Proposal for Special Session at the 29th Annual EAEPE Conference, 19-21 October 2017, Budapest [in cooperation with Research Area J: Monetary economics, finance and financial institutions]

**European Development Banks in Contemporary Capitalism**

Convenors: Daniel Mertens and Matthias Thiemann (Goethe University, Frankfurt am Main)

In line with this year’s EAEPE conference theme “The Role of the State in Economic Development - State Capacity, State Autonomy and Economic Development”, we want to propose a special session for the stream of Research Area J that sheds light on a financial institution that has proven to take a seminal position in economic development and policy making both historically and in recent times. Particularly the European crisis-cum-austerity regime has fueled its (re-)emergence: state-owned development banks.

As part of coordinated actions to spur investment in Europe (see the so-called Juncker Plan), as national policy-vehicles to mitigate credit crunches and offset fiscal consolidation, or as reanimated institutions to both safeguard old and foster new industries – banks such as the KfW in Germany, CDC in Italy or the EIB on the European level have made it considerably more often into headlines since the financial crisis than in the decades before. In alliance with the European Commission, several governments from Hungary to Portugal have only recently engaged in building a state-owned development institution. However, scholarship has not reflected much on this trend. We do not know much about the political economy of these banks, neither regarding their capacities and governance mechanisms, nor with respect to their activities. Likewise, we know very little about them as financial organizations, located on the ever precarious borderline between state actors and financial markets and firms, displaying a great variety across Europe.

Therefore we propose a special session on European development banks that enables discussion about contemporary trends and tackles, among others, the following questions:

- Which factors facilitate the growth of development banks and their organizational devices? Is it best to capture them as tools for governments and policy-makers? Or are they better understood as financial institutions with their own agenda?
- What does the growth of these banks mean for the evolution of the European crisis? How do they relate to other crisis actors and mechanisms such as the ECB, national governments, European bodies, or rating agencies? How do they figure in the construction of European integration?
- Which cleavages and conflicts do these borderline actors face in an era characterized by neoliberalism and austerity? Where can one find evidence of inter- and cross-institutional cooperation or competition?
- How can we make sense of development banks in a comparative perspective, both historically and cross-sectional? How do they fit into theories of capitalist diversity, institutional and policy-diffusion, and path-dependent economic development? What are the instances of collaboration and hierarchies/hegemony when it comes to development banks in the European core and those in the periphery?
- And last but not least: to what extent are state-owned development banks contested institutions with regard to their potential for socioeconomic transformation? To what extent do they already fulfil this potential, with respect to specific socioeconomic and environmental goals?
We propose the following presentations and set-up for a special session on **European Development Banks in Contemporary Capitalism**:

**Paper givers:**

**Tamilla Tagieva (University of Kassel, Germany) - Corporate Governance of National and International Development Banks**

This paper engages with the corporate governance of state-owned development banks. By relying on the sociology of organizations, it proposes to integrate into one framework all that we know about corporate governance of both national and international development banks. Thus, not only boards and rules (laws) discipline the management of development banks, but also credit rating agencies, civil society (representatives), monitoring by other partner development banks and finally contracts of managers. This broader understanding of corporate governance of development banks allows to "better account for the interdependencies of governance practices" (Aguilera et al. 2008: 476). The paper highlights the politicization of boards, the disciplinary effects of credit rating agencies and pressures stemming from civil society organizations. Taken together they shed light on the inequalities between development banks in advanced economies and those in poorer countries and raise issues about democratic responsiveness and accountability.

**Olga Mikheeva (Tallinn University of Technology, Estonia) - Development Finance Institutions in Central and Eastern Europe: Legacies, trajectories and the process of Europeanization**

In the aftermath of the global recession and a series of fiscal crises across EU, both policy makers and academic scholars revived the notion of national development finance institutions, in most cases development banks. Despite the emergence of literature on mission-oriented finance and countercyclical roles of development banks, most case studies are however centered around development finance institutions in European 'core' countries. Meanwhile, little is known of Central and Eastern European (CEE) experiences with development finance institutions, although following the transition to market economies, almost all countries of the former Socialist block had development banks established in the early 1990s. The current study, therefore, aims to provide a contextualized overview of how these institutions evolved from the early 1990s onwards following changes in policy tasks, range of financial facilities provided, sources of funds and changes in respective regulations/legal acts. From these contextual aspects it will be possible to see to what extent CEE governments were able and/or willing to use state-backed development finance as a policy tool and to what extent. By examining development banks in Poland, Czech Republic, Slovenia, Slovakia, and Hungary, the paper not only widens the pool of empirical studies, but looks at the process of Europeanization from the perspective of financial tools available to policy makers to support national economic policy agendas in the countries of European periphery.

**Peter Volberding (Harvard University, U.S.) - Protecting State Interests: The Evolving Role of National Development Banks in the European Union**

National development banks (NDBs) are tasked with promoting the economic interests of national governments. In an era of increasing European regulation, why have European NDBs not only survived, but expanded in both number and scope in the past 30 years? I argue that NDBs compensate for the declining authority of national economic policymaking autonomy within the European Union. Instead
of directly intervening in the economy, European governments have gradually retooled existing NDBs to serve as indirect conduits to implement national economic priorities. Moreover, how NDBs operate has evolved concomitantly with EU policies. NDBs historically supported large-scale industrialization and infrastructure programs through a variety of direct financing measures, but as the regulatory power of the European Commission’s DG Competition has intensified, NDBs have changed both what and how they finance in order to comply with EU State Aid rules. NDBs predominantly support programs that accord with EU policy objectives, namely small- and medium-sized enterprises (SMEs), green technology, regional development projects, and innovation promotion. Recently, NDBs have also adopted increasingly market-based approaches to financing, a trend that also accords with the EU’s policy objectives. Therefore, even though EU integration has circumscribed the ability of governments to directly support national economic interests, NDBs have adapted to indirectly implement national economic policy.

Daniel Mertens (Goethe-University Frankfurt, Germany) and Matthias Thiemann (Sciences Po Paris, France) – State-led, Market-based? The Role of Development Banks in Stabilizing Market-based Finance in the EU

This paper examines the growth of these banks and places them in the context of recent political attempts to promote economic growth through financial means in the European Union. It argues that the role of development banks, particularly large ones such as the EIB and the German KfW, is carelessly underestimated when it comes to analyzing the evolution of the European financial system and the current crisis. Particularly, it intersects heavily with ECB policies and policy proposal towards fiscal and financial reform. While having served as countercyclical investment vehicles in the aftermath of the financial turmoil, development banks have also been active promoters of securitization markets, engaged in the creation of safe assets for institutional investors, and leveraged funds into the ‘real economy’. Employing process-tracing methods on the basis of interviews and public documents, the paper shows how an analysis of development banks offers several nodes for current debates on the politics of fractured state-building at the European level. In particular, it shows that a ‘governance through markets’ strategy becomes particularly attractive to European policy-makers in a context of lacking European fiscal capacities. While it does not provide evidence that we see a return to pre-crisis market-based finance as such, it points to a significant restructuring in state-finance relations through CMU and the Investment Plan for Europe, which builds upon the further dissemination of public-private partnerships.

Discussant

Xavier Sol (Counter Balance, Brussels)