By: Lucrezia Reichlin

Banking in Europe remains national

After seven hours of deliberations on August 20, the board of Banca Monte dei Paschi di Siena emerged with an extraordinary decision.

Founded in 1472 and rescued by Italian taxpayers in 2017, Monte dei Paschi defended itself against Intesa Sanpaolo's €30.6 billion ($35.7 billion) takeover bid by launching share-exchange offers for Banco BPM and Banca Generali, totaling roughly €34 billion, while distributing another €4 billion to its own shareholders.

Italians have a word for this kind of maneuvering: risiko, after the board game. Monte dei Paschi is trying to make itself too large and expensive to swallow.

But the move also reveals something important about why European financial integration has proved so difficult.

At stake is not simply market share or cost savings. The move is about control over the investment bank Mediobanca, which Monte dei Paschi acquired last year; Mediobanca's 13% stake in the insurance giant Assicurazioni Generali; and, ultimately, a large pool of Italian household savings.

It is also about the network of institutions that has shaped Italian financial and industrial power for decades.

That is why a takeover battle among listed companies is being couched in the language of national interest.

Trade unions have threatened mobilization. The identities of shareholders supporting the different sides are treated as political news.

And the cross-border element—the French bank Crédit Agricole owns 29.3% of Banco BPM—is treated almost as an intrusion.

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The lesson is straightforward. Banking in Europe remains national in ways that European Union policymakers have consistently underestimated.

The standard explanation for the failure to complete the banking union and create an integrated European capital market is that governments do not want to share financial risks.

German taxpayers, it is often said, do not want to insure Italian bank deposits. While there is some truth to this, Monte dei Paschi points to another obstacle.

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A national banking system is not merely a mechanism for providing credit. It also sustains governments' influence over where national savings go: which firms receive finance, which industries expand, which regions attract investment and, not least, who buys government debt.

Before the European monetary union, governments exercised this influence much more openly, through public ownership, credit controls, and direct intervention.

European liberalization largely abolished those instruments. But the political interests behind them survived, albeit in less visible forms.

The banking union

European financial integration is often viewed as a technical project for improving efficiency.

From the perspective of national governments, however, the banking union and the EU Savings and Investments Union offer remarkably little in exchange for weakening one of the few remaining channels through which they can influence the allocation of domestic savings.

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For example, when a national banking system gets into serious trouble, the ultimate fiscal responsibility still lies largely with the national government.

Italy recapitalized Monte dei Paschi in 2017 under European rules, but with Italian public money.

If a much larger Monte dei Paschi were to encounter serious difficulties, the Italian government would again come under enormous pressure to intervene.

In short, EU policymakers are asking governments to accept less control over their banking systems without fully relieving them of the responsibility for dealing with a systemic crisis. That is not an attractive bargain.

European financing channel for investments

Europe should try a different tack. Instead of making governments surrender their remaining influence over national banking systems to complete financial union, the EU should focus on building a genuinely European financing channel for investments that national systems are poorly equipped to provide.

The need is increasingly obvious. Europe must finance electricity grids, defense spending, energy infrastructure, digital networks, and other projects whose economic value crosses borders.

National banking systems, designed primarily to intermediate national savings and finance national borrowers, are not well suited to this task.

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Such a channel should therefore extend beyond banks, allowing investment funds, insurers, specialized lenders, and other financial institutions to originate and finance European projects.

The objective should be to create a large market for claims backed by European investment. Importantly, the European Central Bank could help enable such a market within the confines of its price-stability mandate.

Through its collateral and eligibility rules, the ECB already determines which financial assets can be easily exchanged for central-bank liquidity.

Those rules can be designed so that sound claims financing European projects are attractive to hold and trade.

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A tangible benefit

Rather than asking governments to sacrifice national interests, the EU would be offering them a tangible benefit: a source of finance for investments they cannot efficiently provide on their own.

National firms could participate in building grids, ports, defense systems, and other European infrastructure.

Banks could earn fees by originating, arranging, and distributing securities, without having to hold the resulting credit on their balance sheets.

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And European savings would acquire a route toward European investment that does not depend entirely on national banking systems.

Over time, this financing channel could become more attractive than the national alternatives for genuinely European projects.

Governments would not formally surrender their existing powers; they would simply have less reason to use them.

That distinction matters, because European integration has often advanced when new EU arrangements gradually supersede national instruments.

The battle over Monte dei Paschi is not just another episode in Italy's endless banking risiko. It exposes a political economy that EU financial reform has largely ignored.

The next time a European Council communiqué calls for integrating Europe's capital markets, policymakers should remember that governments are concerned not only about who bears the financial risks, but also about who controls the savings and credit on which national economic power rests.

Instead of asking governments to give up more, Europe must build something that national authorities have an incentive to use.

Lucrezia Reichlin, a former director of research at the European Central Bank, is Professor of Economics at the London Business School.