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Banks, Monetary Policy and Competition Policy: How Do They Connect?

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1. Introduction

This paper considers the banking system from the respective points of view of EU monetary and competition policy, and the issues that arise when excess credit creates an asset price bubble and crash. Banks are subject to competitive pressures, but are interdependent to a higher degree than most firms. Potential competition policy responses to this combination of features could include monitoring by the monetary and competition authorities to see if a concerted practice is involved where there is excessive bank lending; making co-ordinated behaviour between competing banks subject to the normal competition law requirement that it should provide economic benefits in the real economy, and to consumers; and, if it is established that an asset price bubble and crash has resulted from a concerted practice, adjusting the overhang of debt down to the pre-bubble value of the asset.

2. The Efficient Allocation of Resources

Chapter 2 of Title VIII of the Treaty on the Functioning of the European Union (TFEU) is headed "Monetary Policy". The first article of Chapter 2 is Article 127, which begins as follows:

> *The primary objective of the European System of Central Banks (hereinafter referred to as 'the ESCB') shall be to maintain price stability. Without prejudice to the obligation of price stability, the ESCB shall support the general economic policies of the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.*

When we turn to Article 3 of the Treaty on European Union we then read as follows, at paragraph 3:

> *The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a*

[1] Author of *Competition Law and Financial Services* (Routledge, 2014) and *The Organisation of Europe* (Routledge, 1995). Legal Director, Bond Dickinson LLP.

highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.

And in Article 119 TFEU it is stated that:

For the purposes set out in Article 3 of the Treaty on European Union, the activities of the Member States and the Union shall include, as provided in the Treaties, the adoption of an economic policy which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.

Thus both the EU, and its Member States, are firmly committed to a European internal market based on competitive principles. In addition, the European System of Central Banks, comprising all central banks in the EU, is required to act in accordance with the principle of an open market economy with free competition, "*favouring an efficient allocation of resources*" (without prejudice to its primary objective of maintaining price stability).

In theory, all this makes for a logical whole. Price stability, a competitive open market economy and the efficient allocation of resources all appear compatible with one another, and, indeed, to support one another. As was pointed out by former Competition Commissioner Mario Monti, speaking before the Bank for International Settlements in 2006, monetary policy and competition policy are both overseen by independent authorities in Europe, and both serve, in different ways, the same objective of price stability.[2]

In practice, matters have proved not quite so straightforward. It is instructive, in retrospect, after the financial crisis of 2008, to recall Monti's words in 2002, as Competition Commissioner at the time of a European Commission prohibition decision addressing the unusual *Austrian Banks* cartel, which covered virtually all of Austria ("down to the smallest village"), and all banking products and services (Case COMP/36.571):

Banks should be in no doubt that they are subject to European Union competition rules just like any other sector. In fact, maintaining competition in the banking sector is particularly crucial, considering the importance of the banking sector for consumers, businesses and the efficient allocation of resources in the economy as a whole.[3]

Until the financial crisis it could reasonably be maintained that a case like *Austrian Banks* was an outlier, and that the normal role of the banking sector was indeed efficiently to allocate resources to the economy as a whole. The private banking sector could be considered to

[2] *Competition Policy and Monetary Policy: A Comparative Perspective*, Bank for International Settlements, Per Jacobsson Foundation, 2006.
[3] European Commission Press Release IP/02/884, of June 2002.

complement central banks operating through the European System of Central Banks, and the two together in their respective spheres would support, on the one hand, price stability and, on the other hand, a functioning market economy. As with other firms in other sectors of the competitive market economy, competition between banks would ensure that better products were provided to customers, and at lower prices.

3. The Inefficient Allocation of Resources

While since its inception the European System of Central Banks has fulfilled its primary objective of maintaining price stability, the banking sector cannot be said, for its part, to have efficiently allocated resources to the economy as a whole.

From about 2012 it became clear that (with the exception of Greece) it was not public sector debt which underlay the euro-zone crisis, but private sector debt, which in the period from 1999 to 2007 fuelled excessive credit growth, large macroeconomic imbalances and housing price bubbles. In the words of the Vice-President of the European Central Bank, Vítor Constâncio, speaking in 2013:

> *It is my contention that the main driver of the crisis was located in the financial sector, particularly banks which intermediated large capital flows towards the periphery, creating imbalances that became unsustainable when a sudden stop occurred following the international crisis and the abrupt revision of price of risk that it entailed.*[4]

Constâncio pointed out that whereas public sector debt as a proportion of GDP in the euro area had on average fallen during the period from the introduction of the euro in 1999 to 2007, the same was not true of private debt. The overall level of private debt increased over the same period by 27%, with particularly pronounced increases in Greece (by 217%), in Ireland (by 101%), in Spain (by 72%) and in Portugal (by 49%). There was also a major increase in cross-border bank activity, with exposures of banks from non-stressed countries to stressed countries going up more than five times. Bank credit to the private sector increased by a factor of eight in Ireland, by a factor of five in Spain and Greece and by a factor of three in Italy and Portugal.

As Constâncio put it:

> *I have first-hand experience of the difficulties that periphery countries faced. The European rules on free movement of capital, the objective to create a level-playing field for different banking sectors and the belief in the efficiency of supposed self-equilibrating financial markets, all conspired to make it very difficult to implement any*

[4] Speech, *The European Crisis and the Role of the Financial System*, May 2013, available at www.ecb.europa.eu (at speeches).

sort of containment policy. Moreover, no one ever predicted that a sudden stop, characteristic of emerging economies, could occur in the euro area.

In the wake of the global financial crisis, and then the euro-zone crisis, tougher regulatory measures have been introduced in the EU to address systemic financial system risk (in the shape, for example, of the creation of a European Systemic Risk Board), and to improve cross-border banking regulation and supervision (through various new tasks given to the European Central Bank).

It is not the purpose of this article to consider those, but rather the underlying dynamics which, contrary to expectations, caused an unsustainable and uncontainable expansion of bank credit over a period of years, a sudden stop and an ensuing banking and economic crisis.

4. A Level Playing Field, But For What Game?

The metaphor of the "level playing field" is often used (as by Constâncio, above) to describe the functioning of the European single market, with the image being one of opposing teams matched against one another in a fair competitive contest, with neither side gaining an advantage from an unfair slope of the land.

While such imagery may be appropriate to the competitive struggle between firms in much of the market economy, it may be a misleading way to think about banks. Banks are subject to competitive pressures, but they are also interdependent to a higher degree than most other firms.

The creation of bank money in the economy (that is, most money) is a collective endeavour, not one resulting from a competitive process. Within the banking system, deposit-taking, and the lending and investing of deposits between banks, creates money and, as was pointed out by Keynes in *A Treatise on Money* (1930), in a hypothetical closed banking system without cash, and using only cheques for payment, there is no limit to the amount of bank money which banks collectively can safely create, provided that they move forward in step:

> *Every movement forward by an individual bank weakens it, but every such movement by one of its neighbour banks strengthens it; so that if all move forward together, no one is weakened on balance. Thus the behaviour of each bank, though it cannot afford to move more than a step in advance of the others, will be governed by the average behaviour of the banks as a whole – to which average, however, it is able to contribute its quota small or large.*[5]

In addition, as Keynes also observed:

[5] *A Treatise on Money: I The Pure Theory of Money*, Collected Writings of John Maynard Keynes, Cambridge University Press, Volume V, p.23.

> *A monetary system of this kind would possess an inherent instability; for any event which tended to influence the behaviour of the majority of the banks in the same direction whether backwards or forwards, would meet with no resistance and would be capable of setting up a violent movement of the whole system*.[6]

In practice, the use of cash and the existence of bank reserves act as checks on inherent instability, but Keynes noted that the tendency towards "*sympathetic movement*" on the part of individual elements within a banking system is ever present. Indeed, where conditions for a closed system are satisfied, such as in the case of a country having an inconvertible currency, or in the case of the world as a whole, "*the tendency to instability by reason of sympathetic movement is a characteristic of the utmost practical importance*."[7]

Interdependency is thus integral to banking. The potential for a sophisticated banking system to generate its own growth is illustrated in the UK, where, as was pointed out in 2010 by the Chairman of the Financial Services Authority, Adair Turner, the total balance sheet of the banking system, dominated by "*a complex mesh of intra-financial system claims and obligations*", grew from 34% of GDP in 1964 to 500% of GDP in 2007.[8]

Interdependency between banks is also reinforced by technical measures, such as through the operation of payments systems. As noted by the European Commission, in its 2007 sectoral report on competition in banking:

> *Banks co-operate in a variety of ways, including the interconnection and operation of payment systems; ownership or membership of credit registers; and the joint development/promotion of new products and services*.[9]

Interconnectedness between the very largest banks in the world is, moreover, one of the five criteria adopted in 2011 by the Basel Committee on Banking Supervision of the BIS when determining which banks are globally systemically important. 28 such large banks were named in 2012, of which eight were from the US and 14 from the EU.

The "level playing field" for banks is perhaps, therefore, better viewed as one on which an internally interdependent and highly connected superstructure is built, with outward facing parts looking towards different participants in the market economy, in the shape of customers in the real economy who make bank deposits and obtain bank loans.

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[6] Ibid, p. 23.
[7] Ibid, p. 24.
[8] Speech, *What do banks do, what should they do and what public resources are needed to ensure best results for the real economy?* March 2010, available at fsa.gov.uk (at speeches).
[9] *Commission Staff Working Document*, Report on the retail banking sector inquiry, 2007 SEC (2007) 106, p.14.

5. Decision-Taking Independence and the Extension of Credit

Notwithstanding their interconnections, it remains the position that from an EU competition law point of view banks are treated as "undertakings", like other firms in the market economy. Case law, such as the *Austrian Banks* case, above, and the 2006 judgment of the European Court in Case C-238/05 (*Asnef-Equifax*), indicates that competing banks may not, as a matter of principle, co-ordinate between themselves the positions they take when extending credit to their customers; and competing banks may not share information between themselves so that the credit they extend to individual borrowers is known to each other.

Thus, when it comes to extending credit to their customers, competing banks are subject to similar competition rules as other firms, and, like other firms, are expected to exercise decision-taking independence in their behaviour on the market. This is crucial to the "*efficient allocation of resources in the economy as a whole*" (in Monti's words, above).

The intermediation by banks of large capital flows across the EU, on a scale sufficient to create asset price bubbles with severe adverse economic consequences, is not easy to reconcile with this requirement of decision-taking independence. Rapid increases in volumes of cross-border credit, in a relatively brief number of years, sufficient to destabilise entire economies, may suggest more than purely unilateral behaviour by the banks involved.

From a competition law point of view, otherwise unobjectionable parallel behaviour by competitors is normally translated into a concerted practice if there is sufficient contact, such as by the exchange of information, to allow competitors to predict one another's intentions in the market.

Could this be the case in banking, and the extension of credit on a macro-economically significant scale?

Unlike most other industries, where what a firm can supply to customers is constrained by its productive capacity, banks are more quickly able to expand and contract their balance sheets, and hence the volume of their business. As noted by Maes and Kiljanski in the European Commission's Competition Policy Newsletter 2009-1, "*Expansion which merely involves entering into new financial contracts (on both assets and liability sides) does not require extensive investments and lead times*."[10]

The demand for finance can also generate an offsetting supply of finance, and, as described by US economist Hyman Minsky in *Stabilizing an Unstable Economy* (1986),

> *if the supply of finance exceeds the demand at the current relative price of capital assets and investment output, the excess supply will push up the price of capital assets*

[10] *Competition and the Financial Markets: Financial Sector Conditions and Competition Policy*, Competition Policy Newsletter 2009-1, available at www.ec.europa.eu (at competition publications).

relative to the supply price of investment output, and this will increase the demand for investment and therefore finance.[11]

It is conceivable that, in an industry which is structurally interconnected, has oligopolistic features, and where much information is already shared, sufficient information about the extension of credit circulates among banks for shared expectations constituting a concerted practice to arise. Indeed, in cases where a new market opens up (as with the euro-zone market from 1999, and as with previous examples of international market liberalisation) it may appear safer to individual banks to extend credit secure in the knowledge that other banks are doing the same, and potentially stimulating the demand for more credit.

One possibility, as suggested by Rasmus Rüffer of the Deutsche Bundesbank in the prescient 1999 pre-crisis paper *Implicit Government Guarantees and Bank Herding Behaviour,*[12] is that asset prices themselves, including commercial real estate, become a signal and co-ordination mechanism between competing banks, if massive capital inflows or financial liberalisation cause asset price movements to be dominated not, as in normal times, by many different factors, but instead by demand from banks and other financial institutions.

The risk under such circumstances becomes one of a collective over-extension of credit, and an erosion of objective credit standards, as internal dynamics between banks (or Keynes' "sympathetic movement") lead to a synchronised expansion of their balance sheets by increasing loan volumes. The end result is an inefficient allocation of resources in the economy.

6. Price Stability and Asset Price Bubbles

The serious impact of asset price bubbles on the economy, and on monetary policy as carried out by central banks, is described by the European Central Bank in *The Monetary Policy of the ECB*, as follows:

The formation of bubbles can distort the allocation of resources in the economy and harm macroeconomic stability for a prolonged period of time. Given its implications for macroeconomic stability, an asset price collapse – when expectations of excessive returns are sharply corrected – can mark the beginning of periods of economic contraction. Whenever the building-up of a bubble is associated with excess credit and liquidity creation, asset price crashes can become the cause of deflationary trends. Following the collapse of an asset price bubble, the economy may undergo an extended period of adjustment with below-average growth rates until it stabilises.

[11] Minsky, *Stabilizing an Unstable Economy* (McGraw Hill, 1986) p.279.
[12] Discussion Paper 06/1999, available at www.bundesbank.de (at discussion papers).

> *Asset price bubbles therefore pose an important challenge for the monetary policy strategy of a central bank.*[13]

Given the dire consequences, it is worth looking in more detail at the markets affected by credit bubbles.

In *Manias, Panics and Crashes,*[14] Kindleberger and Aliber identified four waves of large scale international credit bubbles around the world since the ending of the Bretton Woods system in the 1970s, each of which has led to a severe financial crisis. The recent crisis, from 2008, was the most severe and the most global since the Great Depression of the 1930s, but merely the fourth in this series.

In most cases property, or real estate, has been linked to the creation of excessive credit (as with the sub-prime mortgage business in the US, and housing price bubbles in Europe).

In fact, as pointed out by Adair Turner in 2014, a high proportion of all bank credit is associated with the property sector. In the UK, of the 75% of bank credit to households, mortgage lending against residential real estate dominates; and of the 25% of bank credit to businesses, a large and increasing share funds commercial real estate. Only around 12% of bank lending in the UK is to companies <u>not</u> involved in commercial real estate development or investment. This broad pattern is found in other advanced economies:

> *For a range of advanced economies, residential mortgage credit accounts for between 50% - 70% of total bank lending, and 70% for combined bank and non-bank lending in the US.* [15]

Contrary to economic theory that the financial system in general, and bank credit in particular, is mainly used by businesses to fund new capital investment projects, a high proportion of bank credit is in reality extended to purchase (or refinance) already existing assets, in the shape of property, or real estate.

Given the high proportion of economic wealth tied up in real estate, and the limited scope for adding to the stock of real estate, it may then be understandable how high volumes of credit, if concentrated over short periods in particular regions, might indeed create excessive prices which eventually crash when (as the ECB puts it), "*expectations of excessive returns are sharply corrected*".

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[13] *The Monetary Policy of the ECB*, third edition, May 2011, p.84, available at www.ecb.europa.eu (at publications).

[14] *Manias, Panics and Crashes,* (Palgrave Macmillan, sixth edition 2011).

[15] Speech *Escaping the Debt Addiction: Monetary and Macro-Prudential Policy in the Post Crisis World*, Centre for Financial Studies, Frankfurt, February 2014.

7. The Economic Consequences of the Crisis

The challenge to a central bank is to apply monetary policy designed to maintain price stability in the economy as a whole to the specific and unusual circumstances of speculative pricing in a bubble. The ECB favours a "leaning against the wind" approach, which means monitoring aggregate money and credit conditions as part of its forward-looking monetary policy analysis, to see if unusual "financial facts" can be detected, which can then be cross-checked against market dynamics. If such is the case, the central bank might adopt a somewhat tighter or more cautious policy stance than otherwise.

In *A Treatise on Money* Keynes described the banking system as providing the balancing mechanism between savings and investment in the economy. An increase in the central bank interest rate would ripple through the banking system, producing a (direct) rise in savings and an (indirect) lowering of investment, by causing a fall in the price of fixed capital, mainly through raising the cost of its financing, as expressed in bond rates.

A theme of both *A Treatise on Money* and the more advanced *General Theory of Employment, Interest and Money* (1936) is the need for sufficient new investment to take place to maintain effective demand and employment in the economy, and the role of financial intermediaries in carrying out (or failing to carry out) this function. Foreshadowing modern language about asset price bubbles, Keynes pointed out in the *General Theory* that in an economic crisis:

> *It is of the nature of organised investment markets, under the influence of purchasers largely ignorant of what they are buying and of speculators who are more concerned with forecasting the next shift of market sentiment than with a reasonable estimate of the future yield of capital-assets, that, when disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic force.*[16]

This contrast between "*forecasting the next shift of market sentiment*" and making a "*reasonable estimate of the future yield of capital-assets*" runs through Keynes' writings, and where the former type of behaviour prevails over the latter an erratic transformation of savings into investment is likely at best, and a crisis at worst.

That the modern banking system is not primarily transforming savings into new investment has been pointed out by US Professor of Finance Amir Sufi, writing in 2014 in the *Financial Times*:

> *Modern banks are not savvy, information collecting business lenders. Instead, they take veryleveraged bets on real estate. They borrow short with government-subsidised liabilities such as deposits, they lend long against property assets. They do so with very little equity to cover their losses in case things go wrong. Meanwhile, the very*

[16] *The General Theory of Employment, Interest and Money* (Macmillan, 1936), p.315.

> *thing that banks are meant to do well – selecting businesses to lend to, so that they can grow, invest, hire employees and boost local economies – has fallen by the wayside.* [17]

A Treatise on Money was written just after the 1929 crash, and Keynes advocated a crisis response by the central bank in the form of low short-term interest rates, with the aim of driving down the long-term interest rates affecting investment; open market operations by the central bank in the form of unlimited purchases of securities to drive up their price, so also providing incentives for investment; and the central bank to use as "ammunition" for these operations variations in the reserve requirements of the banking system with the central bank.

"Quantitative easing" is not exactly the same as the open market operations envisaged by Keynes: the object of quantitative easing, as practised by the Bank of England, is to increase the money supply by a programme of asset purchases (government bonds), intended to stimulate more lending by the banking system (see Bank of England Quarterly Bulletin 2014 Q1: *Money Creation in the Modern Economy*).[18] Keynes was recommending the central bank act with the aim of stimulating investment, not just the money supply.

8. Potential Remedies

Price stability, the competitive open market economy and the efficient allocation of resources are all compromised in one way or another by excessive bank credit which causes an asset price bubble and crash.

The following potential remedies suggest themselves as compatible with the objectives set out in Articles 119 and 127 TFEU, and Article 3 of the Treaty on European Union. They can be considered in relation to the future, the present and the past.

First, for the future, if monitoring by the central bank of aggregate money and credit conditions indicates unusual "financial facts", in the shape of excessive lending by banks, the question arises whether this is due to parallel behaviour by two or more banks. If such is the case, a further question then is whether parallel behaviour could shade into a concerted practice, for example by the exchange of information so there is a co-ordination of expectations. This is always a matter of evidence, but, if so, the monetary authority and the competition authority should be able to address such a problem between them, and take measures to dissuade any collective behaviour likely to have a distorting effect on the market.

Second, for day-to-day current business, competition between banks does need to be encouraged (since, for one thing, the single European retail banking market remains compartmentalised on national lines), but, equally, a situation avoided where competition leads to an excessive supply of credit being directed towards the same capital assets, usually in the

[17] Financial Times 14 October 2014: *Bernanke's failed mortgage application exposes the flaw in banking*.
[18] Available at www.bankofengland.co.uk (at publications).

shape of property. As in other sectors of the economy, the decision-taking independence of each bank (as an "undertaking") should be the standard, so that independent decisions are taken about matters like the creditworthiness of customers and the appraisal of potential investments.

If, because of interconnections, it is impossible as a matter of course to avoid a certain amount of co-ordinated behaviour ("sympathetic movement") between banks, the normal rules for the exemption from competition law might then provide a way forward. The prohibitions on anti-competitive behaviour which are contained in Article 101(1) TFEU may be declared inapplicable under Article 101(3), on condition that there is a contribution to "*improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit"*. The undertakings in question must, in addition, not put in place restrictions which are not indispensable to the attainment of these objectives, or be allowed to eliminate competition in respect of a substantial part of the products in question.

In other words, if there is co-ordinated behaviour between competing banks, the rationale should be to provide tangible economic benefits to the real economy, in which consumers can share. This is in line with the Article 127 TFEU principle of an "*open market economy with free competition, favouring an efficient allocation of resources"*. (The rationale would not extend to the creation of credit-fuelled asset price bubbles.)

Following the financial crisis, some economic commentators have suggested that the power of private money creation by banks is so dangerous and destabilising that it should be taken completely under public or central bank control (see, for example, Martin Wolf in *The Shifts and the Shocks*[19], and Benes and Kumhof, in IMF Working Paper *The Chicago Plan Revisited*[20]). A competition law-based approach, as suggested along the lines above, would, however, go more with the grain of an open market economy. It could be implemented by the banks themselves, and overseen by the competition authority.

Third, prevention may be better than cure, but what of cure for what has happened in the past? In their 2014 book *House of Debt* [21]US economic and financial experts Atif Mian and Amir Sufi argue that the disastrous economic effects of high levels of household debt following the sub-prime property crash in the US could be mitigated through bank debt forgiveness policies and also new types of loan contracts like shared responsibility mortgages, which take account of possible drops in property prices. Targeted policies such as these would address the shortfall in demand in the economy where there is a debt overhang following a property crash, in a better way than general monetary or fiscal stimulus.

Under EU competition law, anti-competitive behaviour is prohibited from the outset; undertakings may not rely on a breach of competition law; and agreements and decisions

[19] Wolf, *The Shifts and the Shocks*, (Penguin Random House, 2014).
[20] IMF Working Paper WP 12/202, 2012.
[21] Mian and Sufi, *House of Debt* (University of Chicago Press, 2014).

prohibited by competition law are automatically void. If, therefore, it is indeed established that excessive collective lending causing an asset price bubble and crash constituted a concerted practice there is a case for the excessive debts thereby incurred to be adjusted downwards. A reasonable adjustment would be to the original value of the asset before the excessive lending caused a bubble in its price. This would not be the same as writing off debts, but rather recognising that credit should not have been extended on such a scale in the first place.

Adjusting the stock of private debt downwards in this way should, however, have a stimulatory effect on the economy, by removing a restraint on consumption. In *House of Debt* Mian and Sufi have calculated that had shared responsibility mortgages existed in the US in 2006 before the financial crisis total consumer spending in the US could have been $204 billion higher than it was – a sum worth almost half as much as the 2009 US government post-crash stimulus programme of $550 billion.

In the 2013 IMF Working Paper *Dealing with Private Debt Distress in the Wake of the European Financial Crisis*[22], authors Liu and Rosenberg point out that since the financial crisis household indebtedness has grown in all European countries, except Germany: "*Left unresolved, high levels of private sector debt are likely to impede the recovery."* Effects include overleveraged households cutting back on consumer spending; mortgage debt creating additional feedback loops through the impact of declining real estate prices on wealth and consumption; banks' own lending suffering, as rising non-performing loans erode their capital buffers, absorb management time and create uncertainties; and public sector debt sustainability being affected, if excessive private sector liabilities end up being transferred to the public sector balance sheet.

A debt adjustment programme in Europe might, then, make a significant contribution to the recovery, including by boosting consumption, and therefore demand, in the European economy.

9. Conclusions

According to the European Commission's press release of March 2014 on the conclusion of the in-depth reviews of 17 EU Member States' economies:

> *Several macroeconomic challenges need to be addressed in the context of the euro area. There is a need to increase investment and boost demand, address financial fragmentation and the challenge of indebtedness and rebalancing in a very low inflation scenario and a difficult economic climate. As recommended by the Council last June, Member States should take responsibility, individually and collectively, for*

[22] IMF Working Paper WP 13/44, 2013.

> *the aggregate policy stance in the euro area in order to ensure the good functioning of the Economic and Monetary Union and to increase growth and employment*.[23]

This theme was taken up again by the European Council in June 2014, which set out a Strategic Agenda for the next five years, under which investing and preparing European economies for the future has become a priority.

Given that banks are the main source of external finance for business investment in Europe, a properly competing banking sector, less focused on forecasting the next shift in market sentiment and more focused on making reasonable estimates of the future yield of capital assets, is one less likely to cause asset price bubbles, and more likely to lead to the efficient allocation of resources in the economy.

Since, according to the European Investment Bank, there is a shortfall in gross fixed investment in Europe of the order of 17% since the financial crisis,[24] competition in financing productive investment in new capital assets is also likely to be more useful for the economy than focusing on the refinancing of existing property assets. This too could be encouraged by applying normal competition law principles, to promote practices of benefit to the real economy.

As well as investment, the other main component of effective demand in the economy is consumption. It is often said that businesses will not invest if there is not enough demand. A private bank debt adjustment programme following the collapse of an asset price bubble, as outlined above, could also stimulate consumption, and by using bank money rather than central bank or public funds. Since bank money represents most money in the economy there is a certain symmetry in this approach. In the words of Keynes: "*if all move forward together, no one is weakened on balance*". The competition authority and the monetary authority might need to supervise an adjustment programme, to maintain the famous "level playing field" in the single market. But it may yet be in the collective interests of banks themselves to make this contribution to restarting economic growth after the crisis, so that a competitive market economy can function properly in Europe again.

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[23] European Commission Press Release, Memo-14-158 of 5 March 2014.
[24] Report, European Investment Bank, *Investment and Investment Finance in Europe* (2013).