itself, but the process of European integration as a whole might also be seriously damaged. The idea of monetary union ought therefore to be abandoned. Instead the national currencies should be retained and their exchange rates should be determined solely by market forces. In this way all the problems associated with European Monetary Union would be avoided:

- The national currencies would continue to be part of each member state’s national identity and to be a symbol of prosperity and secure savings. Citizens would not have to become accustomed to a new currency regarded as artificial.

- In the case of flexible exchange rates the risk of inflation would be checked by the disciplinary effect of currency competition. Nowadays the international financial markets, which are becoming steadily more efficient, react to any policies inimical to monetary stability in a particular country by withdrawing capital on a massive scale. Individual countries therefore have an incentive to align themselves with the most stable currency, which in Europe’s case means with the deutschmark.

- Exchange rates and national monetary policies would continue to serve as mechanisms of adjustment to asymmetrical shocks and to divergent economic trends in the long term. The demands placed upon the labour markets of the EU as an adjustment mechanism would not be excessive.

Under these circumstances, with the completion of the single market and the admission of Central and Eastern European countries as member states, the economies of Europe would gradually be able to deepen their integration. At the same time a political order could be developed which would reflect the national identities of the peoples and would act as a lasting guarantor of peace in Europe. A common currency is neither a prerequisite for this process, nor is it beneficial to it.

Phedon Nicolaides*

**Competition versus Social Responsibility in the European Union**

Recently, in the European Union there has been extensive public debate on the nature of public services, the means of delivering them and the role of public companies. The Commission is pushing for greater liberalisation, more extensive common rules and increased transparency in the application of national regulations. Prof. Nicolaides argues that the state should function as the regulator of the providers of such services rather than as a provider itself. Moreover, in the Community’s single market, national regulatory systems should be neutral and should rely more on price-based instruments rather than statutory and administrative measures.

The Commission’s XXV Report on Competition Policy, published in mid 1996, states that “... the development phase of Community competition policy is completed. Policy and law are now well established through the Commission’s administrative practice and the principles developed by the European Courts.”

This is a fairly sweeping and surprising statement, especially when one considers the obstacles that the Commission has encountered in its attempts to subject undertakings with special or exclusive legal rights to the Community’s rules of competition. That statement may be correct as far as private undertakings and Articles 85 and 86 are concerned, but it is doubtful whether it provides an accurate description of the state of play as far as public

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undertakings and Article 90 are concerned. For example, during the last two years and despite continuous effort by the Commission, little progress has been achieved in the liberalisation of the electricity and postal services markets.

The purpose of this article is to explain why the Community's task vis-a-vis public undertakings providing services of general economic interest is unfinished. We argue that to finish that task it is necessary to develop new principles and probably to assign an additional role to the Commission. The assignment of any new role to the Commission is always a complex and deeply political issue. Hence, completion of the Community's competition policy cannot be achieved by the rulings of the Court alone. It will require agreement within the Council.

This issue is further complicated by the fact that recently there have been calls for the establishment of an independent competition agency. But as will be suggested later on, the assignment of a politically sensitive role to the Commission reinforces the argument for an independent agency.

The article examines the reasons which have been advanced in favour of the view that the provision of services of general economic interest is a fundamental social obligation of the state that, if necessary, should take precedence over the maintenance of free competition in the internal market. It then explains why a new policy principle for the Community's competition rules and a new enforcement role for Community institutions should be developed in order to deal effectively with the apparent conflict between social obligations and competition. The article concludes with a number of observations on the institutional nature of the enforcement of that new principle.

Concern about services of general interest is high. The European Parliament has proposed amendments to the Treaty to safeguard public services while other bodies have put forth more extensive revisions and the text of a charter on services of general economic interest.

Natural Monopolies

The production of a good or service is a natural monopoly when the long-run average costs decline as output increases. It follows that in an industry which is a natural monopoly the operation of a single company minimises production costs. The problem is that a single company which would maximize productive efficiency could at the same time lead to allocative inefficiency because it could charge monopoly prices. Like any other economic activity, natural monopolies are also affected by technological change. What is a natural monopoly is a function of available technology. The advent of the car and the aeroplane broke the monopoly position of the railway. Computer-based technology has eroded the dominance of the traditional broadcasters as the basic providers of information and entertainment. Satellite communications are challenging terrestrial communications. Networks which are beginning to be operated by water and electricity utilities are offering in certain cases cheaper alternatives to the networks of the telecommunications authorities. So natural monopolies are never permanent and often wither.

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1 For detailed definition of this and other related terms see European Commission: Services of General Interest in Europe, COM(96) 443 final, 11 September 1996.