

SAVING COMPETITION POLICY FROM THE FATE OF OPHELIA

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Foreword

“Those who think achieving competitiveness is as simple as rolling back competition policy are sorely mistaken. As this paper describes, Europe faces a much more complex economic challenge - one it still has time to overcome and escape the fate of Ophelia.”



Olivier Guersent

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“Ophelia: We know what we are, but know not what we may be”

Hamlet, Act IV Scene 5

Shakespeare’s Ophelia is trapped between her cautious and controlling father, Polonius, and Hamlet’s erratic affection and emerging madness. So it is with Europe: a fatherly voice urges stability, the precautionary principle and celebrates the so-called Brussels effect. Mercurial tech bros, corporate giants and populists point to economic decline and call forth a Europe that breaks with its cautious, rules-based operating model. Ophelia cannot escape the double bind, and dies surrounded by flowers.

It doesn’t have to end like this for Europe.

“You dug me out of my grave and saved my heart from the fate of Ophelia”

Taylor Swift, The Life of a Showgirl

Europe knows what it is. Can it discover what it may be, and save its heart? Can it avoid Shakespearean tragedy and find a joyful Swiftian future?

That is the question now facing the continent. Europe’s model is admired, copied and defended, not least by Europeans themselves. It has delivered prosperity, rights, safety and a distinctive form of social capitalism. But a model built for consistency is now being asked to generate dynamism. A system designed to manage risks must learn to take some.

In May, Frontier Economics and Brunswick Group hosted in-depth roundtable discussions with former senior Commission officials and heads of regulators, policy experts, representatives of Europe’s leading businesses and regulatory specialists. The discussions produced no simple cry for deregulation. Nor did they produce nostalgia for a self-satisfied Brussels. What emerged was more interesting: a broad recognition that Europe’s problem is not regulation as such, but an economic system that has become too slow, too fragmented and too cautious to turn its own strengths into growth.

The central challenge is investment. Europe needs capital on a scale that public budgets cannot supply. It needs that capital to flow into energy systems, digital infrastructure, artificial intelligence, defence, manufacturing, grids, skills and industrial renewal. It needs businesses that can scale. It needs markets that can integrate. It needs weaker firms to release people, capital and assets to stronger ones. Above all, it needs to make economic transformation investable.

Competition policy will not by itself solve this problem. As Olivier Guersent famously observed, competition policy is a side dish, not the main course, of economic performance. But side dishes matter. Competition and regulatory policy help determine whether investment arrives, where it goes and how quickly economic change can happen. They also set the tone for Europe’s wider political economy.

Four themes stand out.

1) The single market is still Europe's Trump card

As Letta and Draghi identified, the Single Market remains one of the continent's most powerful economic assets, and one of its most underused. Too many sectors remain fragmented by national rules, local incumbency, regulatory duplication and practical barriers to cross-border scale. Services remain less integrated than goods. Capital markets remain stubbornly national. Energy, telecoms, finance, data and digital services are still far from operating as genuinely European markets.

Scale matters. It matters for investment, for innovation, for productivity and for the ability of European firms to compete globally. A business that must fight 27 regulatory battles before it can reach European scale is not operating in a real continental market. An investor who sees Europe as a collection of national regimes will price it accordingly.

The appeal of Single Market reform is that it does not require governments to guess the future. It does not ask officials to identify the next winning technology, national champion or strategic platform. It simply allows firms that are productive, innovative and well managed to grow across a market of more than 440m consumers.

Before Europe spends public money, it doesn't have building new sources of competitiveness, it should first finish building the one it already has.

2) Europe needs global investment

Europe's ambitions are expensive.

Decarbonisation, defence, energy security, artificial intelligence, advanced manufacturing, grid expansion and digital infrastructure all require investment on a scale that cannot plausibly be delivered by public spending alone. Even the most imaginative industrial policy will fail if Europe cannot attract and retain private capital.

That means Europe must compete for investment. This should not be a shocking proposition. Capital is mobile. So are ideas, entrepreneurs and high-growth firms. They go where expected returns are attractive, where markets are large, where regulation is predictable and where success is not automatically rewarded with a regulatory investigation.

This is not an argument for cringing before investors. Europe should regulate markets, protect consumers and enforce the law. But it cannot afford an economic strategy that treats investors as intruders rather than partners in domestic renewal. The continent needs foreign capital to build European prosperity. It needs private investors and global companies to finance public ambitions. It needs firms to believe that Europe is a place where capital can be deployed, scaled and rewarded.

Tone therefore matters. So do predictability and speed. A continent that says it wants more investment but makes restructuring hard, merger review painful, enforcement overlapping and market access fragmented should not be surprised when investment goes elsewhere.

3) Restructuring is not a sideshow

Europe's productivity problem is often described as if it were a shortage of invention. That is only partly true. The continent has excellent universities, sophisticated firms, deep engineering capacity and world-class scientific talent. Its harder problem is that resources do not move quickly enough from less productive uses to more productive ones.

This is the uncomfortable part of any serious growth agenda.

Low-productivity firms cannot be preserved indefinitely without cost. Capital tied up in weak businesses is capital unavailable for stronger ones. Workers trapped in stagnant sectors are workers not moving to expanding firms. Managerial attention spent sustaining incumbents is attention not spent building the future.

Europe therefore needs more than innovation policy. It needs reallocation. That means consolidation in some markets, exit in others and restructuring in many. Some firms will need to shrink, merge or disappear. Some assets will need new owners. Some sectors will need fewer firms, not more.

The task is not to make capitalism painless. It is to make change productive, investable and politically sustainable. That means helping workers and communities through transition, not pretending transition can be avoided. It means recognising that exit is sometimes a feature of renewal, not evidence of failure.

4) Competition policy still matters

Competition policy is not the main engine of European growth. But it is one of the most important instruments through which Europe decides what sort of market economy it wants to be.

This matters for three reasons.

First, **evidence matters**. Europe is entering a period in which almost every lobbyist will have a theory of growth. Some will argue for national champions. Others for relaxed merger control, industrial policy exemptions, public subsidies, protection from foreign rivals or special treatment for strategic sectors. Some of these arguments will be right. Many will be rent-seeking dressed up as resilience.

DG Competition has the expertise to tell one from the other. That expertise is not an obstacle to growth. It is a protection against bad growth policy. The more pressure there is to "do something", the more valuable economic discipline becomes.

Second, **signals matter**. Competition policy does not merely decide cases. It sends messages to boardrooms, investors and national governments. A prohibition, an extended review, a fragmented set of national investigations or an expansive theory of harm can affect investment expectations far beyond the parties concerned. So can a decision that recognises scale, innovation, restructuring and long-term investment incentives.

This is sometimes dismissed as “vibes”. It should not be. In a world of mobile capital, expectations are an economic variable. Europe cannot send ambivalent signals about investment and then lament that investment has gone missing.

Third, **competition policy must survive** the growth debate. When economies disappoint, the temptation is to blame constraints. Competition rules can quickly be recast as luxuries: suitable for calmer times, but not for an age of industrial policy, strategic autonomy and geopolitical rivalry.

That would be a mistake. Europe needs more investment and more scale. It also needs open markets, competitive discipline and institutions capable of resisting incumbency disguised as strategy. The aim should not be to choose between competition and growth. It should be to make competition policy more supportive of growth without making it less serious about competition.

Our recommendations: things we can do now

The agenda need not be grandiose. Indeed, its strength lies in being practical. Competition and regulatory policy should be made more useful to Europe’s investment challenge in three ways.

First, put allocative efficiency at the centre

European decision-making should place greater weight on allocative efficiency, dynamic efficiency and long-term investment incentives, especially where major investment and structural transition are at stake.

Short-term price effects matter. Consumers should not be asked to subsidise vague promises of future progress. But nor should transformative market changes be assessed through an unduly static lens. The relevant question is not only whether a decision affects prices today. It is whether it helps resources move to more productive uses, supports investment, enables scale and strengthens Europe’s long-term competitiveness.

Competition policy should not become industrial policy by another name. But it should understand the economy it is regulating: one in which Europe needs capital, restructuring and productivity growth more urgently than it needs another elegant defence of stasis.

Second, let merger policy recognise productive restructuring

The merger guidelines are already a huge step forward. They should go further in recognising that consolidation can sometimes support productivity, investment and renewal.

Europe should be sceptical of lazy arguments for scale. Not every merger is a European champion in embryo. Not every plea for resilience deserves deference. But nor should consolidation be treated as inherently suspect where it enables assets to be used better, inefficient capacity to exit, innovation to be funded or capital to be redeployed.

In some markets, Europe's problem is not too much concentration but too little productivity. A merger that helps stronger firms acquire weaker assets, rationalise operations and invest for the future may be part of the answer. The burden of proof should remain serious. But the analytical framework should be capable of recognising the benefit.

Third, restore the logic of one-stop enforcement

Europe cannot build a Single Market while multiplying national enforcement silos.

The proliferation of overlapping investigations, divergent remedies and parallel procedures across member states imposes real costs. It creates uncertainty, slows decisions and encourages fragmentation. It also weakens the Commission's role as guardian of the Single Market.

A more disciplined one-stop-shop approach would make Europe easier to invest in. It would reduce duplication. It would improve predictability. And it would help ensure that common European market problems receive coherent European answers. That is particularly important in emerging areas like AI and bio-engineering that abound with calls for prudential interventions at member state level. At the same time, enforcement at EU level can itself also be reinvigorated as a tool for targeting and breaking down conduct that creates or reinforces barriers to trade between member states.

The Swiftian future

None of this requires Europe to become America. Still less does it require Europe to become China. The point is not to abandon the European model, but to dig it out from its grave.

A social market economy that cannot generate growth will struggle to sustain social consent. A regulatory superpower that cannot attract investment will gradually lose the power to regulate the things that matter. A continent that protects incumbents in the name of stability will eventually discover that stagnation is destabilising too.

Europe can continue to treat caution as prudence, fragmentation as diversity and delay as due process. Or it can recognise that these habits now carry costs. The investment not made, the merger not attempted, the market not entered, the firm not scaled, the restructuring postponed:

this is how decline usually arrives. Not as a thunderclap, but as an accumulation of sensible decisions that add up to drift.

Ophelia's tragedy was that she was defined by other people's choices. Europe's would be worse, because it still has the power to choose.

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