Capital Market Union: A failure or a partial success?
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Slide 1

It is a great pleasure having a chance to share some ideas with such a distinguished audience on our evergreen project: Capital Market Union. And the very use of the term "evergreen project" sends the message that it is a bit like Penelope's web.

Slide 2

There are two different perspectives with which one can look at the efforts, dating back to the 1970s, to integrate European capital markets: according to the first perspective, the integration of the EU capital market has been a failure; according to the second it has been a partial success. The integration effort was redoubled since 2014 with the CMU project: "*to create a single market for capital for all 28 member states by removing barriers to cross-border investment within the EU and fostering stronger connections with global capital markets",* in the words of President Juncker. I will concentrate my remarks on the last 8 years of the long-term action to achieve a single capital market.

Slide3

The first perspective, that CMU was a failure, starts from the needs of the EU, and in particular the euro-area. There is a strong consensus that a CMU is needed for:

- Absorbing idiosyncratic and exogenous shocks affecting the European economy, because the other two absorbing mechanisms, labour mobility and a federal fiscal system, are very weak in the euro-area,
- Improving resource allocation and thus supporting sustainable growth through increased financing of productivity enhancing projects, which is essential for a region with a stagnating and aging population,
- Mobilizing the resources necessary for the green transition, estimated in trillions, vastly exceeding what either the banking system or the public sector can harness,
- Complementing the intermediation ability of the banking system, which has intrinsic difficulties in funding long-term investment and innovation,
- Diversifying funding sources, thus reducing the concentration of the financial structure, avoiding dramatic effects like the sovereign-bank nexus experienced during the Great Financial Crisis and the euro-area sovereign crisis,
- Favouring the shift towards larger and more productive firms, which are less risky and more efficient,
- Supporting the international role of the euro, which suffers, in comparison with the dollar, from a less sophisticated and shallower capital market,
- Moving towards a fairer financial system, where greater competition from capital markets activities lead to greater access by less endowed population strata to more remunerative financial investments as well as more convenient funding.

The progress achieved so far in achieving a CMU is clearly insufficient to reach any of these goals, which are critical for the economic but also the political success of Europe in a more difficult global setting. Hence the failure conclusion.

Slide 4

The second, more favourable perspective whereby CMU is a partial success lists the progresses that, especially under the impulse of the Commission, have been achieved since 2015, or are being implemented right now. Without any pretense at exhaustion, my own list includes:

- Securitization, which I put first possibly because of my bias as Chair of the Board of Prime Collateralised Securities, even if the recovery achieved so far in the market is distant from the levels achieved before the Great Financial Crisis and less complete than that recorded in other jurisdictions,
- Prospectus, which in its different incarnation helps deal with the asymmetric information problem endemic in financial matters and particularly present in a multilingual setting,
- Innovations in market structure (MIFID-MIFIR), which have increased the degree of competition in the financial market,
- Fighting market abuse, with a visible, yet not perfect, move from a situation in which the use of private information was seen as the essence of financial investment, to considering it a grave infringement of a fair and efficient market,
- Anti-money laundering, hopefully coming to a satisfactory approach, after embarrassing, serious problems,
- MICA, where the EU is trying to take a leader role in regulating crypto finance,
- Consolidated tape, which would significantly increase market transparency,
- Insolvency and withholding tax proposals, which would ease cross border investment,
- Single Access point.

Slide 5

It would be unfair to say that the limited progress in CMU was due to a lack of trying from the Commission: the repeated attempts to launch and relaunch the process (2015, 2020, the 2021 and 2022 packages, acceleration in 2023) are at the same time a proof of its difficulty and of the determination to bring it forward.

Slide 6

So, the advantages are clear and large while the Commission has pursued the objective with determination, yet the results are disappointing. This is something odd, which requires an explanation. A fuller explanation will be available when a team at Bruegel, headed by Nicolas Veron, will have completed its study of the issue. Let me, however, throw out some ideas for discussion on this issue.

Slide 7

To understand why the endeavour has been so difficult it is useful to compare CMU with its more successful sibling, banking union. Of course, also banking union is far from complete, with bank resolution only partially achieved and deposit guarantee still on the drawing board. More importantly still, there is not something that be called a genuinely European banking system: for each bank, also the largest, one can easily determine its nationality. But it is undeniable that the raising of bank supervision to European level was a major progress and a welcome surprise. What is even more surprising, as Veron as shown in his history of banking union (The first decade of Europe's banking union: much achieved, much still to do, forthcoming), is how the project of making bank supervision a European competence quickly moved from being a “pie in the sky”, promoted by “blauäugige” idealists as Padoa-Schioppa, to an unanimously accepted, urgent necessity, translated in relatively brief time into an effective reality.

I think there are three basic reasons, each necessary and together sufficient, for the different success of the two siblings.

First, European bank supervision, accomplishing a decisive progress in banking union, was necessary to surpass the euro crisis at the beginning of the 2010s. Monnet`s prophecy, about Europe being built crisis after crisis, was once more verified. As the entire euro construction risked falling apart, Europe, and for it its highest representatives in the European Council, found the courage to do what was needed and had seemed impossible until then, taking supervision away from national entities, prone to capture and narrow national attitudes, to give it to a genuinely federal institution.

Second, conceptually the task was simple: you take supervisory responsibilities away from national institutions and give them to a federal one. Of course, implementing the concept was far from easy, but here the third reason of the success comes in.

Europe had an institution, the ECB, which could take up the role. The ECB had acquired credibility in its monetary policy role, was organizationally capable of taking the new responsibility, albeit with considerable effort, and there was a hook in the Maastricht Treaty, article 127.6, which allowed, when used in an extensive way, to attribute the responsibility to the ECB.

Slide 8

None of these reasons apply to CMU.

First, CMU is very important, but even if we don't achieve it, there will be no urgent life or death issue for Europe, but rather a long-term debilitation.

Second, there is no institutional sleight of hand, like attributing supervision to the ECB, that would, in one go, achieve decisive progress towards CMU. The achievement of CMU critically relies on the private sector: unifying the European capital market can be a source of nice profits for private agents. I see the role of the public sector as eliminating the barriers that stand in the way of Schumpeterian actions that both unify the market and provide good profits to enterprising institutions. In this respect, I still see the approach that Diego Valiante took in 2016 (Europe's untapped Capital Market – Rethinking financial integration after the crisis, CEPS-ECMI Report), as the right one.

Third, there is not another ECB which could take the responsibility to implement CMU. With all due respect for ESMA, giving it more independence, more resources and more responsibilities, as Sapir, Veron and Wolff argued in 2018 (Capital Markets Union: making it a reality, Bruegel, April 27, 2018), would be a step in the right direction, but not a decisive one, in my view.

Where does all this leave us? Of course, one cannot wish for a crisis to provide the life-or-death risk forcing to achieve CMU, overwhelming the resistance of rent seeking national financial actors and the obstructions of national regulators that see their turf invaded by "foreigners". On the latter point, my experience in Greece as Chair of the Selection Panel of the Hellenic

Financial Stability Fund confirmed my view that, even when well-intentioned and possibly helpful, external contributions are mostly seen as interferences into national settings. Nor can we avoid the cumbersome task of eliminating one by one barriers to Schumpeterian creative destruction to bring about CMU. Finally, a new ECB does not exist that could implement CMU. And the three reasons which favoured banking union only worked in a holistic, self-reinforcing fashion.

Slide 9

Does this mean that we must resign to the idea that, after the EU targeted in 2015 that the completion of CMU would be achieved in 2019, after having reinstated in 2020 the objective of CMU, while not daring to fix a date for its completion, after having delivered a package of measures in 2021 and another in 2022, after having called for accelerated efforts and renewed the commitment in 2023, we should expect further renewed commitments in 2024, and then in 2025 and maybe in 2030 so on?
The risk is there, but we should not succumb to it.

Slide 10

Three lines of action can help move towards the objective.

First, determination is important. Machiavelli (Chapter 25) wrote that fortune changes and "a wise and never lazy prince" can prepare himself for dealing with fortune's ups and downs and thus not be its slave, resisting setbacks and seizing opportunities when the tide changes. Analogously, we can, by dogged repetition of the importance of CMU, as we are doing today, progressively achieve it without waiting for the unblocking impact of a crisis.

Second, we face an embarrassment of riches in choosing from the plethora of reports dealing with CMU to list three priority steps that could achieve a more substantial progress than what has been achieved so far in eliminating barriers to profit seeking that would unify the capital market. I would concentrate the search on the *Final Report of the High-Level Forum* (*A new Vision for Europe's Capital Markets 2020*), the IMF study (*A Capital Market Union for Europe*, 2019), or Sapir, Veron and Wolff (2018, *Capital Markets Union: making it a reality.* Bruegel, 10 April 2018). I think the choice should be based on two criteria: first, how effective would be the measure to progress towards CMU; second, whether a strong constituency can be found supporting the measure, rather the portfolio of the three measures. We know that innovations create winners, but also losers, it is therefore important to look at a portfolio of measures that have enough winners to tilt the social balance in its favour. Insolvency procedures, pension arrangements and integrated, user-friendly company information look to me as reasonable candidates for three priority actions with a substantial impact and decent social support. But the choice requires more time and care than I have. The important issue is to clearly prioritize action.

Third, we can attribute to a reinforced ESMA the explicit and formal ask as well as the tools to pursue, in cooperation with the Commission, the European Parliament and the Council of Ministers, the unification of the European Capital Market (Sapir, Véron and Wolff, 2018). The ESMA could, together with the Commission, become the engine of CMU, relentlessly pushing for it, behaving like Machiavelli's prince to pursue the objective in good and bad times, making determination win over fortune.

Slide 11

Before ending my presentation, let me give you my answer to the question whether one should prioritize the integration of national markets or their growth. I have no doubt here: integration is the direction to follow. It would make no sense, just for example, to have 27 equity markets, even if they were all much stronger than they are now. We don't necessarily need only one: NASDAQ and the NYSE happily prosper in the US, but surely it would be suboptimal to organize the European equity market along national lines. There are markets which were born integrated and we are satisfied with their functioning (derivatives, money market).

We will need patience, but hopefully not as much as was needed so far given the snail pace achieved in the progress towards CMU. There is an unavoidable tension between the intrinsic slow pace of the process and the urgent need to have CMU. If a meeting like our today accelerates, however little, the process, we will have spent our time fruitfully.

Slide 12

Thanks