Financial integration in EUrope, a geographer's perspective

Michiel van Meeteren
Loughborough University (m.v-meeteren@lboro.ac.uk)
Vrije Universiteit Brussel (m.van.meeteren@vub.be)

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Abstract

In the last thirty years, the financial sectors of the different member states of the European Union have gradually coalesced toward a single, integrated, European financial space. This contribution analyses this process of financial integration. It chronicles the literature on European financial integration from Jacques Delors' single market project until the recent Capital Markets Union, with an emphasis on the work of financial geographers. Drawing on a version of Lefebvre's 'thick' conception of space instead of the 'thin space' perspective prevalent in the financial industry, as well as on geographical theories on scale, the paper recasts the large literature on financial integration theoretically. The result is a distinctive geographical perspective on European financial integration upon which new empirical research can be founded.
Introduction

Financial integration should be seen as a multidimensional process that takes a group of economies from 'financial autarky' within their respective borders to a single financial market in which geography has become irrelevant. [...] If the world were to head for a single financial market, the concept of a single European financial market would eventually lose its relevance. (IMF economist Wim Fonteyne, 2007, p. 5, emphasis added).

Henceforth, we should not only speak of a European financial market, but of a genuine financial space [...]. Similarly, reinforced monetary coordination on the scale of the European Community is inscribed in the natural extension of European financial space. (European Commission president Jacques Delors, 1992 [1989], p. 155; translated from French, emphasis added).

The above statements about European financial integration express sharply different geographical worldviews (Lee, 2002). First, there is the IMF economist's 'thin conception of space', waiting to be eradicated by the market. Contrast this with Jacques Delors' 'thick conception of space', where market making necessitates actively modulating material spaces, circuits and flows (Hudson, 2004a; 2004b). Delors regards markets as social constructions that gain their vitality from the people who contribute to them. Accordingly, Europeanization entails actively 'reorganizing European space' (Ross, 1995, p. 109). For Delors (1992 [1988], p. 75), the common market could not exist without deeper social ties between Europeans and the possibility of reducing the EU to a mere free trade area is anathema to that conviction (Ross, 1995, pp. 120-121).

This contribution recounts three decades of European financial integration. When Delors became European Commission president in 1985, the European Economic Community (EEC) consisted of ten shielded national financial markets' and the 'Euromarkets' centred in London (Mügge, 2006, p. 1005). In the ensuing three decades, these markets gradually coalesced into a new geographic formation, engulfing new member states in the process. However, Europeanization has not resulted in homogenization as the 'thin space' view would predict. Changes in European finance have reshuffled the spatial structure of Europe while exacerbating uneven development (Hadjimichalis, 2011). In the EU's power centres, this unevenness is often cast as a problem of the 'arrow points to defective part' variety (Engelen et al., 2011, p. 3). Economic turbulence is considered the result of insufficient integration rather than an effect of prior policy. This representation again suggests Europeanization through the eradication of spatial difference, a discourse Jensen and Richardson (2004) describe as 'monotopia'. Likewise, contemporary financial integration proposals such as Banking Union (Howarth & Quaglia, 2016) and Capital Markets Union (Braun et al., 2018) are imbued with a thin space perspective, where more integration and less geography are a solution rather than part of the problem.

1 The EEC member states in 1985 were: Belgium, Denmark, France, (West-)Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom. Portugal and Spain would join on January 1, 1986.
New challenges for European finance associated with Brexit (Dörry, 2017; Hall & Wójcik, 2018; Laverty et al., 2018) and ongoing technological change (Hendrikse et al., 2018) call attention to the need to recalibrate our understanding of EU financial integration. Chronicling, theorizing, and framing European financial integration with a ‘thick space’ view is long overdue. In order to chronicle concisely, this paper is selective. It analyses the Europeanization of finance from the EU perspective, without elaborating interdependencies with other scales. Moreover, the paper largely brackets the parallel development of monetary integration unless it directly impinges on financial integration. The paper continues as follows. First, a theoretical framework on financial integration is proposed that acknowledges thick space. Afterwards a timeline of three decades of European financial integration is sketched. Finally the argument is summarized by confronting the timeline with the focal ECB statistics. This allows drawing conclusions on three decades of financial integration.

Making financial space in EUrope

Agnew and Corbridge (1995) theorize how space is mastered outside the frame of the nation-state by tracking changing relations between political geographies, geopolitical orders, and the international political economy. Their framework, which I propose as operationalization of the thick space conception, relies on Lefebvre’s (1991 [1974]) categories of ‘spatial practices’, ‘representations of space’ and ‘representational spaces’ (Figure 1).

Lefebvre’s framework posits continuous interplay between how spatial practices (material spaces, circuits, and flows, see Hudson, 2004b) are spun over the face of the earth, representations of space through which we interpret and name these practices and representational spaces that imagine future geographies. Europe’s economic structure and the European geographical imaginations that make sense of that structure co-evolve (Lee, 1976; Taylor, 1991). There is continuous tension between spatial practices and representations of space due to capitalist expansion (Bassens & Van Meeteren, in press; Sokol, 2013), allayed by representational spaces of a future resolving these tensions (cf. Beckert, 2016). Representational spaces reflexively modulate the interaction between spatial practices and representations of space (cf. Rovnyi & Bachmann, 2012). Re-imagining economies on the EU scale reflects this anticipation about future interplay between geographic narratives and economic structure (Jonas, 1994, as elaborated by Smith, 1995, see also Heinemann, 2016). These representational spaces are geographies of EUrope (Clark & Jones, 2008; Moisio et al., 2013): spatial discourse about the (future) role of EU institutions. Compatibly, Fligstein (2000) describes Europeanization as resulting from a spiralling interplay between increasing transnationalization of social interactions and institutionalization of these interactions on the European scale that in turn stimulates more interactions (Sandholtz & Stone Sweet 1998; Stone Sweet et al. 2001). European financial institutions have steadily co-evolved with the expectations raised in sequential EU financial regulation policy cycles (Dixon, 2011; Mügge, 2010; 2013; Pauly, 2009).
Figure 1. Mastering space, Agnew and Corbridge (1995, p.7)'s Lefebvrian model.
Institutionalizing European financial space is a state scalar project (Brenner, 2004), where finance-state interactions are at least in part ‘uploaded’ (Mügge, 2010) to the European scale. Rescaling, induced as Europeanization of finance, emerges as the outcome of a search for an ‘island of stability’ (Leyshon & Thrift, 1995; see also Bassens & Van Meeteren, in press; Swyngedouw, 2004) in a turbulent global financial environment. European financial integration coincided with financialization, where the crisis tendencies of capitalism are increasingly articulated in the financial sphere (French et al., 2011). Hence, creating this island of financial stability has become a significant element of the EUropean spatio-temporal fix (Braun & Höhner, 2018; Fernandez & Wigger, 2016). A spatio-temporal fix (Harvey, 1981, as interpreted by Jessop, 2008, p. 162; compare Christophers, 2014a), ‘resolves, partially and provisionally at best, the contradictions and dilemmas inherent in capitalism by establishing spatial and temporal boundaries within which a relatively durable pattern of “structured coherence” can be secured and by shifting certain costs of securing this coherence beyond these spatial and temporal boundaries. This sort of spatio-temporal fix displaces and defers contradictions both within a given economic space and/or political territory and beyond it’.

The EUropean spatio-temporal fix is not mono-scalar (Jessop, 2006). Elements of capitalist regulation are fixed at different scales, generating a variegated pattern (Peck & Theodore, 2007) with a variable geometry (Stubb, 1996). Moreover, the EU scale comprises different power centres: the European Commission, the European Council, the European Parliament and comitology procedures determine policy outcomes in interaction (Mamadouh and Van der Wusten, 2008; Quaglia, 2010a). The exact combination of spatial effects will differ from place to place depending how scales are imbricated in situ (Brenner, 2009). For instance, EU member states that did not join the euro still have to adhere to directives from Brussels regarding financial market governance. The contradictions between Euroland that excludes London, currently the EU’s largest financial center, on the one hand, and the common market space of financial governance that includes the London City on the other is the most salient case, productive of many financial geographies of legal arbitrage (Aalbers, 2018; Van Meeteren and Bassens, 2016). Additionally, the EU’s variable geometry interacts with regional and national institutional differences, while firms, markets and regulations rarely ‘Europeanized’ in tandem within and across contexts (Aalbers, 2009a). Actors such as the European Central Bank (ECB), the international Basel-based financial governance committees (Bieri, 2009), and the OECD and IMF (Abdelal, 2007) also influence scalar configurations. Therefore, when European financial integration intensifies, instead of homogenization, a changing geography of uneven development is set in motion where variegated lines determining insides and outsides of imbricated scalar effects are in flux (Hadjimichalis, 1994; Hudson, 2003).

To cut this Gordian knot, this paper reads financial integration through the history of European Commission directives. A directive is binding regulation for member states but transposition in national law is member state responsibility (McCormick, 2008, p. 73). There is a time lag between directive adoption and the transposition deadline. A directive, as legal fact, is a representation of space that recursively affects spatial practices and representational spaces. Analysing the subsequent adoption of different generations of financial integration directives is the main tool by which this paper probes the gradual Europeanization of finance. Conjunctures of European financial integration (1986-2017)
Financial history has distinct temporalities (Engelen et al. 2011, p. 48). While the ‘framework conditions’ since the 1970s exhibit increasing dominance of the financial sector (French et al. 2011), shorter cycles, ‘conjunctures’, are also discerned (Bassens et al., 2013; Engelen et al., 2010a; Van Meeteren & Bassens, in press). Engelen et al. (2011, p. 50) define conjunctures as fragile periods within the longer-term frame where financial sector business models align with the macroeconomic and regulatory context. This paper defines conjunctures according to the main European policy cycles that last five to seven years: 1985-1992, 1992-2000, 2000-2007, 2007-2012 and 2012-2017. They will be discussed chronologically.


In 1985, Europe’s future looked bleak. The 1970s crisis had severely weakened member state economies and strategies to rejuvenate national industrial champions were failing. Moreover, Europe felt left behind by the high-tech innovation coming from California and Japan (Albert & Ball, 1983). The Single European Act (1986) and the ‘1992’ completing the internal market project (COM, 1985) was newly-minted Commission president Delors’ opening bid to relaunch the EEC, the EU’s predecessor (Sandholtz & Zysman, 1989; Streeck & Schmitter, 1991; Sadler, 1992; Van Apeldoorn, 2002). Financial integration was regarded pivotal to the 1992 project. Europeanizing the financial sector had to deliver a significant amount of the projected growth (Cecchini, 1988; cf. Bieling, 2006, Chick & Dow, 2012) and was considered a prerequisite for financing the Europeanization of other sectors (Leyshon & Thrift, 1992; Llewellyn, 1992; Tickell, 1999). Additionally, the industrial policy paradigm was shifting whereby (financial) services was regarded a propulsive growth sector rather than merely auxiliary to (heavy) industry (Illeris, 1989). Lastly, the 1986 London ‘big bang’ (Leyshon & Thrift, 1997) generated awe about the gains of a liberalized, technologically forward-looking financial services sector (Maes, 2007), spawning mimicked ‘little big bangs’ across European financial centres (Moran, 1994).

The 1988 Capital Markets Directive was the first major development (Directive 88/361/EEC, transposed 1 July 1990). The directive abolished capital controls and put ‘freedom of capital’ on equal footing to the freedoms of persons and goods enshrined in the 1957 Treaty of Rome. In a bid to become a globally relevant financial power, the directive obliged extending capital freedom beyond the EEC to the rest of the world (Abdelal, 2007; Story & Walter, 1997). The 1989 Second Banking Directive (Directive 89/646/EEC, transposed 1 Jan 1993) established the passport principle for European banks (Molyneux, 1989; Underhill, 1997). Passporting allows banks to operate in all member states under home central bank supervision based on common standards of supervision. The directive was accompanied by the Capital Adequacy Directive (Directive 89/647/EEC, transposed 1 January 1991) that hard-coded Basel I solvency requirements in European law (Mügge, 2006; Underhill, 1997). Another development in this era was the run-up to monetary union (Dyson & Featherstone, 1999), which projected a representational space about further future financial integration, culminating in the 1992 Maastricht Treaty.

In the early 1980s, member states’ financial sectors differed considerably and many financial institutions were lukewarm about Europeanization (Bieling, 2006). A ‘battle of the systems’ (Story & Walter, 1997) ensued about whose financial sector model would be favoured in the Commission’s proposals. Ultimately, the Commission preferred the universal
bank model. Universal banks combine the full spectrum of banking services, from retail to investment banking (Jabko, 2006). Large universal banks, particularly those from smaller member states with saturated home markets (Molynieux, 1989) became the Commission’s allies in furthering financial integration (Tickell, 1999; Jabko, 2006). Nevertheless, European banks remained ambivalent in their spatial practices. Banking systems consolidated nationally on the retail side (Chick & Dow, 2012; Leyshon & Thrift, 1992), while internationalizing in corporate segments such as wholesale banking and securities trading (Larson et al., 2011; Leyshon & Thrift, 1992; Mügge, 2006). Corporate segments were globalizing rapidly and were regarded as crucial to the future of European banks (Begg, 1992; Llewellyn, 1992). Resultantly, a group of national champion universal banks combining national retail foundations with corporate adventures abroad emerged in the early 1990s. These banks operated according to the representational space of a rejuvenating, triumphant, Europe.

1992-2000: The roaring nineties and the promise of globalization

Quickly after the 1992 Maastricht Treaty that heralded monetary union, EUPhoria relented. The early 1990s recession, combined with monetary turbulence and the steep costs of German reunification, gave rise to economic pessimism and an inward focus on immediate national interests (Dicken & Öberg, 1996; Ross, 1995; Maes, 2007, p. 81; McNamara, 1998). Financial integration plans wound down in tandem (Jabko, 2006, p. 85). The remaining ‘1992’ Investment Services and Capital Adequacy Directives (93/22/EEC; 93/6/EEC, both transposed 31 December 1995) were the result of lowest common denominator compromises (Mügge, 2006). The directives were ineffective financial integrators as passporting was based on host country supervision (Wójcik et al. 2007), providing member states leeway to erect non-tariff barriers. Directive negotiations failed to reconcile the interests of continental universal banks, the London securities industry (Underhill, 1997) and competing stock exchanges (Bieling, 2003). Hence, expectations about further Europeanization tempered.

The early 1990s representational space emitted anxiety about how monetary union would be realized. Although ‘Maastricht’ committed member states to monetary union, it foreshadowed a transition period to complete the internal market, successfully navigate the challenges of reunifying Germany, and achieve macroeconomic convergence (Story & Walter, 1997, p. 93). Convergence and monetary union were theorized to evolve in lockstep (Dyson, 2002) but how was not self-evident. Monetary union comprised three phases. The first, liberating capital controls, was achieved by 1990. The second phase, in 1994, created the European Monetary Institute (EMI), the precursor to the ECB. The EMI monitored the convergence of European economies (idem), becoming allied to the Commission in promoting the integration project (Jabko, 1999). The EMI's encouragement to standardize monetary policy techniques across European central banks was completed by the millennium (Braun, 2018). At the Madrid Summit, in December 1995, a membership overture to the post-socialist countries of Central and Eastern Europe was made, and the summit decided to set the date for stage 3 of monetary union. By January 1, 1999, exchange rates were to be fixed and the virtual Eurocurrency born. From 1995 onward, monetary union was likely (Mügge, 2006) and generated a distinctive anticipatory Euroland representational space (Pollard & Sidaway, 2002).
It is debatable whether monetary and financial integration were co-dependent (Sandholtz, 1993). Regardless, the connection between the two processes was emphasized to increase the euro’s feasibility (idem, Bieling, 2006; Jabko, 1999). The prospect of a single currency decreased cross-border transaction costs (Tickell, 1999), increased industrial transnationalization (McCarthy & Dolfsma, 2015), and was expected to culminate in consolidation of financial institutions (Dow, 1994). These expectations fed into a bank merger wave in the late 1990s (Bayoumi, 2017, pp. 37-39). Another Europeanization fuel rod was the privatization bonanza generated by the ‘1992 process’ and the neoliberal zeitgeist providing significant investment bank jobs for European universal banks (Konings, 2008; Engelen et al., 2010b; Van Meeteren and Bassens, in press). Privatizations galvanized European stock markets, which were gearing up for increased competition (Engelen, 2007). As the UK opted out of the euro, fantasies that other financial centres could compete with London were rife (Beaverstock et al., 2005; Moran, 2002). Large universal banks used the reinvigorated capital markets for takeovers, preparing to come out on top in what consultants called ‘the global end game in banking’ (Van Meeteren & Bassens, in press), resulting in Europeanization through consolidation (Mulder & Westerhuis, 2015). Many West-European banks, particularly those with saturated home markets\(^2\), started looking at expansion in the ‘emerging markets’ of post-socialist Europe (Smith, 2002), especially where eventual EU membership was anticipated (Jöns, 2001; Karreman, 2009; Lindstrom & Piroska, 2007; Vliegenthart & Horn, 2007).

Resultantly, East-European banking sectors became predominantly foreign owned (Epstein, 2008). Many takeovers were financed on capital markets (Van Meeteren & Bassens, in press), inducing adoption of shareholder capitalism models of corporate governance (Story & Walter, 1997, p. 156; Wójcik, 2002). Meanwhile, drunk on promises of the ‘new economy’, this shareholder model was driving an unprecedented stock market frenzy in the United States (Feng et al., 2001; Leyshon et al., 2005). At the same time, dotcom dreams fed narratives that Europe was (again) ‘staying behind’ in new rounds of innovation (Bieling, 2003; Power, 2002) and many countries took up the challenge of gearing their stock markets toward new technologies (Bieling, 2003, 2006).

The late 1990s engendered a representational space of millennial frenzy, where expectations of radically different economies sent stock markets skyrocketing. During this frenzy, the 'second phase' of financial integration was initiated. The Commission, with significant input from large European financial players (Mügge, 2010), concocted the Financial Services Action Plan (FSAP, CEC 1999), a blueprint for a new set of directives intending to Europeanize capital markets (Quaglia, 2010a, pp. 34-35). The FSAP was incorporated in the 2000 Lisbon Agenda as the Europeanized capital market had to enable financing a Europe-wide knowledge-based economy (Maes, 2007, p. 104).

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\(^2\) The Belgian bank KBC is exemplary for this trend. The bank eventually became a big player in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria.
2000-2007: Europe sinks in the age of market-based banking

Konings (2008) argues that the 2000 dotcom burst is a watershed moment for European finance. Whereas in the 1990s all financial actors seemed to profit from higher economic tides, after the burst it was predominantly ‘big finance’ that recovered. This partial recovery accelerated the decline of second-tier financial centres (Engelen, 2007) and incentivized widespread adoption of ‘shareholder capital’ corporate governance (Wójcik, 2006). The period of relative downturn, until about 2003, was the gestation period of the FSAP directives. The directives were perceived as urgent, as slow recovery was attributed to the ‘sluggishness’ of Europe in adopting new regulations accommodating the fast-changing world of finance (Grah, 2011). Resultantly, the FSAP directives were established under the new Lamfalussy governance procedure (Quaglia, 2010a) which sped up the policy-making process and made it more transparent, but also formalized private-sector influence and rendered the process more technocratic (Maes, 2007; Mügge, 2011; Posner & Véron, 2010).


Although some locate the roots of financialization in the 1970s (French et al., 2011), it is in the mid-2000s when many of financialization’s quintessential characteristics, such as securitization, the rise of repo markets and derivatives, algorithmic trading and shareholder capitalism, really become transformative. An enormous capital glut, a ‘wall of money’ (Engelen et al. 2011), particularly from pension funds, incentivized listed corporations to comply with financial market imperatives (Clark and Wójcik, 2007). The FSAP directives allow use of government bonds as collateral, in ‘repo’ agreements, stimulating financial institutions to borrow cash to seek high returns on financial markets (Gabor & Ban, 2015; Gabor, 2017). The resulting infrastructure allows the ECB to transmit monetary policy across the European territory through the inter-bank market (Braun, 2018), contributing to the erosion of ‘variety in capitalism’ (Dixon, 2012; Engelen et al. 2010b) and the distinction between capital- and bank-based financial systems (Hardie & Howarth, 2013). In the new modus operandi, the savviest banks engaged in ‘market-based banking’ (idem), scourging the world for profit-generating assets to securitize into tradable financial products (Leyshon & Thrift, 2007; Wainwright, 2015) or trade in these securities. From the EU perspective, all seemed to be fine. Universal banks made record profits (Engelen et al. 2011, p.113) by benefitting from the favourable conditions enshrined in the EU codification of the Basel II treaty after 2004 (Bayoumi, 2017, p. 86). The coinciding bank merger wave was seen as a sign of economic strength (Wigger, 2012).
Moreover, bank lending seemed to flow to those places that were relatively underdeveloped, signalling that that convergence was now finally happening (Bassens et al., 2013). According to European Commissioner Charles McCreevy (2004, p. 2), thanks to the FSAP, there now was ‘incontrovertible evidence, [...] that European markets are beginning to integrate and costs are falling’.

The sense of progress had its casualties. MiFID enabled ‘the global stock market’ (Wójcik, 2011) because when legal barriers to financial trade disappear, the deepest markets centralize all trading activity (Wójcik, 2009; 2011), to the detriment of secondary financial sectors (Engelen, 2007; Engelen & Grote, 2009; Fernandez, 2011). Many mid-sized European banks that had benefitted from the 1990s financial integration could not keep up and lost the supposed ‘global end game’ (Van Meeteren and Bassens, in press; see also Mügge, 2010). By 2007, there were 12 ‘megabanks’ in the Eurozone accounting for the entire increase in assets of the early 2000s (Bayoumi, 2017, p.39, p. 88). The success of the financial sector dwarfed the other goals of the Lisbon agenda, culminating in a ‘financialized’ rather than a ‘knowledge-based’ European economy (Birch & Mykhenko, 2014). Nevertheless, difference in Europe persisted. The new member states had not participated in the financial policy-making process (Vliegenthart and Horn, 2007; Quaglia, 2010a), yet their financial sectors had fallen prey to majorities of foreign owners. Geographies of banking practices (Hardie and Howarth, 2013) and mortgages (Aalbers, 2009a) remained differentiated across the continent. Particularly in the relative economic ‘periphery’ (e.g. Italy and Greece), older ‘safe’ banking practices such as dependence on government bonds remained common practice (Pagoulatos & Quaglia, 2013).


From the perspective of Europe, the North-Atlantic financial crisis has two distinct phases demarcated by the fall of Lehman Brothers in September 2008 (Bassens et al., 2013, p. 2409). The crisis originated in summer 2007, when the US subprime mortgage market melted down (Aalbers, 2009b), resulting in a run on the repo and the securitization-fuelled shadow banking system (Thieman, 2014). In August 2007, three of BNP Paribas’ investment funds terminated redemptions, signalling the start of crisis transmission to Europe (Engelen, 2012). The big universal banks, such as BNP Paribas, Société Générale, Nataxis but also smaller German regional banks (Hendrikse, 2015; Howarth & Quaglia, 2016) had toxic US mortgages on their balance sheets, acquired in the boom years, triggering obligations they could not meet anymore (Bayoumi, 2017; Fligstein & Habinnek, 2014; Jones et al., 2016). As bank supervision was not Europeanized, resolving failures was a member state affair (Howarth & Quaglia, 2016). After Lehman Brothers, the interbank market froze, prohibiting the short-term refinancing of debt. All convergence indicators started failing (Bassens et al., 2013), thus pushing more banks and governments into insolvency. Lenders lost faith in the representation of European financial space and began acting as if the EU was merely a loose association of states (idem). This development culminated in a ‘deadly embrace’ (De Grauwe, 2013; Epstein & Rhodes, 2016) between banks and sovereigns, where downgrades of government bonds recursively triggered new bank failures. The weaker Southern European economies bore the gravest consequences (Lapavistas et al., 2012). The negotiations around subsequent European and IMF bailouts in Greece (April 2010, July 2011), Ireland (November 2010),
Portugal, (May 2011), Spain (June 2012), and Cyprus (Jun 2012) (Howarth & Quaglia, 2016) formed the backdrop of a frantic European search to reverse the representational space of a failing Europe.

Given the substantial role of Northern European banks in the genesis and transmission of the crisis, the representations of space guiding the crisis resolution are remarkable, if not complacent and blatantly false (Engelen et al., 2011; Engelen, 2012). In efforts at resolution, the crisis has consistently been presented as typical to 'Anglo-American capitalism' exported like a 'cancer' to Europe (Bibling, 2014; Engelen, 2012). This was bad capitalism supposedly kept outside the European 'island of stability' (Bassens & Van Meeteren, in press). Post-crisis reform therefore focused on building 'a wall around Europe' (Pagliari, 2013). Before that wall could be erected, bailouts produced distinctive governance crises unforeseen in the European treaties (Mamadouh & Van der Wusten, 2013). Jones et al. (2016) label this a 'failing forward' period, where member states' foot-dragging produced lowest common denominator policies that entailed draconic consequences for the member states subject to them. Haggling between member states each wanting to minimize individual exposure to the crisis produced a temporary (May 2010) and eventually permanent (Dec 2012) 500 billion European Stability Mechanism (ESM). The latter was an ECB-monitored 'battle chest' to counter financial market instability. However, drawing on it came with very thorny strings attached (Epstein & Rhodes, 2016). The ESM was coupled with new series of regulations, the 'six pack' (Sep 2010), the 'two pack' (Nov 2011) and the fiscal compact (March 2012), which progressively raised member state budgetary requirements and were increasingly punitive toward those failing to meet them (Schmidt, 2015). All these policies would allegedly 'fix the broken part' and jumpstart 'convergence' in spatial practices as represented in borrowing and bond yields, despite the widely diverging social costs across the European continent (Lapavistas et al., 2012; Varoufakis, 2016).

Regarding re-regulating finance, the crisis first engendered bold regulatory proposals, particularly when addressing the putative Anglo-American practices the crisis was blamed on. For a while, more prudent, less free market-oriented policy proposals were considered (Quaglia, 2012a). In 2009, regulations governing credit rating agencies, deposit guarantees and alternative investment funds were proposed (Quaglia, 2012b; the UCITS Directive 2009/65/EC, transposed 1 July 2011), although the Alternative Investment Fund Directive was only adopted in 2011 and fully transposed by 22 July 2013 (Directive 2011/61/EU). The hedge fund priority was remarkable. While hedge funds were portrayed as the Anglo-American 'locusts' in the European financial space (Engelen, 2012) and were blamed for the downfall of proud European national champions such as ABN AMRO (Van Meeteren & Bassens, in press), hedge funds had played no role in the financial crisis (Quaglia, 2011). Like the Lamfalussy expert group a decade earlier, the De Larosière (2009) expert group produced a European financial governance overhaul report (Spendzharova, 2011). The eventual De Larosière regulations (for overview, see Quaglia, 2012b) encompassed regulation on derivatives (Regulation 648/2012) and strengthened capital requirements for financial institutions (Directive 2010/76/EU, transposed by 31 December 2011). Nevertheless, many proposed banking supervision regulations (Jones, 2015) were left in limbo until the next conjuncture.
Despite this flurry of regulatory activity, entropy of European financial space continued. Quaglia et al. (2016) report that between 2005 and 2011 cross-border bondholding fell from 40% to 33%, disturbing transmission of monetary policy. The future of large investment banks and too big to fail banking seemed clouded (Wójcik, 2012; Wójcik & MacDonald-Korth, 2015). Moreover, new rounds of sovereign bankruptcies were by now threatening Italy and Eurozone integrity (Mamadouh & Van der Wusten, 2013). In order to buy time, incoming ECB president Mario Draghi announced on 26 July 2012 (Draghi, 2012) that ‘the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough’. In practice, this meant creating a trillion euros and lending them to banks in exchange for troubled collateral (Jones, 2015; Varoufakis, 2015). This trillion-euro gesture immediately reinstated the representational space of an enduring Europe, and as Jones (2015, p. 44) claims, quietly dissolved the sense of urgency to build new crisis-resistant institutions.


The current conjuncture's policy cycle is still ongoing and it is therefore impossible to tell what spatial practices or representations of space will emerge. We can, however, interrogate the 2012-2017 conjuncture’s key representational space: ‘financial union’. According to Epstein and Rhodes (2018), financial union will transform European economic governance in European economic government. Financial union is the outcome of the ‘Five Presidents Report’ (Juncker, 2015) and the ‘Four Presidents Report’ (Van Rompuy, 2012) (see Howarth & Quaglia, 2016, p. 201), which promises that, this time, Europe will move towards a ‘genuine economic and monetary union’ (title of Van Rompuy, 2012, emphasis added). The Juncker Commission spearheads financial union, which integrates the continuing struggle about banking union with an FSAP-style initiative called Capital Markets Union (CMU) (Epstein & Rhodes, 2018). Juncker is a veteran of eurocrisis politics (Holmes, 2014) and as former prime minister of Luxemburg optimistically predisposed toward finance’s role in renewing European integration (Dörry 2016; Quaglia et al., 2016).

Similar to the FSAP in 1999, optimism generated by the ‘return to normal’ after the Draghi intervention seems to have invigorated financial lobbying (Engelen & Glaßmacher, 2018; see Braun et al. 2018, for overview), including renewed calls for lenience toward securitization (idem, Fernandez & Aalbers, 2017). Recent directives, MiFID2 (Directive 2014/65/EU, fully transposed 3 September 2018) and PSD2 (Directive EU 2015/2366, transposed 13 January 2018) enable further digitization and platformization of financial services (FinTech). These directives have the potential to change the European financial landscape, but the precise effects on market-based banking and the EU financial sector could be manifold (Hendrikse et al., 2018). Meanwhile, the boldest of all post-crisis proposals, the financial transaction tax, has been dying a slow death (Gabor, 2016; Kalaitzake, 2017). ECB opposition hastens the death, as the tax would endanger the transmission of monetary policy, which reversed European entropy after Draghi started pumping liquidity into the system (Braun, 2018). The same jubilant representation of space that guided ‘1992’, ‘the Euro’ and ‘the FSAP’, which portrays financial integration as the only available medicine to the illness of alleged economic ‘backwardness’ is back, projecting a financialized future.
Conclusion
Since 1995, the EMI and ECB collect Eurozone financial integration statistics measuring convergence in financial markets. When prices converge, market spaces are presumably coalescing. Since 1999, volume statistics have also been collected. Although these statistics have their qualifications, they allow for summarizing this paper’s argument. Figure 2 shows the degree of convergence of three different indicators, with a score of 1 meaning a full convergence. Horizontally, Figure 2 displays several price and quantity convergence indicators and vertically indicates shocks (red), other events (green), and directives and their transposition periods (blue). The convergence indicators can, in a qualified way, seen as an indicator of spatial practices. The vertically indicated events are spatial representations as they change the spatial landscape in which these spatial practices occur. The anticipations about the future that the interplay between these indicators and events conjure, the representations of space, have been described per conjuncture in the dedicated sections above. Remarks about the relations between these phenomena should be regarded descriptive and any causal suggestion should be subject to dedicated follow-up research.

Figure 2: ECB key indicators of financial integration and key events 1995-2016

Figure 2 conveys the convergence narrative. Whereas banking, bond and money markets had already Europeanized by the millennium, equity prices remained volatile. Equity prices diverge after the dotcom crash and they only start moving in lockstep with the other indicators after the FSAP directives. The volume indicator only starts to converge, first downward then upward, after the collapse of Lehman Brothers when Europe increasingly interferes in bond markets. These observations indicate that European directives, that is laws, are consequential for shaping EU financial market geographies (Christophers, 2015). Another striking observation is the volatility in spatial practices following new financial integration policy, like the FSAP and the De Larosièrè report. Policy proposals are products of specific conjunctures, but policy effects only become fully apparent after that conjuncture has passed. By the time the FSAP directives became law, the context had radically changed, fuelling financial bubbles that were unanticipated in the 1990s.

Unintended consequences invite reflection about the thick conception of space. The representational space of a financially integrated EU, strong enough to be an innovative yet sturdy island of stability, continuously enchants imaginations. This imagined future (Beckert, 2016) of EUrope makes firms plan mergers and acquisitions and adapt their spatial practices foreseeing changing market rules. The anticipation of the euro and Draghi’s speech are salient examples. Yet, European financial integration is not reducible to futuring alone as the European financial space interacts with other scales of practice and unintended consequences occur. The FSAP did not lead to a European Silicon Valley-style capital market but to consolidation of big European banks. Yet because the FSAP led to more financial integration it was still considered a success. A discursive advantage is that the ‘Silicon Valley style capital market’ wish can be recycled when negotiating Capital Markets Union (Engelen & Glasmacher, 2018). Each new round of European financial integration supposedly ‘shaves away’ another layer of geographical difference until the ‘genuine’ EUropean teleological outcome is finally achieved (cf. Matthijs & Blyth, 2015).

This paper proposes a different conception of space, which critically examines the performativity of monotopic representations of European space through juxtaposition with the spatial practices and spatial representations it recursively produces. A financial geography perspective underlines that performativity is always a product of political economy, practice and agency; spatial practices that are always located somewhere (Barnes, 2008; Christophers, 2014b; Muellerleile, 2015). Thick space focuses on the how, what, why and where of European financial space builders. If, following Delors (1992 [1989], p. 155) the ‘scale of the European Community is inscribed in the natural extension of European financial space’, we have to intensify our mapping of the spatial practices of the inscribers.
References


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FinanceEurope

Reconstructing the changing financial geography of the European Union (1985-2007) through narratives, numbers, and networks of European financial elites.

At a time when crisis-ridden Europe is devoured by social, political, and economic turmoil, the proposed research project intends to provide a thorough understanding of the financial politics and geographies that led to the financial integration of the European Union before the crisis of 2008. The project will try to explain that integration through the Europe-wide expansion of its primary financial agents (i.e. European banks) and wonders how geographical expansions were enabled by decisions in European policy networks. The main hypothesis is that political and financial elites converged in overlapping “networks” made up by insiders, business economists, academics, consultants, and politicians who utilized “narratives” about the acclaimed benefits of financial Europeanization for all, in spite of factual divergence in the “numbers” that were observable on the ground. The project will study these dynamics in hindsight for the period 1985-2007, by looking at how decisions at European banks were being made and how these dovetailed with the policies that were rolled out across Europe financial space. The project is initiated and led by researchers based at the Vrije Universiteit Brussel, Belgium. Auxiliary input is provided from the University of Amsterdam (Netherlands) and Loughborough University (United Kingdom). The research is funded by FWO - Research Grant G019116N.


**Other key project publications:**

