



SUSTAINABLE
FINANCE
LAB

CAPITAL MARKET UNION

A different perspective

In this paper

The SIU must serve public goals — financial stability and inclusive growth — not financial sector interests, through genuinely different financing structures.

In the current proposals the SIU is lobby-driven, fails to deliver patient risk-bearing capital, and wrongly copies an unsuitable American market-based model.

Instead, Europe should reform banking for SMEs, harmonise multinational taxation, promote crowdfunding for start-ups, and issue Eurobonds for public infrastructure investment.

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The Sustainable Finance Lab (SFL) is an academic think tank whose members are mostly professors from different universities in the Netherlands. The aim of the SFL is a stable and robust financial sector that contributes to an economy that serves humanity without depleting its environment. To this end the SFL develops ideas and provides a platform to discuss them, thus bridging science and practice.

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Policy Paper

Sustainable Finance Lab publishes different types of publications.

This is a Policy Paper. Policy papers are reports produced by SFL members or employees that contain specific proposals and recommendations for the financial sector or policy makers.

SUMMARY

The European economy must be strengthened, Mario Draghi states in his recent report (Draghi, 2024). An integrated Capital Markets Union (or, in the new terminology, a Savings and Investments Union (SIU)) is identified therein as a key element for strengthening European competitiveness. The current proposals for a European Capital Markets Union, however, have several shortcomings:

1. The development of the current proposals has been dominated by strong lobbying from the financial sector. They do not necessarily represent the interests of those who need financing.
2. The current proposals do not lead to more patient risk-bearing capital. The proposals assume scaling up of the existing system, whereas what is needed is precisely a fundamentally different approach. One that mobilises engaged and long-term-oriented capital.
3. A persistent assumption is that Europe, like the US, needs more capital market because bank financing falls short. This assumption, however, overlooks the institutional embeddedness of the European economy with banks and bank credit, and furthermore underestimates the structural shortcomings of the American model. Better capital allocation in Europe therefore calls for a reform of the banking system rather than more capital market.

It is very much the question whether the current proposals will have the desired effects in the real economy, which is what matters. We advocate for a differently and better structured European financial landscape. The current proposals are more of the same, or they copy American structures, where rewards are primarily linked to volumes and transactions, without a clear link to the real economy. We advocate for genuine competition and more entrepreneurship in the financial sector, so that financial institutions share in entrepreneurial risk and can be rewarded for doing so.

A future-proof financial policy for Europe must not focus on the interests of the financial sector, but on public goals: financial stability and inclusive economic development. That requires at the very least a critical reappraisal of the role of banks, other financial institutions, and public financing. Only then can the SIU also fulfil its great promises.

Our proposals are:

1. A Capital Market for European multinationals; harmonise the fiscal rules between member states to counteract tax arbitrage and the artificial shifting of profits and cash flows — practices that create no added value for the real economy.
2. A banking sector in service of European SME companies; promote diversification rather than harmonisation and scaling up, and strengthen cooperative, local and public (relationship) banks, which are most effective in providing patient capital for SMEs.
3. A capital market for European start-ups and scale-ups; encourage banks to actively market their equity- and debt-crowdfunding platforms, so that small savers come into contact with innovative start-ups and thereby contribute to both entrepreneurship financing and the financial literacy of the European population.
4. A capital market for European governments; introduce eurobonds to deepen the European capital markets, increase the financial stability and policy space of member states, and thereby enable public investments in digital, energy and physical infrastructure, which makes private investments more attractive and profitable.

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These proposals will often run counter to established interests in the financial sector. This is not surprising; research shows that the strongly expanded financial sector often does more harm than good to the real economy. Curtailing such business models will be painful, but precisely for that reason must parliaments, policymakers and supervisors guard their (public) interests.

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1. SHORTCOMINGS OF THE CURRENT PROPOSALS

There is little to object to regarding the objectives and ambitions of the SIU. Who would want to speak out against integrated markets and better access to capital for start- and scale-ups, SMEs and strategically important industries, given their evident importance for European competitiveness and resilience in the rapidly changing global playing field?

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There is, however, quite a lot to criticise about the underlying analyses on which the proposals are based. These analyses show important shortcomings that call into question the effectiveness of the proposed measures.

In the first part of this paper the most important shortcomings of the current proposals are described, after which in the second part concrete suggestions for improvement are presented, directed at multinationals, SMEs, start-ups & scale-ups and governments.

1.1 The SIU is a project for and by the financial sector lobby

The driving force behind the SIU is the Next CMU High-Level Expert Group, of which ABP, Nasdaq, derivatives traders and several banks are members. The most important report ("Rebranding Capital Markets Union: A market finance action plan", 2019) was written by representatives of the European Federation of Financial Analysts Societies (EFFAS), the Federation of European Securities Exchanges (FESE) and the International Capital Market Association (ICMA) (CEPS-ECMI Task Force, 2019). The members are financial companies. Also the Brussels lobby group of European shareholders Better Finance, and New Financial, a British lobby club with members such as Blackrock, Deutsche Bank, Barclays and Citi, contributed to the report (European Commission, 2020).

It is understandable that these parties want more volume and cross-border transactions, because this increases their profit. The SIU is presented as a necessity for the real sector, but there is no interest group from this sector that has asked for the SIU. What is clear, however, is that the financial sector needs the SIU, as is evident from the great efforts they invest in it.

This is not a direct disqualification, but it does justify some critical questions.

First, for every conceivable problem with an investment task in the EU — first integration, then sustainability, now strategic autonomy — the SIU is put forward as the solution. The SIU is the answer; what was the question again?

Second, the assumption seems logical that financial markets are crucial for the required investments in the European real economy. Research shows, however, that financial markets have in recent decades become too large (Arcand et al., 2015; D. Bezemer, 2021; D. J. Bezemer, 2020; Greenwood & Scharfstein, 2013; Philippon & Reshef, 2012). The financial sector has expanded strongly in recent decades, with harmful consequences for the production and consumption processes in the real economy. This is visible in increased instability, concentration of wealth and the driving up of asset prices, such as house prices. In particular financial products that are far removed from the real economy and cross-border financial flows have proven harmful, and those are precisely the core elements of the SIU. Why would adding more of this be beneficial? What is now needed is a qualitative change that makes financing subservient to the real economy. This change, however, is not to be found in the proposals, because they primarily promote profits and wages in the financial sector, and not in the real economy.

The proposals from the sector have since 2014 essentially amounted to lowering transaction costs, harmonising (de)regulation and capital buffers (naturally at the lowest possible level), and facilitating securitisation.

It is therefore not surprising that this narrative — more finance leads to more investments in the desired European directions — meets with little enthusiasm from trade unions, employers' organisations, NGOs, academics and other non-finance-related think tanks and citizens. That gives cause for thought.

1.2 The proposals do not lead to more patient risk-bearing capital

The SIU departs from the assumption that a lack of integrated capital markets forms an important impediment to economic growth (Draghi, 2024, p. 63).

Underlying this is the assumption that Europe has insufficient capital and savings

to finance investments, and that better market integration would mobilise these savings more effectively.

In reality there is no shortage of capital in Europe. Financial markets are happy to provide debt capital readily, quickly and abundantly. Preferably in large tickets at once for a relatively short period and with as little risk as possible. Especially creditors with a strong balance sheet and good reputation, such as governments and established large companies, can already amply obtain debt, non-risk-bearing capital from investment banks, institutional investors and on financial markets (European Central Bank, 2023; OECD, 2022). What is scarce, however, is patient, risk-bearing capital. The markets do not provide enough of that. There is a mismatch between (the constantly changing) demand and (the relatively homogeneous) supply of the markets (Altunbas et al., 2007).

Capital markets are no proven solution for this. Empirical research shows that they do not allocate this type of capital more efficiently than banks, certainly not to smaller companies and start- and scale-ups (Beck & Levine, 2002); (Corredera-Catalán et al., 2021)). The assumption that more capital market integration automatically leads to better financing of the real economy therefore lacks an empirical basis.

What is needed then? The crucial precondition for investments with a long time horizon is a stable, predictable policy environment. In such a context, large, established companies can generally finance their investments via retained earnings — returns that are not distributed to shareholders but remain within the company (Fazzari et al., 1988). If those internal funds are insufficient, additional debt capital via banks or financial markets is usually available without much difficulty (European Central Bank, 2025).

In other words: the bottleneck is not the supply of financing, but the absence of a stable prospect of return. Policymakers should therefore not focus on further facilitating financing — which is abundantly available — but on creating a credible, predictable policy perspective. Large companies can then finance themselves without difficulty. For this, no larger financial sector, no deeper capital market and no lowering of transaction costs is needed.

The required expenditures on European resilience will largely be made by governments. These will generally, via established companies, come to form a stable income stream. For these projects the appropriate form of financing is therefore already more than sufficiently available. For this we do not need the SIU; what is needed is stable and clear policy.

Other solutions are needed for SMEs

The real financing problem lies with smaller companies: the traditional SME, but also start-ups and scale-ups. They do not need large sums in standard formats, but tailor-made solutions. That is precisely where the shoe pinches. Due to inadequate competition among financial intermediaries, the costs — such as fees and interest margins — at banks and on European capital markets are structurally high. At the same time, regulation impedes the entry of new players, while digitalisation makes economies of scale possible. After all, the costs for portfolio management hardly depend on the size of the invested amounts (Bank for International Settlements, 2021; De Nederlandsche Bank, 2024; Eichengreen, 2021). The rising costs of compliance and supervision — largely fixed in nature — also promote scaling up. The result: financing is abundantly available, but only for large, short-term loans. Flexible, smaller investments fall outside the system.

The bottleneck lies especially with capital needed to innovate, to scale up, or to challenge existing structures. Such investments do not fit the standard mould and require risk-bearing, patient capital. Ideally this comes with good financial advice, or even direct involvement of the investor in the young or fast-growing company. Often it involves smaller amounts, spread over multiple steps — precisely the kind of investment that becomes unprofitable the moment external fund managers have to deal with it at a distance.

It is therefore unrealistic to expect that more cross-border stock exchange listings, more flexible rules for pension funds or European venture capital funds will solve this problem. Let alone the securitisation of student, government, credit card or mortgage debts. What is needed: engaged and knowledgeable investors with a long breath [long-term commitment].

1.3 Europe is not America, banks are not worse than markets

The SIU strives for a stronger "market-based" financing system, following the example of the US and the UK, where capital markets play a larger role than banks (Draghi, 2024, p. 348). The idea is that this enables more, and riskier, investment. But this assumption merits nuance.

The corona crisis showed that banks, provided they are well regulated and supported, are actually better able to provide countercyclical credit than capital markets, which often dry up in times of crisis (Basel Committee on Banking Supervision, 2021; U.S. Securities and Exchange Commission, 2020). Moreover, it makes little difference for companies whether capital is provided via banks or via markets if the supply remains limited to large, low-risk loans.

The difference lies not so much in the financing channel — market or bank — but in the nature of the available capital. The American capital markets are better at mobilising risk-bearing capital, also in smaller amounts. Precisely there Europe falls short. This shortfall, however, is not the result of the bank-based financial system, but of the way in which investors, shareholders and creditors in Europe are protected via legislation, regulation and supervision. Added to this is that the majority of European savings are collectively and compulsorily managed — via pension funds and social security systems — by professional asset managers, who in turn are confronted with a patchwork of national, often fragmenting regulation.

Furthermore, investments, whether via market or banks, must in Europe primarily guarantee a certain income stream and not so much bring new savings to new investments. As a result, investments — whether they go via banks or markets — remain focused on generating certain cash flows from existing assets, rather than financing new economic activity (Bond et al., 2012; Cecchetti & Kharroubi, 2025; Tomaskovic-Devey et al., 2015). That system is good at redistributing existing value, but insufficient at creating new value.

If Europe wants to change this, the focus must be on strengthening long-term investments in public goods: infrastructure, knowledge, education and legal certainty. That forms the basis on which entrepreneurs and their financiers dare to take risks — with their own or borrowed money.

In the American ideal, it is the successful entrepreneurs of 20 years ago who now, with their own money, in their own sector, take the young dogs under their wing. In Europe this culture is much less present. Higher taxes skim off part of the profits at success and shift them on behalf of society into education, infrastructure, social security and opportunities for everyone. The (thereby abundant but in smaller amounts per person available) savings of citizens flow meanwhile precisely via bank balance sheets and not via markets towards entrepreneurs. They may do something with this, but not take great risks. Or at least, that is how it should be.

Our banks have, partly under pressure of legislation and regulation, increasingly focused on mortgages and "fee-based" financial services and increasingly less on granting business credit. Also because the government withdrew from (successful) guarantee programmes for SMEs and for example farmers. In particular the SME has sounded the alarm about this almost continuously over the past 40 (!) years (Wetenschappelijke Raad voor het Regeringsbeleid., 1987, 2016). So far with little success.

The most important effect of the current proposals for a European capital market is that fixed management costs and European supervision reinforce the economies

of scale and lower risk tolerance. In wealthy Europe, risk tolerance thus remains lower than in the more adventurously inclined America, but also than for example in the state-dominated [by the state] China (Ackert et al., 2020; Du, 2019). The SIU does not address that underlying problem. If in the European context you lower transaction costs but not professional management costs and harmonise supervision and regulation, but do not simplify it and make it more risk-tolerant, then you only get more and cheaper invested debt capital in large tickets with a low risk profile (e.g. debt financing in the form of bonds and large packages of securitised, standard debts such as mortgages and student loans). The shortage of smaller tickets with risk-bearing and engaged capital simply continues to exist. And for the latter problem the market is also not the only possible or, for the European context, necessarily the best solution. Risk-bearing capital comes in for example the Islamic world also via banks (which become co-owner rather than creditor). This raises the question of whether a shift towards more market and fewer banks is even desirable.

2. WHAT THEN? SYSTEMIC CHANGES FOR VALUABLE CAPITAL

As described above, the dysfunctional banking system is not a reason to set up a market system (in which those same banks will play a large role). The capital allocation by the banking system should rather be strengthened. The European SIU and the closely intertwined Bank Union (BKU [Banking Union]), should precisely improve the deficient functioning of our historically strongly intertwined-with-the-European-economy banking system in order to (re)start the flow of capital towards young, small and fast-growing companies.

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2.1 Capital market for European multinationals

Multinationals should not be dependent on subsidised access to capital via new policy instruments, as they are perfectly capable of financing themselves on commercial terms. Policy efforts can better focus on broader societal benefits, for example by phasing out fiscal advantages for debt financing, discouraging profit distributions and share buybacks, and tackling fiscal arbitrage (e.g. tax havens).

As indicated earlier, large, established companies in the Netherlands and Europe already have access to international capital markets via investment banks. For these companies and the intermediaries active on these markets, the SIU offers modest advantages in the form of deregulation, standardisation and lower capital costs. The question, however, is whether public policy should focus on further facilitating this group. In essence, these companies can perfectly well finance their investments themselves. If there is nonetheless an investment backlog, this is often due to uncertainties in the policy climate, such as the absence of clear guidelines for the energy transition or lack of clarity regarding defence contracts.

For society as a whole, there is gain to be achieved by aligning and harmonising in particular the fiscal rules in the different national jurisdictions within the EU more

effectively. This must, however, then be aimed at preventing tax arbitrage and improper shifting of profits and cash flows. The current proposals say much less (nothing) about this, because it leads to less favourable tax regimes for large corporations and correspondingly less income for the financial service providers who occupy themselves with this and influence the decision-making process (Next CMU High-Level Expert Group, 2019). Preventing tax arbitrage would be advantageous for the European and Dutch citizen as taxpayers, while international investors and employees on the Zuidas [Amsterdam financial district] may have to give up something. For the investments of multinational enterprises this will, however, have no negative consequences, as these are not restricted by a lack of financing possibilities.

2.2 A banking sector that helps European SME companies

Studies show that SMEs are best served through relationship banking, in which local knowledge, personal trust and long-lasting relationships are central. Policy focus should therefore be directed at strengthening cooperative, local and public banks. For SMEs, diversity and reduction in scale in the banking sector are more important than harmonisation and scaling up, as is currently advocated in the proposals. (Re)creating a banking sector that effectively supports SMEs seems, within the European context, more effective than developing a complex, integrated capital market along the American model.

SMEs are underrepresented on capital markets, also in the US. The reasons for this underrepresentation do not lie in the fragmented or complex regulation, but primarily in the scale, the risk profile and the information asymmetry. Initiatives such as the SME Growth Markets have therefore proven to be of limited effectiveness to date (ESMA, 2021; European Commission, 2018). The EIB also emphasises the importance of local banks for providing financing to SMEs (Wagenvoort, 2003). It is therefore essential to enable and incentivise precisely banks to provide credit to these companies.

More benefit for the SME segment can be expected from the perhaps somewhat old-fashioned relationship banking (Degryse et al., 2017; Frazzoni et al., 2014). This is somewhat more expensive and riskier and can therefore only work with somewhat higher buffers and returns. All of this can only really take flight again once the payment system has first been properly isolated from the associated risks (Sanders, 2018; Wetenschappelijke Raad voor het Regeringsbeleid., 2019).

Capital markets are more difficult to regulate and structurally have less supervision than banks. In times of geopolitical instability, robust supervision and rapid intervention capacity are essential. National and European supervisors can traditionally exercise this better over banks than over markets. To position the

European banking sector for SMEs, the current direction of SIU and BKU [Banking Union] is not the right one. A European deposit guarantee scheme at 100,000 euros strengthens the commercial banks, not the deposit holders, and thereby forces the supervisors to further restrict their degrees of freedom in credit provision. The lobby against the digital euro as an alternative to commercial bank deposits and in favour of mergers into megabanks makes the financial system in Europe more vulnerable and more expensive. This scaling up will not lead to more, but to less financing for SMEs, start-ups and scale-ups. We expect that reversing these trends in the banking sector will yield more advantages than setting up a European capital market along the American model.

2.3 A capital market for European start-ups and scale-ups

For start-ups and scale-ups in Europe, more decentralised, direct and democratic platforms for equity- and debt crowdfunding offer a promising alternative. If European retail investors were to choose more often to invest in European crowdfunding platforms instead of in gold, crypto or online casinos, the start-up and scale-up scene in Europe could benefit from this. This trend can be supported by a broader focus on financial literacy and the democratisation of access to financial markets. European banks can play an important role in this, not by directly providing credit to start-ups or scale-ups, but by setting up and marketing these new forms of intermediation via their channels.

For innovative start-ups, risk-bearing capital and equity are crucial. Even if part of the growth is financed with debt capital, equity is needed to provide creditors with sufficient comfort. In the US, the venture capital markets mobilise that risk-bearing equity. European venture capital markets are and remain, despite at least 30 years of policy, small and fragmented. The problem lies less in the fragmented legislation than in the absence of investors with experience and feel for promising challengers across national borders. Europe lacks the immensely wealthy, successful entrepreneurs who play such a prominent role in these markets in the US and especially in Silicon Valley. That gap is not filled with some public funds and cheaper initial public offerings (IPOs).

There are of course also wealthy individuals and families in Europe, but they are less visible and less inclined to want to be very visible. Europe has culturally-historically a different relationship with its wealthy than the US. When Bill Gates was in the Netherlands to speak about his Gates Foundation, he was flabbergasted when a journalist asked him whether it was not undemocratic that he alone decided to which good causes all that capital in his foundation was to be spent (Koelé, 2024). Was that not a task for Government and Parliament? Gates' answer to the effect that he was contributing more than the Netherlands to the fight against malaria is beside the point here. The question illustrates that in Europe we

do not trust that the wealthy themselves know best what is right. European history has taught us those lessons. That means that in Europe we already ensure at the front end that we do not have too many and too wealthy people. That culture also has an effect on how our wealthy conduct themselves. When it comes to investing and investing, they too prefer to outsource their investment policy to professionals. Those must be able to justify their choices afterwards, and then investing in a promising start-up is much harder to explain than an investment in a well-diversified global fund of blue chip shares. This dynamic ensures that in Europe most large private fortunes are invested via professional funds and thus maintained or, with the proposals in the SIU, steadily grow. In so doing, the European wealthy owe their wealth to careful investing rather than bold investing and entrepreneurship. Fiscally facilitating share options, more flexible dismissal and bankruptcy law and other VC totems lead in this setting to more income for investors, but not to much more risk-bearing capital for start- and scale-ups. In the European context it makes more sense to focus on platforms where many, smaller investors can support the start- and scale-ups of their choice.

2.4 A capital market for European governments

The investment need in Europe lies primarily on the public side: digital, energy and physical infrastructure call for a strong impetus. An important exception to the bank-oriented policy is therefore the proposal for issuing joint European government bonds. Such eurobonds would not only deepen the European capital markets, but also increase financial stability and offer more policy space to member states with high debts. Structural debt reduction remains necessary, but is more realistic via low refinancing costs than via the little effective budget rules of the Stability and Growth Pact [Stabiliteits- en Groeipact].

Governments benefit only indirectly from the SIU. In the eurozone, however, a structural mechanism for risk sharing, such as Eurobonds, which can reduce interest rate differentials between member states and deepen capital markets, is still lacking. In addition, joint debt issuance also breaks the notorious "doom-loop" between banks and governments. With the uncertainty in international markets due to the capricious policy from the White House, now may perhaps be the moment to set up a fully-fledged Eurobonds market (Financieel Management, 2025).

The uncertainty about the dollar and American government bonds causes a flight to safety. Without Eurobonds, that capital settles at the bonds of in particular the countries in Europe that do not really need an even lower interest rate. Germany, the Netherlands, Switzerland and Sweden are traditionally countries where, in times of international uncertainty, global investors like to place their capital. That dynamic can, however, increase tensions in the Eurozone, as we also saw after the

financial crisis and the subsequent euro crisis (Bijlsma & Vermeulen, 2016; Costantini & Sousa, 2022). Precisely when Europe as a whole is in a weak position and comes under pressure, the absence of a joint, deep and mature bond market leads to political and economic tensions. In such episodes it is politically unsellable to share risks and issue joint debt. When the house is already burning it can no longer be insured. While at such times the, with Eurobonds by definition equal, costs of capital can bring calm to the national budgets and bond markets.

The self-imposed budgetary discipline has in recent decades led in for example Germany to deferred maintenance, while in the less strict countries the budgetary space that was not really there has been taken up for unproductive public expenditures. The absence of a shared framework for both financing and public investments almost tore Europe apart in the Euro crisis. The design flaw in the financial infrastructure of Europe is that with the Euro no thought was given to an automatic system of risk sharing. People trusted, incorrectly as it turned out, in the disciplining effect of markets. By now taking on European debts in order to invest in European public goods, we can make use of the unrest on the international markets to repair this design flaw.

Where the SIU provides for the bringing in of a portion of shared European debts, this has in our view therefore great advantages in the future. The time now seems ripe. There is a great need for in particular public investments in Europe. We are under pressure from outside, from the US (defence) and China (competition in particular in the manufacturing industry) and all European member states must make significant efforts to integrate their public energy and digital infrastructure and bring a joint defence up to standard. These are "investments" that cannot be made by individual companies and must therefore be taken up and financed by the collective. And because the threats come from outside and the efficient solutions often transcend the borders of the individual member states, a coordinated and joint approach is obvious. That the global financial markets are eagerly searching for an alternative to the American government bond as a safe haven can only help in this regard.

A reliable Eurobond meets a need globally and makes investments in European public goods affordable. It is these public investments that will unlock many private investments. Not because they more easily obtain financing in financial markets, but because private investments are more profitable when the public infrastructure is in order.

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