**EU Political Economy Bulletin** – Issue 16, Summer 2013

A publication of the EUSA EU Political Economy Interest Section

http://www.eustudies.org/interest_political_economy.php

Section Co-Chairs:  
David Cleeton (Illinois State University)  
Miguel Otero-Iglesias (ESSCA School of Management, Paris)

Editor: Alexandra Hennessy (Seton Hall University)

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**Message from the Editor of the EU Political Economy Bulletin:**

Dear All,

It was great to see so many of you in Baltimore. Congratulations again to this year’s EUSA prize winners! At the Political Economy business meeting, David Cleeton (Illinois State University) and Miguel Otero-Iglesias (ECCSA School of Management, Paris) were elected the new section chairs. Congratulations to the new team! And a big thank you for their excellent work to the outgoing section chairs Michele Chang, Georg Menz and Mitchell Smith, as well as the newsletter editor, Patrick Leblond.

This issue’s forum piece was written by Lucia Quaglia (University of York) and David Howarth (University of Luxembourg) and is titled “Building Banking Union and Completing Economic and Monetary Union.” In addition, check out our members’ latest publications, the call for papers, and upcoming deadlines for external grants and fellowships. If you’d like to contribute to the forum, publicize your forthcoming works or share member news, please email me (alexandra.hennessy@shu.edu). Have a wonderful summer!

Alexandra Hennessy
Greetings from the co-chairs of the EUSA Political Economy Section:

David L. Cleeton, Department of Economics, Illinois State University, dlcleet@ilstu.edu

Miguel Otero-Iglesias, Centre for European Integration, ESSCA School of Management, Paris, miguel.otero@essca.fr

Dear Section Members,

We wish to thank the members of the Political Economy Interest Section for their support in the process of appointing us as the new section co-chairs. It is a honor for us to serve, especially considering the very high standards set by Michelle Chang, Georg Menz and Mitchell Smith as the previous chairs. We would like to take this opportunity to thank them for all their efforts and achievements over the past four years. They have substantially increased the profile and productivity of the section. Looking back at their legacy, we realize that it will be a challenge for us to maintain the same standards over the coming years. We will try to do our best, though. We are both excited about co-chairing the section, and very keen to take on the responsibility and build on the very good work of our predecessors.

After discussing briefly our possible objectives at the last EUSA conference in Baltimore, we agreed that it would be appropriate to maintain the profile and output levels of the previous team. This means that we aim to organize a series of panels for the next EUSA conference in 2015. To get things rolling, we thought that it would be useful to structure a few preparatory panels at the next UACES conference, which will take place in Cork, Ireland, in September 2014. This series of panels should then lead to concrete publications in the form of a special issue in a prominent journal or an edited book by an established publishing house. We would like to propose two concrete focal topics for the next couple of years: 1) the development of the Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU and 2) the critical role of the Franco-German partnership in moving creatively toward solutions for the Eurozone Crisis.

We believe that these two topics are of great relevance for current political economy scholarship in EU studies and expect that they will continue to attract considerable interest and attention. Nonetheless, for now these are only two proposals. We are open to receiving other topical suggestions from the membership. If you think there is another subject matter that should be covered by the section, please contact us and we will give it consideration. If, on the other hand, you are interested in these two themes and would like to contribute to the related
panels and in the prospective publications, please contact us so we can get a sense about the depth of membership interest in these two topics.

We look forward to co-chairing the Political Economy Interest Section and hope you will engage with us by providing your input. We are eager to hear from you over the next weeks and months.

Enjoy the summer!

With best wishes,

Miguel Otero-Iglesias and David L. Cleeton
Forum Section

The Forum is open to all members of the EUSA Political Economy Interest Section who wish to share their views on empirical, theoretical, or policy questions relating to EU political economy.

Building Banking Union and “Completing” Economic and Monetary Union

David Howarth (University of Luxembourg)
Lucia Quaglia (University of York)¹

In the European Union (EU), the second half of 2012 and the first half of 2013 were dominated by debates surrounding the construction of Banking Union. The proposals for Banking Union in several respects amount to a radical initiative to stabilise the national banking systems exposed directly to the sovereign debt crisis by breaking the dangerous link between the high and rising sovereign debt in the euro area peripheral member states and domestic banks, which had come to hold an increasing amount of this debt.

Yet, Banking Union would also bring about a significant transfer of powers from the national to the EU level. While it is unlikely that some elements of the Banking Union proposals will be adopted in the near future, the decision to transfer significant supervisory responsibilities to the European Central Bank (ECB) amounts to a major development in European integration history and, more specifically, in the operation of the single market.

In June 2012, the European Council and euro area summit agreed to deepen Economic and Monetary Union (EMU) creating ‘Banking Union’ which was to be based on five components: a single rulebook; a common deposit guarantee scheme; a single framework for the managed resolution of banks and financial institutions; a single framework for banking supervision; and a common backstop for temporary financial support.

In September 2012, the Commission adopted a set of legislative proposals as first steps towards Banking Union: a regulation giving strong powers for the supervision of all banks in the euro area to the ECB; a regulation with limited specific changes to the regulation setting up the European Banking Authority (EBA) to ensure a balance in its decision making structures

¹ Lucia Quaglia wishes to acknowledge the financial support from the British Academy and Leverhulme Trust (SG 120191).
between the euro area and non-euro area member states; and a communication on a roadmap for completing the Banking Union over the coming years. The communication deals with three of the five elements of banking union that were already under way as part of the regulatory response of the EU to the global financial crisis, namely a single rule book, a common deposit guarantee scheme and a single bank resolution mechanism.

A single rule book, which has been advocated by the EU in the aftermath of the global financial crisis, means a set of fully harmonized EU rules applied consistently across the Member States. EU financial legislation is mainly comprised of directives, which need to be adopted by the Member States in order to be implemented. Some of these directives contain several national discretions, that is they leave open the possibility of national options or ‘specificities’ in the implementation of EU rules. For example, the Capital Requirements Directive III (CRD III) (2006) contained more than 100 national discretions. Partly for this reason, the proposed Capital Requirement IV legislation comprises a directive; and a regulation, which imposes a maximum harmonization directly applicable in the Members States, therefore leaving little room for manoeuvre in national transposition.

The global financial crisis that accelerated in late 2008 with the collapse of the American investment bank Lehman Brothers brought into the spotlight the inadequacy of the existing 1994 Deposit Guarantee Schemes directive, which was based on minimum harmonisation. Hence, in July 2010, the Commission put forward a legislative proposal to amend this directive with a view to promoting the harmonization and simplification of protected deposits, a faster pay-out, and an improved financing of schemes. The proposal aimed to establish a network of guarantee schemes as a first step towards a ‘pan-European deposit guarantee scheme’ to cover all European Union-based banks. Such a pan-European scheme however presupposed full harmonization of national schemes and could only enter into force after a minimum fund of 1.5 per cent of eligible bank deposits had been reached in all the Member States.

The issue of deposit guarantee schemes is interlinked with the discussion on a resolution framework for banks and financial institutions. In June 2012, the Commission adopted a legislative proposal for bank recovery and resolution, with the same scope of application as the CRD (hence, credit institutions and certain investment firms). The harmonised resolution tools and powers outlined in the proposed directive were designed to ensure that national authorities in all Member States had a common toolkit and roadmap to manage the failure of banks. ‘Resolution colleges’ would be established under the leadership of a clearly identified resolution authority and with the participation of the EBA, which would act as binding mediator if necessary.

On the SSM, the main issue was the scope of the Banking Union, in particular whether the ECB should directly supervise all banks in the euro area or only the main (cross-border) banks and the relationship with non euro area member states. The Germans opposed a broad scope for ECB supervision, in particular they resisted the ECB’s supervision of the country’s public Landesbanks and savings banks. These banks were seen as having a ‘public’ function in Germany with strong ties to local and regional governments and traditionally reliant on them for financial backing. The French government expressed concern over unequal treatment of
Member States given that its banking system was dominated by five very large institutions which would all end up being directly supervised by the ECB.\(^2\)

In the end, the agreement reached at the December European Council foresaw that the ECB would be ‘responsible for the overall effective functioning of the SSM’ and would have ‘direct oversight of the euro area banks’.\(^3\) This supervision however would be ‘differentiated’ and the Bank would carry it out in ‘close cooperation with national supervisory authorities’. Direct ECB supervision was to cover those banks with assets exceeding €30 billion or those whose assets represent at least 20 per cent of their home country’s annual GDP. This direct supervision would concern approximately 200 euro area banks. However, the agreement also permits the ECB to step in, if necessary, and supervise any of the 6000 banks in the euro area to bring about the eventual restructuring or closure of banks that found themselves in difficulties.

As for the relationship with non euro area members, some euro-outsiders were interested in participating in the SSM and therefore opposed the European Commission’s proposed regulation of September which placed the ECB at the centre of the mechanism. The European Council eventually decided that non Euro area member states could opt in into the single supervisory mechanism and that ‘opt-in’ countries should be able to sit on a new ECB supervisory board with equal voting powers but not on the decision-making Governing Council.\(^4\) The majority of non-euro Member States either sought to enter Banking Union or adopted a ‘wait and see’ policy.

The British government had no intention of joining the SSM, hence its main priorities in the building up of Banking Union was to avoid a potential euro area block within the single financial market. Crucially, the British feared the adoption of subsequent financial legislation that would be detrimental to the British financial sector. They also feared that the activity of the EBA would be heavily influenced by euroare member states. Hence, the British demanded an EBA voting reform, whereby any decision by the Authority should be approved by a minimum number of Member States outside the Banking Union and thus effectively by a ‘double majority’ of Member States inside and outside the Banking Union. The outcome of the EU negotiations was a compromise involving the creation of a double majority system until the number of non-Banking Union Member States dwindled to less than four.

As for the common fiscal backstop, a link was established between Banking Union and the European Stability Mechanism (ESM) in the event that temporary financial support was needed. The ESM is a new EU agency which was to replace the temporary European Financial Stability Facility (EFSF). It was established in September 2012 and was to have a full lending capacity of €500 billion by 2014. The Member States of the ESM could apply for an ESM bailout if they were in financial difficulty or their financial sector was a stability threat in need of recapitalization. However, the ESM bailouts were to be based on strong conditionality and Member States were required to sign the ‘Memorandum of Understanding’ which would highlight which reforms needed to be undertaken or fiscal consolidation to be implemented in order to restore financial stability. The Commission proposed that the ESM be used to support failing banks directly.

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\(^2\) Financial Times, 14 November 2012.


\(^4\) EUObserver 29 November 2012.
In June 2012, the EU leaders agreed on a bailout plan for Spanish banks using Spain’s ‘Fund for Orderly Bank Restructuring’ permitting the transfer of €39.5 billion from the ESM to the Fund. This transfer was accompanied by a pledge by Spain to restructure its financial sector. Nonetheless, Wolfgang Schäuble, the German Finance Minister, insisted that the ESM would not be used for other bank recapitalizations until the Banking Union was in full operation. The European Council agreed that the SSM would allow the ESM to recapitalize banks in difficulties directly, subject to ‘double majority’ voting by both the ECB and the EBA.

All in all, the debate on Banking Union was characterised by intense intergovernmental negotiations. As in many episodes of EU institution-building, the main players were France and Germany. However, non-euro area Member States, first and foremost the UK, were also active in the debate. The French, Italian and Spanish governments were the main supporters of Banking Union and the need to move quickly. The German government was more guarded: it repeatedly pointed out that the need to get the right institutional arrangements in place was more important than to proceed speedily.

Effectively, the Franco-German debate on Banking Union paralleled longstanding debates on euro area governance and solutions to the euro area’s sovereign debt crisis. The French sought support mechanisms; the Germans reinforced fiscal policy commitments (sustainable Member State budgets). French efforts stemmed from their limited success in convincing the Germans to agree to other measures to tackle the crisis. The French had pushed for the construction of massive support mechanisms – what David Cameron called the ‘Big Bazooka’ – able to purchase debt directly from euro area Member State governments and engage in bank recapitalisation, but with limited success. Banking Union was seen as a way to establish a kind of fiscal backstop to the euro area – via a lender of last resort style support for banks rather than governments per se. The underlying German and Northern European concern remained the fiscal backstop and being forced into a situation of having to contribute more funds to the ESM in order to bail out banks in other countries. German policy-makers had serious reservations about this move. In this respect, Banking Union should be seen as old wine in a new bottle.

There are several open (and potentially sensitive) issues concerning Banking Union. Perhaps the most important is the absence of a central EU body responsible for financial crisis management and the lack of a common resolution and deposit insurance scheme cast doubt over the ability of the euro area to deal effectively with crisis management and resolution. The supervisory power of the ECB still needed to be complemented by a single framework for resolving banks. At the end of 2012, crisis management and resolution remained a national competence. A crisis management body had not yet been proposed at the EU level. Its creation would inevitably be controversial, as it would have to be assigned decision-making powers with fiscal implications.

This contribution is based on David Howarth, Lucia Quaglia (forthcoming), ‘Banking Union as Holy Grail: Rebuilding the Single Market in Financial Services, Stabilizing Europe’s Banks and “Completing” Economic and Monetary Union’, Journal of Common Market Studies, Annual Review.

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5 EUObserver, 3 December 2012.
6 Financial Times, 6 December 2012.
7 Financial Times, 10 October 2011.
Members’ Recent Publications

Karen M. Anderson and Kaeding, Michael (forthcoming), European Integration and Pension Policy Change: Variable Patterns of Europeanization in Italy, the Netherlands, and Belgium. *British Journal of Industrial Relations*.

Michele Chang and Monar, Jörg (eds.) *The European Commission in the Post-Lisbon Era of Crises*: Between Political Leadership and Policy Management (Brussels, Peter Lang).


1. Introduction: Towards a Political Economy of Banking, *Iain Hardie, David Howarth, Sylvia Maxfield and Amy Verdun*

2. Framing Market-Based Banking and the Financial Crisis, *Iain Hardie and David Howarth*

3. Market-Based Banking as the Worst of All Worlds: Illustrations from the US and UK, *Iain Hardie and Sylvia Maxfield*

4. Belgium and the Netherlands: Impatient Capital, *Michele Chang and Erik Jones*

5. A Peculiar Kind of Devastation: German Market-Based Banking, *Iain Hardie and David Howarth*

6. State Intervention and Market-Based Banking in France, *David Howarth*


8. Turning the Crisis on its Head: Sovereign Debt Crisis as Banking Crisis in Italy and Greece, *George Pagoulatos and Lucia Quaglia*


10. Market-Based Banking in Japan: From the Avant-Garde to Europe's Future?, *Ryunoshin Kamikawa*


Manuela Moschella and Lucia Quaglia (2013) ‘Speaking with one voice in international finance? The EU and the institutional features of global financial regulatory bodies’, Rivista Italiana di Scienza Politica (in English).


The outgoing Political Economy section chairs (Michele Chang, Georg Menz and Mitchell Smith) organized a symposium on "Redefining European Economic Governance” that culminated in a special issue edition of the Journal of European Integration. List of the special issue contributors:


Call for Papers

The Political Economy of the Euro Area’s Sovereign Debt Crisis

Proposed special issue of the Review of International Political Economy

David Howarth (University of Luxembourg)
Lucia Quaglia (University of York)

The global financial crisis that reached its peak in late 2008 subsequently turned into a fully-fledged economic crisis across much of the European Union (EU) and into a sovereign debt crisis in the Euro area’s periphery. In turn, the sovereign debt crisis risks turning into a new banking crisis, threatening the very existence of the euro and menacing the global economy. These developments have prompted an unprecedented degree of policy intervention at the national, EU, and international levels designed to prevent sovereign debt defaults with a potential domino effect.

This special issue has two main aims: to examine the politics and economics of the sovereign debt crisis and to draw some lessons from it, relating these findings to longstanding debates in the literature in comparative and international political economy. The special issue is both topical and important. It is topical because an authoritative and comprehensive analysis of the political economy of the sovereign debt crisis is missing. It is important because the sovereign debt crisis has profound and far-reaching implications not only for Europe but also the international economy.

The special issue will begin with a explanatory introduction by the editors followed by articles with a view to dissect the crisis and the response to it at the national, EU and international levels. While the articles will stand as individual pieces of work of quality, authors will be encouraged to draw upon the relevant insights developed by the other special issue contributors and to cross-reference. All of our authors – including the two ‘practitioners’ based in the European Central Bank (ECB) – have a solid track record producing journal articles for highly ranked political science and international relations journals.

First drafts of most of these papers were presented at a Workshop in Luxembourg, on 12 April 2013. The guest editors invite additional paper proposals. The RIPE peer review process is rigorous and submissions will be treated as normal submissions. David and Lucia would therefore like to have more papers than required for the special edition. If there are an excessive number of accepted papers, they can be published as independent pieces in a different edition. If you are interested in submitting a paper, please contact David and Lucia as soon as possible (david.howarth@uni.lu and lucia.quaglia@york.ac.uk). Papers must be submitted for review by mid-July 2013.
Papers to be submitted (to date):

- Dermot Hodson (Birkbeck College, University of London) ‘The International Monetary Fund: A de facto institution of the European Union?’

- Kenneth Dyson (University of Cardiff): ‘Law, sovereign debt, and the paradoxes of power in Europe’

- David Howarth (University of Luxembourg) and Ivo Maes (Bank of Belgium): ‘The shallow pockets of the Euro area’s pooled funds: from the European Reserve Fund to the European Stability Mechanism’

- Gabriel Glöckler and Marion Salines (ECB): ‘Banking Union: an ‘accidental’ institutional revolution?’

- Sebastian Royo (Suffolk University, Boston) and Lucia Quaglia (University of York): ‘The comparative political economy of the sovereign debt crisis in Italy and Spain.’

- Juliet Johnson (McGill University): ‘Umbrella or straightjacket? The EU ’s crisis response policies in Central and Eastern Europe.’

- Waltraud Schelkle (European Institute, LSE) and Deborah Mabbett (Birkbeck, University of London): ‘Hegemony without stability: The fiscal and political vulnerabilities of monetary union.’

- Charlotte Rommerskirchen (University of Edinburgh): ‘Market discipline revisited - An empirical investigation into the impact of international financial markets on fiscal policy in the Eurozone.’

- Michele Chang (College of Europe) and Patrick Leblond (University of Ottawa): ‘The irrationality of bond investors and the euro crisis.’

- Kurt Huebner (University of British Columbia): ‘Germany in the Eurozone Crisis: Paradoxes of a Stealth Hegemon.’

- Leila Simona Talani (King’s College, University of London) and Giorgio Fazio: ‘Assessing the Credibility of Exchange Rate Commitments in the wake of the Euro-zone crisis: A Socio-Economic Interest groups approach.’

Member News

David Howarth took up a Chair in European Political Economy at the University of Luxembourg in September 2012. His email address is david.howarth@uni.lu. Please contact him if you are visiting the Grand Duchy. There are great opportunities in Luxembourg for the organization of
seminars on EU political economy topics that are of interest to academics and practitioners in the EU institutions.

External Grants & Fellowships

**The Dr. Guido Goldman Fellowship** for the Study of German and European Economic and International Affairs supports promising American scholars and analysts whose research bears special significance for German economic and international policy within the wider European context. **Deadline: 1 July 2013.** More info: [http://acqusa.org/index.php?section=goldman-fellowships](http://acqusa.org/index.php?section=goldman-fellowships).


The **Marie Curie Intra-European Fellowships** for Career Development provides support for experienced researchers. Applicants can be of any nationality, but applicant host institutions must be located in an EU member state. Projects shall be for a period of 12-24 months. **Deadline: 14 August 2013.** More info: [http://ec.europa.eu/research/participants/portal/page/people;efp7_SESSION_ID=Q0FtRvndTH9yp6TpVKrjkyFykrLNb1bqM2JdQnlfLyq2Tk3vHjbh1171786564?callIdentifier=FP7-PEOPLE-2013-IEF#wlp_call_FP7](http://ec.europa.eu/research/participants/portal/page/people;efp7_SESSION_ID=Q0FtRvndTH9yp6TpVKrjkyFykrLNb1bqM2JdQnlfLyq2Tk3vHjbh1171786564?callIdentifier=FP7-PEOPLE-2013-IEF#wlp_call_FP7)

The **American Institute for Contemporary German Studies (AICGS)** announces the DAAD-AICGS Research Fellowship Program. The program is designed to bring scholars and specialists working on Germany, Europe, and/or transatlantic relations to AICGS, which is located in Washington, DC, for stays of two months each. For fellowships between January and June 2014, the **deadline is 31 August 2013.** More info: [https://www.daad.org/aicgsresearch2](https://www.daad.org/aicgsresearch2).

**Fulbright German Studies Seminar.** For U.S. scholars, the engagement in substantive dialogue with political, academic, scientific, journalistic and cultural leaders in Germany can strengthen research and teaching. The summer seminar will take place in Berlin from June 10-19, 2014. **Deadline: 15 October 2013.** More info: [http://www.cies.org/GSS/](http://www.cies.org/GSS/).
Fritz Thyssen Foundation Scholarship. The scholarships are intended for junior researchers, generally one to two years after they have received their doctorate. No scholarships are awarded for doctoral dissertations or postdoctoral theses. **Deadline: rolling.** More info: [http://www.fritz-thyssen-stiftung.de/funding/types-of-support/?L=1](http://www.fritz-thyssen-stiftung.de/funding/types-of-support/?L=1)
Deadline
for submissions to the Winter 2013 issue:

• **Tuesday, 17 December 2013**

Please direct all correspondence to the editor:

• Alexandra Hennessy, email: alexandra.hennessy@shu.edu

In particular we are looking for:

• Members’ recent publications (since this issue)
  • Members’ news (since this issue)
• Suggestions and Contributions for the Forum section
  • Calls for papers
  • Notice of forthcoming events