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Governing through financial markets: Towards a critical political economy of Capital Markets Union

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Abstract

Capital Markets Union is a large-scale political project to strengthen and further integrate European market-based finance. An initiative of the European Commission under Jean-Claude Juncker's leadership, Capital Markets Union seeks to realize a long-standing goal of European policy makers: a financial system in which capital markets will absorb more of citizens' savings and play a greater role in corporate finance. Market-based banking, too, is set to benefit from Capital Markets Union, which includes measures to revive the European securitization market. Given that market-based finance – or shadow banking – shouldered much of the blame for the financial crisis of 2007–2008, its resurgence as a policy priority of the European Union constitutes a puzzle. The present article lays the theoretical groundwork for a special issue that tackles this puzzle. It argues that rather than an end in itself, Capital Markets Union represents an exercise in 'governing through financial markets'. Pioneered in the United States, governing through financial markets is a political strategy adopted by state actors in pursuit of policy goals that exceed their institutional capacity.

Keywords

European Union, euro area, European Commission, market-based finance, shadow banking, financialization

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Phoenix risen: Capital Markets Union and the revival of European market-based finance

Capital Markets Union (CMU) is the latest in a series of large-scale reform projects in European economic and financial governance. It follows a series of institutional changes designed to close the 'governance gaps' exposed by the protracted financial and economic crisis of the euro area (Braun, 2015; Jones et al., 2016; Salines et al., 2012). This reform effort has centralized significant powers at the supranational level, notably in the areas of macroeconomic governance and banking supervision (Epstein and Rhodes, 2016; Howarth and Quaglia, 2016; Scharpf, 2016). While CMU is closely linked to these post-crisis reform initiatives, it also harks back to a deeper, long-standing ambition of European policy makers: to re-fashion Europe's financial system in the image of the US financial system (Dorn, 2016; Segre, 1966). The overarching goal of CMU is to promote market-based finance by deepening capital markets and strengthening market-based banking.

The push to deepen European market-based finance intensified with the planning for and implementation of Economic and Monetary Union (EMU). The 1990 *One Money, One Market* report anticipated that only monetary union would bring about full capital market integration, while the *Financial Services Action Plan* outlined concrete steps towards 'raising capital on an EU-wide basis' (European Commission, 1990, 1999). Since banks continued to dominate Europe's financial system, European institutions encouraged large banks to increase their capital market activities (Gabor and Ban, 2016). The 'great leap forward' towards a truly single financial market (Grossman and Leblond, 2011) has thus occurred primarily in the form of market-based banking, defined as wholesale-funded banks seeking profits from both proprietary trading and intermediation of tradable securities and derivatives (Hardie et al., 2013a, 2013b).

This system, dominated by market-based banking institutions, did not fare well during the euro-area sovereign debt crisis, which caused a degree of financial fragmentation along national lines unseen since the introduction of the common currency (European Central Bank [ECB], 2011). The fragmentation was sharpest in the wholesale markets that had experienced the deepest integration before the crisis. Against this backdrop, CMU constitutes the most ambitious plan yet to achieve the elusive goal of a single European market for capital. Generally speaking, CMU seeks to create the conditions for capital markets to absorb more of citizens' savings and to play a greater role in the financing of companies. The most advanced component of CMU to date seeks to revive the European securitization market – a building block of shadow banking that blurs the line between bank-based and market-based credit intermediation (Hardie et al., 2013a, 2013b).

CMU constitutes a puzzle. The Commission, the ECB, and other policy makers clearly conceive of CMU as part of the *solution* to the euro area's persistent woes, notably financial fragility and weak economic growth. In the aftermath of the global financial crisis of 2008, however, market-based finance was generally seen as part of the *problem*. Studying the causes of the crisis, economists have highlighted the financial instabilities built into market-based forms of (shadow) banking as the decisive proximate cause of both the US subprime crisis and Europe's bank and sovereign crises (Adrian and Shin, 2010; Brunnermeier, 2009; Gabor and Ban, 2016; Gorton and Metrick, 2012). Political economists have located the drivers of this pre-crisis rise of shadow banking in banks' search for new profit sources, often in combination with regulatory arbitrage (Fernandez and Wigger, 2016; Goldstein and Fligstein, 2017; Thiemann, 2014; Thiemann and Lepoutre, 2017), as well as in

institutional investors' search for yield and demand for safe assets (Gabor 2016a; Lysandrou and Nesvetailova, 2015; Sweeney, 2017; Vermeiren, 2017). Given how much of the blame for the crisis fell on these new forms of financial intermediation, many observers expected a political shift away from financial innovation and shadow banking. Instead, in finance as in economic policy more broadly, neoliberal ideas and policies have proved surprisingly resilient (Ban, 2016; Blyth, 2013; Crouch, 2011; Engelen, 2018; Helleiner, 2014; Schmidt and Thatcher, 2013). 'Reformist' policy innovations such as macroprudential regulation, stress testing, new liquidity and leverage rules or higher capital requirements do not break up too-big-to fail banks or rein in shadow banking (Gabor, 2018).

While this absence of a significant policy reversal is puzzling in its own right, CMU – a key item on the European Commission's economic policy agenda – poses an even deeper conundrum, because it seeks to *expand and accelerate* the development of market-based finance in the European Union (EU). In search of explanations for the resilience of finance in the post-crisis political environment, political economists have studied the role of 'finance-friendly' economic ideas (Baker, 2013; Braun, 2014; Engelen et al., 2011; Lockwood, 2015; Widmaier, 2016), as well as the financial sector's instrumental, structural and infrastructural power in the political process (Braun, 2018; Culpepper and Reinke, 2014; Gabor, 2016b; Pagliari and Young, 2016; Woll, 2016). However, this literature has not yet engaged with CMU, which can be seen as the culmination of the post-crisis resilience of European market-based finance, and therefore raises important new questions. Given the post-crisis stigmatization of shadow banking and securitization, how did CMU become a cornerstone of the EU's policy agenda? What are the origins of the narrative of finance as an engine for growth and stability, as expressed in the 'Investment Plan for Europe' and the 'Five Presidents' Report'? And what has been the role of EU institutions and policy makers in implementing that vision through regulation and legislation? This special issue will study both the enabling structural conditions underpinning the overall project of CMU and the politics of translating that project into concrete policies.

From playing the market to governing through markets: A theoretical framework

The scope and ambition of CMU exceed the explanatory scope and ambition of the two main literatures on European financial policy. The EU literature treats finance as one of many policy areas in which general propositions about the intergovernmental or supranational nature of European integration are to be tested (Grossman and Leblond, 2012; Jabko, 2006; Posner, 2007; Quaglia, 2007; Seikel, 2014). Critical political economy, while more alert to the special status of finance, conceptualizes EU integration as a vehicle for the neoliberal restructuring of European finance, thus analytically short-circuiting the EU policy-making process (Bieling, 2003; Macartney, 2009; van Apeldoorn, 2002). These approaches view the uploading of financial policy-making capacity to the European level either as an accumulation of 'power without purpose' (Posner and Véron, 2010) or as serving the interests of a transnational capitalist class. By contrast, we argue that CMU results from a deeper state–finance nexus. If in the past the Commission 'played the market' for political purposes (Jabko, 2006), the EU policy-making state is increasingly using the market for governance purposes.

Governing through financial markets

The contributions to this special issue conceptualize CMU as a political experiment in 'governing through financial markets'. The concept captures a particular mode of economic governance that aims at achieving public policy goals by using indirect policy tools that 'function by inducing another entity into action toward a desired end' (Quinn, 2010: 6). To govern through financial markets is to engineer and re-purpose financial instruments and markets as instruments of statecraft, with the goal of achieving economic policy goals at minimum fiscal cost. Governing through financial markets is neither a novel nor a uniquely European strategy.[1] By analysing CMU through this analytical lens, we place the project in a larger historical and geographical context, as well as in a global macro-financial system undergoing evolutionary change (cf. Blyth and Matthijs, 2017).

The most striking parallel is with the United States, which has long harnessed financial markets for (macro-)economic policy purposes. Krippner (2011) explains the financialization of the US economy as the – partly unintended – consequence of political decisions taken since the 1970s, designed to meet increasing social demands in a context of slowing economic growth. Under the threat of a looming fiscal, social and legitimacy crisis, a diverse set of public actors – politicians, bureaucrats and central bankers – turned to finance for solutions, lifting interest rate ceilings, abandoning credit controls and changing the way in which the Fed implemented monetary policy. One of Krippner's key arguments is that the shift towards governing '"at a distance" through the market' (Krippner, 2007: 506) helped to depoliticize conflicts over the distribution of scarce financial resources without diminishing the state's economic steering capacity. These insights are complemented by Sarah Quinn's recent work on the causal importance of the US debt ceiling rule, budget politics and public accounting for the government's choice of financial policies as a 'general tool of statecraft' (Quinn, 2017: 7). In reaction to the Republican veto over the federal debt limit in 1968, the Johnson administration reorganized public housing finance by privatizing Fannie Mae and authorizing it to issue mortgage-backed securities. Quinn (2017: 7) argues that 'budgetary constraints do not just limit state power, but sometimes generate new strategies of governance'.

A similar logic has been at play in the euro area, where the ECB, partly with the support of the European Commission, has sought to harness repo and securitization markets for governance purposes (Braun, 2018; Gabor and Ban, 2016). In the early years of the euro, the ECB sought to use the repo market – a 'shadow' money market in which banks fund their securities portfolios – to improve the transmission mechanism of its monetary policy and to support the transition to US-style capital markets. A truly European repo market would bridge money and securities markets, and ensure an even distribution of liquidity across borders 'without disproportionate differences in cost, efficiency or complexity' (ECB, 2002: 65). The project was unexpectedly derailed by the fall of Lehman Brothers, whose dependence on short-term repo markets to fund aggressive leverage proved unsustainable. It was buried once the ECB accepted that European banks' dependence on repo markets to fund securities portfolios engendered Lehman-type financial fragilities and required careful regulation (Gabor, 2016a). At the same time, following the euro system absorbing EUR 8.5 billion worth of asset-backed securities, pledged as collateral by Lehman Brothers' German subsidiary, the ECB took an early and sustained interest in rebuilding the institutional architecture of the European securitization market (Braun, 2018). Its highly proactive stance on securitization paved the way for the political resuscitation of this financial

technology, which culminated in the EU's, 2017 regulation on simple, transparent and standardized (STS) securitizations (Hübner, forthcoming).

This special issue draws on and extends this research that connects the rise and resilience of market-based forms of finance to government strategies of governing through financial markets. Without denying the causal relevance of the structural forces of capitalism or the lobbying power of vested financial interests, we stress the role of state structures, as well as of political agency. Contingent euro crisis–related developments have created an EU polity that, in terms of budgetary restrictions and institutional veto points, resembles the United States during the late 1960s and 1970s. As they did in the United States, these structural conditions tilt the EU towards indirect, budget-neutral policy tools.

Structure and agency at the EU level: Polity and policy makers

By linking the EU's preference for governing through financial markets to the combination of weak economic growth and a diminished macroeconomic toolbox, we emphasize the interdependence of polity and politics. From this perspective, the need for indirect, financial market–based solutions is deeply ingrained in the structure of the European polity, which lacks expansionary capacities traditionally available to national states, be it in the form of fiscal policy, wage coordination or competitive devaluation (Braun and Hübner, 2018; Epstein and Rhodes, 2018).

This approach builds on recent work that conceptualizes European integration as a process of fractured state-building at the supranational level (Richardson, 2012; cf. Bieling and Hüttmann, 2016; Genschel and Jachtenfuchs, 2013). On one hand, the resulting 'system of differentiated integration' (Schimmelfennig et al., 2015) differs fundamentally from democratic polities at the nation–state level (Vauchez, 2016). Most importantly, the European polity lacks the authority to tax and borrow – a key prerogative of sovereign states. At about 1 per cent of EU28 gross domestic product (GDP), the contribution-based EU budget remains small. To the extent that the Commission *has* gained fiscal powers, it has done so as the monitor and enforcer of national budgetary discipline and austerity. The enhanced Stability and Growth Pact curtailed member states' own fiscal capacities, effectively turning them into 'consolidation states' (Streeck, 2015). Thus, in a macroeconomic context characterized by structurally weak demand, both the national and the supranational level lack the expansionary fiscal capacities to respond to strong political pressures for a Europe-wide growth initiative (Stockhammer, 2016).

To the extent that the EU lacks the fiscal policy tools that governments would conventionally resort to in order to stimulate economic growth, these structural features of the European polity constitute an *enabling* condition for policy innovation. They do not, however, determine the form and direction of such innovation. Even though similar structural constraints have caused US governments to embrace indirect, financial market–based solutions, it would be premature to explain CMU as the direct consequence of structural constraints. Krippner's and Quinn's work highlights the crucial role policy makers, technocrats and private sector actors have played in translating structural political pressures into concrete policies.

Indeed, this is another striking parallel between the US Federal Government and the EU – a bewilderingly complex technocratic apparatus, often closely entangled with private sector actors, that dominates the agenda-setting phase of the EU policy-making process. Analysing the CMU agenda-setting process, the contributions to this special issue share

three broad theoretical commitments: they disaggregate the technocratic apparatus to focus on different subsets of actors; they analyse how these actors mobilize knowledge and ideas, by way of 'powering', 'puzzling' or both (Heclo, 1974); and, instead of taking them at face value, they engage with these ideas in a critical manner.

Disaggregating the policy-making process is necessary because agenda-setting in the EU takes place in a multi-layered technocratic arena. Long a driver of market development and integration, the Commission has seen its role further strengthened by the euro crisis (Bauer and Becker, 2014; Nugent and Rhinard, 2016), acting as a key policy entrepreneur with regard to the EU's economic governance reform agenda (Copeland and James, 2014; Schmidt, 2016). Within the network of actors participating in the CMU agenda-setting process, the Commission has been the central node, while the ECB and the European Investment Bank (EIB), alongside the Bank of England, have acted as vocal and effective advocates of a more market-based financial system in general, and of securitization in particular (Braun and Hübner, 2018; Engelen and Glasmacher, 2018; Mertens and Thiemann, 2018). They have been joined by the newly created European Systemic Risk Board (ESRB), which has promoted the securitization of government bonds as a way of breaking up the dependency between banks and their home sovereigns, which had delayed the completion of Banking Union (BU) (Gabor and Vestergaard, 2018). Financial sector associations, such as the Association for Financial Markets in Europe (AFME) or the European Banking Federation (EBF), were part of the CMU agenda-setting process via various consultations and other communication channels. Finally, think tanks such as Bruegel or Centre for European Policy Studies (CEPS) have acquired significant importance as 'independent' sources of expertise. And this is only the tip of the iceberg. There are 'more than 150 working committees advising the European Council, nearly 800 "expert groups" orbiting in the spheres of the different directorates-general, 268 "consultative committees" composed of national experts seconded by the States to the Commission, 188 EU-dedicated "think tanks," etc.' (Vauchez, 2016: 45). In short, technocratic government does not mean that there is no politics, but that politics takes place in a technocratic (as opposed to an electoral) arena.

The second shared theoretical commitment is a view of technocratic politics as following a logic of 'intra-elite persuasion' (Blyth, 2007). This view is consistent with an established literature that emphasizes the central importance in the EU of the 'politics of expertise' (Boswell, 2008; Radaelli, 1999). The high value EU policymaking ascribes to technical expertise empowers actors that have access to such knowledge – be it data, models or practical insights – in the policy area in question (Vauchez, 2016: 36). In the realm of financial policy, this tends to empower market-based agencies such as the ECB, the EIB, and, more recently, the ESRB, while having a marginalizing effect on civil society actors.[2] Moreover, because technocrats will always lack some practically relevant information, the politics of expertise opens the door to 'private associations deliver[ing] information and problem-solving strategies that enable the crafting of the policy reform itself' (Culpepper, 2002: 775). Whether, in relation to technical knowledge, actors are engaged in 'powering' (using knowledge strategically) or in 'puzzling' (searching for 'what works'), is an empirical question that is answered differently by different contributions to this special issue.

Finally, the contributions share a critical stance vis-à-vis the official policy discourse. While often the result of governments' attempts to depoliticize economic policy, governance through financial markets has far-reaching distributional effects. Notwithstanding the functionalist official narrative about CMU as a solution to pressing economic problems, there is

considerable uncertainty regarding the effects of a market-based financial system on growth and efficiency (Dombret, 2015). For the most part, the Commission's narrative has excluded critical concerns about the pro-cyclicality and fragility of market-based finance, so starkly on display during the global financial crisis (Bavoso, 2017; Gabor, 2016a). In turn, the ECB has made little use of its epistemic authority or its new financial stability mandate to introduce questions about financial fragility in the CMU debates (Gabor and Vestergaard 2018). The political activation of financial markets and instruments in the context of the austerity-cum-growth crisis thus reinforces the market-liberalizing bias of EU policy and helps to consolidate the power of finance in the European polity (Braun, 2018; Gabor and Ban, 2016; Höpner and Schäfer, 2010; Scharpf, 2009).

Theoretical and empirical contributions of the special issue

The scale and ambition of CMU are such that the project has implications for a range of research fields. This special issue – which can only be a first step in the scholarly engagement with CMU – seeks to contribute to the literatures on European integration, financialization, financial systems and financial-sector power.

First, we seek to overcome the unfortunate compartmentalization that characterizes the field of EU studies. On one hand, a large literature analyses the political drivers of European financial integration and the increasingly complex institutional landscape of EU financial supervision, regulation and policymaking, but stops short of seeking to understand how EU actors deploy their newly acquired powers (Bieling, 2013; Grahl, 2011; Quaglia et al., 2016; Richardson, 2012). On the other hand, the burgeoning literature on EMU reform studies the fiscal constraints of the emerging economic governance regime, but stops short of investigating how European policymakers use the tools at their disposal to address growth and legitimacy deficits (Krampf, 2016; Laffan, 2014; Scharpf, 2013; Schmidt, 2015; Seikel, 2016). One key message of this special issue is that this thinking in scholarly silos is untenable. The conceptual prism of 'governing through financial markets' reveals that financial regulation and macroeconomic governance are really two sides of the same coin (cf. Jones, 2016), and should be approached with a firm grasp of evolutionary change in financial structure, technique and discourse.

Second, and closely related, this special issue contributes to the literature on the nature and meaning of financialization. In particular, it sheds new light on the financialization of the state and of economic governance (Dutta 2018; Fastenrath et al., 2017; Konings, 2009; Livne and Yonay, 2016). The engineering of financial instruments and markets as tools of economic statecraft is well documented for the United States, both at the federal (Krippner, 2011; Quinn, 2017) and at the state and city levels (Pacewicz, 2012). In the European context, most case studies have been conducted at the national level (Dowling, 2016; Gabor, 2010; Lagna, 2015). Somewhat surprisingly, the EU – the only economy and polity comparable to the United States in terms of size and fragmentation – has hardly featured in this literature (Braun, 2018). While this special issue seeks to fill this gap, our purpose is not to provide final answers, but to open up avenues for a new research agenda on European market-based statecraft.

Third, the special issue adds fresh insights to the debate on the long-term trajectory of institutional changes in European finance and capitalism in general, and on the role of shadow banking in particular (Gabor 2016a; Gabor and Ban 2016; Jackson and Deeg, 2012; Macartney, 2011; Sweeney 2017; Vermeiren 2017). Recent research has highlighted

the role of private actors as key drivers of these changes (Gabor 2016b; Hardie et al., 2013a: 697; Lysandrou and Nesvetailova, 2015). However, CMU, which aims at reorganizing predominantly bank-based European financial systems into a truly pan-European area of market-based finance, is a political project. This special issue therefore casts a spotlight on the role of public policymakers in the transformation of the European financial system.

Finally, this special issue contributes to the literature on financial sector power (Culpepper, 2015; Keller, 2018; Pagliari and Young, 2016). Despite its technocratic character, CMU is by no means a pure coordination game, but has major distributional effects. Transnational private interest associations are deeply embedded in processes of technocratic powering and puzzling. In fact, Mügge (2006, 2010), studying the politics behind the Financial Services Action Plan, CMU's predecessor, has shown that European financial integration not only implies that 'a small group of bulge bracket firms would take the lion's share of [European] business' (Mügge, 2006: 993), but also that the big, transnationally active market players are a 'natural ally' of the pro-integration Commission. This 'natural' alliance was briefly disrupted by the Commission's plans for a Financial Transaction Tax (Gabor, 2016b; Kalaitzake, 2017), and re-energized by the CMU agenda. Our contributions zoom in to the public–private interactions in European policymaking since the financial crisis.

Overview of the special issue

Rather than analysing the individual elements of CMU in isolation, the contributions to this special issue seek to understand and explain CMU in the context of the broader political economy of the European financial system and of European integration. One key aspect concerns the political and economic relationship between BU and CMU. Using the framework of European integration theory, Epstein and Rhodes (2018) show that post-crisis financial integration has transformed the EU's institutional architecture. Both BU and CMU involve power shifts from states to markets, and from the national to the supranational level. The complexity of the European multilevel governance system, which is characterized by multiple veto points, raises the question of what enabled these institutional innovations in the first place. The authors highlight the causal importance of functional pressures, unleashed by the banking and sovereign-debt crises in the euro area. However, a structured comparison reveals different political dynamics in the two cases. The creation of the BU was accompanied by *noisy politics* and followed the dominant pattern of the 'Community Method' of policymaking. Supranational agenda-setting met with strong national resistance and power plays that shaped the institutional contours of BU. By contrast, CMU has been forged through *quiet politics*, with only minimal national political resistance. Epstein and Rhodes explain this outcome as the result of the Commission and the ECB successfully framing CMU as a necessary complement to BU, thus pre-empting opposition from member states already committed to BU. Thus, although both projects have profound political-economic implications – a supranationalization of political power and a denationalization and marketization of Europe's financial system – only BU was subject to high-level political contestation.

In addition to financial policy goals, CMU is also closely linked to macroeconomic policy, and thus to the broader EMU reform agenda. The Commission and the ECB in particular see CMU as a financial fix for the macroeconomic faults of the current EMU regime. This regime, Braun and Hübner (2018) argue, severely curtails the capacity of both

national and supranational actors to provide the core public good of *macroeconomic stabilization*, namely smoothing the business cycle and ensuring growth and job creation. Austerity policies, implemented through the Fiscal Compact and the six-pack and two-pack regulations, combined with the loss of wage or exchange-rate policy autonomy, have laced EMU member states into fiscal straitjackets. At the same time, a full fiscal union remains beyond the reach of current EMU reform plans. In combination, this institutional configuration results in a structural capacity gap with regard to macroeconomic stabilization. Braun and Hübner show how the Commission, supported by the ECB, uses its regulatory powers to harness *private* financial markets and instruments to provide *public* policy goods. Both institutions have linked the push for a more market-based financial system to the macroeconomic policy goals of higher growth rates and a more robust cross-border shock absorption mechanism in times of crisis. Stronger capital markets, the technocratic argument goes, will allow for a more diversified distribution of risk in the monetary union, beyond both national borders and the banking sector. This macroeconomic framing has served as a coordinating device for European technocrats, think tanks and private industry groups, all of which have advocated market-based finance – above all securitization – as an instrument to achieve higher economic growth and more effective private risk-sharing in world without fiscal centralization.

In addition to seeking private-sector solutions to this fiscal capacity gap, policymakers have also sought to boost investment by harnessing public actors. In particular, the Commission's 'Investment Plan for Europe' augments the role of public development banks in financing investment. This role is at the centre of the contribution by Daniel Mertens and Matthias Thiemann. Focusing on the newly established connections between CMU, the European Fund for Strategic Investment, the EIB, the European Investment Fund and national public development banks, Mertens and Thiemann highlight the state-led nature of financial innovation, especially regarding the financing of infrastructure and small and medium-sized enterprises (SMEs). Their analysis traces recent efforts by the Commission to harness the EIB's balance sheet to leverage the EU's limited fiscal capacities, increase investment and thus boost aggregate demand. They show that here too policy makers have embraced securitization as a financial vehicle for essentially macroeconomic policy goals. While facilitating coordination between public and private financial actors, this off-balance-sheet approach to public investment entrenches the dissociation of public budgets and public infrastructure – that is characteristic of the new European 'consolidation state' (Streeck, 2015) – and transforms governments into risk managers in the service of private-sector investors.

Even beyond public development banking, the CMU agenda of creating a more market-based financial system has far-reaching implications for the relationship between public and private actors and balance sheets. Daniela Gabor and Jakob Vestergaard examine these implications through the analytical lens of critical macro-finance, focusing on the European political economy of 'safe assets'. Safe assets are a key precondition for the stability of market-based finance, where global financial actors with distinctive business models no longer find safety in simple retail deposits. Inspired by Minsky's (1957) observation that the efficacy of central bank actions should be periodically re-examined in light of evolutionary changes in finance, they argue that the provision of the public good of *financial stabilization* fundamentally depends on the existence of a *single* safe asset that is issued supranationally, divorced from the fiscal logics of any one EMU country. For these reasons, Gabor and Vestergaard argue, solving the 'single safe asset problem' is crucial to the success

of CMU. Historically – for legal, political and institutional reasons – the dominant safe asset was national sovereign debt. However, the technocratic notion of a single safe asset anchoring a market-based European financial system collides with member states seeking to preserve national sovereignty over fiscal policy and thus public debt issuance. Gabor and Vestergaard trace how, over the past 20 years of European financial and monetary integration, technocratic elites have devised various market-based solutions to the single safe asset problem. Before the global financial crisis, the ECB encouraged the creation of a new single safe asset through shadow banking that Gabor and Vestergaard term shadow euros. Shadow euro creation would integrate both nationally segmented repo markets and sovereign bond markets. Lacking appropriate ECB support, the shadow-euro solution proved unstable under financial crisis conditions, and left Germany as de-facto safe asset issuer for the euro area. Since then, new approaches, clustered around securitization, have begun to flourish in technocratic circles: both the idea of a new private asset class – STS securitization – and plans for Sovereign-Bond Backed Securities (SBBS) aim to tackle the persisting safe-asset problem *without* pooling fiscal sovereignty. While these proposals offer market-based solutions to non-resolvable political disagreements, they will, Gabor and Vestergaard argue, prove insufficient in the next crisis without appropriate ECB support. Ultimately, the financial union envisaged by the CMU project will require fiscal risk sharing and new mechanisms of coordination with the ECB.

Taking the critical perspective of the other contributions one step further, Engelen and Glasmacher openly question the Commission's insistence that SME financing is central to its push, as part of CMU, to revive securitization. Rather, they argue, the CMU project expands the reach of financialization to spaces hitherto insulated – the German real estate market – and reinforces the political grip of the interest groups behind a mortgage debt-driven mode of financialization, which had been temporarily weakened by the global financial crisis. Through a meticulous analysis of policy documents, Engelen and Glasmacher demonstrate the discrepancy between the Commission's 'frontstage' narratives and the actual content of 'backstage' rulemaking. They argue that the new legislation on STS securitization, the outcome of complex negotiation over the meaning of STS securities, does not eliminate the underlying problems that made the securitization market such a potent source of financial risk in the run-up to the, 2008 crisis. By highlighting the symbiotic relationship between European policy makers – ranging from the ECB to the European Banking Authority – and private financial-sector actors in the policymaking process, their analysis raises important questions about the political motivations driving the CMU project.

Conclusion

In this special issue, we deploy a 'governing through financial markets' lens to examine the structural conditions behind the CMU project that promotes the organization of European finance around market-based finance, and the politics of translating that project into concrete policies. The contributions to the special issue approach CMU as a complex political hydra, examining its promises to help overcome political obstacles to macroeconomic and financial stabilisation in EMU, its ambitions to reinvigorate the old vision of a single financial space on an equal footing with US finance, and its strategies to impose new logics on state actors.

This special issue marks only a first step towards a deeper scholarly engagement with the future of European market-based finance. Future research will need to tackle several open questions. For instance, Brexit will likely disrupt the plumbing and the politics of European capital markets. In addition, Brexit and the new politics of the Franco-German engine appear to put on the table a European finance minister, potentially replenishing the macroeconomic toolkit, with uncertain consequences for the 'governing through financial markets' strategy (Bénassy-Quéré et al, 2018). Finally, the CMU project should not be understood in isolation as the outcome of distinctively European political pathologies, but as part of a global re-organization of finance around securities and derivative markets, which has now reached China (Gabor, 2018). What is at stake for European polities in a world where Chinese finance becomes a significant contender, alongside the US?

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Notes

1. For related historical work on Britain and the Bank of England, see Knafo (2013) and Carruthers (1999). Two broader literatures on economic governance through markets that we acknowledge but lack the space to discuss are the literature inspired by Michel Foucault's work on 'governmentality' (Miller and Rose, 1990) and the literature in economic geography on the 'marketization' of public policy (Birch and Siemiatycki, 2015).
2. For examples of successful civil-society advocacy in financial policy, see Baker and Wigan (2017) and Kastner (2018).

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