
From afterthought, to crowbar to growth machine: The changing role of finance in European integration (1957-2008)

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Abstract

Reflecting on the treaty of Rome (1957) that gave rise to the present-day EU, political-economist Robert Triffin (1958) famously called the treaty "A Hamlet in which the role of the prince of Denmark is almost totally ignored". The prince was the role of finance in European integration that was conspicuous by its absence. Although this absence could be explained by the relative dormancy of finance under the Bretton-Woods regime and the dominance of industrial capitalism at the time, Triffin prophetically cautioned that the prince might return with a vengeance, which it eventually did.

This paper traces the changing ascribed role of finance in European integration between 1957 and 2008, the eve of the North Atlantic financial crisis. It revisits the emergence of EU directives pertaining to finance and the white papers, applied research, and media representations that gave rise to these directives. It studies how ideas, objectives and models of unified European financial and banking markets co-evolved with policy initiatives on these ideas, objectives and models that resulted in directives. Discourses about the need and potential benefits of financial integration are reconstructed as well as the way in which reforms were framed in terms of geo-political and geo-economical threats facing the EU at the time. Together this provides a chronology and an account of scalar politics through which we can understand the choking Gordian knot in which the EU found itself in at the advent of the North Atlantic Financial Crisis.

The paper heuristically identifies four different periods of EU history in which finance played a distinctive role. From 1957 to 1966 finance was arguably an *afterthought* where most policy interventions were defined as patches to the open-ended Rome-treaty. From 1966 to 1983, proposals for financial institution building can be read as a "*Band aid*". Financial integration was hypothesized to be able to allay some of the frictions of enduring imbalances in international accounts between member states and hence help bring into being monetary integration. From about 1983 until 1992, Finance was depicted as a *crowbar*, where increased financial integration between member state financial markets was to be a prelude to wider completion of the single market. Lastly, from 1992 to 2008, finance was seen as a *growth machine* where it was no longer just supportive of the real economy, but became one of the pivotal growth sectors in its own right.

Keywords: Europeanization, Financial Integration, EU Single Market

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