How does banking diversity fit in the general vision inspiring the joint process of Banking Union and Capital Markets Union?

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Summary: The Global Financial Crisis (GFC: 2008–2009) and the Euro Sovereign Crisis (ESC: 2010–2012) seem a process of creative destruction for the European Union (EU). The huge damage provoked by the GFC and ESC was, in fact, followed by important institutional building steps as the Banking Union (BU) and Capital Markets Union (CMU). Their swift introduction suggests that BU and CMU arrived as emergency solutions. With hindsight we may now reassess them. We posit that two unintended side-effects materialised: 1) CMU twisted the balance against banking and in favour of financial markets; 2) BU is, de facto, weakening banking diversity. Thus, even if CMU and BU were successful at reaching EU's economic goals, their side-effects impair the social and cultural goals equally enshrined in EU treaties. We argue that CMU and BU should be revised to limit the damage to social and cultural goals or, else, other EU policies should be devised to restore the balance.

Zusammenfassung: Die globale Finanzkrise (GFC: 2008–2009) und die Euro-Staatsschuldenkrise (ESC: 2010–2012) scheinen ein Prozess der kreativen Zerstörung für die Europäische Union (EU) zu sein. Den enormen Schäden, die durch die GFC und ESC verursacht wurden, folgten in der Tat wichtige institutionelle Aufbauschritte wie die Bankenunion (BU) und die Kapitalmarktunion (CMU). Ihre schnelle Einführung deutet darauf hin, dass BU und CMU als Notfalllösungen zum Einsatz kamen. Im Nachhinein können wir sie nun neu bewerten. Wir gehen davon aus, dass zwei unbeabsichtigte Nebeneffekte eingetreten sind: 1) Die CMU hat das Gleichgewicht gegen das Bankwesen und zugunsten der Finanzmärkte verschoben; 2) die BU schwächt de facto die Bankenvielfalt. Selbst wenn es CMU und BU gelungen ist, die wirtschaftlichen Ziele der EU zu erreichen, beeinträchtigen ihre Nebenwirkungen die sozialen und kulturellen Ziele, die gleichermaßen in den EU-Verträgen verankert sind. Wir argumentieren, dass CMU und BU überarbeitet werden sollten, um den Schaden für soziale und kulturelle Ziele zu begrenzen, oder dass andere EU-Politiken entwickelt werden sollten, um das Gleichgewicht wiederherzustellen.

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→ Keywords: Banking diversity, Capital Markets Union, Banking Union, relationship banking, shareholder banks, stakeholder banks

1 Introduction

Banking sector diversity has many dimensions: ownership and corporate diversity reflecting the range of different corporate types, business model diversity indicating different business objectives, balance sheet structures and resilience, and geographic diversity reflecting different geographic spread or distance to customers (Michie and Oughton 2013). While there is a large literature showing the influence of such diversity on economic outcomes such as access to credit, financial stability and competition, there has been little discussion so far as to whether banking diversity corresponds to the political goals of the European Union. Following the Global Financial Crisis (GFC: 2008–2009) and the Euro Sovereign Crisis (ESC: 2010–2012), these goals have been revised among others by the projects of the Capital Markets Union (CMU) and the Banking Union (BU). Whether the CMU action plan sets the appropriate priorities and can ultimately deliver is, however, doubtful (Kotz and Schäfer 2017a, 2017b).

This paper discusses the role of banking diversity within the joint process of CMU and BU and the contributions of this process to the overarching goals of the European Union. It is organised along the following lines. In section 2, we review the objectives of the EU as written down in the EU treaties, differentiating between economic, social and cultural goals (without further political goals). Preserving national diversity belongs to the cultural goal of safeguarding cultural heritage. Within this framework, section 3 reviews the goals of CMU and BU. We argue that CMU and BU are biased towards economic goals and conflict with cultural goals, because they are likely to reduce diversity of financial systems and banks. The composite vision of CMU and BU is that we need more financial market depth, which is a good objective per se but should not be sought, as it seems it has happened, by placing relatively higher burdens on: i) banks vs financial markets and ii) traditional intermediation vs banks engaged in doing finance. The disfavour against banks damages financial system diversity (bias towards market-based systems), and the disfavour against traditional banks damages banking diversity (bias towards transaction banks/shareholder banks vs relationship banks/stakeholder banks). In section 4, we argue that banking diversity contributes to all three goals: the economic goals of allocative efficiency, the social goals of financial inclusion and social responsibility and the cultural goals of safeguarding European values. This is supported by literature and statistics. Section 5 summarizes and concludes.

2 Economic, social and cultural objectives of the EU treaties

The Lisbon Agenda launched by the European Council in 2000 set the goal to make the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". An overall strategy to reach this goal aims at economic as well as social goals. The economic goals are in particular completing the internal market, improving policies for the information society, R&D, competitiveness and innovation, and sustaining economic growth. The social goals comprise "modernising the European social model, investing in people and combating social exclusion" (Lisbon European Council 2000). In 2005, the Lisbon strategy was relaunched with the goal "for growth and employment [...] to modernize our economy in order to secure our unique social model" (EU Commission 2005a: 2).

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The uniqueness of the European model has been defined by the European Commission as "unity and diversity", meaning that "national economic and social policies are built on shared values such as solidarity and cohesion, equal opportunities and the fight against all forms of discrimination, [...] in favour of a social market economy. They are reflected in the EU treaties, its action and legislation, as well as in the European Convention of Human Rights and our Charter of fundamental rights. [...] a strong "European dimension" reinforces national systems" (EU Commission 2005b: 4–5). Diversity is considered as a strength of Europe in international competition and is explicitly protected by the EU Treaty. According to Art. 295 of the EU Treaty, EU integration policy must by no means undermine the legal and economic norms, by which ownership is governed in the different member states (Ayadi et al. 2010: 110). A resolution of the European Parliament in 2008 states that "the diversity of legal models and business objectives of financial entities in the retail banking sector (banks, savings banks, cooperatives, etc) is a fundamental asset to the EU's economy which enriches the sector, corresponds to the pluralist structure of the market and helps to increase competition in the internal market" (EU Parliament 2008).

According to the Lisbon Treaty of 2007, amending the Treaty on European Union and the Treaty establishing the European Community, the objectives of the EU are, among others: creation of an internal market, sustainable development, a highly competitive social market economy, aiming at full employment and social progress, combatting social exclusion and discrimination, promoting social justice and protection, a high level of protection of the environment, promotion of economic, social and territorial cohesion, and solidarity among Member States. Beyond these economic and social goals, the Lisbon Treaty includes the cultural goal to respect Europe's "rich cultural and linguistic diversity", and to "ensure that Europe's cultural heritage is safeguarded and enhanced" (EU Commission 2007). To reach these aims, the Lisbon Treaty has set the principles of subsidiarity and proportionality. The principle of subsidiarity states that, "in areas which do not fall within its exclusive competence, the Union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level." According to the principle of proportionality, "the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties" (EU Commission 2007).

The diversity principle allows a variety of types of capitalism within the EU. They may be categorized as Central European, Anglo-Saxon, South European and Nordic European models, which differ with respect to key institutional areas, including financial intermediation and corporate governance. For example, the Central European and Nordic models of capitalism are characterized by a bank-based financial system with relatively low sophistication of financial services, in contrast to the Anglo-Saxon model with market-based finance, sophistication of financial services, financial innovation and strong influence of shareholders (Amable 2003, Rodrigues 2009).

Hall and Soskice (2001) differentiate between liberal market economies and coordinated market economies. Each type of capitalism has particular complementarities between key institutional areas, which lead to different types of competitive advantages. For example, in coordinated market economies, "the existence of durable relationships, and of proximity between banks and firms, enhances the implementation of long-term investment projects, and this in return facilitates the establishment of stable compromises in the labour market" (Amable, 2003: 61). They have a comparative advantage in industries where competitiveness stems from company-specific skills, cumulative build-up of knowledge and incremental innovation. Liberal market economies, in contrast, have the edge in industries where competitiveness is based on fast adaptation to changing market conditions and radical innovation (Amable, 2003: 78–79).

3 Objectives of CMU and BU and relationships with banking diversity

The CMU project aims at the economic goal of strengthening employment and growth by deepening capital markets. The main objectives are: (1) improving access to finance for all businesses, in particular SMEs, and investment projects such as infrastructure, (2) developing and diversifying the supply of funding by boosting the flow of institutional and retail investment into capital markets, (3) making markets work more effectively and efficiently to improve allocation of risk and capital across the EU. Social goals are not mentioned, except the goal of developing markets for environmental, social and corporate governance investments and promoting the provision of risk capital to start-ups and social business (EU Commission 2015).

In the CMU green paper, capital markets are assumed as a complement rather than a substitute to intermediation by banks, whose diversity is considered as an advantage: “While capital markets can complement the role of bank lending for SMEs, their diversity and scant credit information is often better suited to relationship based lending. Alternative funding sources can, however, play an important role, in particular for start-ups and small but rapidly growing firms in innovative industries“ (EU Commission 2015: 13). The view that banks and markets should complement each other to perform functions of allocation and risk sharing is supported by theoretical and empirical literature (Allen and Gale 2000).

However, being focused on institutions rather than functions, the CMU project is not institution-neutral. Starting from the diagnosis of over-banking, it aims at strengthening capital markets with a “high quality securitisation market relying on simple, transparent and standardized securitisation instruments” (EU Commission 2015: 10). Its measures to improve market effectiveness, such as the single rulebook, supervisory convergence, strengthening securities law and investor protection through MIFID II and other regulations install a bias in favour of more market-based finance and nonbank intermediation. CMU is based on the theory of finance which hinges on the assumption of market efficiency and postulates the availability and exclusive use of public information. It disregards the role of banks in overcoming asymmetric information problems, in particular for financing SMEs, as explained by the theory of banking intermediation. Since SME loans are highly opaque and idiosyncratic, they are not easily transferable or marketable (Ferri and Neuberger 2014, Kotz and Schäfer 2017a).

Likewise, the BU project has fallen prey to ‘market fundamentalism’, aiming at a more transparent, unified and safer market for banks. This shall be achieved by the single rulebook, i.e. common rules and administrative standards to regulate, supervise and govern the financial sector in all EU countries (ECB 2018, EU Commission 2012). The EU banking regulation approach has been one-size-fits-all (each bank has to follow the same rules, irrespective of its ownership structure and mission), contrary to the US tiered approach, where commercial banks follow a set of rules different from community banks and yet other rules apply to credit unions. The result of the one-size-fits-all EU approach is that all banks are pushed to behave in the same manner, as if they were all profit maximisers. In turn, this violates the principles of proportionality and subsidiarity and provokes the dilution of social responsibility even for those bank types whose DNA is oriented to serve their stakeholders—rather than pursue profit maximisation—such as the cooperative banks and the savings banks. Moreover, the fixed component of the increased regulatory compliance costs has induced economies of scale at the disadvantage of small banks (Ferri and Pesce 2012, Ferri and Kalmi 2014, Ferri 2017). In that, EU regulators/policy makers' one-size-fits-all approach disregards (if not despises) the specificities of stakeholder-oriented banks. We even have the paradox that Credit Unions and Community Banks—local parallel of the EU stakeholder banks—receive a differential treatment in the US, where peoples' majority values are not so keen to the solidarity mechanisms activated by stakeholder banks.[1]

By focussing on the economic goal of market efficiency, CMU and BU conflict not only with the cultural goal of preserving diversity, but also with social or socioeconomic goals, such as financial inclusion and responsible finance. Financial inclusion means that "individuals and firms are not denied access to basic financial services based on motivations other than efficiency criteria" (Amidžić et al. 2014: 5). It encompasses outreach, usage, and quality of financial services (Amidžić et al. 2014: 8). Beyond that, the goal of responsible finance aims at more transparent, inclusive, and equitable financial markets balanced in favor of all income groups (BMZ/IFC/CGAP 2011: 1).

A trend driven by CMU is to set common standards for all financial services, such as standardized pre-contractual information, product explanation, extended liability of the provider in case of mis-selling, and the duty of intermediaries to have liability insurance. This helps consumers by increasing transparency and closing gaps in unregulated capital markets, for example. However, a drawback of these regulations is that they focus on the sale of financial services, that is, the time before and during the agreed contract period, while duties during the users' entire lifetime, such as access, exploitation, cancellation, usury, debt enforcement, adaptation, and continuity, are neglected (Reifner, 2018, Nogler and Reifner 2014: 41). To ensure responsible finance, capital users must be protected from irresponsible lending in long-term credit contracts.[2]

The same logic of making banking more efficient by increasing competition in the sector seems to have presided the approach to PSD2. In it, obligations were introduced for banks to disclose to qualified third parties information on their customers that were up to then proprietary information. Once more, this approach is not neutral. By forcing banks to release previously proprietary information, PSD2 is debasing the value of customer relationships and implicitly favoring the adoption of a transaction banking model over a relationship banking model.

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1 Differently from the US (and, in part, the UK), where the majority of citizens believe that each individual gets what he/she deserves, European peoples—irrespectively of their religious faith and/or of latitude and longitude—believe that in general it isn't true that each individual gets what he/she deserves. Rather, Europeans view an individual's income and wealth to depend on factors largely outside his/her control: the percentage of Eurozone citizens agreeing with this view is a majority above 60 percent, as against minorities of 44 percent in the UK and 41 percent in the US (Pew Research Center 2014—due to data availability, the Eurozone is approximated by the population weighted average of France and Germany).

2 See the European Social Contract Declaration (www.eusoco.eu/), the European Coalition for Responsible Credit (www.responsible-credit.net/index.php?id=2516) and the anti-usury initiative StopWucher (http://stopwucher.de/) in Germany. The EU Mortgage Credit Directive 2014 goes in the right direction by calling for a more comprehensive regulation of the principle of responsible lending, which should not be limited to credit scoring. However, these demands have not yet been implemented through legislation in the current implementation. It is up to national legislators to implement them.

4 Contributions of banking diversity to the objectives of the EU treaties

Banking diversity contributes to the economic, social and cultural goals of the EU treaties. It directly addresses the goal of safeguarding the cultural heritage of different financial systems. Literature shows that it fosters access to finance, regional and sustainable development, competition, financial stability and financial inclusion (e.g. Ayadi et al. 2010, Prieg and Greenham 2012).

As evidenced by the EU Commission (2018), the deployment of an appropriate financial system is indispensable to reach the goal of sustainable development as subscribed by the EU. While an important role in this respect will be played by green and responsible market finance (e.g., Green bonds/ Cool bonds, Social bonds, Sustainable bonds/ Social and Development Impact Bonds, and other possibly hybrid securities featuring a sustainable footprint) there is another, complementary, role to be played by Alternative Banks. Alternative banks (ABs) can take various forms: ethical banks, social banks, cooperative banks and savings banks. In any case their focus is not on maximizing profits but on maximizing value for the wide audience of stakeholders rather than simply the shareholders. Thus, often they are called Stakeholder value banks (STVBs). Indeed, ABs are key actors in: i) small business development (by investing in a relationship banking business model and so, overcoming asymmetric information, contributing to less credit rationing, lower loan rates[3]); ii) dampening the cyclicality of credit finance (e.g., ABs are particularly critical in a Credit Crunch as they exhibit less quantity credit rationing, practice lower increase in loan rates at times of stress, are more stable during financial stress); iii) helping financial inclusion/ fighting financial exclusion (ABs' ownership/governance promotes democratic representation and is conducive to the relationship banking business model). If we cast our reasoning in terms of the ESG (Environmental, Social, Governance) indicators—which are increasingly used in the business sustainability evaluation—ABs score definitely well on “S”, probably score well also on “E”, and they score well on “G”, too. In fact, the governance structures of ABs are less conducive to short-termism.

Regarding geographic diversity, decentralized banking systems with short operational and functional distance[4] and embeddedness in supportive regional bank associations improve access to finance for SMEs (Flögel and Gärtner 2018). Small, regional banks have a comparative advantage in relationship lending (Agarwal and Hauswald 2010), which cannot be substituted by transactional lending technologies in SME lending (Bartoli et al. 2013). They are also more effective in promoting local economic growth than big interregional banks, in particular in a financially integrated market (Hakenes et al. 2015). Market integration through CMU and BU therefore even increases the necessity of safeguarding small regional banks.

The aim of CMU to improve market effectiveness through digital finance implies that physical access to bank branches can be substituted by online access. However, the substitutability between both distribution channels depends on the kind of financial service offered, and is lowest for SME finance. Evidence for Germany shows that in particular inhabitants of sparsely populated rural regions have both a relatively poor physical and digital access (Conrad et al. 2018). Rural regions

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3 Bharath et al. (2011) find that the observed reduction in the cost of borrowing due to relationship lending increases with the information opacity of the borrower, but that there are significant benefits of relationship lending even for publicly traded firms.

4 Operational distance is the distance between customers and their customer advisors, while functional distance is the distance between customer advisors and head offices (Alessandrini et al. 2009).

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are more affected by branch closures than urban ones. In the period 2010–2015, the percentage decline in the number of branches was higher for private credit banks (14.0 percent) than for cooperative banks (8.9 percent) and savings banks (11.7 percent) (Schwartz et al. 2017: 2, own calculations).

To gain an idea of whether the negative attitude evidenced above—by both general policies as well as by regulators/supervisors—with respect to the value of banking diversity had visible consequences on the situation on the ground throughout Europe, we used detailed bank data to obtain an indication. Specifically, drawing on the micro data used in Ayadi et al. (2018), we could distinguish the ownership type for each European bank. Namely, we classified banks as: i) commercial banks; ii) nationalized banks; iii) cooperative banks; iv) savings banks. Then we considered 11 EU countries—Austria, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, and the UK—and calculated for each country a simple index of banking diversity given by the share of total assets of the national banking system held by cooperative banks plus savings banks, i.e. the market share of alternative or stakeholder-oriented banks. This was done positing that nationalized banks were bound to be returned to the commercial banking part of the banking system and, as such, belonged to the shareholder-oriented banks.

The results are reported in Table 1. They show that the value of the index exhibits wide variation across the 11 countries, ranging from the minimum of 0.0 percent in Ireland and the UK to the maximum of around 85 percent in Finland, accompanied by almost 80 percent in Austria and by high values about 50 percent in both France and Germany. In terms of dynamics, we chose to look at the difference between December 2010 and December 2015 considering that some of the first important changes in regulation were introduced through the single rulebook and other measures by the EBA, which was established at the beginning of 2011, followed by the gradual phasing in of the Single Supervisory Mechanism between 2012 and 2014 and by the slower inception of the Single Resolution Mechanism, whose measures started to be felt in 2015. If we consider the 11 countries all together, the index drops marginally from 42.1 percent in 2010 to 41.0 percent in 2015. However, the relative stability of the index is the result of two rather diverse trends across Europe. Namely, if we distinguish the countries suffering a sovereign crisis—the so called GIPSI (Greece, Ireland, Portugal, Spain and Italy, in the order of occurrence of the crisis)—from the other euro countries (Austria, Finland, France, Germany, Netherlands) we clearly see two different dynamics. The index drops on average from 28.6 to 23.0 percent for the GIPSI countries whereas it marginally increases from 47.9 to 48.9 percent for the other euro countries. It should be noticed that the GIPSI average is strongly affected by the Spanish case—the index drops from 30.6 to 17.0 percent in Spain—owing to the deep crisis of the savings banks in that country. Nevertheless, we can also see that banking diversity is reduced also in the other GIPSI countries: from 47.8 to 42.2 percent in Portugal; from 32.9 to 31.5 percent in Italy and from 0.9 to 0.6 percent in Greece (Ireland had no banking diversity to start with). At the same time, we may observe that the marginal increase in banking diversity in the other euro countries descends from the increase from 47.7 to 50.7 percent in Germany, and that from 84.1 to 85.6 percent in Finland, and that in France (from 50.3 to 50.6 percent), while the index drops in the Netherlands (from 29.6 to 28.6 percent) and in Austria (from 78.9 to 78.6 percent).

The question we may ask is whether we may draw any inference from the fact that it was the weaker countries—i.e. the GIPSI—to suffer a loss in banking diversity. The possibility should be considered that those countries were in a sense more vulnerable to be enforced the new paradigm shaped by CMU and BU. In a way, it is likely that relationship lenders found themselves engulfed

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Table 1

Index of banking diversity
2010–2015, 11 EU member states

Country	Index of Banking Diversity*	
	2010	2015
AT	78.9	78.6
DE	47.7	50.7
ES	30.6	17.0
FI	84.1	85.6
FR	50.3	50.6
GR	0.9	0.6
IE	0.0	0.0
IT	32.9	31.5
NL	29.6	28.6
PT	47.8	42.2
UK	0.0	0.0
Total 11	42.1	41.0
GIPSI	28.6	23.0
Other Euro	47.9	48.9

AT = Austria, DE = Germany, ES = Spain, FI = Finland, FR = France, GR = Greece, IE = Ireland, IT = Italy, NL = Netherlands, PT = Portugal, UK = United Kingdom.
* Share of total assets of the national banking system held by cooperative banks plus savings banks.
Source: Ayadi et al. (2018), own calculations.

with the macroeconomic crises experienced by their countries more than did transactional lenders. According to this interpretation, one could argue that, by damaging banking diversity, the new policy and regulatory/supervisory approach has dented the ability of those economies to have internal stabilizers in terms of reducing the cyclicality of credit (Ferri et al. 2014) and/or mechanisms of financial inclusion (Ayadi et al. 2010, Prieg and Greenham 2012) and/or institutions that may support local economic development and growth (Coccorese and Shaffer 2018).

Table 2 shows the percentage changes of banking diversity, population per local branch as a measure of financial inclusion (a higher population per local branch indicating lower outreach) and the Herfindahl index of banking market concentration as a measure of competition (a higher Herfindahl index indicating lower competition). The GIPSI countries with the largest declines in banking diversity—Spain (44 percent) and Greece (33 percent)—experienced the largest reduction in branch outreach (Spain: 38 percent, Greece: 53 percent) and the largest increases in the Herfindahl index (Spain: 70 percent, Greece: 86 percent). In the Netherlands (and the other Euro countries), the large reduction of outreach due to branch closures does not seem to be related to the small change in banking diversity. Only countries where banking diversity did not decline (DE, FI, FR, IE) experienced a decline in the Herfindahl index. The opposing developments of banking diversity and market concentration in the weaker GIPSI countries and the other Euro countries is striking: in the GIPSI countries, banking diversity declined by 20 percent and the Herfindahl index increased by 5 percent, while in the other Euro countries, banking diversity increased by 2 percent, and the Herfindahl index declined by 12 percent.

Table 2

Percentage changes of banking diversity, outreach and market concentration

2010–2015, 10 Eurozone member states

Country	Index of banking diversity	Population per local branch	Herfindahl index for credit institutions
AT	–0.38	5.14	3.66
DE	6.29	14.16	–9.30
ES	–44.44	38.37	69.70
FI	1.78	43.43	–23.10
FR	0.60	5.85	–3.44
GR	–33.33	53.01	85.67
IE	0	14.96	–3.14
IT	–4.26	12.03	6.10
NL	–3.38	65.50	2.68
PT	–11.72	18.38	0.66
GIPSI	–19.58	26.71	5.03
Other Euro	2.09	38.61	–11.61

AT = Austria, DE = Germany, ES = Spain, FI = Finland, FR = France, GR = Greece, IE = Ireland, IT = Italy, NL = Netherlands, PT = Portugal.
Source: Ayadi et al. (2018), ECB (2018), own calculations.

5 Summary and conclusions

Compared to most of the institutional changes that the European Union (EU) saw in its beyond fifty years of existence, the Banking Union (BU) and the Capital Markets Union (CMU) were decided and implemented with unusual speed. The context in which the two directives emerged was indeed special. Europe had been hit by two major shocks hurting banking and finance. Though the first shock was exogenous—the Global Financial Crisis (GFC: 2008–2009) came from the US subprime mortgage crisis and the bankruptcy of Lehman Brothers—its effects ended up troubling EU banks even more than US banks. In turn, the second shock—the Euro Sovereign Crisis (ESC: 2010–2012)—was entirely homegrown triggering also a perilous doom loop between the risks of a national banking system and the risks of its government.[5] Hence, emergency called for swift repair action.

On one hand, we might commend the EU for its swift adoption of BU and CMU, helping better achieve the EU's economic goals. On the other hand, however, the emergency status led their introduction to sidestep the scrutiny of whether BU and CMU were impairing the achievement of

5 Brunnermeier et al. (2016) outline the following model. If the domestic banking sector holds a large amount of government securities that raises the credit risk of both the sovereign and the banking sector, a diabolic loop increases the probability of twin crises. For example, speculation on the solvency of the banking sector weakens the sovereign's soundness which, in turn, further reduces the solvency of the banking sector. This mechanism can also work in the opposite direction: speculations on the solvency of the sovereign weaken the soundness of the banking sector which, in turn, further reduces the sovereign's solvency.

other EU's goals. This paper addressed that very issue from the perspective of Banking and Banking Diversity. We accomplished this by discussing selected literature as well as reporting some original elaborations.

Table 3 summarizes our main results. The table reports by row the EU treaties, CMU, BU and Banking Diversity while by column the three overarching sets of goals of the EU—Economic goals (allocative efficiency); Social goals; Cultural goals—are reported. Indeed, the EU treaties and the Lisbon Agenda enshrine a set of economic goals—relating to allocative efficiency—on the same par as two additional sets of objectives for social goals and cultural goals. In essence, our contention is that, in various ways, the CMU has damaged the diversity of financial systems—having a bias towards capital markets—and banking diversity—with its bias towards transaction banking. The latter bias is also shared by the BU, which has impaired banking diversity too.

The policy implications of our claims are straightforward. CMU and BU should be revised to limit the damage to social and cultural goals or, else, other EU policies should be devised to restore the balance.

Table 3

Contributions of EU treaties, CMU, BU and banking diversity to economic, social and cultural goals

	Overarching goals		
	Economic goals (allocative efficiency)	**Social goals**	**Cultural goals**
EU treaties, Lisbon Agenda, Lisbon Treaty	- Internal market - Highly competitive (social) market economy - Sustainable economic growth - Information society, R&D and innovation	- Social inclusion - Social justice - Social protection - Social cohesion	- Safeguarding and enhancing cultural heritage - Respecting and preserving diversity - (Unity and) diversity in shaping economic and social policies
Capital Markets Union	- Access to capital market finance - Supply of funding - Market effectiveness	- Access to capital market finance for start-ups and social business - ESG (environmental, social and corporate governance) investments	- Less financial system diversity: bias towards capital markets - Less banking diversity: bias towards transaction banking
Banking Union	- Single market: more transparent, unified and safer market for banks		- Less banking diversity: bias towards transaction banking
Banking Diversity	- Access to finance - Competition - Stability	- Financial inclusion - Social responsibility: community and stakeholder orientation	- Safeguarding and enhancing cultural heritage of bank-based financial systems - Preserving diversity

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