NATIONAL VS. SUPRANATIONAL BANKING SUPERVISION

Subject area: regulation, governance, banking, financial markets, crisis

Abstract
The reluctance of nation states to concede authority to supranational institutions runs to the very heart and history of European integration. The global financial crisis and the ensuing Eurozone sovereign debt—banking crisis shed new light on this debate however. The aim of this workshop is to explore two overarching questions. (1) Why do nation-states transfer regulatory and supervisory authority over banks to supranational institutions? (2) What are the distributional consequences of such a transfer? The questions are particularly timely given that, on the one hand, the financial and debt crises have heightened the need for more coordinated and supranational regulatory supervision. On the other hand though, the social, political, and economic fallout of the crises have increased the incentives for political authorities to pursue a more active and involved management of their domestic banking systems. This presents a seemingly uncomfortable dilemma for nation states that we seek to explore.

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Outline of the topic
For nation states, both the global financial crisis and the ensuing Euro zone debt/banking crisis appear to have exacerbated an already existing dilemma. On the one hand the financial crisis revealed the inadequacies of extant regulatory institutional configurations dominated by national authorities, whilst the debt crisis has also generated debate about the need for a pan-European resolution mechanism and a banking union (Pisani-Ferry et al 2012). On the other hand, the crisis seems to have further crystallized the resolve of national political classes to manage their domestic banking systems in a more active way, and the post-crisis re-regulatory agenda has again aroused historic tensions between competing patterns of embedded market organization (Germain 2010). In particular, ceding responsibility for capital or liquidity ratios – which impact, *inter alia*, on domestic lending – or decisions on bank closures, are highly sensitive issues with immediate economic and social costs for national authorities.

Yet the financial and debt crises have also raised the stakes for European institutions, and particularly the European Central Bank (ECB) and the newly established European Banking Authority (EBA). Whilst the (domestic) socio-economic sensitivities outlined above hindered earlier proposals for greater supranationalisation (Lamfalussy 2001, Hertig & Lee 2003), recent events suggest that the European project itself – the single market and single currency – is threatened by the absence of a more integrated and coordinated banking supervisory architecture. Thus the crises are re-incentivizing the political, social, and economic-financial motivations for both reinforced national
and supranational banking regulation. The workshop aims to explore the potential distributional costs attached to these seemingly ever-more pressing institutional reconfigurations.

For the purposes of this workshop, our broad aim can be translated into two empirical objectives: (1) to consider how member states’ (including recent accession countries’) domestic regulatory and supervisory authorities have responded to the crises and (2) to examine how supervisory institutions are responding, not only to the ‘economic’ challenges of the financial and debt crises, but to the ‘polito-social’ interests of European societal groups. The workshop will be a venue for the collection of new empirical work on these problems, which focus attention on a range of domestic changes and adaptations while fostering a dialogue that is attentive to how EU governance is or potentially could address these domestic concerns.

In particular, we have in mind a range of thematic studies that might include the following:

(1) Comparative studies of current banking regulatory and supervisory frameworks, especially those addressing the following puzzle: why has a national regulatory and supervisory approach mostly prevailed up to now, given the extent of integration in other sectors and the now obvious ways in which this kind of national fragmentation undermines, among other things, the common currency and financial stability.

(2) Case studies of new European-level banking supervisory arrangements and the politics of negotiating their approval, involving domestic and European authorities.

(3) Contextual studies of what we already know about the supranationalization of banking supervisory authority.

(4) Analyses of the implications of nascent EU banking regulation – ESRB, EBA, ring-fencing, and banking union plans, for example – on larger financial centres (like the UK) and, also, on countries with high levels of foreign bank ownership (like CEE economies).

Relationship to existing research

There are at least three main areas of research with close links to our workshop proposal:

- **Varieties of (finance) capitalism:** Recently, several commentators have attempted to assess European economic governance responses against the background of divergent national models of capitalism (Hodson 2010). The aim of this workshop is different: though the VoC literature is vast and rich, its greatest contribution lies in its typologies of economic relations; its analysis of political relations is less nuanced (Moran 2009). There are however, a series of wider contributions addressing questions of embedded patterns of market organization and supervision, and the struggles between European financial centres in the context of European integration (Story & Walter 1997, Underhill 1997). The aim of this workshop is to develop a research agenda similar to these latter accounts, in light of fresh empirical material and the uniqueness of the financial and debt crises as a distinctive moment in EU integration.
• **Integration theory:** Neo-mercantilists have long maintained that a state’s control over its domestic financial system is integral in allocating capital for development purposes and maintaining stability. European integration and globalization hew more closely to the expectations of neoliberal institutionalists, however, and encourage exactly the reverse policy prescription—that of forsaking political control over finance in favour of greater efficiencies and higher growth. Our central paradox – that the crisis has simultaneously increased incentives for delegating to supranational authorities whilst also incentivising domestic supervision and national retrenchment – cuts to heart of this conceptual schism. Thus our workshop seeks to assess these theoretical positions in light of the crisis.

• **EU regulation and international cooperation:** there is a growing body of literature on the relationship between the development of European financial integration and international cooperation on financial regulation. Some of this literature focuses on the increasing EU bargaining power in international cooperation due to the rise of the EU’s regulatory capacity (Bach and Newman 2007; Posner 2009, Posner & Véron 2010). Some scholars focus upon the divisions among EU member states that prevent the EU from formulating clear policy positions and undermine its influence (Mügge 2011) but also how the design of EU regulatory arrangements that accommodate intra-European diversity can make European solutions possible templates for comparable challenges on the global level (Sabel and Zeitlin 2010). Helleiner and Pagliari (2011) have identified ‘decentralized coordination’ as international efforts to reinforce global financial regulation have run out of steam since the easing of the international financial crisis. However, ongoing intra-EU debates about banking regulation and supervision have global implications and must respond to global initiatives – Basel III on reinforced capital requirements being an obvious example.

**Participants & papers**

We welcome participants who are working within comparative and international political economy broadly defined, including the likes of public policy analysis, regulatory studies, and rationalist, institutionalist and constructivist perspectives. We also welcome the input of established scholars as well as newer members of the research community, including doctoral students.

**References**


