A change of tone

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The current financial crisis has raised issues in several national jurisdictions. But the greatest policy challenges are international. How can one ensure the proper functioning of a globally integrated market, while public legitimacy essentially remains national?

Euro-zealots often sound frustrated by slow EU financial and banking integration, but moves towards a single market has been very fast over the past decade: certainly faster than global financial integration. In 1997, three of the EU's 15 largest banks had more than half their assets outside the country of origin; by 2006 it was seven out of 15, and this is before the ABN Amro dismemberment. This creates a new context. Virtually all the previous banking crises – those in Central Europe, Scandinavia, France and the United Kingdom in the early 1990s – happened at a time when European non-domestic banking was negligible.

Soft coordination between national authorities, based on non-binding memorandums of understanding or consensus-based committees of regulators, can cope in many cases, but not when decision-making requires the ultra-fast availability of relevant information under enormous public pressure. This would be the case if a major cross-border bank failed. Though this has not happened market volatility makes it ever more likely, hence the sense of urgency among policymakers, reflected in the above comments from Charlie McCreevy.

But the Commissioner's careful words also illustrate that no consensus exists on what ought to be done. On the one hand, the EU offers a framework of law which makes effective supervisory instruments beyond the national level viable. On the other hand, there is no EU-level taxpayers' money for a bail-out, so a federal framework is not in the cards.

In December, Italy's Tommaso Padoa-Schioppa proposed an EU-level agency to supervise those banks whose cross-border activity has become too large for home-country oversight alone. Short of creating a sprawling (and politically unrealistic) euro-FSA, this proposal complies with the EU's *subsidiarity* principle: address at EU level only those challenges that member states can no longer properly tackle. It and other options on the table, such as the lead regulator concept, majority voting in the Lamfalussy committees, or supervisory powers to the ECB, merit serious public analysis.

Charlie McCreevy's stance mirrors the growing consensus that something needs to be done on EU-level banking supervision. Now the debate must begin on which solutions can best combine the two central demands: political legitimacy; and supervisory effectiveness.