of risks.

At a conference in Turin last weekend, Agnes Benassy-Quere and Francesco Giavazzi, economists from the Paris School of Economics and Milan's Bocconi University, made a convincing case against the artificial creation of European champions. According to several research papers, competition is key to investment and productivity growth. There's no evidence that governments are better than the private sector at picking winners. In fact, politicians are usually much worse at shutting unsuccessful businesses and may well be captured by incumbent companies rather than defending competition and consumers.

Moreover, as stated recently in an open letter by leading competition economists, there's no evidence that companies need to merge and increase in size to become more competitive internationally. So-called efficiencies of scale are only a part of the equation; and are hard to achieve, as the resistance to cutting jobs at Deutsche and Commerzbank shows.

This doesn't mean politicians should do nothing. The European Political Strategy Centre - the Commission's internal think-tank - has produced a sensible list of recommendations to help policymakers foster innovation and productivity without the need to create champions.

It would help if EU governments completed the single market, which remains underdeveloped, especially in services. This would let the most competitive companies - the true "European champions" - expand more quickly beyond their borders. Second, there's a case for national governments' spending more on innovation and fostering R&D collaborations between companies. That's a better way to incubate inventions than through a lumbering giant firm. Europe also needs to be more demanding over its access to the procurement markets of outside countries such as China, although there are at least signs this is starting to happen.

Banking has its own peculiarities, but the solutions aren't that different. One of the banking union's failures has been the absence of cross-border mergers, which would move the bloc beyond the need for domestic answers to finance industry problems. Of course, this doesn't mean supervisors should promote cross-border deals. As Enria says, it's not their job. But one needs to ask why they haven't happened. Two reasons are the continuing power of national supervisors and the incompleteness of Europe's banking union, where deposit guarantee schemes remain national.

Still, some banks might not even be helped by a cross-border solution. Ultimately, financial stability and competition is better served by making sure inefficient banks exit the market instead of being rescued by merger. Since the crisis, Brussels has set up an agency – the Single Resolution Board – which is meant to help lenders die peacefully. Yet regulators and politicians in Italy and elsewhere are having none of that, as they prefer to bail out banks rather than impose losses on investors. If Europe is to become a more efficient economy, not everyone can survive.

In "We are the Champions," Mercury sings the line: "And bad mistakes, I've made a few." As they indulge their new passion for intervention, Europe's leaders should reflect on that.

To contact the author of this story:
Ferdinando Giugliano at fgiugliano@bloomberg.net

To contact the editor responsible for this story:
James Boxell at jboxell@bloomberg.net

Ferdinando Giugliano writes columns and editorials on European economics for Bloomberg View. He is also an economics columnist for La Repubblica and was a member of the editorial board of the Financial Times.

Read more opinion

Follow @FerdiGiugliano on Twitter

COMMENTS

1

In this article

DBK
DEUTSCHE BANK-RG
7.80 EUR ▼ -0.15 -1.83%

1435667D
INSPIRED
Private Company

CBK
COMMERZBANK
7.30 EUR ▼ -0.04 -0.56%

ALO
ALSTOM
39.27 EUR ▼ -0.09 -0.23%

SIE
SIEMENS AG-REG
97.51 EUR ▼ -1.62 -1.63%