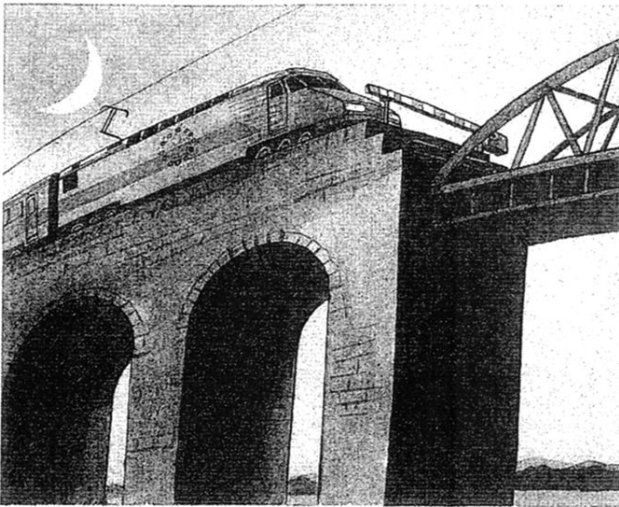


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# Charlemagne | Coming off the rails

The euro was meant to underpin the single market, but it may end up undermining it



EUROPE'S railways have long been tools of the state. "Build no more fortresses, build railways," said Helmuth von Moltke, the famous Prussian field-marshal. But even in today's era of European integration (for which the European Union has just won the Nobel peace prize), railways are objects of national jealousy. The variety of track gauges, electrification and signalling systems, not to mention rules protecting favoured operators, makes for a bewildering and inefficient patchwork.

The single market, the EU's greatest achievement, is celebrating its 20th anniversary. It is meant to be a zone with free movement of goods, services, people and capital. It has boosted trade and productivity. Part of Germany's success comes from shifting industrial production to cheaper places in central and eastern Europe. But look at the infrastructure in the single market and two lessons become clear. It is fragmented, with few countries giving priority to cross-border links. And integrating the system is a painstaking task of removing physical and regulatory barriers.

So a train carrying Volvo cars from Sweden to Italy must change locomotives and crews three or four times. It could be held up in bottlenecks in Germany and Austria. Before entering Italy over the Brenner Pass, the crew must stop to switch the reflective panels at the rear with warning lights. Thalys high-speed passenger trains may zip between Paris, Amsterdam and Cologne. But on some older sections of track in Germany they slow to a crawl, and they must carry seven boxes of expensive signalling gear. How is it possible to promote competition and get freight off the roads when new models of rolling stock have to be separately certified in each country?

Commercial shipping suffers, too. The borders of the single market do not extend to the sea, so a ship sailing from one EU port to another must submit to full customs formalities every time. Air transport does better. The market has been liberalised, promoting low-cost airlines, and aircraft certification is done centrally. Yet air-traffic control still observes national boundaries. Europe's airspace is comparable in size to America's, but the system handles less traffic at almost twice the cost.

EU summits always extol the benefits of the single market. The one starting on October 18th will highlight "trans-European networks", in which the European Commission proposes to de-

velop pan-European transport corridors. A €50 billion "Connecting Europe Facility" (CEF) is meant to pay for these. Yet progress will be slow. There is little political appetite to take on vested interests, and little money for new infrastructure. The CEF may be one of the best uses of European money, but it could fall victim to the EU's budget politics in which the French defend agricultural support, the British fight for their rebate and the central Europeans protect regional aid.

A bigger worry is being heard in Brussels. The problem is no longer how to promote and strengthen the single market, but how to save it. Mario Monti, a former single-market commissioner who is now Italy's prime minister, said this week that the single market was at risk of "rollback and even disintegration". The euro crisis, he noted, has produced vastly different borrowing costs for firms; frozen inter-bank lending, prompted some regulators to order banks to keep capital in their home countries and stirred protectionism against EU workers and goods alike.

Economic integration has been at the heart of the European project from the outset. The single market dates to the 1986 Single European Act, comprising nearly 300 measures that were to be completed by the end of 1992, from the abolition of physical customs checks to the mutual recognition of standards. It gives the EU heft in international trade, and attracts investors seeking access to 500m consumers. Yet at its heart is a bargain between federalists and liberals. The single market is the one thing that David Cameron, the British prime minister, says he likes about the EU. Yet even in Britain basic precepts are being questioned. Earlier this month Mr Cameron said his government was reviewing the right of EU citizens to live and work in Britain.

## Damned if it breaks, damned if it doesn't

The euro was meant to buttress the single market, reducing transaction costs and removing the risk of competitive devaluation. Could it now destroy the single market instead? A new paper by Sebastian Dullien for the European Council on Foreign Relations, a think-tank, argues that the market will be damaged regardless of what happens.

The euro's break-up could lead to capital controls, trade barriers to keep out goods and border controls to limit economic migrants. Muddling through would slow down but might not prevent such disintegration and could still feed anti-EU populism. Even a federal leap to a euro-zone banking union with joint Eurobonds carries risks for non-euro members, like Britain, who fear that the 17 "euro-ins" will impose rules on others. Such tensions are apparent in negotiations over a euro-zone bank supervisor. If Britain feels set upon, it could even choose to leave the EU.

There is a fourth option: deeper integration could be accompanied by a deepening of the single market. This could also renew the political bargain between euro-ins and euro-outs. There is more to be done beyond the current mishmash of proposals. Services produce most of Europe's output but are poorly integrated and lag behind America in productivity. If EU treaties are to be changed to create a stronger commissioner to oversee national budgets, why not a commissioner with more legal powers to police the single market? All European countries badly need more growth. The most troubled need better access to neighbouring markets and a spur for structural reforms. They should be careful not to miss the train. ■

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- Rendre l'article à l'examineur avant de quitter la salle