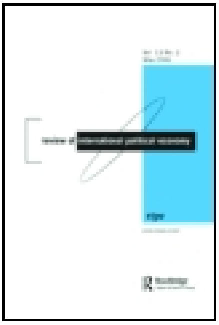

Review of International Political Economy
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rrip20

Power Politics and the Undersupply of Financial Stability in Europe

Shawn Donnelly [a]
[a] Department of Public Administration , University of Twente , Enschede , Netherlands
Published online: 28 Jun 2013.

Review of International Political Economy, 2013
http://dx.doi.org/10.1080/09692290.2013.801021

Routledge
Taylor & Francis Group

Power Politics and the Undersupply of Financial Stability in Europe

Shawn Donnelly

Department of Public Administration, University of Twente, Enschede, Netherlands

ABSTRACT

This article analyses the politics of banking and fiscal union in the EU in the context of continued threats to financial stability in Europe. Contrasting the expectations of functional responses and power politics, it finds that the behavior of the states and the outcome of negotiations most closely resembles contemporary realist expectations. Minimal supranationalism takes place to prevent complete collapse, but the main development is that financially powerful member states coerce and impose changes on weaker member states, without committing to the financial transfers that the latter require to survive the financial crisis, with negative consequences for European financial stability.

KEYWORDS

Financial stability; banking union; euro zone; realism.

INTRODUCTION

Why is the EU's supply of financial stability so limited despite intense functional and political demand for new institutions? Six years into the financial crisis, the greatest threat to global financial stability remains the European Union's incapacity to provide for it at home. Measures to stabilize banks and national finances that depend on the cooperation of individual member states prevail, while collective action at the EU level falls short of what is needed. Though the EU established mechanisms to fund states and banks in danger of bankruptcy in 2012, resources were ratcheted back in 2013. Similarly, new EU powers to supervise, reorganize and wind down banks fell short of what the ECB, as the prospective new regulator, felt was required. National laws and authorities continue to dominate, with negative effects on financial stability.

In this context, optimists (the European Commission, the United States Government, and a variety of transnational lobby groups and think tanks) hoped that national governments would permit the establishment of a fiscal union and a banking union with sufficient funds and regulatory power to secure financial stability in a single European market. Pessimists, in contrast, pointed to national resistance against such measures. If the pessimists are correct, financial balkanization and instability would continue in Europe indefinitely. The debate has implications for understanding the prevalence of economic nationalism over liberalism in the international sphere during time of crisis. Will the EU construct such institutions, and if not, why not?

To analyse the question above, this article tests the premise that European institutions relevant to financial stability deliberately focus on the improvement, empowerment and self-help of national authorities, building on accepted international norms in the process, at the insistence of a coalition of financially powerful member states intent on limiting and rolling back supranationalism. It demonstrates that despite some institutional development, that power politics and national interest focused on preserving relative gains within the EU dominate over demands to provide for financial stability for the euro zone, much less the entire EU. In the context of calls for heightened cooperation and institutional development, Germany, Finland and the Netherlands insist on institutionally reinforcing national self-help and autonomy. Other countries accepted these demands as the price for modest increases in emergency loans that stave off collapse. Although economic nationalism is compatible with open economies during time of plenty, it turns into a dominant and problematic obstacle to collective action by the member states that undermines financial stability during hard times. After laying out what policies and institutions financial stability requires, this article takes stock of how close or how far the Europeans are from that goal and why.

The rest of the paper is organized as follows. The following two sections deal respectively with theory regarding the demand for and supply of institutional development beyond the nation state. The first of them deals with the requirements of financial stability, with special requirements in compound polities with a single currency. The second reviews key points of existing theory on international relations and European integration to put Europe's condition in context. Sections three and four deal with the prospects for a banking union and a fiscal union in Europe, as two key supranational proposals to secure financial stability, and demonstrates what was done instead. The last section draws conclusions.

FINANCIAL STABILITY AND INSTITUTIONAL DEMAND

Neoliberal institutionalism maintains that where national governments are unable to secure welfare gains independently, that an incentive exists to pursue them jointly, provided the benefits outweigh the costs. In Europe, there are only two stable equilibria: an integrated European capital market in which financial stability is provided at the European level, or a balkanized market in which the member states continue to provide for their own financial systems. NLI should expect supranational measures to at least maintain the pre-crisis level of interdependence in the single capital market.

Financial stability refers to the on-going capacity of banks to meet the demands of their depositors and other creditors. Creditors are not only retail customers with simple bank and investment accounts and commercial enterprises, but other banks as well. Financial stability relies in the first instance on banks lending to one another on a daily basis. Three recent meltdowns of the international financial system, in 2008, 2011 and 2012, took place when the interbank market in loans collapsed. Although central bank intervention alleviated the immediate crises, the underlying causes of bank weakness and systemic instability were not addressed, with serious consequences. The symptoms of financial instability in order of seriousness are illiquidity, insolvency, zombie banks, the collapse of interbank loans, and very prevalent in the euro zone crisis that started in 2010, a symbiosis of state-and private-sector debt. Illiquidity refers to banks being short of cash, but sufficiently rich in assets that ensure long-term ability to pay. Insolvency, a much more serious condition, refers to a bank's long-term inability to fulfil its obligations. Zombie banks, which in the European case have gone hand in hand with the symbiosis of state and private-sector debt, are liquid and solvent only by virtue of state intervention, despite continued uncertainty about liabilities and the quality of assets (Baker, 2009). They remain unable to borrow from other banks, and unable to channel new funds into loans to the real economy, which perpetuates a vicious circle of declining economic activity and bank insolvency as income declines. When the public authority reaches the limit of its capacity to support increasing losses, it precipitates the collapse of banks, which then generate new losses for the public sector. Wherever these symptoms persist, additional measures are required to stabilize the financial system. These functions are recapitalization, restructuring and resolution powers.

Providing for systemic stability requires tools that are applied in three stages: before a crisis, at the onset of a crisis, and at the exit. Before a crisis, *statutory regulation and supervision* is required to ensure that sound economic fundamentals on individual bank balance sheets and suitable procedural and institutional structures of corporate governance (Basel Committee, 2010) are in place in banks throughout the financial system.

This not only raises the factual security of the system, but confidence in all banks that they can safely do business with each other. In the event of any number of banks becoming insolvent, confidence in the capacity of banks to access additional capital is critical to averting full-blown panic by other banks in the system. Capital may come from other private actors to save individual institutions before a panic ensues (Jorion, 2000), but the volumes required and the scarcity of capital during a crisis spreading beyond a single bank mean that public authorities, whether governments or central banks, are essential providers of credit as a *lender of last resort* (Minsky, 1985; Kindleberger, 2005), either through direct *recapitalization* of failing banks or the provision of liquidity to the broader economy. Finally, in order to restore confidence in the health of banks and to exit the crisis, regulators require powers to restructure and resolve insolvent banks.

Restructuring reduces holdings of toxic assets in banks to restore them to health (by establishing a bad bank to absorb them), requires creditors or shareholders to pay the bank's debts in part (known as a bail-in), or sells off the bank in part or whole to other banks that can ensure continuity of business (Institute for International Finance, 2012). Nationalization as a last resort places the bank in state hands. Currently, the legal authority to intervene so strongly in property rights rests with the member states. These measures are controversial enough within a country, but are unprecedented within the EU. All of these measures require strong regulatory authority to intervene in the property rights of companies, shareholders and creditors, and would have to be sorted out at that level, where they currently are not (Coussens, 2012).

If national authorities are unable to contain the threat of contagion independently, at the onset of a crisis, international cooperation is required to provide liquidity, in the form of a truly supranational monetary fund or fiscal union (Goyal *et al.*, 2013: 10–11) that channels funds to the countries with the weakest financial positions. The access to credit must be extensive to do that sufficiently during a general crisis of confidence in the banking system (Obstfeld, 2009). The alternative is to prevent the default of a bank or a country from spreading to others by shutting down international investment and capital flows. Given the symbiosis between bank insolvency and public sector budgets, a fiscal union kills two birds with one stone by supporting both the public and private sides of financial stability, and focusing on the weakest financial links. As all of these powers are considered core competencies of the modern state, proponents of fiscal and banking union promote political union as well (Véron, 2012), both to manage the decisions being made, and to legitimate them democratically.

Because bank activity and the threat of contagion crosses national borders within the EU, a banking union, in which these activities are collectively managed, has been promoted as functionally necessary. National governments surrender individual autonomy to regain effective collective regulatory control over banking activity.

THEORIZING INSTITUTIONAL UNDERSUPPLY

The key puzzle is why supply of financial stability was so limited despite intense functional demand for new institutions. There are three lenses through which one can view the prospects for the EU developing the institutions required to supply financial stability.

Traditional neoliberal institutionalist principles lead to the conclusion that functional incentives should lead to binding commitments of national governments to preserve economic openness and institutional development to advance that goal where the benefits outweigh the costs (Keohane and Nye, 1984). This may involve mutual adjustment of national policies to avoid conflict and secure joint gains within a regime, but it may also involve the establishment of supranational institutions and the commitment of material resources. Upholding the gains of interdependence and providing insurance against risks that could endanger that interdependence are considered compelling reasons to agree, with those countries most vulnerable the most willing to make concessions. From these premises, one should expect euro zone countries, whose banks entered the crisis with high levels of cross-border investment in each other, to have a tangible interest in joint supervision, restructuring, resolution and financing powers at the EU level to prevent and manage contagion. While insolvent banks might have to disappear as national institutions periodically, other, healthier banks will supply financial services to the economy that they no longer can. Neofunctional and supranational governance variants of these principles designed specifically for the EU strengthen these predictions through their expectation that existing supranational institutions – but particularly the Commission and the ECB are able to both nudge the member states toward new supranational agreements where required and prevent them from sliding back into egotistical conflict (Stone Sweet and Sandholz, 1997).

Realist expectations of conflictual intergovernmental politics on the other hand, lead us to expect little in the way of institutional development or cooperation, and the primacy of autonomy and self-help over cooperation. Power politics between countries and statism within them lead to financial mercantilism when placed under stress (Gilpin, 2001), which implies the protection and promotion of banks as strategic national assets by national governments, using power to shape the distribution of benefits from cross-border activity (Krasner, 1976) and rejecting cooperation with a positive payoff if the relative gains accruing to other countries are higher, even if the consequence is that existing systems of cooperation and international institutions collapse (Grieco, 1988; Strange, 1982). Statism is not to be misconstrued as a strong state vis-a-vis societal actors at all times, but the capacity and willingness to intervene to impose policy outcomes through various forms of intervention when required (Hall, 1986).

However, contemporary realist work envisages that states might establish commitments and institutions, but on the basis of power politics rather than neoliberal agreement. One set of literature moves beyond the traditional focus on crisis situations, where state power is overt, and demonstrates the prevalence of power politics in global regimes and standard-setting bodies in non-crisis situations (Drezner, 2007; Koppel, 2010), with two consequences: that stronger countries will successfully upload their preferences at the expense of other national preferences, and that the obligation on national governments to implement those standards remains weakly institutionalized in deference to the principle of national sovereignty (Brummer, 2012; Donnelly, 2012), however hypocritical. Thus it is possible that strong states use institutions to coerce others or impose their will on them (Krasner, 1999) in ways that they would never accept for themselves. From this, one can infer that national governments in control of capital needed to provide for lender of last resort transfers will reject them (ruling out European bank recapitalization and sovereign bailouts) or use the leverage to secure other goals in exchange.

This contemporary realist view differs from liberal intergovernmentalism and from neoliberal institutionalism in that it relaxes the assumption that intergovernmental agreements are voluntary. One consequence is that supranational agreements and institutions might extend far further into core areas of state responsibility and regulatory policy than Moravcsik envisaged (1998), as integration is generated more strongly by force, and at the discretion of powerful countries. In the case of financial stability, these are the countries with the largest and most resilient financial resources available (Dyson, 2011).

A constructivist viewpoint, in contrast, leads to the conclusion that readiness to cooperate, dominate or defect depends on the attitudes of national governments about the role of the state in providing for the country's welfare, individually at the national level of analysis: Schmidt, 2004, 2008; Blyth, 2002) and collectively at the systemic level (Ruggie, 1982). This in turn has consequences for national willingness to sacrifice national control over banking, regulation and public finance in order to participate in an open interdependent economy, or at least to make adjustments that avoid negative externalities on other participants in the system (Epstein, 2008).

There are reasons to be skeptical about what the study of economic nationalism as an independent variable can add to the realist-neoliberal institutionalist framework for analysis, however. At the national level, Pickel (2002), Helleiner and Pickel (2004) and Abdelal (2001) identify economic nationalism as compatible with either liberalism or protectionism provided it is pursued for the benefit of the nation, however defined, rather than a broader community of nations or countries. In this sense, they take Cohen's distinction of benign and malign economic nationalism, one self-centered; the other system-supporting (Cohen, 1991: 41) and join it with a broad idea of commitment to national welfare. However, various studies question whether the national component reflects anything further than collective action. Indeed, as Jabko and Massoc (2012) have found in examining post-crisis France, protectionism need not require pride in national identity, corroborating Streeck's thesis that nationalism amounts to competitive solidarity (1999), and Busch's (2009) finding that national governments protect banking systems and regulation to preserve existing institutions and the societal actors that benefit from them. These institutions may incorporate policy ideas that enhance their resilience, but not necessarily ideas of the nation.

When analyzing protectionism, liberal economic nationalism and economic patriotism, in which loyalty can transfer to a regional entity like the EU (Clift and Woll, 2012), can also cause problems of analytic clarity. They no longer imply protectionism and the degree of systemic instability that is likely to result. They provide a focus on how countries compete economically and governments keep policy levers in their own hands without necessarily resorting to mercantilism (Gilpin, 2001; Krasner, 1976). Protection of strategic sectors like finance remains common, particularly in hard times (Claessens, 2009; Jabko and Massoc, 2012), but it is *access* to the factors of production rather than their ownership and control that economic nationalism seeks to secure, even through radical international openness (United States Congress, 1990). However, for prior expectations of cooperation or conflict, economic nationalism serves poorly as an independent variable.

State centrism in international financial regulation

There are well-documented case studies of how international banking regulation seeks to strengthen, not weaken national regulatory capacity in an open economy. National sovereignty over economic management, as opposed to supranationalism, is articulated institutionally through international principles of banking regulation dating back to the 1970s, with the formation of the Basel Committee on Banking Supervision. Although the Committee is most famous for the establishment of capital adequacy standards for banks, it adopts the institutional ethos of its parent organization, the Bank for International Settlements, that each country is responsible for supervising banks in its own way, and elevates them to governing principles of the relationship between countries, and between national authorities and Basel. International agreements on banking regulation and financial stability underline the principle of home country control rather than collective or supranational supervision (Kapstein, 1994). Confirming the assertions of state centrism at both the international and global levels, Kapstein underlines that the purpose of national responsibility:

> ... is to allow all countries to secure the benefits of an open economy while shielding their national financial institutions from systemic pressures... In the European Community the concept is far more expansive, involving mutual recognition by each member state of the others' home country regulations. (Kapstein, 1994: 9)

The result is that individual countries retain responsibility for lender of last resort facilities to their own banks, but not foreign banks operating in their jurisdictions as branches;[1] that home country control forces countries to take responsibility for enforcing regulatory standards (also for independently incorporated and capitalized subsidiaries of foreign banks); and that central authorities retain control over the strategic asset of money (Kapstein, 1994: 14–15). Extensive regulation from the international level is not desired (Davies, 2010), at least not in ways that impose legal obligations. Where international standard-setting bodies do arise, they are dominated by stronger states. These institutions emphasize the intent to strengthen national regulatory institutions and laws as a means to generating global financial stability in the context of common recommendations, guidelines and peer review (Brummer, 2011, 2012; Donnelly, 2012).Within the European Union, there is also evidence of national prerogatives taking precedent over liberalization in the single market to protect and promote divergent models of banking (Story and Walter, 1997; Spendzharova, 2012; Busch, 2009).

Differing investment profiles across countries, coupled with the prevailing public policy stance on openness to international companies and investors across countries, pose a challenge to collective action based on harmonized regulations or supranational institutions with real powers. One key divide is the degree to which countries depend on foreign banks to generate revenue from financial services. Greater international openness leads to greater eagerness to attract and hold financial capital during crisis periods than elsewhere (Bernauer and Koubi, 2003; Moschella, 2011; Lyngen, 2012; Breznitz, 2011; Macartney, this volume). In practice, this means high operating standards for banks (UK), high state guarantees of deposits and loans (Ireland, Cyprus), or shielding the country from transparency obligations that could undermine investor faith (Luxembourg). Demands for deposit guarantees are supported by governments that lack sufficient funds to support national banks on their own.

Countries that deal mostly with national banks and have the means to support them, in contrast, have been wary of such committing financial resources into a pan-EU deposit guarantee scheme, preferring to reinforce domestic financial strength (Germany, Benelux). Countries on the verge of exhausting their resources, in contrast, have greater incentives to support the idea of a common deposit guarantee system (France, Italy, Spain) (Penty, 2012; Zampano *et al.*, 2012). Eastern Europe, meanwhile, served by West European banks, is mostly interested in retaining those services outside of the talks on banking union (Epstein, this volume).

There are therefore clear differences in interest and outlook across European countries that make agreement on common terms challenging and support the continued dominance of national responsibility for the core regulation, protection and promotion of banks in the single market (or for attracting foreign banks). The existence of European commitments to open the single market to banking contains residual powers for the member states that allow them to protect national market actors as part of high national interests (Story and Walter, 1997),[2] and to ensure that the needs of differing banking systems are supported. This mitigates against the prospect of banking union. Finally, national self-sufficiency in fiscal policy is also institutionalized, which disadvantages proponents of fiscal union. The sections below examine to what extent this has been the case and draws conclusions for supplying the institutions required for financial stability.

FINANCIAL STABILITY IN THE EUROPEAN CONTEXT

Financial stability, if retaining interdependence, requires strong supranational financial resources backed by a fiscal union and regulatory powers that cover supervision, restructuring, resolution and deposit insurance. The previous section outlined two sets of outcomes and accompanying actor motivations. The section below reviews what institutions were generated, how they were generated, and why.

The banking union side of financial stability has seen more progress, but with great hesitation on the part of the member states to delegate authority to the EU, or to touch the realm of nationally-based property rights considered necessary for restructuring and resolution of banks in difficulty. The result is that, by the time of writing, although the European Central Bank had been awarded supervision of EU banks, it failed to receive many of the powers that it had said in advance were necessary. Both the EU Council and the Commission chose to duck international conflict over regulatory rules and implications by shielding all but the biggest of the EU's banks from central supervision. The rest remain in national hands. The next two sections review policy and institutional changes in banking and fiscal union, with special regard to the division of roles between national and supranational entities.

BANKING UNION

Proposals for banking union touch on supervision, restructuring, recapitalization and deposit guarantees. All four areas were in national hands in 2008. By April 2013, only partial transfers of authority and resources had been made to the European level.

Recapitalization

Recapitalization covers public intervention and deposit insurance. It is handled by national governments despite calls to establish European funds that would break the link between the highest demand for funding and the weakest capacity. Between 2007 and late 2010, there were 20 cases of state guarantees for bank debt, 15 recapitalization schemes, 44 cases of individual bank aid that the Commission dealt with and ultimately approved in the interest of securing financial stability (Sutton *et al.*, 2010: i). These interventions were made possible through the use of a loophole article that grants member states the right to employ extraordinary measures leading to a distortion of competition in cases of severe economic imbalance (Article 107 (3)(b), TFEU).

As long as banking is a largely national affair, there are few EU rules that prohibit state aid to banks. The key restrictions are on state aid that distorts the level playing field between private companies within the single market, which could happen through the establishment of state monopolies (Article 37 TFEU), cartels (Article 101 TFEU) (either of which could apply, considering the concentration of the banking market and public ownership), the abuse of a dominant position (Article 102), or states selectively aiding national banks. Dominant positions are not prohibited per se, nor public ownership (Article 345 TFEU), only abuse of those positions. In order to attract the attention of the Commission, these effects must be palpable in at least three member states. Otherwise, they are generally left to the competent authorities of the member states.

At the start of the crisis, the Commission adapted state aid regulation to the needs of financial stability, rather than restricting state aid and promoting European recapitalization. DG Competition established an Economic Crisis Team in 2007 to provide preliminary rulings and implementation guidance, with a view to ensuring that a severe economic imbalance was a pressing concern. Furthermore, a General Block Exemption Regulation (Commission Regulation (EC) No 800/2008 of 6 August 2008) explicitly encouraged state aid in the banking sector. Commissioner Kroes gave emphasis to powers given to the member states to preserve the banks they have: 'In fact, with the introduction of the General Block Exemption Regulation in July they can simply go ahead without notification in 26 categories of aid. Just do it, is what I say!' (Kroes, 2008a: 5, emphasis in original).

Continuing this line of argument, Kroes announced that state guarantees of bank debt do not constitute state aid (European Commission 2009b; 2008b: 10) in a negative sense, but rather measures necessary to secure financial stability.

State aid for banks was further legitimated in the context of the European Economic Recovery Programme, which was launched on 26 November 2008. Beyond the desire to ensure financial stability by states recapitalizing banks, the Commission extended the time horizon for aid for the purpose of supporting economic growth. It hoped that banks would use part of the aid to extend loans to the real economy (European Commission, 2009b: 2). In 2009, the Commission also gave the green light for national central banks and the ECB to provide banks with liquidity beyond the levels provided by government in exchange for impaired assets (toxic financial derivatives) (European Commission, 2009c). State aid therefore rested on not one, but two pillars, further reinforcing the link between national authorities and banks.

The Commission's approval of state aid was designed to be temporary, but last as long as Europe remained in recession. Its appeal to the member states to treat intervention as temporary rather than permanent was first made in late 2008 as it established guidelines for member states wishing to inject new capital into their banks (European Commission, 2008b, c) and wishing to subsidise the interest rates paid by banks to secure credit.[3] These measures primarily benefited banks in the EU's core financial centers, but the interest rate subsidies also helped banks in the countries hit hardest by the credit crunch: in peripheral countries of Southern and Eastern Europe. The three-year horizon on sunset clauses for subsidies were accompanied by a parallel demand by the Commission to phase out state aid for and state ownership of banks as part of the Europe 2020 program on European international competitiveness (European Commission, 2010: 22), but economic recovery remained a prerequisite. The Commission's initial decision to permit national solutions to stability and growth reinforced the primacy of national responsibility for bank recapitalization. However, as Europe's economic problems deteriorated, particularly in the southern periphery, banks were pushed increasingly into insolvency and national governments are increasingly unable to prevent those collapses with public funds.

In this light, the key question was whether the EU would contribute further to bank recapitalization. In May 2010, the Eurogroup established the European Financial Stability Facility as a temporary measure to make loans to states, and made arrangements for a permanent fund, the European Stability Mechanism (ESM), in November. In June 2012, Spain requested that the ESM recapitalize Spanish banks directly, and received support from France, which pushed for a wide-ranging banking union involving EU supervision, joint deposit guarantees, and a fund to wind down banks. France wanted to prevent further strain on national public finances, which would suffer if contagion placed further strain on French banks. Large exposures to Spanish and Italian debt, coupled with impending credit rating declines for France generated the incentive to make the proposal (Thomas, 2012). Germany, the Netherlands and Finland, in contrast, were determined to prevent the ESM from becoming a fiscal union with automatic transfers through the back door. The Eurogroup approved support for Spain on the condition, however, that the Spanish state would receive the loans, which would then provide the aid to the banks. The Finish position was the most extreme, rejecting the use of ESM funds for banks in more serious trouble (Kremer, 2012). The ESM advanced to a backstop for national responsibility, rather than a truly European transfer, took decisions on an ad hoc basis, remained outside the EU (so that the Eurogroup could decide independently) and remained too poorly funded to prevent bank collapses. In the subsequent Cyprus crisis that culminated in March 2013, the Eurogroup responded to the problem of a mismatch between the ESM's size and the demands on its resources by further pushing back access to funds rather than increasing them. The Dijsselbloem Doctrine (Salmon, 2013), named after the head of the Eurogroup, made recapitalization a private affair first, a national affair involving taxpayers second, and a European affair involving other member states through the ESM a distant third. Bank creditors and shareholders would be called on first to pay for shortfalls, followed by depositors, and only then followed by national governments. Only after the member state itself reached insolvency would the ESM be employed to buttress the state, and only then if the Eurogroup, together with the Troika, viewed the application favourably. Dijsselbloem himself was so intent on renationalizing responsibility for recapitalization that he was prepared to risk a complete Cypriot default to prove the point (Peeperkorn, 2013), which culminated in his announcement that confiscating a portion of all deposits, even those covered by deposit guarantee systems, formed a blueprint for recapitalization. He was promptly overruled by the German finance minister, and issued a retraction within 24 hours, that deposit insurance would remain intact, and that the bail-in of uninsured deposits did not set a precedent for the treatment of other insolvent banks and countries.

Commission plans for European Deposit Guarantee System into which all countries would pay, supported by France and Southern Europe, fared even worse than ESM. Before the Dijsselbloem Doctrine, Cyprus raised the spectre of indirect European deposit guarantees for which all countries would be liable, since the Cypriot state could not pay. The consequence was first that the principle of deposit guarantee was attacked directly through a bail-in of all depositors, supported by the Eurogroup, until Europe-wide panic forced a retreat.

The Commission initially favoured a European Deposit Guarantee System, but facing German and other opposition, tabled a draft directive in 2012 to coordinate national systems and add the right of national systems to borrow from one another. By April 2013, however, the right to borrow proposal had been retracted. This was followed by the German finance minister's statement of Germany's opposition to the EDGS entirely (Breidthardt and O'Donnell, 2013).

Restructuring and resolution

Restructuring intervenes in the internal workings of the bank to restore it to health, often in combination with recapitalization by the state and sometimes in combination with resolution, in which the bank is closed permanently. Restructuring can take place by any combination of asset separation (moving toxic assets into a bad bank, where they are managed and any proceeds used to reduce the state's net recapitalization), a bail-in, in which creditors, shareholders and uninsured depositors' claims on the bank's assets are reduced or eliminated, or a transfer of business (moving the entire bank or part of it to the ownership of another bank). In all three cases, private actors pay the primary cost at the insistence of public authorities, reducing liabilities for taxpayers through the state. This means terminating their contract and property rights. As part of a resolution, a resolution fund is normally required to ensure an orderly closure, by limiting the damage inflicted on counterparties (other banks) of the bank closing. EU-level measures would not only raise cross-border financial issues, but potential conflicts over ownership of the banks themselves.

European management of bank restructuring, and European supervision of the process through the European Banking Authority were proposed by the Commission in June 2012 (Draft Restructuring and Resolution Directive-RRD), but buried under a landslide of national objections (interview, 2012). In contrast to the ECB's insistence that only a European institution could ensure proper restructuring and resolution that could overcome the continued protection of national champions by member states and the inclusion of national pension fund champions in contributing to bail-ins (Coussens, 2012), the Commission's draft sided with national demands that national authorities remain in control of the process, with the EBA limited to coordination of national efforts. Germany placed further obstacles to supranationalism in the RRD at the ECOFIN summit on 13 April 2013 to passage of the RRD by demanding treaty changes that reinforced the dominance of national supervisors in any system, denying the ECB powers to restructure and resolve properly. In doing so, Germany sought not only to kill the possibility of cross-border changes in ownership unless approved by national authorities, but to eliminate the possibility of the EU contributing to the costs of the resolution fund. Spain, as a potential recipient, in contrast, pushed for the EU to cover 90 per cent of such costs (Breidthardt and O'Donnell, 2013).

In practice, the euro zone moved to take control of restructuring and resolution through imposition on target countries at the moment of collapse, when leverage was highest. This was accomplished for the first time in Cyprus in March 2013, where the Eurogroup demanded transfer of assets from Laiki Bank to the Bank of Cyprus, a bail-in of uninsured depositors, creditors and shareholders, and then the resolution of Laiki (in addition to other measures unrelated to banks) in return for financial assistance from the ESM. This significantly reduced the size of the ESM recapitalization. The Cypriot government resisted restructuring the banks until the deadline for an EU bailout (recapitalization) had run out and EU demands remained firm. Only facing bankruptcy was Cyprus prepared to concede. European authorities and the IMF, though present, did not make the decisions. Collectively, these measures show the dominance of power politics over integration in managing restructuring and resolution.

Supervision

Supervision ensures that the internal workings of banks, the maintenance of proper capital requirements, and the detection and elimination of toxic assets support financial stability. This includes measures to harden banks against impending shocks. It requires powers to demand information from and impose changes on banks, far before restructuring and resolution take place, but including those things. For this reason, and because prudent regulation could minimize the funds needed to support banks in a crisis, the ECB, backed by the Commission, supported the central bank's establishment as a single supervisor for all banks in the EU single market at the end of 2012 (Davies, 2012; Barnier, 2012). The supervisor would have to manage not only large banks considered too big to fail, but also banks considered too interconnected to fail, which could cause a systemic crisis despite a relatively small size (Weber, 2010). In practice, this means all banks in the single market. The ECB also wanted to end a pattern in which national regulators provided for financial stability on a national basis by demanding that national banks reduce connections with banks in other single market countries to protect themselves. Such behaviour undermines European financial stability in the attempt to increase it nationally (Coussens, 2012).

Several national objections played roles in denying the ECB this role, however. Germany argued that small and medium-sized banks, including savings, cooperative and regional public banks posed no systemic threat and should be excluded from supervision. In the wake of a European Council meeting, ECB competence was restricted to the 25 largest euro zone banks (Waterfield, 2012; Handelsblatt, 2012). This demand ignored the failures of two such banks: Bankia in Spain and Monte dei Paschi in Italy in 2012 and 2013 respectively. The UK made it clear that it did not want European banking supervision to be robust, given its laxity on implementing international standards such as Basel III capital requirements (House of Lords, 2011: chapter 2). Indeed, the UK found it more important to pursue regulatory agreements with the United States on restructuring, resolution and supervision, rather than wait for the EU to sort out its differences (Federal Deposit Insurance Corporation and Bank of England 2012). It also objected to the establishment of the ECB as the sole regulator for non euro-zone banks. Even then, the UK insisted on new safeguards to prevent the EBA from being dominated by euro zone governments/authorities, by institution of a double majority vote to allow the Authority to undertake intervention.

National efforts to admit only a limited role to the ECB also ignored complaints, from the European Commission and others, that national supervisors had not done their jobs properly for political reasons (Jones, 2013; Penty, 2013), and that the EBA, despite a European mandate and powers to override national regulators (Quaglia, 2012), had done nothing to push back national regulators protecting national systems (Véron, 2011; Asmussen, 2012).

These point toward a symbiosis of national private and public interests that plays a much stronger role than EU rules in bank supervision that the EBA continues to facilitate. To illustrate, the EBA rejected incorporating a possible default of the Greek government on its debt obligations into its stress test modelling,[4] despite the fact that heads of government were discussing precisely that in European Council meetings within the same time frame in 2011. The EBA has also not been able to assert its powers against market participants backed by national authorities. Helaba, a German public bank, pulled out of stress testing in 2011, with the approval of the Bundesbank, the national central bank and regulator. This points to the continuation of a broader problem under the plan: that both the EBA and the ECB will depend on national authorities and banks themselves for information in the supervisory process (European Banking Authority, 2011). The same reliance on national resolution and restructuring funds prevails. Restructuring and recapitalization need to go together, but are not allowed to, according to a senior European regulator, as the EBA remains responsible for restructuring, but has only 20 million euros in assets to use (in contrast to 34 trillion in bank assets) (Jones and Slater, 2012).

Although the member states in the Council were willing to entertain a transfer of supervision to the ECB with the large exceptions already mentioned, they insist that rule-making and day to day supervision remain in national hands and with the EBA, where the member states dominate (European Council, 2012). Jens Weidmann, the German member of the ECB's executive board went a step further to kill off expectations that a banking union could successfully cut the link between public and sovereign debt, by arguing that the ECB would not be able to issue orders on the management of toxic bank assets. Individual countries would remain responsible for the bad assets of their own banks (Black, 2012). The alternative to European supervision for most banks appears to be a renationalization of finance within the member states, building on existing practice. Against the wishes of the Commission, and of the Second Banking directive, which permits banks to open branches in other member states, host countries often demand that the foreign bank establish an independently incorporated and capitalized subsidiary, which the host regulator then treats as a national bank of its own (Jones, 2013). A consequence of the national supervision role is that national supervisors have been free to ringfence (quarantine) those subsidiaries, and to insist that banks sell off assets deemed at risk of default, and posing a threat of contagion. This meant that Spanish, Cypriot and other banks established in the UK as fully funded subsidiaries, for example, were not at risk of failure due to the failure of the parent company in southern Europe. It also meant that national authorities were empowered to forbid a subsidiary from transferring funds to the parent company to keep the latter solvent. For example, the UK supervisor, the FSA, ringfenced Santander UK in May 2012 to block the bank from repatriating capital to the parent company in Spain (Tremlett and Treanor, 2012). All of this means that issues of supervision, resolution and recapitalization remain effectively between a national supervisor and a national bank, regardless of the nationality of the subsidiary's parent. It also meant that attempts to make cross-border supervision, restructuring, resolution and recapitalization were made impossible. Instead, national supervisors remained responsible.

FISCAL UNION vs. STABILIZATION MECHANISM

A key characteristic of the euro zone crisis, as with the banking crisis, is the functional need for additional financial resources to compensate for shortfalls. Although a functional need exists for public money to flow across borders to where it is needed most, the quantity of money made available has been limited.[5] Neofunctional/neoliberal institutionalist expectations of functional and political spillover from monetary union to fiscal and political union failed to materialize. Instead, the modest transfers of public money that were agreed were funneled to national governments (or through them to national banks), which remain liable for repaying the loans. Banks retained and reinforced links to their national, home governments. Recapitalization for financial stability required fresh capital in all countries, but particularly where state finances and economic growth were hit hardest, in the southern member countries of the euro zone. Northern banks limited their further exposure to southern counterparts, further driving the balkanization of banking in Europe (Gow, 2008; Dettmer *et al.*, 2012; Enria, 2012).

Fiscal union ideas emanating from outside the EU and from Southern Europe, including France, encompassed fiscal stimulus (Geithner's bazooka) financed by euro bonds, for which the member states would be collectively liable. These proposals were rejected in favour of strengthening budget restrictions on the member states and reducing macroeconomic imbalances for deficit countries in particular. Pressure was highly selective, however, with larger states largely escaping demands for change.

In exchange for allowing ESM funds to go to banks rather than governments, however, Germany demanded that EU decisions to release those funds be subject to a three-fold form of security: that loans be extended by individual member states, who would then hold debt seniority (to be paid first in the event of liquidation instead of other, particularly private creditors), and a double unanimous vote of the member states to release money from the fund. EFSF/ESM loans were not intended to reduce debt primarily, but to stabilize markets, allowing countries to weather herd behavior in a storm. In the end, the moneys agreed were not even sufficient to cover German holdings in Spanish debt that had lost all market value (Gore and Roy, 2012). Even then, the ESM was challenged in the German constitutional court, which limited Germany's contribution to the initial amount agreed of 190 billion euros, demanded regular consultations with the German parliament over the ESM's dealings with program countries, and a new ESM treaty to confirm these conditions (Bundesverfassungsgericht, 2012). The German government, under these conditions, then went a step further away from fiscal union. It called for the replacement of the ESM with a European Monetary Fund, which would make demands on national governments in exchange for loans, modeled precisely on international norms and practices in the IMF, and thereby obviating the need for a fiscal union (Sikorski and Westerwelle, 2012).

The response of Southern European governments is, broadly, to sign on to such terms to prevent speculative attacks by financial markets on rogue debtor states, but also to seek relaxed conditionality,[6] rather than pushing for fiscal union per se (*International Financing Review*, 2012). Ireland asked for better loan terms, and Cyprus asked for compensation through higher transfers of social and structural funds (*Huffington Post*, 2013). They have had little leverage to further these goals, however.

The fiscal compact negotiated and ratified in 2012 (six pack and two pack) is not a fiscal union in that it focuses on budgetary discipline of the recipient states in a pro-cyclical fashion,[7] while the European Financial Stability Facility and its successor, the European Stability Mechanism are built on the presumption that financial flows to countries in trouble are loans, and that, under troika control, which places the national government under EU/IMF administration, the money will flow directly back to the banks headquartered in countries that are arranging the loans. Indeed, by demanding that all euro zone member states extend credits to Greece, Portugal, Ireland and Cyprus, that in turn flow to the banks of established financial centres in the EU, the EU's largest financial centres secure a further concentration of financial activity in their own countries, at the expense of the aid recipients. The recipients can also be compelled to shed gold from the central bank and to raid pension funds as part of the conditions to receive the funds (Evans-Pritchard, 2013). The undersupply of financial transfers that can support states, which support banks, further combines with the Dijsselbloem Doctrine to undermine the financial systems of southern European countries by strengthening the incentive for bank depositors to shift their holdings out of potential threat areas to Northern Europe. Combined with the pro-cyclical nature of fiscal restraints, this generates a ratchet effect that further disadvantages the countries of southern Europe even further over time. The effect of is the institutionalization of financial mercantilism in the EU, rather than its restraint (Black, 2012). Its establishment was facilitated not only by the market pressure that Southern European countries found themselves under to sign on to such measures, but also because the economic policy norms of macroeconomic restraint were already embedded in existing EU law and practice for Germany, the Netherlands and Finland to exploit (Dyson, 2002; Donnelly, 2005).

CONCLUSIONS

The requirements for financial stability outlined in section two mean that strong fiscal and regulatory resources are required at the EU level if the single market is to remain intact with high degrees of cross-border interdependence. Because the Treaties restrict the degree to which both the European Central Bank and national central banks can provide a lender of last resort function,[8] because the EU's own budget is tiny and because financially powerful national governments reject any increase, national governments remain the only actors with the institutional capacity to serve as a lender of last resort.[9] ECB purchases of government debt were designed to combat short-term situations only (Jones and Steen, 2012), and although creditor governments initially approved and enhanced an emergency support fund, this support was effectively retracted again in the Cypriot crisis. National positions and resources were protected and supranational resources rejected.

The lack of EU resources in turn necessitates the primacy of national governments as guarantors of financial stability through their fiscal capacity, affecting the EU's capacity to recapitalize, restructure and resolve insolvent banks. At the same time, it entrenches and exacerbates inequalities in their capacity to do so rather than channelling funds to where they are needed. The tightening of room for fiscal manoeuvre by the six pack and two pack in 2012 strengthened this effect. Financial centers in Northern Europe remain stable and increasingly supported by financial markets that see them, in relative terms, as safe havens under conditions of market uncertainty. The result is a crisis consisting of a volatile and mutually reinforcing combination of banking and sovereign debt crises concentrated in Southern Europe.

Similar blockages are visible in the field of regulatory reform. Although a single bank supervisor was agreed in principle, many of the powers and resources that the ECB claimed were crucial to do the job properly by overcoming national obstruction were denied it. Powers of reconstruction and resolution as negotiated by the Council ruled out ECB supervision of most EU banks, and kept it dependent on the national authorities who had undermined effective supervision to date. Instead, the European Banking Authority, which proved to be neither European nor an authority, will continue to allow the national authorities to control these processes and keep them contained within national borders. This leaves them free to provide for financial stability individually, but retracting finance behind national borders, as banks conform to regulatory demands to do precisely this. Even the UK, highly open to international finance, insists on this through the control of subsidiaries operating within its borders.

These results support a realist interpretation of EU politics, despite previous progress made toward the single market and single currency. In this light, the history of EMU's establishment as a political demand of France to entrench a unified Germany in a web of European commitments, despite German reluctance to do so, rings far truer than a version in which EMU was simply about completing the single market. Power politics, not spill-over, determined the birth of the single currency. The primacy of power over existing rules was visible during the relaxation of EMU's rules at Germany's behest in 2004. It is also visible in the EU's contemporary attempts to provide for financial stability. Realist politics extends in that project not only to the preservation of national competence for the strong. It extends to coercion and imposition on the weak.

The prevalence of realist politics within the EU is all the more striking in the context of broad international pressure to choose otherwise. A transnational coalition including not only European actors but the United States, the G20, the OECD and the IMF supported a European banking union that could decouple the feedback between private and public debt problems, and roll back state intervention, or shift it to the European level, where it could be more effective (Pisani-Ferri *et al.*, 2012; Jones, 2012; Jones and Masters, 2012).

The dominance of power politics ensures that European economic governance not only remains institutionally and financially incapable of properly providing for financial stability,[10] but deliberately so (*Economist*, 2012), for the foreseeable future,[11] despite strong incentives to Europeanize the institutional and financial environment that supports financial stability. This outcome not only preserves, but enhances the mutually dependent relationship between banks and states at the national level, at the expense of the single market, and of its financial stability.

ACKNOWLEDGEMENTS

The author thanks Wade Jacoby, Richard Deeg, Jana Grittersova, Aneta Spendzharova, Michel Goyer, Dorothee Bohle, Huw Macartney, and particularly Rachel Epstein for comments.

NOTES

1 Subsidiaries of foreign banks, which are fully-independent companies subject to host country control, reinforce the national bias. See Wade and Sigurgeirsdottir (2010).
2 During the crisis, for example, one country's banks draining capital from subsidiaries established in other countries has been a serious threat to financial stability, one that German authorities clamped down on in 2011 when UniCredit began bleeding HypoVereinsBank, for example (Taylor, 2012).
3 Subsidies amounting to 50 per cent of the interest rate yield above a core (German) credit default swap rate were permissible between 2008 and 2011, dropping to 25 per cent thereafter.
4 A stress test works in part by modelling what would happen to both the general market and to specific banks if any private or public body went bankrupt. See Galati and Moessner (2010). Given the concrete possibility of a partial or full default on Greek debt in December 2011, refusing to incorporate it into the stress test was tantamount to refusing to do the stress test at all – to the benefit of banks holding large quantities of Greek and Portuguese debt – all of which were in the established financial centres of north-western Europe.
5 European Financial Stability Facility and European Stabilization Mechanism.
6 One day after the ruling of the German constitutional court, Greece was pleading that the IMF recommend a longer time horizon to comply with restructuring demands, which would in turn require yet another debt restructuring.
7 See European Commission (2011a) on the Six-Pack, particularly Macroeconomic Imbalance Procedure; http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm?utm_source=newsletter&utm_medium=email&utm_campaign=e-news57.
8 Notwithstanding the debatable reach of the Treaty to non-euro zone members, the Commission's take on central bank independence in countries outside the euro zone is that national political control is prohibited under Article 130. See European Commission (2012).
9 Although ECB President Draghi announced in September 2012 that it would purchase unlimited quantities of peripheral country debt, he placed limits

on lending in the form of IMF supervision of national finances for program countries.

10 The demand for support continually outpaces the supply. On the relationship between EMU and the banking crisis, see Dyson (2010: 604). See also Epstein, this volume.

11 Due to the ratchet effects of private and public sector debt reduction (deleveraging). See McKinsey Global Institute (2010).

REFERENCES

Abdelal, R., Blyth, M. and Parsons, C. (eds) (2010) *Constructing the International Economy*, Ithaca: Cornell University Press.

Baker, J. (2009) 'How Washington can prevent 'zombie banks'', *Financial Times*, 1 March.

Basel Committee (2010) *Principles for Enhancing Corporate Governance*, Basel: Bank for International Settlements.

Bernauer, T. and Koubi, V. (2003) *Beyond the Level Playing Field: Determinants of Heterogeneity and Over-compliance in International Banking Regulation*, Zurich: Center for Comparative and International Studies Working Paper 1–2003.

Black, J. (2012) 'ECB's Weidmann Says Banking Union Can't Cover Bad Debts', *Bloomberg*, 27 September.

Blyth, M. (2002) *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press.

Breidthardt, A. and O'Donnell, J. (2013) 'Germany Puts Brakes on EU Bank Union with Treaty Call', *Reuters*, 13 April.

Breznitz, D. (2011) 'Ideas, Structure, State Action and Economic Growth: Rethinking the Irish Miracle', *Review of International Political Economy*, 19(1): 87–113.

Brummer, C. (2011) 'How International Financial Law Works (And How It Doesn't)', *Georgetown Law Journal*, 99(2): 257–352.

Brummer, C. (2012) *Soft Law and the Global Financial System: Rule Making in the Twenty-first Century*, Cambridge: Cambridge University Press.

Bundesverfassungsgericht (2012) 'Decision on the European Stability Mechanism', Document 2 BvR 1390/12, 12 September.

Busch, A. (2009) *Banking Regulation and Globalization*, Oxford: Oxford University Press.

Claessens, S. (2009) 'The Financial Crisis and Financial Nationalism', in S. J. Evenett, B. M. Hoekman and O. Cattaneo (eds) *Effective Crisis Response and Openness: Implications for the Trading System*, Washington, DC: World Bank, pp. 263–84.

Clift, B. and Woll, C. (2011) 'Economic Patriotism: Reinventing Control Over Open Markets', *Journal of European Public Policy*, 19(3): 307–23.

Cohen, B. (1991) *Crossing Frontiers: Explorations in International Political Economy*, Boulder: Westview.

Coussens, W. (2012) 'The ECB, its role and functions', *European Central Bank,* Frankfurt, 26 October.

Davies, H. (2010) 'Global Financial Regulation After the Credit Crisis', *Global Policy*, 1(2): 185–90.

Davies, H. (2012) 'European Banking Union Raises Unanswerable Questions', *Guardian*, 29 June.

Dettmer, M., Elger, K., Hawranek, D., Hesse, M. and Huelsen, I. (2012) 'Fear and Uncertainty: The Euro Endangers German Economy', *Spiegel Online International*, 3 July, http://www.spiegel.de/international/business/

german-economy-shows-dangerous-signs-of-weakening-a-842240.html, accessed 24 April 2013.

Donnelly, S. (2005) 'Explaining EMU Reform', *Journal of Common Market Studies*, 43(5): 947–68.

Donnelly, S. (2012) 'Institutional Change at the Top: From the Financial Stability Forum to the Financial Stability Board', in R. Maynte (ed.) *Crisis and Control: Institutional Change in Financial Market Regulation*, Frankfurt/M: Campus, 263–78.

Drezner, D. (2007) *All Politics is Global: Explaining International Regulatory Regimes*, Princeton: Princeton University Press.

Dyson, K. (2002) *European States and the Euro: Europeanization, Variation and Convergence*, Oxford: Oxford University Press.

Dyson, K. (2010) 'Norman's Lament: The Greek and Euro Area Crisis in Historical Perspective', *New Political Economy*, 15(4): 597–608.

Economist (2012) 'The Return of the Euro Crisis: Beyond Battlefield Medicine', *Economist*, 21 April.

Epstein, R. (2008) *In Pursuit of Liberalism: International Institutions in Postcommunist Europe*, Baltimore: Johns Hopkins University Press.

European Banking Authority (2011) *Publication of the 2011 EU-wide Stress Test Results*. London, 15 July.

European Commission (2007) *Decision: United Kingdom Rescue Aid to Northern Rock*, C(2007) 6127 final, 5 December.

European Commission (2008a) *Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees* (2008/C 155/02). 20 June. OJ C 155, p. 10.

European Commission (2008b) *State Aid: Commission Gives Guidance to Member States on Measures for Banks in Crisis*, IP/08/1495, 13 October.

European Commission (2008c) *State Aid: Commission Adopts Guidance on Bank Recapitalization in Current Financial Crisis to Boost Credit Flows to Real Economy*, IP/08/1901, 8 December.

European Commission (2008d) *State Aid: Commission Approves German Rescue Aid Package for Hypo Real Estate Holding AG*, press release IP/08/1453, October 2.

European Commission (2009a) *Special Edition, State Aid Interventions in the Current Financial and Economic Crisis*, COM(2009) 164.

European Commission (2009b) *Temporary Community Framework for State Aid Measures to Support Access to Finance in the Current Financial and Economic Crisis*, Communication 2009/C 83/01.

European Commission (2009c) *Communication from the Commission on the Treatment of Impaired Assets in the Community Banking Sector* (2009/C 72/01).

European Commission (2010) *Europe 2020: A European Strategy for Smart, Sustainable, Inclusive Growth*, Brussels, COM(2010) 2020, 3 March.

European Commission (2011) Memo 11/858, 'State Aid: Overview of Pending Decisions and On-going In-depth Investigations in the Context of the Financial Crisis', Brussels, 1 December.

European Commission (2011) *Macroeconomic Imbalance Procedure*, http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm, accessed 24 April 2013.

European Commission (2012) 'European Commission Launches Accelerated Infringement Proceedings Against Hungary', 17 January.

European Council (2012) *Proposal for a Council Regulation Conferring Specific Tasks on the European Central Bank Concerning Policies Relating to the Prudential Supervision of Credit Institutions*, Document 2012/0242 CNS, Brussels, 12 September.

Evans-Pritchard, A. (2013) 'EMU Plot Curdles as Creditors Seize Gold Reserves', *Telegraph*, 11 April.

Federal Deposit Insurance Corporation and Bank of England (2012) Resolving Globally Active, Systemically Important Financial Institutions. Washington D.C. and London, 10 December. http://www.fdic.gov/about/srac/2012/gsifi.pdf, accessed 10 January 2013.

Galati, G. and Moessner, R. (2010) *Macroprudential Policy – A Literature Review*, DNB Working Paper 267, De Nederlandsche Bank, Amsterdam.

Germain, R. (1998) *The International Organization of Credit: States and Global Finance in the World Economy*, Cambridge: Cambridge University Press.

Gilpin, R. (2001) *Global Political Economy*, Princeton: Princeton University Press.

Gore, G. and Roy, S. (2012) 'Spanish Bailouts Saves German Pain', *International Financimg Review*, 29 June.

Gourevitch, P. A. (1986) *Politics in Hard Times: Comparative Responses to International Economic Crises*, Ithaca: Cornell University Press.

Goyal, R. *et al*. (2013) *A Banking Union for the Euro Area*, IMF Staff Discussion Note SDN 13/01, International Monetary Fund, Washington, DC.

Gow, D. (2008) 'Balkanisation of Banks Takes a Step Closer', *Guardian*, 7 October.

Grieco, J. (1988) 'Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism', *International Organization*, 42(3): 485–507.

Hall, P. (1986) *Governing the Economy: The Politics of State Intervention in Britain and France*, Oxford: Oxford University Press.

Helleiner, E. and Pickel, A. (eds) (2004) *Economic Nationalism in a Globalizing World*, Ithaca: Cornell University Press.

House of Lords (2011) *The EU Financial Supervisory Framework: An Update*, European Union Committee, London, 21 July.

Huffington Post (2013) 'Cyprus President Nicos Anastasiades Plans to Ask EU for More Help', 13 April.

Institute for International Finance (2012) *Making Resolution Robust: Completing the Legal and Institutional Frameworks for Effective Cross-Border Resolution of Financial Institutions*, Washington, DC: Institute for International Finance.

International Financing Review (2012) 'Euro Crisis: Italy Looks to Sway Germany', 27 June.

Jabko, N. and Massoc, E. (2012) 'French Capitalism Under Stress: How Nicolas Sarkozy Saved the French Banks', *Review of International Political Economy*, forthcoming.

Jones, C. (2012) 'IMF Urges Eurozone to Bolster Banks', *Financial Times*, 17 April.

Jones, H. (2013) 'EU Executive Warns National Bank Supervisors Over Discrimination', *Reuters*, 4 February.

Jones, C. and Masters, B. (2012) 'IMF Sees Banks Deleveraging by $2.6 Trillion', *Financial Times* 19 April, http://www.cnbc.com/id/47096097, accessed 24 April 2013.

Jones, H. and Slater, S. (2012) 'EBA Bank Watchdog Faces Own Stress Test from Euro Crisis', *Reuters*, June 28.

Jones, C. and Steen, M. (2012) 'Draghi Outlines Bond Buying Plan', *Financial Times*, 6 September.

Jorion, P. (2000) 'Risk Management Lessons from Long Term Capital Management', *European Financial Management*, 6(3): 277–300.

Journal of Regulation (2012) 'The European Central Bank says on May 31, 2012, the Need for a European Unified Banking Supervision', 1 June, http://www.thejournalofregulation.com/La-Banque-Centrale-Europeenne.html, accessed 24 April 2013.

Kapstein, E. (1994) *Governing the Global Economy: International Finance and the State*, Cambridge, MA: Harvard University Press.

Keohane, R. O. and Nye, J. (1984) *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton: Princeton University Press.

Kindleberger, C. (2005) *Manias, Panics and Crashes*, New York: Wiley.

Koppel, J. (2010) *World Rule: Accountability, Legitimacy and the Design of World Governance*, Chicago: University of Chicago Press.

Krasner, S. (1976) 'State Power and the Structure of International Trade', *World Politics*, 28(3): 317–47.

Krasner, S. (1999) *Sovereignty: Organized Hypocrisy*, Princeton: Princeton University Press.

Krause, S. (2012) 'Deutsche Bank Says Euro Zone Crisis Weighs on Confidence', *Economic Times*, 14 June.

Kremer, J. (2012) 'Spanish Bailout Can't Go To Unhealthy Banks, Finland Says', *Bloomberg*, 11 June.

Kroes, N. (2008a) *EU State Aids: Part of the Solution*, SPEECH/08/679, presented at the EStALI Conference, Luxembourg, 5 December.

Kroes, N. (2008b) *The Role of State Aid in Tackling the Financial and Economic Crisis*, SPEECH/08/683, Brussels, 8 December.

Kroes, N. (2008c) 'Competition Policy and the Financial/Banking Crisis: Taking Action', Statement, http://ec.europa.eu/commission_barroso/kroes/financial_crisis_en.html, accessed 1 March 2013.

Lyngen, N. (2012) Basel III: Dynamics of State Implementation', *Harvard International Law Journal*, 53(2): 519–35.

Lyons, B. (2009) *Competition Policy, Bailouts and the Economic Crisis*, ESRC Centre for Competition Policy Working Paper 09–4, Norwich. Available at SSRN: http://ssrn.com/abstract=1367688.

Macartney, H. (2011) *Variegated Neoliberalism: EU Varieties of Capitalism and International Political Economy*, London: Routledge.

Martin, D., Saba, O. and Alogna, F. G. (2009) 'European Responses to the Financial Crisis', *La Semaine Juridique Edition Enterprise et Affaires*.

Mateus, A. B. (2009) 'The Current Financial Crisis and State Aid in the EU', *European Competition Journal*, 5(1): 1–18.

Macartney, H. (2011) *Variegated Neoliberalism: EU Varieties of Capitalism and International Political Economy*, London: Routledge.

McKinsey Global Institute (2010) *Debt and Deleveraging: The Global Credit Bubble and Its Economic Consequences (Updated Analysis)*, Washington D.C., McKinsey Global Institute.

Milward, A. (2000) *The European Rescue of the Nation State*, London: Routledge.

Minsky, H. (1985) 'Money and the Lender of Last Resort', *Challenge*, 28(1): 12–18.

Moravcsik, A. (1998) *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, London: Routledge.

Moschella, M. (2011) 'Different Varieties of Capitalism? British and Italian Recapitalization Policies in Response to the Sub-prime Crisis', *Comparative European Politics*, 9(1): 76–99.

Obstfeld, M. (2009) 'Lenders of Last Resort and Global Liquidity: Rethinking the System', *Development Outreach*, Washington, DC: World Bank Institute, December.

Peeperkorn, M. (2013) 'Dijsselbloem Over Cyprus: "Ik dacht: we komen er niet uit"', *Volkskrant*, 26 March.

Penty, C. (2012) 'Bankia Bailout Cost Too High as Investors Shun Spanish Debt', *Bloomberg*, 31 May, Penty, C. (2013) 'Spain's Bankia-led Bailout Won't Spell End of Bank Troubles', *Bloomberg*, 27 February.

Pickel, A. (2002) 'Explaining (with) Economic Nationalism'. TIPEC Working Paper 02/1.

Pisani-Ferri, J., Sapir, A., Veron, N. and Wolff, G. (2012) *What Kind of Banking Union?* Brussels: Bruegel, 25 June, http://www.bruegel.org/publications/publication-detail/publication/731-what-kind-of-european-banking-union/, accessed 27 June 2012.

Quaglia, L. (2012) 'The Regulatory Response of the European Union to the Financial Crisis', in R. Mayntz (ed.) *Crisis and Control: Institutional Change in Financial Market Regulation*, Frankfurt: Campus, pp. 171–96.

Rehn, O. (2012) *Statement by Vice-President Olli Rehn on the Request by Spain for Financial Assistance for Recapitalization of Financial Institutions*, MEMO/12/486. Brussels, 25 June.

Ruggie, J. G. (1982) 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, 36(2): 379–415.

Rushe, D. (2012) 'Europe Faces "Long Hard Road To Recovery", US Treasury Secretary Says', *Guardian*, 20 March.

Salmon, F. (2013) 'The Dijsselbloem Principle', *Reuters*, 26 March.

Schmidt, V. (2004) *The Futures of European Capitalism*, Oxford: Oxford University Press

Schmidt, V. (2008) 'Discursive Institutionalism: The Explanatory Power of Ideas and Discourse', *Annual Review of Political Science*, 11: 303–26.

Sikorski, R. and Westerwelle, G. (2012) 'A New Vision of Europe', *New York Times*, 17 September, http://www.nytimes.com/2012/09/18/opinion/a-new-vision-of-europe.html?smid=fb-share&_rmoc.semityn.www, accessed 24 April 2013.

Spendzharova, A. (2012) 'Is More 'Brussels' the Solution? New EU Member States' Preferences About the European Financial Architecture', *Journal of Common Market Studies*, 50(2): 315–34.

Streeck, W. (1999) 'Competitive Solidarity: Rethinking the European Social Model', Max Planck Institute for the Study of Societies Working Paper 99/8.

Stone Sweet, A. and Sandholtz, W. (1997) 'European Integration and Supranational Governance', *Journal of European Public Policy*, 4(3): 297–317.

Story, J. and Walter, I. (1997) *The Political Economy of Financial Integration in Europe: The Battle of the Systems*, Cambridge, MA: MIT Press.

Strange, S. (1982) 'Cave, Hic Dragones! A Critique of Regime Analysis', *International Organization*, 36(2): 479–96.

Sutton, A., Lannoo, K. and Napoli, C. (2010) *Bank State Aid in the Financial Crisis: Fragmentation or Level Playing Field?*, Brussels: Centre for European Policy Studies.

Taylor, P. (2012) 'Euro Zone Fragmenting Faster Than EU Can Act', *Reuters*, 9 July,

Tree, O. (2012) 'G20 to Promote Growth Over Merkel's Austerity Programme', *International Business Times*, 19 June.

Tremlett, G. and Treanor, J. (2012) 'Santander UK Funds Ringfenced Under FSA Order', *Guardian*, 18 May.

United States Congress (1990) *Who is us? National interests in an age of global industry*. Joint Economic Committee, 101st Congress, Washington DC.

Véron, N. (2011) *The European Debt and Financial Crisis: Origins, Options and Implications for the US and Global Economy*. Statement before the US Senate Committee on Banking, Housing and Urban Affairs: Subcommittee on Security and International Trade and Finance. Washington, DC, 22 September.

Wade, R. and Sigurgeirsdottir, S. (2010) 'Lessons from Iceland', *New Left Review*, 65 (September): 5–29.

Waterfield, B. (2012) 'UK on Collision Course with Germany over Eurozone Banking Regulator', *Telegraph*, 13 September.

Zampano, G., Smith, G. and Stevis, M. (2012) 'As Spain Closes in on Bank Aid, Italy Signals May Seek ESM Bond Buys', *Wall Street Journal*, 10 July.