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Abstract

The 1970s are often portrayed as the beginning of a new era of finance capitalism. The growth and internationalisation of banks' balance sheets, together with the return of banking crises, were important changes of the decade, and for the global evolution of capitalism. How did banking regulation and supervision react to this evolving environment? The literature places considerable emphasis on the role of the United States and, to a lesser extent, of the United Kingdom and Japan, in the emergence of global standards in banking regulation and supervision, and neglects the EEC influence. Based on the archives of central banks, international organisations and of one bankers' association, this article explores the relationships between the European and the global discussions in the development of international banking regulation and supervision. The article focuses on two case studies: the use of consolidation as a supervisory technique, which was the object of a Council directive in 1983; and EEC observation ratios, which were an early initiative of the EEC in the field of bank capital harmonisation. In both cases, parallel and connected discussions occurred in the European and global specialised committees, the Groupe de Contact and the Banking Advisory Committee on the EEC side, and the Basel Committee on Banking Supervision at the global level. The article examines the contacts between these committees and their reciprocal influence in their work, thereby shedding light on the connections between European integration and globalisation. It contends that the EEC played a more important role in the first steps of international banking regulation and supervision than commonly considered in the literature. The article further argues that European integration served as a globalisation laboratory in the field of banking regulation and supervision. Accordingly, the EEC used capitalism to foster its integration agenda but was soon overtaken by it.

The regulation of the financial sector typically illustrates the close links between the process of European integration and globalisation. In the 1970s and 1980s, this sector experienced both a deep mutation and an increased number of failures and crises. A new era started with the chaos resulting from the end of the Bretton Woods system and the oil shock of 1973. These upheavals triggered regulatory reactions both at the domestic level and in the international arena, in order to cope with the rise of international banking and its associated risks. Banking supervision, that is the daily control of individual banks' activities to ensure the protection of depositors and the soundness of banking organisations, grew everywhere. However, international regulatory discussions had already started at the EEC level in the 1960s, without much connection with financial crises, but instead with a hope to coordinate and ideally harmonise the banking legislations of member countries.[1] International convergence and financial crisis prevention have thus been two important characteristics of banking regulation since the 1970s. However, these two features were not specific to the EEC. Other major players included the United States, Japan, and an increasing number of other countries that hosted significant financial activity, such as offshore centres, all linked in an increasingly interdependent system.[2] The financial sector had a prominent place in the transformation of capitalism in the 1970s. However, these changes were not limited to Europe, even less to the EEC. How the EEC responded to global economic forces and how its agenda combined global and EEC concerns are the object of the following lines.

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[1]Emmanuel Mourlon-Druol, "Banking Union in Historical Perspective: The Initiative of the European Commission in the 1960s–1970s," *JCMS: Journal of Common Market Studies* 54 (2016): 913-27.

[2]Emmanuel Mourlon-Druol, "The Rise of International Financial Centres after the Breakdown of Bretton Woods: The Case of Bahrain, 1966-1986." *Monde(s)* 13 (2018): 49-66 ; Olivier Feiertag and Alexis Drach, "Le Sens de la Mondialisation : Surveillance Bancaire et Globalisation Financière du XXe au XXIe Siècle." *Monde(s)* 13 (2018): 133-154.

In the 1970s, international discussions on banking supervision mainly developed in two forums. The first one was the “Groupe de Contact”, established in 1972 at the EEC level, and the second one was the Basel Committee on Banking Supervision (BCBS), formed in late 1974 at the G10 level.[3] Another EEC group had been created in 1969 by the Commission to discuss the coordination of banking legislations in the Community. This group was focused on banking legislation more than supervision. Finally, the first banking directive in 1977 created the Banking Advisory Committee (BAC). The BAC started to work in 1979 and aimed at reviewing general progress on harmonisation in EEC banking regulation. All these groupings kept close links with each other and sometimes involved the same people.[4] As EEC committees were part of a broader project of harmonisation of the conditions for banking activities, they often produced fruitful studies and ambitious projects. However, the most appropriate scale for appreciating international banking markets included the other countries that were part of the G10-based committee, the BCBS. Therefore, the work of the Basel Committee proved more influential at the international level. This article examines the interactions between these two levels – EEC and G10 – and analyses two related projects as case studies: the adoption of consolidation of banks' balance sheet as a supervisory technique and the development of a common framework for analysing banks' capital adequacy. It shows that EEC groupings played a crucial role in bringing together European countries on common technical solutions and fostering the internationalisation of regulatory standards, but failed to exert a strong influence on international banking regulation and to develop a regional specificity.

[3] The Group of Ten included Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. The Basel Committee on Banking Supervision was initially called Basel Committee on Banking Regulations and Supervisory Practices. See Charles A. E. Goodhart, *The Basel Committee on Banking Supervision: a history of the early years, 1974-1997* (Cambridge ; New York ; Melbourne: Cambridge University Press, 2011).

[4] Alexis Drach, “Basel Banking Supervisors and the Construction of an International Standard-Setter Institution,” in *Financial Elites and European Banking: Historical Perspectives*, ed. Youssef Cassis and Giuseppe Telesca (Oxford: Oxford University Press, 2018), 209–36.

The literature on international banking regulation has given overwhelming importance to the United States, Japan, and to the United Kingdom, as well as to the balance of power between financial systems or their respective states.[5] The role of the EEC, however, was critical in the first steps of international banking supervision, and was not only driven by state bargaining, but also supported by supervisors, playing the role of experts, who had to devise new tools for internationalising their practices. On the other hand, the European integration historiography still overlooks how its policies in the field of banking and finance were shaped in a global context, while these policies were critical in the road towards Economic and Monetary Union (EMU).[6] By using the archives from the Banque de France, the Bank of England, the Bank for International Settlements (BIS), the British Bankers' Association (BBA), the Federal Reserve Bank of New York (FRBNY), and the European Union (EU), this article sheds light on the interweaving of global and European concerns and contexts in the regulation of a capitalism *on the move*.

1. The EEC, the G10 and the development of new institutional structures in banking supervision from the 1970s'

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[5]Ethan B. Kapstein, *Supervising International Banks: Origins and Implications of the Basle Accord* (Princeton, N.J: International Finance Section, Dept. of Economics, Princeton University, 1991); Duncan R. Wood, *Governing Global Banking: The Basel Committee and the Politics of Financial Globalisation* (Aldershot: Ashgate, 2005); David Andrew Singer, *Regulating Capital: Setting Standards for the International Financial System* (Ithaca, N.Y: Cornell University Press, 2010); Goodhart, *The Basel Committee on Banking Supervision*. An exception is Emmanuel Mourlon-Druol, "Banking Union in Historical Perspective: The Initiative of the European Commission in the 1960s–1970s," *JCMS: Journal of Common Market Studies* 54/4 (2016), 913-27.

[6]An exception is Josette Farges-Cazenove, "Construire Le Marché Bancaire Européen : Modalités de Gouvernance de la Commission Européenne et Rôle des Comités d'experts (1969-1989)" (PhD diss., Paris-Sorbonne University, 2017). For a more general account on how European integration and Western European leaders tackled the challenge of globalization in the 1970s and 1980s, see Laurent Warlouzet, *Governing Europe in a Globalizing World: Neoliberalism and Its Alternatives Following the 1973 Oil Crisis*, Abingdon, New York: Routledge, Taylor & Francis Group, 2018).

The 1970s witnessed the return of financial and economic crises, after a period of relative prosperity. The end of the Bretton Woods system led to a sharp increase in foreign exchange risk and exchange rate volatility. The oil shock of 1973 severely hit the economy of oil importer countries, and a considerable responsibility was given to Western banks to finance countries' deficits with the deposits coming from oil surpluses.[7] After decades of financial stability, banking crises and failures developed again. The secondary banking crisis in late 1973 in the United Kingdom, the failure of Franklin National in the United States and of Bankhaus Herstatt in Germany in 1974, are well-known examples of the new risks of the period.[8] However, banks managed to take advantage from this crisis environment, and continued to expand around the world.[9] The euro-dollar market developed dramatically, and international credit experienced unprecedented growth, boosted by the oil shock and the recycling phenomenon whereby the surpluses made in the OPEC countries were deposited in Western banks, primarily in London. In parallel, large banks were considerably expanding their international network and establishing branches and subsidiaries all over the world. Therefore, in the banking sector, the 1970s were characterised both by a return of risk and by new opportunities. This trend was a serious challenge for authorities as banks became increasingly complex organisations with many foreign establishments of different legal status and different financial significance. Authorities often lacked information on these foreign establishments. Cooperation and coordination in banking regulation and supervision became critical. As a

[7]William G. Gray, "Learning to 'Recycle': Petrodollars and the West, 1973-5." In Elisabetta Bini, Giuliano Garavini, and Federico Romero, eds., *Oil Shock: The 1973 Crisis and Its Economic Legacy*, (London: I.B. Tauris, 2016), 172-197; Edoardo Carlo Altamura, *European Banks and the Rise of International Finance: The Post-Bretton Woods Era* (London, New York: Routledge: Taylor & Francis Group, 2017).
[8]Margaret Reid, *The Secondary Banking Crisis, 1973-75: Its Causes and Course* (London: Macmillan, 1982); Joan E. Spero, *The Failure of the Franklin National Bank: Challenge to the International Banking System*. (Washington, D.C: Beard Books, 1999); Emmanuel Mourlon-Druol, "'Trust Is Good, Control Is Better': The 1974 Herstatt Bank Crisis and Its Implications for International Regulatory Reform." *Business History* 57/2 (2015): 311–34; Catherine Schenk, "Summer in the City: Banking Failures of 1974 and the Development of International Banking Supervision." *English Historical Review* 129/540 (2014): 1129–56.
[9]Altamura, *European Banks and the Rise of International Finance* ; see also Geoffrey Jones, ed., *Banks as Multinationals* (London; New York: Routledge, 1990).

consequence, banking supervision was acquiring increasing importance in banking regulation, in Europe and elsewhere, because of the increasing risks incurred by banks, but also because of the distortion in competition the diversity of supervisory standards could create.

At the EEC level, this context was interwoven with that of the Common Market agenda. The European Commission and the EEC Member States took early initiatives to foster the international coordination of banking legislations and the control of banks' international activities. In 1965, the European Commission initiated work on the possibility for harmonisation of the legal and administrative provisions applicable to banks in the various member states.[10] A few years later, in mid-1972, supervisors from EEC countries spontaneously decided in mid-1972 to meet regularly on an informal basis and to discuss common issues within the "Groupe de Contact." In parallel, the Commission was working on an ambitious directive project to harmonise banking legislations. The directive proposal faced considerable resistance, particularly from the United Kingdom which was joining the EEC, and was eventually abandoned.[11] Instead, a liberalisation directive was adopted on 28 June 1973 to remove restrictions to the freedom of establishment within the Community.[12] It focused on the liberalisation of credit services, but could not have a far-reaching impact as these services depended on the liberalisation of capital transactions, which was still limited.[13] Another directive passed in 1977, called the first banking coordination directive, was a first step towards harmonisation.[14] The 1977 directive called for the writing of subsequent directives on specific

[10]Bank of England Archives (BEA), 8A48/10, "*Note for the European Conservative Group in the European Parliament*", January 1975. See also Emmanuel Mourlon-Druol, "Banking Union in Historical Perspective."
[11]Emmanuel Mourlon-Druol, "Banking Union in Historical Perspective."
[12]"Council Directive of 28 June 1973 on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of self-employed activities of banks and other financial institutions", http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31973L0183&from=EN [accessed 31 March 2018].
[13]Banque de France (BDF), 1749200912/266, "A Legal Framework for International Supervision: The EEC Model", H. Muller, *in* Bank Administration Institute, *Issues in bank regulation. The Role of International Supervision in Banking*, summer 1984.
[14]"First Council Directive of 12 December 1977 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions", https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31977L0780&from=EN [accessed 31 March 2018].

policy issues and for the establishment of the BAC, a high-profile committee to review progress on harmonisation.[15] Three groups played an important role in this field at the international level: the Groupe de Contact, the BAC, and the BCBS.

The EEC Groupe de Contact was an informal gathering of banking supervisors from EEC member countries.[16] Their views did not engage the responsibility of their institution, and their discussions were not supposed to lead to any decision, but merely to improve banking supervision through the exchange of information. Each member country hosted the meetings in turn. The European Commission sent an observer to the group from 1975 on. Some countries opposed the officialising of the Groupe de Contact, most notably France, which refused to delegate sovereignty on such matters as banking control.[17] The group exchanged information on individual banking institutions, discussed national developments in banking regulation, and carried on comparative studies on various aspects of banking supervision.

The creation of the EEC Banking Advisory Committee was requested by the EEC directive of 1977, but first met in early 1979 only. In 1974, the Commission already hoped to have an official forum for the cooperation of EEC supervisors and to use the already existing Groupe de Contact for this purpose.[18] However, this project was refused by the institutions and member states involved because they considered that the informal and confidential nature of the Groupe de Contact was useful and had to be preserved. While government officials were to attend the meetings of the Groupe de Contact, they would not be able to discuss confidential issues anymore, because of banking secrecy rules. The Commission thus decided to create the

[15]Bank for International Settlements Archives (BISA), 1.3a(3) F, Sixteenth meeting of the Basel Committee on Banking Supervision, 28 and 29 June 1979.
[16]BFA, 1749200912/266, "The Contact Groupe of EEC Supervisory Authorities", Schneider, *in Issues in Bank Regulation*, 8, 1, Summer 1984.
[17] BFA, 1749200912/298, "Note pour le Gouverneur," Secretary from the French Banks' Control Commission, 18 September 1974.
[18] BFA, 1749200912/331, "International Conference of Bank supervisors, Washington, 24-25 September 1981: 'The development of co-operation between bank supervisory authorities in the European Economic Community'", Jean Bonnardin.

BAC as a forum to discuss policy issues and lay down the guidelines for the coordination process within the Community. From 1979 on, the Groupe de Contact became a technical committee providing help to the BAC, which enjoyed a higher status in the EEC institutional structure. Each member country and the Commission could send up to three delegates. The Commission provided the secretariat, and the committee met in Brussels, usually twice a year. The BAC's work programme as defined in a preparatory meeting in December 1978 included the definition of observation ratios, the establishment of a precise list of authorisation criteria, liquidation procedures, harmonisation of banks' published accounts and prudential returns, and the establishment of a European risk credit exchange.[19] Its two first fields of work were the use of consolidation as a supervisory technique and the definition of observation ratios.

At the level of the Group of Ten countries, the central bank governors established the BCBS in late 1974 in order to have a forum to discuss common regulatory issues. Goodhart stresses the European origins of the Committee,[20] but this committee also resulted from an American initiative. From 1972, American authorities had started a transnational negotiation with European countries, Canada, and a few Asian countries, with a view to establishing a new banking legislation for foreign banks in the US.[21] An EEC and an American exercise of international coordination in banking regulation thus coexisted from quite an early stage. The United States was eager to have the opportunity to discuss regulatory issues with other, particularly European, countries. Unlike the EEC groupings, the BCBS had no legal instruments – such as an EEC directive in the case of the BAC – to implement its recommendations. Initially, the BCBS had no desire to harmonise banking regulation

[19]BFA, 1749200912/331, "International Conference of Bank supervisors, Washington, 24-25 September 1981: 'The development of co-operation between bank supervisory authorities in the European Economic Community'", Jean Bonnardin.
[20]Goodhart, *The Basel Committee on Banking Supervision*.
[21]Archives of the Federal Reserve Bank of New York (NYFRA), central files, box 615771, Office correspondence from Mitchell and Daane to the Board of Governors: "Foreign Banks in the United States", 20 November 1972.

internationally, but only to exchange on best practices. However, its membership included major players in the international financial scene, most importantly the United States and Japan, and therefore its influence would progressively become more important than that of the EEC groupings.

The Basel Committee on Banking Supervision was more formal than the Groupe de Contact, and more closely linked to central banks. It included twelve countries, the Group of Ten plus Switzerland and Luxembourg. Two delegates represented each country, instead of one for the Group de Contact. The BCBS met at the Bank for International Settlements, in Basel, usually three times a year. Goodhart has stressed the close links that existed between the two groups.[22] In particular, there was a significant membership overlap between them. The Basel Committee conducted similar work to that of the Groupe de Contact, but also had to respond to specific questions raised by the governors. The BCBS members were first asked to consider the establishment of an early warning system, but failed to do so because of the critical differences between countries and of the refusal to delegate supervisory powers.[23] From a relatively modest group in 1975, the Basel Committee evolved into a central institution in the field of international banking regulation. It originated the first worldwide standard on banks' capital adequacy in 1988.

This network of international committees was composed of banking supervisors, central bankers, and civil servants from ministries of finance from each country. National idiosyncrasies aside, banking supervision was an already existing activity or profession at the national level. Its importance, both regarding staff number and policy input, grew all along the 1970s, the 1980s and 1990s. The members of the Groupe de Contact were often also seating on the Basel Committee. Membership overlap with the BAC was smaller, because the BAC

[22]Goodhart, *The Basel Committee on Banking Supervision*.
[23]Catherine R. Schenk, “Summer in the City.”

members enjoyed a higher profile and were more often coming from other institutions than those represented on the Basel Committee and the Contact group. Some members have been part of all three committees, however, although not concurrently: Huib Muller, for instance, head of banking supervision at the *Nederlandsche Bank*, was an early member of the Groupe de Contact and Basel Committee, then chaired the EEC Banking Advisory Committee from 1982 to 1985, and finally chaired the Basel Committee from 1988 to 1991.[24] EEC members of the Basel Committee always informed their non-EEC colleagues of recent developments in banking regulation in the Community.

The international network of banking supervisors was not limited to the EEC and G10 levels. From 1979 on, the Basel Committee organised international conferences, usually every two years, gathering supervisors from all over the world. These conferences were occasions for supervisors from distant countries to meet and for the Basel Committee to circulate some of its papers and establish its reputation. They were also occasions for the EEC groups to present their work. In the 1981 conference organised in Washington, Jean Bonnardin, chairman of the EEC Groupe de Contact and French delegate from the Commission de Contrôle des Banques, delivered a speech on "the development of co-operation between bank supervisory authorities in the European Economic Community."[25] He gave a historical overview of banking regulation and supervision in the EEC context. Besides, other regional groups of supervisors were progressively established from 1979 on: the offshore group of supervisors, the supervisors from the Gulf countries, from Latin America and the Caribbean, and from South East Asia, New-Zealand and Australia, for instance.[26] Finally, the Basel Committee often circulated its

[24]Goodhart, *The Basel Committee on Banking Supervision."*
[25]BFA, 1749200912/331, "International Conference of Bank supervisors, Washington, 24-25 September 1981: 'The development of co-operation between bank supervisory authorities in the European Economic Community'", Jean Bonnardin.
[26]BFA, 1749200912/266, *International Conference of Banking Supervisors. Banca d'Italia - Rome, September 13-14, 1984*, "Report by S. Aoki, as the representative of SEANZA countries"; BFA**,** 1749200912/355, "The Basle Supervisors Committee. Remarks by J.S. Beverly, May 24, 1985", Fifth Assembly of the Commission of Latin American and Caribbean Banking Supervisory and Inspection Authorities, Barbados, 23 and 24 May

papers to supervisors from non-G10 countries and asked for comments. This was for example the case of the report BS/77/52 on consolidation, but more generally of most important reports written by the Basel Committee.[27] The EEC groupings on banking regulation and supervision were thus closely integrated into a global network of supervisors exchanging on important issues of the time. If the Basel Committee became the core of this network at the global level, the EEC groups were often at the forefront of international cooperation because of the broader ambition of the European integration project.

2. A global turn for the supervisory authorities: The consolidation technique between the EEC and the Group of Ten

The case of consolidation as a supervisory technique sheds light on the interconnection between the EEC and the G10 level. It also shows how new methods were developed internationally in order to adapt to the global expansion of banking. The technique of consolidation consists in taking into consideration all the activities of banking groups worldwide when assessing their soundness, by aggregating the balance sheets of all foreign subsidiaries and branches. In the 1970s, foreign branches (legally dependent entities from the head office) were usually already consolidated to the domestic bank, but foreign subsidiaries (legally independent from the head office) were not.[28] Although it may seem a purely technical matter, the practice of consolidation had a wide-ranging effect. It meant the replacement of a legal approach by an economic approach to banking organisations, and changed the limits of the entity to which regulations were applied. To some extent, therefore, the use of consolidation expanded regulation beyond national borders. Consolidation was therefore both a new

1985.

[27]BISA, 1.3a(3) 1982/17, " Past circulation of Committee documents".

[28]BISA, 1.3a(3), 1977/7, BS/77/52f, "Consolidation des bilans des banques: le regroupement des actifs à risques, envisagé comme méthode de contrôle de la solvabilité des banques", H. Coljé, October 1978.

technique of surveillance and an extension of states' sovereignty, and thereby a political move reinforcing the responsibility of the parent authority – as opposed to the host authority – for controlling an international bank. It also reinforced banks' main office responsibility towards their international subsidiaries. Consolidation accounting was not in itself a new idea, and was not only applied to banks. The principle of consolidation dated back to the 19th century in the United States.[29] Consolidated accounting and consolidated supervision were, however, two different things. Consolidated accounting mostly related to accounting information, whereas consolidated supervision concerned the application of supervisory rules on a bank taking into account all its operations worldwide. Between the early 1970s and the mid-1980, most countries adopted the principle of consolidation to base their supervisory practices. However, consolidation was not limited to European activities of large international banks, which were already operating at a global scale. Therefore, while European groups were eager to advocate the use of this technique because of their early reflection on international regulatory and supervisory issues, this technique had a global, not a European, reach.

The rise in international banking and the lack of regulation and supervision in some countries induced the need for consolidation. Indeed, if a bank established a subsidiary in a country where regulation was inadequate or inexistent, it could circumvent the regulation of its country of origin through this subsidiary. By taking into account all the operations of a bank worldwide, particularly when applying solvency ratios, the consolidation technique could therefore prevent these "gaps" in the supervisory system.[30] The rising importance of offshore centres, where no or little regulation was in place, was an important reason why consolidation

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[29]Didier Bensadon, "La frontière comptable de l'entité groupe : évolution du concept de périmètre de consolidation des comptes du milieu des années 1960 à la loi du 3 janvier 1985", *Entreprises et histoire* 39/2 (2005): 8-22.

[30]BISA**,** 1.3a(3), 1977/7, BS/77/52f, "Consolidation des bilans des banques: le regroupement des actifs à risques, envisagé comme méthode de contrôle de la solvabilité des banques", H. Coljé, October 1978.

was favoured by supervisory authorities.[31] In the second half of the 1970s, the supervisors from most industrialised countries had serious concerns about the increasing number of these offshore centres, and the Basel Committee set a working agenda about this topic.[32] The consolidation principle was one way of coping with this challenge. Authorities both wanted better information and a way to prevent international banks from escaping supervisory rules.

The EEC Groupe de Contact discussed the topic of consolidation before the Basel Committee did. In October 1976, the Dutch delegate Hugo Coljé (who was part of both groups) told his colleagues in Basel that he was writing a paper on the technique of consolidation for the Groupe de Contact, and that the Basel Committee also may wish to discuss this topic.[33] When the Basel Committee first discussed a paper written by Coljé in October 1977, the Groupe de Contact had already examined the paper two times.[34] Coljé explained that the topic was closely related to the development of offshore centres. He stressed that foreign subsidiaries could represent a serious risk for the entire banking organisation, and that authorities had a moral responsibility towards these establishments, and not only a legal responsibility. Among the EEC countries, the Netherlands was the most active promoters of consolidation. Countries were at a different stage of reflection on the question, however. The United States and the Netherlands were very favourable to the use of this technique, whereas the Japanese and French authorities were just starting to think about it. Swedish supervisors were usually opposed to consolidation because it required a substantial work due to the specificities of foreign banking subsidiaries from Nordic countries.[35] The Basel Committee could exert more influence than

[31]BISA, 1.3a(3) F, Eleventh meeting of the Basel Committee, 27 and 28 October 1977; on the history of offshore centres, see Vanessa Ogle, "Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s." *The American Historical Review* 122/5 (2017): 1431–58.
[32]BISA, 1.3a(3) F, Eleventh meeting of the Basel Committee, 27 and 28 October 1977.
[33]BISA, 1.3a(3) F, Eighth meeting of the Basel Committee, 28 and 29 October 1976.
[34]BISA, 1.3a(3) F, Eleventh meeting of the Basel Committee, 27 and 28 October 1977.
[35]BISA, 1.3a(3) F, Thirteenth meeting of the Basel Committee, 29 and 30 June 1978.

the Groupe de Contact, however, because it could write recommendations to the Group of Ten governors who could then use their influence to make changes in national regulations.

The Basel Committee recommended the governors to support the adoption of consolidation as a supervisory technique in two reports. The BCBS sent the first report in September 1978 to the governors,[36] who strongly endorsed it and asked for another report giving more directives.[37] Another report was submitted in March 1979, advocating the implementation of the consolidation principle as soon as possible. The practice of consolidation had practical consequences. For example, when the Swiss authorities started to control the capitalisation of their banks on a consolidated basis, it revealed serious weaknesses in several individual cases, because some banks had used subsidiaries in less-regulated countries to circumvent domestic regulations.[38] In January 1979, the Dutch delegation of the newly formed BAC used the work of the Basel Committee to invite the EEC to work on the topic.[39]

The initiative taken at the Group of Ten countries level indeed pressed the EEC to set an agenda for a directive. In May 1979, the governors of the Group of Ten countries discussed the report of the Basel Committee and accepted its recommendations.[40] The president of the governors of the Group of Ten countries, Jelle Zijstra from the Nederlandsche Bank, then wrote on 15 June to the G10 governors to underline the agreement of the desirability of consolidation and press each country for taking early initiatives in to implement this principle.[41] In July, the Basel Committee organised the first international conference of banking supervisors in London, which gave further impetus to the consolidation principle by going beyond the Group

[36]BISA, 1.3a(3), 1982/17, "Past circulation of Committee documents", 1982.
[37]BISA, 1.3a(3), 1979/9, "Consolidation: the next steps", 1979.
[38]BISA, 1.3a(3) F, Sixteenth meeting of the Basel Committee, 28 and 29 June 1979.
[39]BFA, 1749200912/295, XV/266/79, Letter from Claus Köhler to the members of the Banking Advisory Committee, 9 October 1979.
[40]BFA, 1749200912/310; "Copy of letter from President Ziljstra to other G-10 Governors", 15 June 1979.
[41]*Ibid*.

of Ten countries.[42] In October 1979, Claus Köhler, Bundesbank delegate and chairman of the newly formed Banking Advisory Committee, wrote to its members to suggest the BAC to recommend consolidated supervision in the EEC, to create a working group to take care of the technical details, and to start with listing existing practices in consolidated supervision. At its December 1979 meeting, the BAC asked the Commission to draft a directive proposal making consolidation compulsory within the EEC, together with a report on practices already existing in the field.[43] The BAC asked to have a first draft to discuss for its 19 June 1980 meeting.[44]

Between 1980 and 1983 three EEC groupings worked on the drafting of a directive on consolidation: the Coordination of Banking Legislations Group, which devised the draft, the Banking Advisory Committee, which discussed it, and the Groupe de Contact, which focused on the technical details. The first meeting of the Coordination of Banking Legislations Group on this matter took place on 14-15 April 1980. The British and the Dutch members favoured a general directive in order to go faster, while the German members underlined that the first step should be the removal of obstacles to consolidation. The Italian delegates stressed that their institutions did not have the necessary powers to apply the consolidation principle in the way the draft directive was hoping. Interestingly, some delegations also noted that the consolidation principle should be considered at the global level, and not at the EEC level only. In their view, the EEC move could only be part of a broader approach.

The following discussions at the Banking Advisory Committee soon revealed the challenges raised by the consolidation technique. One challenge was that of sovereignty, because of the problems raised by on-site inspection by foreign supervisors and the exchange

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[42]BFA, 1749200912/355, "*International Conference of Banking Supervisors. London July 5-6 1979. Record of proceedings"*.
[43]BFA, 1749200912/331, XV/43/80, "Consolidation. Document de travail pour la première réunion du groupe de travail de la commission sur la coordination des législations bancaires".
[44]BFA, *1749200912/295,* XV/144/80 **"**Consolidation. Compte rendu de la réunion du Groupe de travail sur la coordination des législations bancaires, tenue à Bruxelles les 14 et 15 avril 1980".

of confidential information between countries. Another complication was that of the type of regulation and scope of consolidation. At the BAC meeting of 4 December 1980, the British members opposed the compulsory character of consolidation and, with the Luxembourg delegates, favoured flexibility.[45] The delegates from Luxembourg were particularly opposed to on-site inspections by foreign authorities as well as to pressing Member States for signing bilateral agreements in this matter. Overall, Luxembourg preferred simple recommendations to a directive and opposed the EEC exercise.[46] Consolidation in practice raised serious challenges: an internal note from the French Commission de contrôle bancaire stressed the difficulty posed by the differences of accounting standards, by the definition of the extent of consolidation, and by the fact that there was no legal definition of a group in French law.[47] Major disagreements arose about how consolidation should be applied to subsidiaries not owned entirely by the parent bank, and even more in the case of minority participation.[48]

Commercial banks lamented to be largely excluded from the discussions. On 27 February 1980, the Commission informed European banking associations of its project to submit a draft directive on consolidation to the Council by the end of the year.[49] In a circular letter to the central committee of the European Banking Federation (EBF), the EBF stressed the importance of the project for the European Commission, which was considered as "the corner stone of all future harmonization."[50] The EBF pointed out that as consolidation was reinforcing the home authority in regulation and supervision it would probably lead to distortions of competition in

[45]BFA, 1749200912/331, XV/19/81, "Compte rendu de la 4e réunion du comité consultatif tenue le 4 décembre 1980 à Bruxelles."
[46]BFA, 1749200912/331, XV/19/81, "Compte rendu de la 4e réunion du comité consultatif tenue le 4 décembre 1980 à Bruxelles."
[47]BFA, 1749200912/331, "Consolidation des bilans bancaires", 9 June 1980.
[48]BFA, 1749200912/295, XV/144/80, "Consolidation. Compte rendu de la réunion du Groupe de travail sur la coordination des législations bancaires, tenue à Bruxelles les 14 et 15 avril 1980".
[49]London Metropolitan Archives (LMA), British Bankers' Association record group (BBA record group), MS32329/5, Letter of the European Banking Federation to the members of its central committee, 14 March 1980.
[50]LMA, BBA record group, MS32329/5, Letter of the European Banking Federation to the members of its central committee, 14 March 1980, p. 1.

the host country, and thereby call for further harmonisation.[51] The EBF was suspicious that the Commission had hidden intentions of wide-reaching harmonisation, which it opposed. At a meeting in May 1981, several members of the EBF said that "the Commission tended to harmonise for the sake of harmonisation and they should be encouraged to concentrate much more on liberty of establishment and the freedom of services and competition."[52] The EBF considered that not only the BIS or the IMF had a global reach that the EEC did not have, but also more more importantly that their agreements were more flexible.[53] Overall, the EBF opposed the directive as being too formal and as having too small a geographical reach, but the EBF could not block the process. On a technical level the EBF discussed in particular the minimum participation in a subsidiary for consolidation to be recommended.[54] The initial Commission's proposal was 10%, but the EBF proposed 25% as a compromise. The German banks were particularly opposed to this principle, and favoured a 50% participation or, preferably, an "effective control" criterion.[55] The final version of the directive included the EBF suggestion of a minimum 25% holding for recommended participation and mentioned the effective control criterion.[56]

The adoption of the consolidation principle was very uneven among EEC countries by the early 1980s. Whereas some European countries, notably the Netherlands and the United Kingdom, already used the technique of consolidation, others did not apply it, or not fully, for different reasons. In Italy, the central bank did not have access to enough information to

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[51] *Ibid*.
[52] LMA, BBA record group, MS32348/3, "Informal Note of the Meeting of the E.C. Banking Federation Board on Monday, 18th May, 1981", p. 1.
[53] LMA, BBA record group, MS32329/5, "Overall supervision of Credit Institutions Operating in Several Member States," 14 March 1980.
[54] LMA, BBA record group, MS32348/3, "Informal Note of the Meeting of the E.C. Banking Federation Board on Monday, 18th May, 1981".
[55] *Ibid*.
[56] "Council Directive of 13 June 1983 on the supervision of credit institutions on a consolidated basis", http://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX%3A31983L0350 [accessed 29 March 2018].

implement it.[57] In the summer 1982, the spectacular failure of the Banco Ambrosiano, an Italian bank with several offshore subsidiaries and a non-bank holding company in Luxembourg, would soon be a strong impetus for the adoption of consolidation.[58] In Germany, the legislative framework for consolidation did not exist in the early 1980s, as it necessitated a revision of the banking law.[59] In the meantime, authorities had to rely on a gentlemen's agreement with the central association of the German banks by which they had to provide audited reports on the annual accounts of their wholly or majority-owned subsidiaries.[60] Consolidation became compulsory in 1985.[61] In France, on the other hand, banks had an interest to consolidation, because French banks' foreign subsidiaries usually had higher solvency ratios than the main office.[62]

The story of consolidation thus started in EEC groupings, was given further impetus in Basel, and in return this impetus and support at the G10 level prompted a policy agenda at the Commission. The consolidation technique circulated back and forth between the G10 and EEC level in a mutually reinforcing way. Most of the consolidation directive was already drafted by the end of 1981, and the final text was eventually issued on 13 June 1983.[63] In a report of a visit to the Commission in June 1983, a delegate from the British Bankers' Association said that "the adoption of the Directive by the Council of Ministers was clearly regarded as something of a triumph for the Commission," but showed reserve regarding its actual importance.[64] In the EEC, however, the consolidation principle was part of a broader project.

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[57]BISA, 1.3a(3) F, Seventeenth meeting of the Basel Committee, 8 and 9 November 1979.
[58]BFA, 1749200912/305, Twenty-fifth meeting of the Basel Committee, 24 and 25 June 1982.
[59]BFA, 1749200912/295, BS/80/27, "Report to the Governors on the progress made by member countries in implementing the consolidation principle internationally – Annex, Germany," 31 December 1980.
[60]*Ibid*.
[61] Historical Archives of the European Union, PVD 84, "Institutional Aspects of Prudential Supervision in the Community. Outline Questionnaire / Germany," D. Norbert Horn.
[62]BISA, 1.3a(3) F, Fourteenth meeting of the Basel Committee on Banking Supervision, 26 and 27 October 1978.
[63]"Council Directive of 13 June 1983 on the supervision of credit institutions on a consolidated basis", http://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX%3A31983L0350 [accessed 29 March 2018].
[64]LMA, BBA record group, MS32329/10, "Advisory Committee" in ", "Report of a Visit to the E.C. Commission and others in Brussels on 16 and 17 June, 1983," p. 1.

The Commission's aim was to make consolidation compulsory and to harmonise the prudential returns (the documents required for banking supervision) submitted to the authorities by the banks.[65] The EEC exercise was thus closely linked to a desire to improve and harmonise information on international banking within the Common Market.[66] This wish was also made clear with the initiative of European institutions in the field of observation ratios.

3. A European initiative in global rules on capital: the EEC observation ratios.

Capital adequacy ratios are relations established between own funds and assets of banks' balance sheets to ensure that each bank has a minimum capital to conduct its operations. A considerable literature has been written on the adoption of a common capital adequacy ratio by the Basel Committee in 1988.[67] Most of this literature gives a vital role – if not a unique role – to the pressure imposed by the United States and the United Kingdom on the other countries of the Group of Ten to accept a uniform rule for banks' capital adequacy. While a complete review of the construction of the international standard is outside the scope of this article, the following section stresses, on the contrary, the early initiative and importance of the EEC in the international convergence of capital adequacy standards, and its failure to stand as a homogeneous bloc. In the field of banking regulation, banks' capital became a central topic of discussion in the 1980s. First, it was seen as a means to ensure the stability of banks, and thereby, of the international financial system as a whole. Second, the harmonisation of capital adequacy standards internationally became a cornerstone of the "level playing field," that is,

[65]BFA, 1749200912/295, "Coordination des information périodiques fournies par les banques à des fins de surveillance. Résumé des travaux effectués jusqu'à présent."
[66]BFA, 1749200912/295, "Harmonisation des informations périodiques. Compte-rendu de la réunion du groupe de travail 'Coordination des législations bancaires' du 11 juin 1981."
[67]See for instance: Kapstein, *Supervising International Banks* ; Wood, *Governing Global Banking* ; Singer, *Regulating Capital* ; Goodhart, *The Basel Committee on Banking Supervision*.

equal competitive conditions for banks from different countries. Thus, these two concerns, stability preservation and competitive conditions, converged in a single policy issue which became crucial at the European level, but even more at the G10 level. The exercise of capital adequacy convergence was partly crisis-driven, as the International Debt Crisis of 1982 pressed the authorities, particularly in the United States, to reinforce the soundness of their banks. However, in Europe, the exercise had started long before the Debt Crisis. Furthermore, it was also motivated by the erosion of banks' capitalisation in each country and by the increasing competition between international banks intensified by the liberalisation of the financial sector.

The history of banks' capital regulation is a history of a technical question that progressively became an international political issue and a cornerstone of the global financial regulatory system. Its international political dimension gained unprecedented influence in the 1980s, whereas previously it had been only one tool among others for assessing banks' soundness at the national level. The United Kingdom had little or informal use of ratios, whereas most – but not all – other European countries had formal regulations on solvency ratios relating different elements of banks' balance sheet. However, these regulations were very heterogeneous and linked to each national regulatory environment and banking system. In the 1970s, however, three structural evolutions in the financial sector, and more generally, in capitalism, challenged these national regulations. The growth of banks' balance sheets, meaning the increasing activities of banks despite high inflation levels, was a first crucial evolution.[68] They had an impact on solvency ratios, as assets were growing faster than deposits. A second fundamental change was the rise of liability management and in the introduction of new liabilities items, such as subordinated debts, as banks were increasingly using new non-deposit funding sources for their activities.[69] These new funding sources considerably

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[68]Alan M. Taylor, "The Great Leveraging." National Bureau of Economic Research Working Paper (August 2012).

[69] Subordinated debts were loans often issued by the shareholders of a bank, ranking below other types of loans

challenged the very definition of capital, as some countries accepted to include them in the definition of a bank' own funds and some others did not. Lastly, the increasing internationalisation of the banking sector shed light on and intensified competitive distortions between countries. Because of these three fundamental evolutions, discussions on banks' capital were widespread in regulatory fields in the 1970s, particularly in the United States, but increasingly also in Europe. However, these discussions mostly took place at the technical supervisory level, and had no far-reaching political agenda.

Once again, the Groupe de Contact discussed the issue of capitalisation before the Basel Committee did. Both committees addressed the topic well before the 1980s. In December 1975, the first year of existence of the Basel Committee, the delegate from Luxembourg, Claude Schmit, presented a paper from the Groupe de Contact entitled "The definition of capital and the use of subordinated debt".[70] The paper was mostly an attempt to review EEC countries' regulatory practices in the field of capital requirement and their attitude towards subordinated debts.[71] The US delegates were particularly keen on discussing the topic, and were interested in having a catalogue of countries' practices.[72] Like in many other instances, a member who was seating on both committees informed the Basel Committee of the work of the Groupe de Contact and circulated some of its documents. At the same meeting, the Basel Committee then discussed the question of the capital endowment of branches of foreign banks in a given country,[73] a topic which triggered lengthy discussions over several meetings. In the 1970s,

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in case of bankruptcy. In the 1970s, authorities sometimes considered it a complementary form of capital, even if of lesser quality. Subordinated debt was particularly useful when the situation of the capital market made an immediate capital increase difficult, and even more so in the Euromarkets where banks had to deal with important amounts and ample variations of activity. In that case subordinated debt provided a flexible tool for increasing or reducing capital funds. BISA, 1.3a(3) 1975/2, BS/75/59, "The definition of capital and use of subordinated debt"; BISA, 1.3a(3) 1976/4, BS/76/37 : "Subordinated debts in capital structures in the United States", 1976,

[70] BISA, 1.3a(3) F, Fifth meeting of the Basel Committee on Banking Supervision, 11 and 12 December 1975.

[71] BISA, 1.3a(3), 1975/2, BS/75/59, "The definition of capital and the use of subordinated debt".

[72] BISA, 1.3a(3) F, Fifth meeting of the Basel Committee on Banking Supervision, 11 and 12 December 1975.

[73] The endowment capital was the capital a foreign branch (as opposed to a subsidiary) could be required to have even though it was legally dependent on the main office and formed with it one unique legal entity. BISA, 1.3a(3) F, Fifth meeting of the Basel Committee on Banking Supervision, 11 and 12 December 1975.

however, most exchanges on capital were focused on technical questions, which were important for banking supervision, but had no political implications. This situation changed with the first EEC banking coordination directive of 1977, and more precisely with the early work of the BAC in 1979. Later on, first in 1982 and decidedly in 1984, the topic of bank capital became critical at the Basel Committee level.[74]

In the EEC context, the two dimensions of international regulation of bank capital, ensuring financial stability and equal competitive conditions at the international level, were complemented by a third one, that of the completion of the Common Market and, more generally, that of the European integration process. The work on bank capital by the EEC was therefore also connected to its other endeavours in the field of consolidation and other areas, such as the annual accounts of banks. The provisions for working on common banking ratios in the EEC were provided by the 1977 first banking directive[75] and were in fact already present in the 1972 directive proposal eventually abandoned.[76] Compared to the Basel exercise, this was a very early step. The 1977 directive stated that "appropriate structural ratios should be formulated that will make it possible within the framework of cooperation between national authorities to observe, in accordance with standard methods, the position of comparable types of credit institutions."[77] The 1977 directive argued that such ratios had to be devised, "pending further coordination," because "equivalent financial requirements for credit institutions [were] necessary to ensure similar safeguards for savers and fair conditions of competition between comparable groups of credit institutions."[78] For the purpose of these ratios, the 1977 directive

[74] BFA, 1749200912/266, Note from Peter Cooke, 20 July 1984.
[75] "First Council Directive of 12 December 1977 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions", https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31977L0780&from=EN [accessed 31 March 2018].
[76] Mourlon-Druol, "Banking Union in Historical Perspective."
[77] "First Council Directive of 12 December 1977 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions", https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31977L0780&from=EN [accessed 31 March 2018], p. 31.
[78] "First Council Directive of 12 December 1977 on the coordination of laws, regulations and administrative

also called for the harmonisation of credit institutions' accounts. The intended ratios had to focus on banks' solvency and liquidity, without further detail. As in Basel, solvency ratios, focussing on banks' capital, would prove more important than liquidity ratios.

The Commission contemplated different types of ratios but these ratios were not supposed to have any normative dimension, at least during their first stage, and were therefore called "observation" ratios. In late 1979, the newly established BAC asked the Groupe de Contact to start working on four distinct solvency ratios it had devised.[79] These ratios related own funds to risk-weighted assets, other liabilities, large exposures, and fixed assets. Each country chose a sample of banks on which to base the calculations. First calculations began in 1981 with the data from the year 1980.[80] The exercise was repeated and improved each year. By comparison, the Basel Committee only started to work on banks' capitalisation thoroughly in 1982, and only initiated a policy agenda in this field in 1984, under pressure from Paul Volcker, president of the US Federal Reserve. By that time, European members of the Basel Committee had already gained wide expertise and experience in the international comparison of banks' capital adequacy.

The BAC discussed matters which would later prove central to the Basel exercise. This included, for instance, the definition of own funds and the weighting of risk assets.[81] As for the Basel Committee later on, the European groupings faced serious challenges due to national differences in regulation and accounting standards. For instance, two different definitions of own funds were retained, one including subordinated debt and the other not, in order to satisfy

provisions relating to the taking up and pursuit of the business of credit institutions", https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31977L0780&from=EN [accessed 31 March 2018], p. 31.

[79]BFA, 1749200912/331, XV/195/80 FR (rév II), " Note relative au calcul des ratios d'observation pour l'évaluation de la solvabilité des banques."

[80]BFA, 1749200912/339, "Ratios d'observation européens," Jean Bonnardin, 14 December 1981.

[81]BFA, 1749200912/331, XV/195/80 FR (rév II), " Note relative au calcul des ratios d'observation pour l'évaluation de la solvabilité des banques."

the irreconcilable views between the German members, who strongly opposed their inclusion, and other countries which favoured it.[82] Likewise, finding a satisfying weighting system for banking assets was difficult. Borrowers were divided into three categories, public sector, banking sector, and non-banking private sector, but these categories and their respective weightings were often criticised for being over simplistic. Since the very beginning of the exercise, supervisors and bankers expressed serious reservations. For instance, German banks wondered to what extent these ratios could "produce comparable and realistic results," because of the differences in accounting rules and banking structures.[83] The differences in the items included in own funds by each country were very significant, which led to very exploratory results and serious reservations also from the part of national supervisors.[84] Most importantly, the members of the Groupe de Contact could not definitely agree on a common definition of own funds nor a common weighting system for risk assets.[85]

The European Banking Federation, which was informed of the exercise, did not favour those ratios. First and foremost, the EBF questioned their "observatory" nature, and feared that ratios would be used to homogenise supervisory requirements.[86] The EBF further argued that ratios did not provide a satisfying basis for comparing banking solvency across the EEC because of the widely diverging banking systems and fiscal and legal environments. In addition, the EBF claimed that the administrative costs implied for banks by these ratios far outweighed their potential benefits. Finally, the EBF pointed to several technical problems, particularly in its assessment of country risk. The EEC proposal included a different weighting according to the country of origin of the borrower, and grouped countries in two categories,

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[82]BFA**,** 1749200912/331, XV/195/80 FR (rév II), " Note relative au calcul des ratios d'observation pour l'évaluation de la solvabilité des banques."
[83]BFA**,** 1749200912/331, XV/163/81, "Solvency Ratios. Summary of comments on the calculation of the ratios by the Supervisory Authorities," p. 1.
[84]BFA**,** 1749200912/331, "Ratios d'observation européens," J. Bonnardin, 14 December 1981.
[85]BFA**,** 1749200912/331, XV/11 (82), "Compte Rendu de la Sixième Réunion du Comité Consultatif Bancaire tenue à Bruxelles, le 10 décembre 1981," p. 7.
[86]LMA, M32020, **"**Notice on the Calculation of Observation for Assessing Bank Solvency," January 1984.

the EEC and industrialised countries on the one hand, and the rest of the world on the other hand. The EBF considered the proposed scheme was far too simplistic. The EBF position, however, concealed diverging views between countries.

The British Bankers' Association, for instance, was sympathetic to the Commission's endeavour to set a common definition own funds across EEC member states, particularly in the context of consolidated supervision.[87] However, the BBA had serious concerns that a single definition of own funds would be used for all purposes: in the United Kingdom own funds included different components depending on each purpose, for example calculating the gearing ratio (own funds related to all assets without weighting) and the risk assets ratio (own funds related to all assets weighted according to the risk they carry). Concerning the establishment of a specific minimum requirement in own funds, the BBA's view was unequivocal: "The B.B.A. is very much opposed to the idea that a common specific amount should be imposed throughout the Community. […] [3] The British practice is for each institution to discuss its ratios individually with the Bank of England as the supervisory authority, which takes into account the size, business and experience of the institution in question. The B.B.A. recommends that a similar flexible approach is adopted by all supervisory authorities throughout the Community."[88] However, through the rest of the decade, the battle for capital ratios harmonisation would progressively converge precisely on a common minimum standard for all international banks, this time not under pressure from the EEC, but rather from the United States, with the support of the United Kingdom.

The collection of data for the calculation of the EEC observation ratios was more than just a technical question. Data collection pushed Member States to devise a scheme in which

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[87]LMA, M32429, "Draft response to the E.C. Banking Federation. The British Bankers' Association's Observations on Commission Paper XV/178/83 entitled "Towards a Co-ordinated definition of the own funds of credit institutions in the Community.""
[88]*Ibid*., p. 2-3.

comparisons were meaningful. Members of the Coordination of Banking Legislations Group discussed for instance what type and size of banks to include in the sample, or what kind of national average to calculate, arithmetic (all banks weighing the same) or weighted (big banks weighing more than small ones).[89] Furthermore, differences in own funds' definition undermined the results' comparability. Each country used its domestic rules in place. In Luxembourg, banks considered it unfair to apply similar weightings to off and on balance sheet items.[90] Data collection from banks often necessitated additional accounting work. For instance, in a letter dated from 11 June 1982 enclosing its data, the Crédit Agricole underlined that information required did not correspond to the accounting categories used by the bank and necessitated time-consuming reprocessing.[91] Each year, the European groupings refined their methodology, but could not overcome fundamental national differences, which had to be left aside for the sake the exercise. As in the case of the Basel exercise a few years later, the apparently solely technical question of *counting* capital turned out to be a political question related to the wish of homogenising standards.

The results of these calculations had important effects. To some extent, they made clear the differences in banks' capitalisation among EEC member states. In doing so, they had a performative dimension, because they focussed the attention on these differences, and reinforced the desirability for homogenisation, thereby questioning their merely "observation" status. National averages in 1984 varied from 11.8 or 12.9% (weighted or arithmetic) for Danemark, to 2.8 or 3.4% for France, 6.9 or 8.3% for the United Kingdom, or 4.9 or 6.1% for Germany.[92] French banks were the least capitalised of all, whatever the definition used. This

[89]BFA, 1749200912/331, XV/245/81-FR, "Compte-rendu de la réunion du groupe de travail " Coordination des législations bancaires - Coefficients" tenue à Bruxelles les 17 et 18 septembre 1981".
[90]*Ibid*.
[91]BFA, 1749200912/328, Letter from the Caisse Nationale de Crédit Agricole to the French Commission of Banking Control, 11 June 1982.
[92]BFA, 1749200912/339, GC/84/24 draft B, "Report to the Banking Advisory Committee on the fourth trial calculation of the solvency observation ratios," October 1984.

fact was well-known in banking spheres, and due to their nationalised status. Banking supervisors were particularly anxious to stop the erosion of banks' capitalisation, which had been continuing since the 1970s, and managed to do so in the early 1980s, despite increasing differences in EEC member states between 1981 and 1983.[93] By the end of 1983, the observation ratios exercise was "nearing the end of the experimental stage," and the BAC was considering what would be the next steps.[94] Its agenda would be disturbed by the new impetus given to the topic by the Basel Committee.

In 1984, under pressure from the United States, the Basel Committee set a new agenda for devising a standard scheme to define and assess banks' capital. The Basel Committee had already worked on the topic thoroughly since 1982 with the establishment of a working group chaired by Frederick Dahl from the Federal Reserve. [95] In 1984, the Basel Committee started calculations based on the framework established by the Dahl working group, in the same way as the Groupe de Contact had done between 1980 and 1983.[96] The European exercise on capitalisation did not stop when the Basel Committee firmly engaged on the road to the convergence of capital adequacy standards. On the contrary, both exercises continued in parallel, and all three committees involved kept close links with each other. As the technical question of banks' capital adequacy standard became a political matter involving negotiations and power play, the European exercise was used by EEC countries to counterbalance the influence of the United States. Some countries, most notably Germany, France, and Japan, were

[93] *Ibid*.
[94] LMA, M32329/10, "Advisory Committee" in "Report of a Visit by Alan Kettley, Michael Evans and Jane Mendes to the E.C. Commission and others in Brussels on 5th and 6th December, 1983", p. 1; LMA, M32329/10, "Brief for visit to Brussels 5th and 6th December, 1983".
[95] BFA, 1749200912/305, Twenty-Sixth Meeting of the Basel Committee, 27-29 October 1982.
[96] BFA, 1749200912/311, BS/85/12e, "The measurement of capital adequacy (An interim assessment of the progress achieved in developing a framework for comparing standards of capital adequacy among different international banks)," 3 May 1985.

opposed to the adoption of common rules in the field of capital adequacy along the proposed guidelines.

In late 1986, the United Kingdom and the United States opted for a bilateral agreement, in order to press the other countries to accelerate the process of convergence.[97] This episode reflected the failure of the EEC to speak with one voice. The other EEC countries saw the United Kingdom as disloyal, but they had no choice but to accept the principle of convergence. However, whereas the literature often uses this episode to illustrate the hegemonic power of the US financial system, it should be stressed that the European countries agreed on the convergence principle because they had started the process themselves, long before the Basel Committee, as the previous paragraphs have shown. In addition, the US-UK bilateral agreement was a very preliminary project, and voluntarily left room for discussion on the details. Furthermore, both European and Basel exercise were evolving around close lines, and the differences between the two models were not immense. Finally, the European commitment to the international comparison of banks' capital adequacy played a role in the Japanese consent for a common standard.[98] Indeed, Japan did not wish to be isolated from the rest of the Group of Ten, as the United States and the EEC were all engaging on the road to convergence.

Conclusion

These two case studies on consolidation and observation ratios show that, to some extent, European integration has been a globalisation laboratory. European initiatives in international banking regulation and supervision produced tools for international governance

[97] Goodhart, *The Basel Committee on Banking Supervision*.
[98] Watanabe, Satoshi. *The Origin and Development of International Cooperation for Financial Stability - International Cooperation at the Basel Committee on Banking Supervision* [Translation from Japanese] (Tokyo: Sotensha-Shuppan, 2012).

and fostered the internationalisation of member states' politico-institutional structures. The very nature of the European integration process fostered an early reflection on international banking regulation, well before the Basel Committee, on technical matters such as the use of consolidation as a supervisory technique, or on broader regulatory issues such as common standards of banks' capital adequacy. The initiatives of the European institutions were more linked to the nature of the integration project than to crises, even though the 1973-74 crisis also gave them further impetus. However, the economic and financial crisis of the 1970s played a crucial role in the background, as it influenced the recycling phenomenon, encouraged the development of banking supervision worldwide, and challenged the overall framework for economic policy. These developments went hand in hand with a change of regulatory stance, favouring liberalisation and market-based mechanisms, in which the EEC played a significant role also, by supporting the liberalisation of capital movements. The initiatives of the EEC in the field of banking regulation have thus to be examined in regard to those taken in the field of the liberalisation of credit services and capital flows. Nonetheless, in all these fields, Europe was not alone. The fair competitive conditions that the EEC tried to establish at the Community level were soon overtaken by a broader, G10, scale, which suited better the scope of international banking.

The European initiatives in banking regulation and supervision prepared European countries for globalisation and gave them experience in this field. In doing so, it also fostered globalisation itself, by giving European countries a framework within which to favour international exchanges. The role played by European integration in this matter may not have been limited to the financial sector, even though European efforts seem to have been more reactive than proactive in sectors such as the telecommunication or in the automobile industry, which were also marked by regional coordination and competition from the USA and Japan.[99]

[99]Griset, Pascal. "La France et Les Télécommunications Européennes Face Aux Mutations Des Années 1980 ".

However, the financial sector had two distinctive characteristics. First, the rise of international banking regulation and supervision in the context of increasing risks of failures and crises gave an unprecedented role to international tools of governance like standards of capitalisation. Second, the liberalisation of capital flows and coordination of banking legislation played a specific role in the project for a possible economic and monetary union, as they were conceived as a prerequisite for such a move.

Connecting capitalism and European integration allows to shed light on three elements: the role of national and socioeconomic contexts, the transition from a state-led to a market-led capitalism, and the forward-looking dimension of European initiatives. The notion of capitalism invites us to link the technical banking issues to a broader context, in particular the role of legal affairs, the intertwining of national and international context, the governance of enterprises and the labour market. The notion of "global economy," on the contrary, stresses the international dimension but downplays national contexts, and tends to isolate economic issues from their social and political background. The notion of capitalism thus helps consider banking regulation as part of a system not only connecting national economies, but also connecting economic life to this wider context. Furthermore, this article highlighted the role played by European integration in the transition from the state-led capitalism of the Bretton Wood system to the market-based financial capitalism of the post-Bretton Wood era. The notion of capitalism is thus useful in shedding light on the systemic dimension of the changes at stake. Lastly, based on Levy's work on capital as a forward-looking process, it is possible to consider the history of European banking regulation also as oriented towards the future.[100] In

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In Éric Bussière, Michel Dumoulin, Sylvain Schirmann, eds., *Milieux Économiques et Intégration Européenne Au XXe Siècle : La Relance Des Années Quatre-Vingt (1979-1992)*, (Paris: Institut de la gestion publique et du développement économique, 2007), 315-331 ; Patrick Fridenson, "Stratégies Des Groupes Automobiles et Structure Du Marché En Europe 1979-1992". In Éric Bussière, Michel Dumoulin, Sylvain Schirmann, eds., *Milieux Économiques et Intégration Européenne Au XXe Siècle : La Relance Des Années Quatre-Vingt (1979-1992)*, (Paris: Institut de la gestion publique et du développement économique, 2007), 333–47 ; See also Éric Bussière, "Régionalisme européen et mondialisation." *Les cahiers Irice* 9 (2012): 5-10.

[100] Jonathan Levy, "Capital as Process and the History of Capitalism," *Business History Review* 91 (2017): 483–

particular, it can be seen as an attempt to establish an ideal market, with fair competition and stability, as oriented towards a more efficient common banking market, and towards a possible economic and monetary union. In this perspective, European integration in the field of banking fits well the history of capitalism proposed by Levy.

Put differently, European integration adapted capitalism for its own political project, but was soon overtaken by it. Capitalism was not limited to Europe and the changes in capitalism that the EEC was using to push its integration agenda – such as the internationalisation of banks, the growth of banks' balance sheets, the increased circulation of capital movements – were happening elsewhere more or less at the same time. This trend created a pressure to go further in harmonisation and liberalisation, in order to keep the Community's uniqueness and pave the way for monetary unification. But capitalism did not need European integration to work. Furthermore, the geography of the financial sector was more organised around big financial centres such as New York, London and Tokyo than around regions such as Europe.[101] The European initiatives in the field of banking regulation pushed globalisation further by forcing the national regulatory and supervisory environment of several states to adapt to the international scale. Therefore, if European integration history was closely linked to that of capitalism, the fact that capitalism had not borders, but that Europe did, would represent a growing challenge for Europe, in particular in the financial sector.

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[101] Youssef Cassis, *Capitals of capital: a history of international financial centres, 1780 – 2005* (Cambridge: Cambridge University Press, 2006).

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