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Primary Dealer Systems in the European Union

Jenny Preunkert

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Abstract

States require money to function and therefore every government has to continuously raise new funds. On the financial markets, governments cannot be sure that auctions of their debt will be sufficiently attractive to financial investors, which is why governments usually enter into cooperative agreements with selected banks. The best known and most widespread form of cooperation is the primary dealer system. Primary dealers are banks that agree to participate regularly in government debt auctions and to act as formalized market makers on government debt markets. The article analyzes European primary dealer systems and asks why banks are willing to participate in these systems. I will show that both domestic and foreign banks use their status as primary dealers to build long-term relationships with one or more European governments and to gain an advantage on the global stage. In Bourdieu's terms, primary dealer banks use their financial capital to accumulate social and symbolic capital.

Keywords: Europe, financial markets, government debt market, hierarchy, international competition, sociology

Résumé

Pour couvrir le besoin de financement des États, les gouvernements doivent en permanence lever de nouveaux fonds. Mais les gouvernements ne sont pas sûrs qu'une mise aux enchères directe de leur dette sur les marchés financiers soit suffisamment attractive pour attirer des investisseurs. C'est pourquoi ils passent des accords de coopération avec des banques qu'ils sélectionnent. La forme de coopération la plus répandue est le système de négociant principal par lequel les banques acceptent de participer régulièrement aux enchères de la dette publique, comme teneurs de marché. Cet article analyse le système de négociant principal européen et interroge les motivations des banques qui y participent. J'y démontre que les banques nationales et étrangères utilisent leur condition de négociant principal pour établir des relations à long terme avec un ou plusieurs gouvernements et acquérir un avantage au niveau mondial. En termes boursieusiens, les banques agissant en tant que négociant principal utilisent leur capital financier pour accumuler du capital social et du capital symbolique.

Mots-clés: Europe, marchés financiers, marché de la dette publique, hiérarchie, concurrence international, sociologie

Contents

Primary Dealer Systems in the European Union

1 Introduction

States need money to function, and therefore every government has to continuously raise new funds. One way of doing so is via the government debt markets; however, governments cannot be sure of sufficient demand for their bonds and treasuries from financial investors. Low demand not only raises interest rates but can also damage a government's reputation as a trustworthy debtor. Open auctions are "a situation of radical uncertainty" (Callon 1998, 8), which governments usually avoid by entering into cooperative agreements with selected banks, thereby ensuring continuous demand for their debts. The best known and most widespread form of cooperation is the primary dealer system: an "agreement between two major stakeholders in the … government debt market – the debt manager and a group of dealers – to pursue a common strategy in support of the functioning and development of primary and secondary markets for government securities" (Arone and Iden 2003, 3). A primary dealer is a bank that commits to purchasing a certain percentage of government debt at each auction and to intervene as formalized market makers in the debt market if necessary.

The USA can be considered a forerunner of the primary dealer system, since the concept was introduced there in 1960. Today, twenty-three of the twenty-eight members of the European Union (EU) have a primary dealer system.[1] Primary dealer systems are used by governments "to guarantee the placement of their debt on the primary markets and facilitate the liquidity of their secondary markets" (Ecofin 2000). Consequently, they are regarded as "social structural arrangements" that "process uncertainties into risks" (Preda 2005, 452) for both governments and investors (Arone and Iden 2003, 8). For the banks concerned, by contrast, "acting as a primary dealer is usually regarded as a loss-leader" (Dunne, Moore, and Portes 2006, 31; see also Dunne 2007). As a primary dealer, a bank takes on risk since it may be unable to resell the government debt and therefore has to keep it on its books.

A sociological perspective focuses on the social construction of markets (Fligstein, 2002; Fligstein and McAdam, 2012), which raises the question of why banks are willing to participate in the risky primary dealer system. Drawing on Bourdieu's field approach

I am grateful to Sven Broschinski, Cornelia Woll, Olivier Godechot, Martin Heidenreich, and Matthias Pohlig for very helpful remarks on earlier versions of this paper. Discussion with the participants at the MaxPo SCOOPS seminar in Paris in December 2018 has also been useful for developing my argument.

1 The German government claims that it does not have a primary dealer system, but it does cooperate with a select group of banks called the "Bund Issues Auction Group." Since this system is very similar to the other primary dealer systems, it is treated here as such.

(2005a, 2005b), I shall argue that the major advantage for a bank is the social and symbolic capital associated with primary dealer status. In a certain sense, banks invest financial capital to enhance their social capital with governments and their symbolic capital on global financial markets. This social and symbolic capital accumulation is bolstered by the Matthew effect: the greater number of primary dealer systems the banks are involved in, the greater the accumulation of both types of capital. In analyzing primary dealer systems, I shall focus on the specific ways in which banks position themselves on the global financial markets, the strategies they develop to this end, and the hierarchies that are thereby established. This work complements previous studies on the transformation of the government debt sector, which have primarily focused on government debt management (Trampusch 2015, 2019; Massó 2016; Lemoine 2017; Streeck 2014). This article explores the transnational structures of government debt markets by way of European primary dealer systems.

My argument is developed in five stages: I first outline the architecture of primary dealer systems, which is yet to be studied extensively (see however Lemoine 2016), and reconstruct the current sociological debate on intermediary groups in the financial markets. Second, I present my own theoretical approach, which focuses on banks' strategies as primary dealers on the global market. Third, I explain my study design and methodology. I subsequently present the results of my case study. My thesis is that banks have prioritized long-term social relationships with governments, and their reputations on the global financial market, over short-term economic interests. I show that the banks' strategies are not shaped by national traditions, but by their position in relation to their global competitors. Some define and position themselves as national experts, others as transnational specialists, and still others as global players. Here I show that globally active banks have to invest more resources in, but also derive more profit from, their membership of different primary dealer systems. Finally, the paper concludes with a short summary.

2 Intermediary groups in primary dealer systems

Primary dealers are banks which "trade for their own account and risk their own money through position-taking" (Knorr Cetina 2009, 338). They are also market makers who mediate between governments' specific credit needs and investors' interests in tradable securities (Baker 1984; Abolafia 1996). This implies that they buy debt securities from governments, convert them into standardized financial securities, and sell them on (Carruthers and Stinchcombe 1999). Primary dealers are a specific group of intermediaries who "allow the processing of uncertainties into risks, together with the production and distribution of action-relevant information" (Preda 2005, 451). In recent years, market sociologists have focused on the importance of such social structures for the financial markets, and also the implications for those involved and for the market structures (Preda 2005; Beckert 2010; Fourcade 2007).

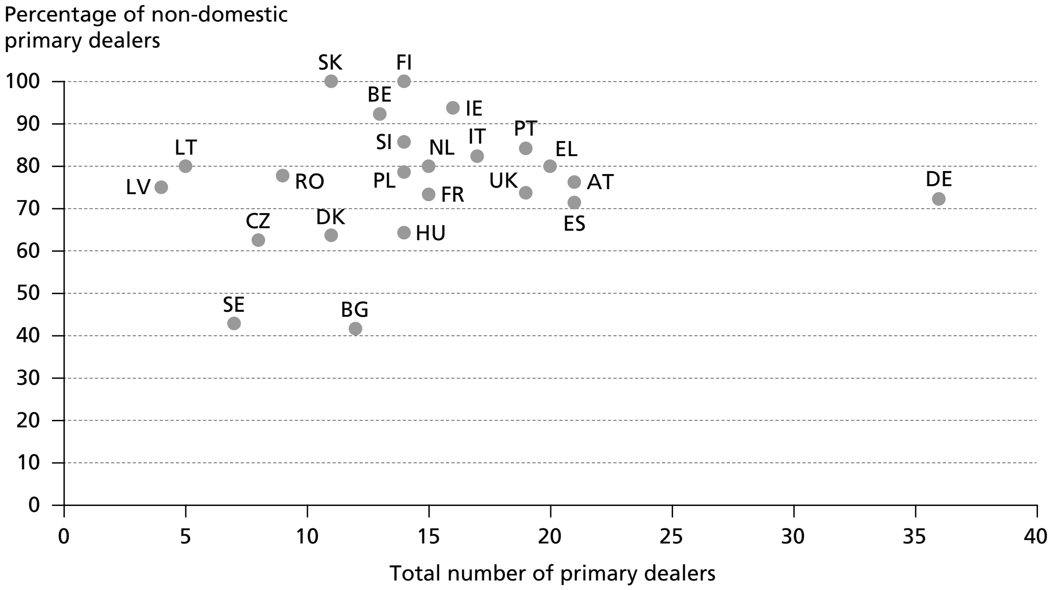
To become a primary dealer, a bank has to meet certain criteria that include "financial capacity (measured in terms of capital requirements), adequate management skills, technical capacities, active market presence (as measured by trading activity), and a willingness to provide information to the authorities" (World Bank and IMF 2001, 172). A primary dealer undertakes certain obligations on both the primary and the secondary markets. On the primary market, it is obliged to participate in government auctions on a regular basis (Ecofin 2000). Some agreements call for a "minimum participation in every auction" (e.g. Austria, Finland, and Spain), and others for "average annual/quarterly minimum participation in auctions" (e.g. France, Italy, Ireland; ibd.). Each primary dealer must therefore be prepared to acquire government debt instruments on an ongoing basis and to keep them on its books in the event of a lack of demand. In addition to involvement in the primary market, the agreements call for involvement in the secondary market. The main requirement here is to fulfill a "market maker obligation" and "to enhance the liquidity of the secondary market" (ibd.). This may include quoting government debt prices to other primary dealers and final investors, and displaying indicative prices on screen.

None of the primary dealer systems involve the banks being financially remunerated or compensated for their activities. However, governments offer certain incentives. As primary dealers, banks in most countries have "an exclusive right to make non-competitive bids at or after the auction, to participate to [sic] the bonds exchange/reverse offers, to strip and reconstitute bonds; they have an exclusive or privileged access to syndicated issues" (Ecofin 2000). Furthermore, governments grant their partner banks the right to use the title "Primary Dealer" and offer a particularly close relationship with the treasuries (ibd.). Primary dealer status can be lost if a bank stops participating regularly in auctions, or if the bank decides to unilaterally end its commitment. Primary dealer arrangements have been terminated for both reasons, yet only in rare cases (one such example is Credit Suisse, which left all European primary dealer systems "as part of an overhaul of the lender's trading and advisory services intended to cut costs" [Bloomberg 2015]).

Primary dealer systems exist all over the world. Nevertheless, they tend to be used more often in the highly developed world since they require stable, creditworthy, and liquid government debt management and a stable and institutionalized government debt market (World Bank and IMF 2001). The first European primary dealer system was introduced in the United Kingdom in 1986. Since then, twenty-two other governments have implemented their own systems. The number of participating banks in each system ranges from four in the Latvian system to thirty-six in the German group (see Figure 1). Outside the EU, some governments only allow national banks to become primary dealers. Within the EU, however, European rules prevent governments from distinguishing between national and other EU banks, or banks from outside the EU but with a European license (OECD 2000, 64; see also Lane 2006; Rossi 2013). The transnational dimension of primary dealer systems is already evident in their composition: on average

74 percent of the banks in each system are non-domestic banks. This figure nonetheless varies between around 40 percent in Bulgaria and Sweden and 100 percent in Finland and Slovakia.

Figure 1 Primary dealer systems in the European Union in 2018



Source: AFME, national central banks, national treasuries.

Currently, only five EU governments do not have primary dealer systems: Croatia, Cyprus, Estonia, Luxembourg, and Malta. This is not due to credit rating, since this is low in some of these countries and high in others. However, they are all economically small, so it is possible they fear that their debts are not liquid enough to enjoy widespread demand on the global financial market. As a result, they have introduced syndication systems instead of primary dealer systems. Syndicates work in a similar manner to primary dealer systems, but involve governments paying a fee to the participating banks (OECD 1999, 25).

When the first primary dealer systems were introduced in Europe in the 1980s, the national treasuries did it "to expand their investor base outside their traditional 'home' market" (ECB 2001, 16). Global banks as primary dealers should help to place government debt on the global market (Santillán et al. 2000, 44). Later, primary dealer systems were primarily implemented in response to the European integration process and the associated transnationalization of European markets (Santillán et al. 2000, 44; ECB 2004). National treasuries, in particular in smaller countries like Austria, feared the competition on the transnationalized markets, and primary dealers should act as a bridge between treasuries and investors. Other national treasuries, e.g. those in larger countries like Germany, use primary dealer systems to strengthen their position on the market. Thus, the introduction of primary dealer systems was a response to the global and European shift in government debt markets. Today, these are characterized by technological innovation, new debt instruments such as derivatives, new trading mechanisms, a greater proportion of institutional investors, and the transnationalization of credit relations (Carruthers 2015; Knorr Cetina and Brügger 2002; Preda 2007). At the same time, primary dealer systems also drive market dynamics and thus the emergence of new market structures. They push the financialization of government debt management and the transnationalization of credit relations (Fastenrath et al. 2017). Primary dealers are therefore part of a "long-lasting institutional change" in the banking sector towards a "market-based banking" approach (Hardie et al. 2013, 722).

3 The global financial market as a weakly institutionalized field

Following Bourdieu, I initially define the global financial market as "a socially constructed field of action in which agents equipped with different resources confront each other in order to gain access to exchange and to preserve or transform the currently prevailing relation of force" (Bourdieu 2005a, 78). The central element of this field-based approach is "the idea of an invisible set of forces that affect the objects within the field without direct, mechanical causation being at work. (Fourcarde 2007, 1022). Within a field, collective actors such as banks or governments compete with each other and invest resources to acquire the best position possible in the field (Beckert 2010, 606). For Bourdieu, an actor's market position depends not only on their financial capital, but also on the entire "volume and structure of the capital the agent possesses in its different species" (Bourdieu 2005a, 75). Alongside financial capital, actors in the financial field may possess and employ cultural, technological, juridical, organizational, commercial, social, and symbolic capital (Bourdieu 2005a, 194). The following analysis focuses on three types of capital (financial, social, and symbolic); for analytical reasons, it excludes the other types.

From Dunne, Moore, and Portes (2006), it is well known that banks have to use monetary resources, (i.e. financial capital) to fulfill their obligations as primary dealers. Banks that become primary dealers for a government enter into a long-term relationship with that government. Using the capital approach of Bourdieu, it can be assumed that, through their relationships with governments, banks gain access to "a more or less extended, more or less mobilizable network of relations that procures a competitive advantage by providing higher returns on investment" (Bourdieu 2005b, 76). Being a primary dealer therefore implies possessing social capital, which can then be used to start new business relationships and create economic assets. Regarding the relationship between banks and the financial markets, financial sociology also tells us that reputation is important (Preda 2005; Knorr Cetina and Brügger 2002). A good reputation, which falls under the heading of Bourdieu's symbolic capital (Bourdieu 2005a, 76), improves the position of the bank in the field. It increases the opportunities a bank has to canvas new clients and is very useful in the global competition for financially valuable clients. Based on the assumption that primary dealer status implies a certain reputation, it can be argued that this status goes hand in hand with the acquisition of symbolic capital. My first thesis is that banks use financial capital to become and remain primary dealers, which helps them to acquire and accumulate social and symbolic capital and thus improve their position in the field.

All banks aim to position themselves as best they can and to possess as much capital as possible. Nevertheless, differences emerge between banks since the structures in question are inherently hierarchical (Beckert 2010, 606; Bourdieu 2005a, 76). The strategies of the actors "depend … on the particular configuration of powers that confers structure on the field" (Bourdieu 2005a, 79). Since primary dealer status is associated with social capital and reputation, both can be expected to grow with every additional primary dealer relationship the bank enters into. The important question here is how many primary dealer systems the banks participate in. Here, I assume that their capacity to do so is determined by their financial resources. Consequently, I argue in the following that the more resources banks have to invest, the more partnerships they enter into, and the more social and symbolic capital they will be able to accumulate.

Banks' positions within the competitive field, and therefore the stratification of the field, can be understood on a continuum. At one extreme are the banks that are only active in one primary dealer system; they have limited resources and can only accumulate a limited amount of new capital. In Bourdieu's terms (2005a, 79; see also Fligstein 2001, 17; Fligstein and McAdam 2012, 8), they can be called the challengers. At the other extreme are banks that are active in several primary dealer systems, with significant resources and the ability to accumulate a larger amount of capital. Drawing again on Bourdieu (2005a, 79), these are called the market leaders.

4 Research design

The starting point is the assumption that banks use their primary dealer status to gain an advantage in global competition with other banks. I therefore cannot restrict my enquiries to just one national system. Nevertheless, it would be far beyond the scope of this paper to reconstruct all the primary dealer systems in use across the world. I have chosen to focus on primary dealer systems within the EU for my case study (Thomas 2011; Yin 2009). This transnational case study allows for two comparisons: First, I analyze how banks with different economic strengths and from different countries position themselves internationally. Second, I examine the debts of various governments and their relative prestige on the global financial markets.

The motives and strategies of primary dealers are reconstructed on the basis of expert interviews. Ten guideline-based interviews were therefore conducted between July 2018 and February 2019 with employees of banks based in Germany, Italy, the UK, and the USA. Two of these banks serve as primary dealers for only one country; the others are active throughout Europe or globally. The interviews thus provide an insight into banks with different market positions. At the same time, a distinction was made between banks from the eurozone, those from the EU, and those from outside the EU. Nevertheless, it is important to note that there are no banks from Scandinavian or Eastern European countries.

To reconstruct the European primary dealer systems and their participating banks, I have undertaken a descriptive statistical social network analysis, as this method is capable of visualizing and validating the structure of these systems. The main data source was the Association for Financial Markets in Europe (AFME). On the basis of the AFME data, it was possible to establish which European countries the primary dealer banks are active in. However, to analyze the global relationships, the European data had to be complemented by separate survey.[2] In total, twenty-nine additional primary dealer systems were identified worldwide. Five of these systems do not play a role in the following study, as they do not contain any banks active in the EU and are mostly closed national systems. This leaves twenty-four systems, of which two are European (Norway and Turkey) and twenty-two are non-European. In the following analysis, I will examine ninety banks that were active in a total of forty-seven primary dealer systems in 2018. All of these are investment banks or the investment departments of universal banks. Seventy-six of the banks are based in the EU. Their distribution is nonetheless not uniform. There are no Finnish or Slovak banks among the primary dealers, for example. In the other countries, the number of banks involved ranges from one (Belgium, Ireland,

2 For an additional 166 countries, the homepages of the central banks and finance ministries were used to determine whether the relevant government had a primary dealer system and, if so, which banks participated in it. Unfortunately, it was not possible to clearly establish whether the governments of all of these countries had a primary dealer system. The study therefore cannot claim to provide a conclusive assessment of the primary dealer systems in use across the world, but only serve as an initial approximation. In addition, it should be noted that while most primary dealer systems include both bonds and treasuries, some governments differentiate between the two and have two corresponding systems. In such cases, I focus on the primary dealer systems for bonds. It was not possible to obtain information about primary dealer systems for ninety-seven countries. I can nonetheless assume that the majority of these governments do not refer to primary dealer systems on their homepages because they do not have them. This assessment is supported by the fact that these countries are generally economically weak or very small states. In the unanimous opinion of the World Bank, the IMF, and the OECD, both of these factors speak against the introduction of primary dealer systems (see for example Arone and Iden 2003; OECD 2000; World Bank and IMF 2001, 166; IMF and World Bank 2002). Twenty-six governments were found to have no primary dealer systems, including countries such as Switzerland, New Zealand, and Australia. Fourteen other countries were found to have primary dealer systems, but no data was publicly available on them.

Latvia, and Lithuania) to ten (Germany).[3] Fourteen of the banks are headquartered outside of the EU: they are based in Norway (1), Switzerland (1), Japan (2), Canada (3), and the USA (7).

5 The trade-off between financial capital and social and symbolic capital

Over ten years ago, Dunne et al. (2006, 31) observed the following regarding economic assets for primary dealers: "[D]irect return is low and may even be negative in auctions. … The corresponding benefits arise from other activities for which primary dealer status confers an advantage."

My interviews support Dunne's argument, yet they also help us to understand what these "other activities" are. It will be shown in the following that primary dealer membership offers two advantages: First, it is a chance to build up long-term social ties with governments that can give access to further public-private business opportunities. Second, it increases the bank's reputation, which can be used as a competitive advantage on the global financial markets. Both trade-offs can pay off financially in the long run.

My interviews indicate that the economic commitments undertaken by primary dealers are even higher than Dunne et al. expected and that the negative returns have been exacerbated as a result of the so-called euro crisis. The costs begin with the application for primary dealer status. The application procedures are described as time-consuming and expensive. To be chosen as a primary dealer, banks are required to make a pitch, in which they have to provide an insight into their financial books. Within a primary dealer relationship, banks gain an insight into the government's finances, but also have to provide financial agencies with sensitive data. This might explain why large Chinese and Russian investment banks do not serve as European primary dealers. Membership of a foreign primary dealer system is considered even more expensive than membership of a domestic primary dealer system, since the bank has to acquire detailed knowledge of both the foreign government debt portfolio and the rules of the foreign primary dealer system.

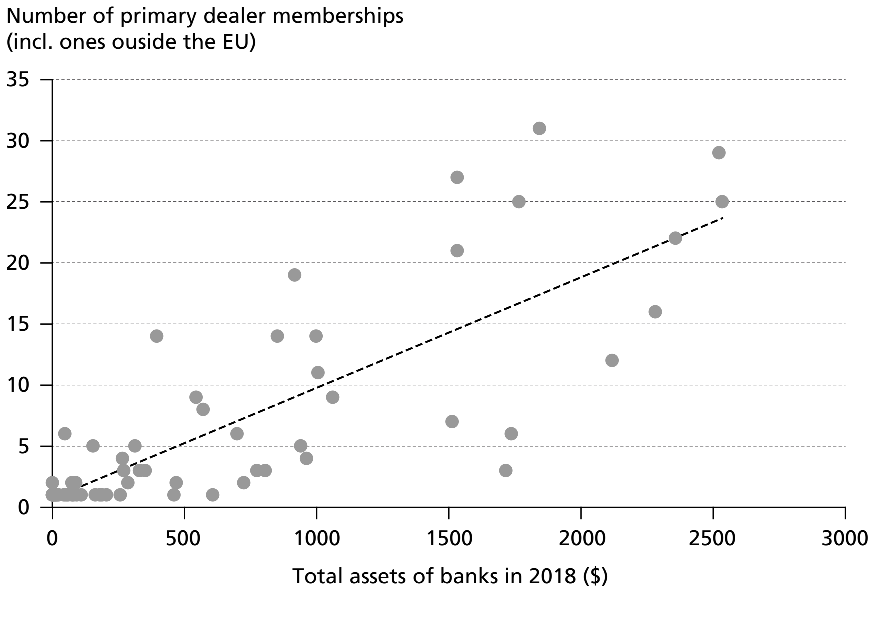
Thus, resources are required to not only become a primary dealer but also to remain one. In the past, as mentioned by Dunne, Moore, and Portes (2006), banks were sometimes obliged to buy government debt at a higher price than they could later sell it for, limiting profitability. Today, however, it is low interest rates that most reduce the profitability of the government debt business. The interviewees stated that at present it was mainly

3 There are two banks from the Netherlands, Poland, Romania, and Slovenia, three from the Czech Republic, Italy, and Portugal, four from Austria, Denmark, France, Greece, and Sweden, five from Hungary and the UK, six from Spain, and seven from Bulgaria.

thanks to the European Central Bank's long-term Public Sector Purchase Program[4] that primary dealers were able to resell debt securities and still make a small profit, or at least not a loss. Each year, the financial authorities publish a ranking of the banks' involvement in the national primary dealer system. The costs of a primary dealer membership increase further if the bank wishes to get or maintain a strong position in these rankings. A high rank demands a high level of commitment in the auctions, which in turn means a high level of investment of financial capital. Although the rankings are largely unknown in the public discourse, they play a significant role for the banks and their self-image, as will be seen below.

Banks invest financial capital to acquire and maintain primary dealer status and to achieve the best possible ranking. Each participation in a primary dealer system is an investment that the bank must be able to afford. Consequently, access to primary dealer systems is influenced and limited by banks' financial configurations. In line with this assumption, there is a correlation between a bank's financial strength and the number of its primary dealer memberships (Figure 2). Financial costs seem to influence the extent of banks' participation in various systems: the smaller a bank's financial capacities, the fewer primary dealer systems it participates in.

Figure 2 Primary dealers' economic capacities



The relationship between banks' economic capacities (as measured by 2018 assets) and their total number of primary dealer memberships, r = 0.81 (author's own calculation).
Source: AFME, national central banks, national treasuries, relbanks.com, http://banksdaily.com.

4 The European Central Bank stopped the program in spring 2019.

Since primary dealer status is financially demanding, membership is rarely terminated. Becoming a primary dealer usually means that banks enter into long-term relations with governments, which represents (in Bourdieu's words) the accumulation of social capital.[5] The interviewees indicated that these relationships extend beyond normal business calculations. Some of my interviewees emphatically describe participation in a domestic primary dealer system as an "expression of a civic obligation, as this is the only way the market can function" (Interview 5). Depending on the bank's financial capacities, a particularly good ranking (and sometimes simply participation) is regarded as an expression of this "goodwill investment" (Interview 4). Even where the relationship between the banks and their own government is viewed in a more sober manner, it is called a particularly close partnership. All banks are strongly represented on their own national markets. As government debt serves as a key anchor for stable financial markets, a functioning government debt market is regarded as a prerequisite for the smooth functioning of (national) financial markets. Hence, it is in the interest of the banks for their own government to be financially stable. It is only rational for them to become a primary dealer of at least their own government, and by doing so they can support and stabilize the government in times of problems.

In addition to this special social tie with their own governments, the banks also use the social capital that forms part of the primary dealer relationship to initiate further business with governments at home or abroad. The combination of primary dealer status (acquisition of social capital) and a good ranking (accumulation of social capital) is expected to give access to further profitable business involving government debt instruments, such as exclusive access to the syndication of new government debt securities or special derivatives. Some of my interview partners report that banks also expect to be able to present themselves as financial and economic consultants for governments and other public institutions through their prominent commitment to government debt auctions. This coupling of primary dealer relationships with further business relationships with public authorities is also cited as an important reason why banks expand their involvement in primary dealer systems in times of rising interest rates: banks are keen to present themselves as reliable partners to troubled governments. Both the acquisition and accumulation of social capital thus also serve as a potential gateway to lucrative business. In these cases, financial capital is used to gain access to social capital, which is then converted back into further financial capital.

When it comes to the relationship between banks and the global financial markets, primary dealer status implies reputation. All my interviewees position their own bank in the global stratification based on its number of primary dealer memberships and its

5 My interviewees report that primary dealer membership was maintained in Portugal, Ireland, and Greece even during the crisis years. The banks consulted with the respective governments and their membership was allowed to continue. This arrangement is called a win-win agreement in the interviews: the banks saved themselves from having to make a new pitch when the governments returned to the financial markets; and governments did not have to officially announce that banks had no interest in primary dealer status in times of rising interest rates.

ranking. For instance, if a bank only has one membership, it is called a small player. Another bank may only have a few primary dealer memberships, but have sufficiently good rankings to enjoy a high reputation. Since the position in the field is partly determined by ranking, other banks are also closely monitored and assessed on this basis. For instance, if another bank decreases its position in one or more rankings, this may be seen as the bank having financial problems.

Both primary dealer status and ranking are (in Bourdieu's words) symbolic capital, which banks use to improve their standing in the competition for (new) clients. Deutsche Bank, for example, describes itself in a commercial as

> one of the premier traders of government debt securities. We have a global network of primary dealerships and are one of only 2 banks in Europe who are a primary dealer for all European Bond Markets. We are the largest dealer in Germany [sic], Austria [sic] and Italian government bonds and hold prominent positions in all major European bond markets, including the UK.[6]

Some of my interviewees compared investment banking to a "car dealership" (Interview 1) or a "department store" (Interview 2) that offers a wide selection of products. The range includes less profitable but prestigious products, since this is the only way to ensure that all customers' wishes can be fulfilled. European government bonds are regarded as indispensable prestige elements of an investment bank portfolio, which helps banks get ahead of the global competition. Thus, the number of primary dealer memberships and a bank's ranking are symbolic capital that is used to signal to (new) clients that the bank has exclusive access to premium products such as European government bonds and treasuries.

6 Different strategies among primary dealers: national experts, global players, and transnational specialists

The study involved ninety banks from twenty-four countries participating in twenty-three European primary dealer systems. As mentioned before, there are huge differences between them in terms of their financial capital. Bourdieu distinguishes between market leaders, who have abundant resources and dominate the market; and challengers, who occupy weaker positions that they attempt to improve. By applying this distinction to my interviewees' comments on their banks' positions relative to their global competitors, I define three groups of primary dealers with different strategies: at one extreme there are the banks who have significant resources and multiple primary dealer memberships worldwide. These primary dealers are regarded by themselves and others as global players. At the other extreme there are the challengers who have few resources

6 http://globalmarkets.db.com/new/content/rates_products.html (accessed January 24).

and primarily deal with their own governments. They define themselves as national experts. In contrast to Bourdieu, I have identified a third group of primary dealers that stands between the two. This group consists either of EU banks that primarily focus on one European region, or of non-EU banks that are active in the euro zone and the UK in addition to their home markets. They are called transnational specialists here.

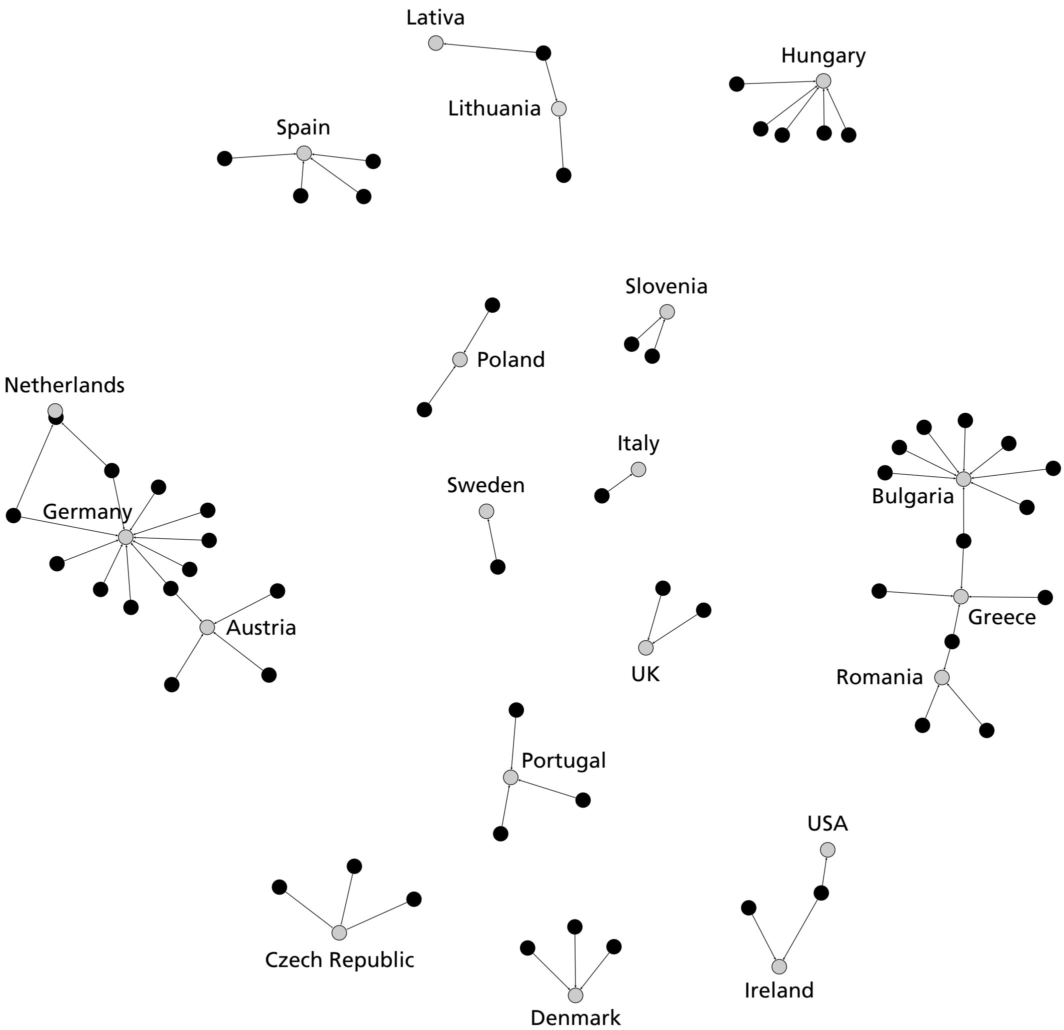
National experts

In my interviews, banks that act as primary dealers for one (i.e. their own) government and/or a maximum of one other government are called national experts. In Europe, fifty-six banks are active as such, yet they are not distributed equally among all systems (see Figure 3). Their spread reveals a division within the EU: Eastern European banks (with the exception of one Lithuanian bank), Irish, and Portuguese banks are only active within their national primary dealer systems. By contrast, none of the Belgian, Dutch, Finnish, French, or Slovakian banks act only as national experts; all are also active outside their respective national borders. A particularly large number of the banks that are only nationally active can be found in Bulgaria, Germany, and Hungary. This can be explained by the relevant national structure and situation, and also by the banks' economic strengths. In Germany, the banking sector is decentralized (Lane and Quack 2002) and the primary dealer system has low entrance requirements, which allow a large number of banks to become primary dealers. Both factors may have increased the number of economically small and nationally oriented banks applying for primary dealer membership in Germany compared to other countries. The fact that nearly all of the Eastern European banks are only nationally active may be explained by their limited economic capacities: they may lack the economic resources to assume a more transnational engagement. Finally, the national level of Irish and Portuguese banks is probably a late consequence of the current crisis.

Six European banks are members of both a national and a foreign primary dealer system. In most cases, the foreign system is in close geographical proximity to the home market. Such dual memberships can be observed, for instance, between Germany and both the Netherlands and Austria. To my knowledge, only one bank from outside the EU is active in its own market as well as in a European primary dealer system. It is a connection between a US bank and the Irish government.

According to my interviews, national experts focus on one or two primary dealer memberships, as the economic costs and risks associated with further memberships are considered too high and thus unprofitable. One of my interviewees noted that there were differences of opinion within the bank about the merits of joining even one (own national) primary dealer system. When considering the asset expectations of national experts, it becomes obvious that financial costs are not only an important barrier to a

Figure 3 National experts in the European primary dealer systems



Banks with only one or two primary dealer memberships (author's own calculation).
Source: AFME, national central banks, national treasuries.

membership of further primary dealer systems, but also reduce the possibility of accumulating social and symbolic capital and by doing so reduce the benefit from primary dealer memberships.

My interviewees from national expert banks acknowledge the possibility of using primary dealer status to access further business opportunities with the government. However, the lack of financial resources means that their banks can make little to no use of these options. For instance, a top ranking is basically considered by one banker as "a good investment" (Interview 8) but too cost- and risk-intensive for their own bank. This view was also confirmed by an analysis of the publicly available 2018 rankings, which listed only one purely national primary dealer in the top 10.[7] My interviewees from national experts emphasize the political importance of their partnership with their domestic government. The primary dealer relationship with the bank's own government is primarily a prestige project.

When dealing with (new) clients on the financial markets, my interviewees from national experts emphasize their bank's national expertise. Compared to the portfolio of global primary dealers, their portfolio is highly specialized. On the national level, however, it is comprehensive. In addition, banks attempt to position themselves as providers of high-quality products, such as European government debt instruments, to compete on a global level. A center-periphery structure among the national experts can also be seen here. Interviewees from German banks, for instance, stress two aspects: the prestige of the eurozone, since it is the second most important global currency area after the US dollar; and also the high profile and benchmark status of German government bonds in comparison with other European government bonds. In the context of global stratification, national experts rate their capital accumulation possibilities lower than transnationally active banks, although banks from economically and symbolically powerful countries position themselves above banks from economically and symbolically weaker countries. It should nonetheless be emphasized that all my interview partners work for banks in economically powerful states, so the role and strategies of national experts from economically weaker states are unclear.

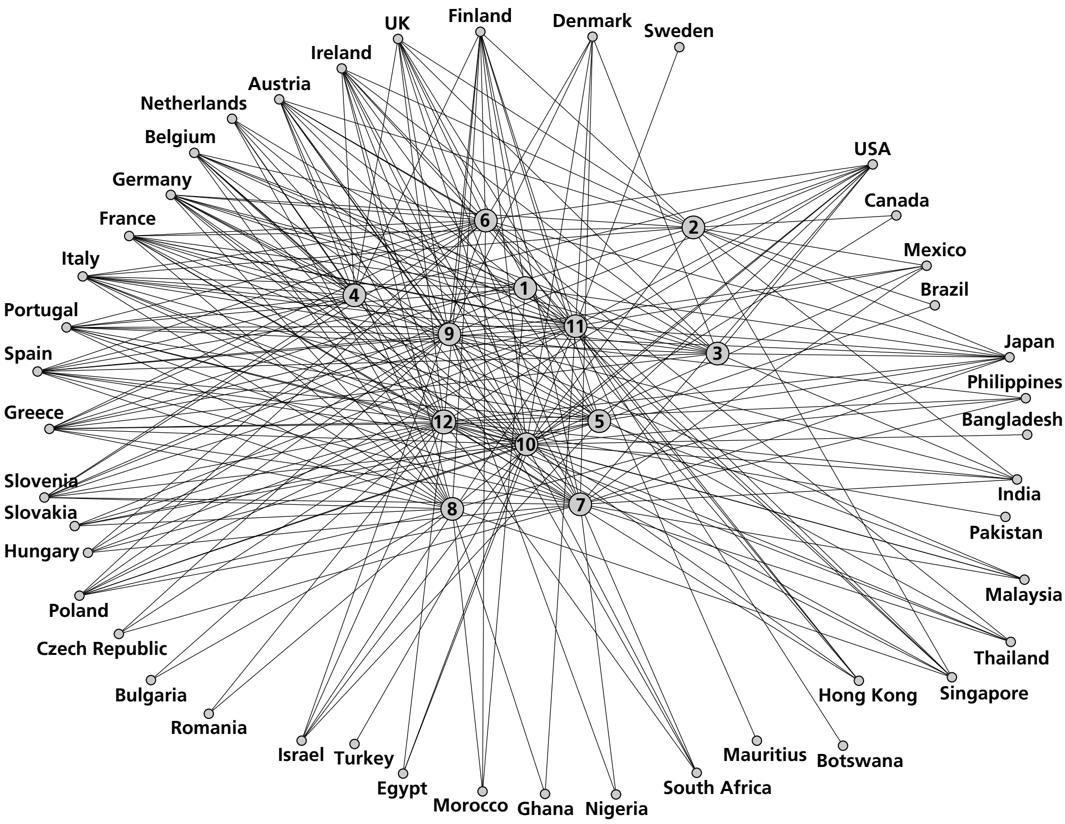
Global players

The counterpart of the national experts are the economically powerful banks, which participate in many primary dealer systems worldwide. These are defined, by themselves and others, as global players. According to my data there are twelve such globally active banks, which are based in France (3), Germany (1), UK (3), and the USA (5) and therefore in the centers of the global financial markets. On average, global players have fourteen memberships in primary dealer systems within the EU and twenty-one memberships worldwide. The number of memberships per bank varies between twelve and nineteen in the EU; and between nineteen and thirty-one worldwide. Global players thus participate in at least half of all EU systems and in up to twelve systems outside the EU (see Figure 4).

For the global players, the financial costs and risks seem to play only a minor role in their strategies: interviewees from these banks described them as secondary considerations. This applies both to their participation in a huge number of primary dealer systems and to their attempts to achieve a place in at least the top half of the rankings in as many countries as possible. My interviewees also regard their bank's relations with their

7 The publicly available rankings were those of Austria, France, Germany, Hungary, and Italy.

Figure 4 Global players in the European primary dealer systems



Relationships between governments and global players (author's own calculation).
1: Credit Agricole (FR), 2: Bank of America (USA), 3: Morgan Stanley (USA), 4: Royal Bank of Scotland (UK), 5: Goldman Sachs (USA), 6: BNP Paribas (FR), 7: Deutsche Bank (DE), 8: Société Générale (FR), 9: J.P. Morgan (USA), 10: HSBC (UK), 11: Barclays (UK), 12: Citigroup (USA).
Source: AFME, national central banks, national treasuries.

own government as close. However, it seems to be more important to establish a broad network with governments worldwide. According to my interviews, through these relationships and high rankings, the banks want to present and establish themselves as close and reliable partners to the governments. In doing so, the accumulation of social capital allows them access to further business with the government. My interviewees from global players see the social ties to governments as a way to gain access to consultant activities, a lucrative but exclusive part of the government debt market.

On the financial markets, the global players were defined in all my interviews as the top of the hierarchy. According to my interviewees from global players, it is part of a top bank's self-understanding to have access to all relevant markets. Their aim is to provide their (new) clients with a comprehensive portfolio of as many exclusive products as possible, which is the second explanation for the extent of their participation in and their commitment to the rankings. For these primary dealers, prestige derives more from having the widest possible range of products than from the quality of certain instruments.

Transnational specialists

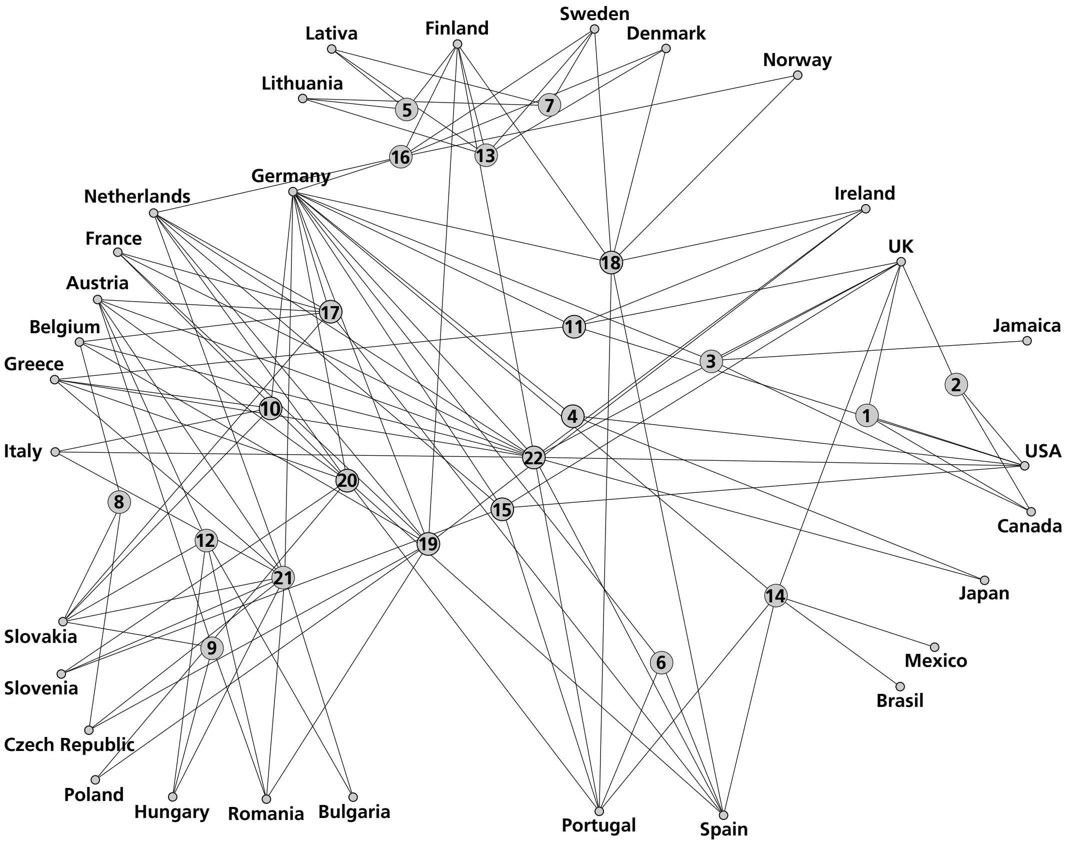
At one end of the continuum are the national experts and at the other are the global players. My interviews nonetheless also found banks that are transnationally active without being global players. These twenty-two banks, referred to here as transnational specialists, concentrate on a certain region or group of countries. Fourteen are based in the EU, and eight are based outside the EU. On average, the transnational specialists have around five memberships in primary dealer systems within the EU and six global memberships (see Figure 5).

There seem to be three patterns in transnational specialists' choice of primary dealer systems. For banks with a small number of memberships, geographical or cultural proximity seems to play an important role: trial memberships can be found, for example, between Lithuania, Latvia, and Sweden or between Canada, UK, and the USA. In the case of medium-sized membership numbers, I can identify certain historically explainable focal points: Austrian banks, for instance, often concentrate their activities in Eastern Europe. One Spanish bank is active in Spain, Portugal, Mexico, Brazil (and Germany). Finally, there are banks that are active in all regions of the EU, which can be called EU specialists. Overall, transnational specialists mainly come from Northern, Southern, and Western Europe, and Canada, Japan, and the USA. Many of them are particularly active in Eastern Europe, although no banks from this area are involved in the transnational primary dealer relationships due to the previously mentioned financial reasons.

The transnational specialists are the most heterogeneous of the three groups. Nevertheless, my interviews also suggest that this group has some strategies in common. For these banks, the costs of membership necessitate a selective approach. Transnational specialists become members of selected primary dealer systems, in which they attempt to be very active and achieve a high ranking. With this selection strategy, they achieve a transnational but specialized portfolio and, at the same time, they attempt to control and reduce their costs and economic risks. Where the accumulation of social capital is concerned, according to my interviews, they aim to position themselves as good business partners for their own and selected governments on the back of their strong commitment and a high or at least good ranking. They are interested in accessing exclusive aspects of the government debt business and lucrative consultancy work in other government fields such as securitization and privatization.

On the financial markets, their aim is to live up to their own claim of being transnational players with exclusive access to certain parts of the European government debt market. Since they have a transnational yet select portfolio, specific government debt securities are important to them. Two strategies can be distinguished here: First, those banks that specialize in certain EU regions and then become experts in a niche area, such as Eastern Europe. Second, there are banks that focus on building as prestigious a portfolio as possible. Regardless of whether they are based within the EU or outside

Figure 5 Transnational specialists in the European primary dealer systems



Relationships between EU governments and transnational specialists (author's own calculation).
1: Royal Bank of Canada (CA), 2: Toronto-Dominion (CA), 3: Scotiabank (CA), 4: Mizuho Bank (JA), 5: DNB Nord (NO), 6: BBVA (ES), 7: Swedbank (SE), 8: KBC (BE), 9: ERSTE Group Bank (AU), 10: Banca IMI (IT), 11: UBS (CH), 12: Raiffeisen Bank (AU), 13: SEB (SE), 14: Santander Group (ES), 15: Jefferies (USA), 16: Nordea (SE), 17: Natixis (FR), 18: Danske Bank (DK), 19: ING (NL), 20: Commerzbank (DE), 21: UniCredit (IT), 22: Nomura (JA).
Source: AFME, national central banks, national treasuries.

it, access to eurozone primary dealer systems and trading in these government bonds is particularly prestigious. In addition, most of these banks are also primary dealers for certain highly prestigious governments, for instance Germany's "Bund Issues Auction Group."

7 Conclusion

Primary dealers are important intermediaries that help to stabilize government debt markets, as their task is to offer "trades to other market participants, thereby providing liquidity for the market and sustaining it – if necessary against their own position" (Knorr Cetina and Brügger 2002, 913–914; see also Baker 1984, 780). Thus, the starting point for the article was the observation that primary dealer systems are a win-win situation for both governments and investors. However, since they also entail considerable financial risks and costs for the primary dealers, this raised the question of what banks expect to gain in return for their commitment.

My results indicate that banks use their status as primary dealers to build long-term relationships with one or more European governments and to get ahead of their global competitors. In Bourdieu's terms, banks invest financial capital to become and remain primary dealers because primary dealer status offers access to social capital with governments and symbolic capital on the financial markets. At the same time, it also became obvious that not all banks can profit from primary dealer status in the same way. Rather, it seems that a global market hierarchy has a decisive influence on the banks' strategies and the output of the primary dealer relationships. At the bottom of this hierarchy are the national expert banks that primarily serve as primary dealers for their own governments. Their limited resources prevent them from having any broader engagement. For them, the social tie to their own government is a prestigious project and offers the potential to support and stabilize the government in times of crisis. On the global financial markets, they position themselves with a primarily national portfolio. The next group are the transnational specialists. The costs of primary dealer relationships lead to specialization. Transnational specialists act as primary dealers for select governments. With the latter, they enjoy close contact (including high rankings), through which they hope to gain access to further lucrative business in the government debt sector and beyond. They position themselves on the global financial markets with a specialized transnational portfolio. At the top of the hierarchy are the banks that operate globally in primary dealer systems. Their aim is to participate in as many systems as possible with a high ranking. The financial commitment this involves is only a secondary concern for these banks. From their relationships with governments, they expect above all to gain access to lucrative government debt instruments. On the global financial markets, they position themselves with a global portfolio that is as comprehensive as possible.

Previous studies (Hardie et al. 2012; Lemoine 2017; Massó 2016; Brewster Stearns and Mizruchi 2005; Trampusch 2015, 2019) have primarily focused on the strategies adopted by governments and banks in the national context. In contrast, it became obvious in this study that the European primary dealer systems can be only understood from a transnational perspective. Not only do all European primary dealer systems include foreign banks, some are even based purely on their relationships to foreign banks – all interviewees stressed that the government debt market is a global market and that governments use primary dealers to issue their own debt instruments on this global market. Primary dealers develop strategies to position themselves on said global markets, and increasingly operate independently of their respective national institutional framework. The analysis found little evidence that the banks follow "German," "Italian," "British," or "US" strategies, i.e. they do not follow a national debt placement strategy. Rather, their aim is to be "capable of acquiring and maintaining the status of an efficient competitor at the global level" (Bourdieu 2005b, 229). Thus, when it comes to this segment of the market, it does not seem appropriate to talk about national markets, nor are there indicators for either a Europeanization of primary dealer systems or a special European primary dealer system.

A national or European point of reference only became visible when it came to government debt and its level of prestige. According to my interviews, the symbolic power of the euro should not be underestimated despite all its current problems: it is still the second most powerful currency in the world. In particular, my interviewees from both transnational specialists and national experts described government debt from the EU and the eurozone as a form of European symbolic capital, which banks can use to position themselves above other transnational specialists or national experts. In addition, interviewees from national experts stress the high level of prestige of their own governments and that their banks attempt to use it as a form of "national capital" (Bourdieu 2005b, 229) within the global competition. For instance: interviewees from German national experts position their bank below transnationally active primary dealers in the global hierarchy, but above national specialists from the European periphery. Having access to German bonds seems to imply that banks have access to more symbolic capital than most of the other national experts, as German bonds act as the benchmark of the Eurozone and therefore have a particularly high standing. The only interviewees who did not explicitly emphasize the distinctions between particular government debt instruments are those from global players, as it is their banks' understanding that they have access to all relevant symbolic capital. Nevertheless, European government debt instruments are also important to them as they are considered one of the most prestigious of all government debt instruments.

My analysis indicates a transnational hierarchy which influences the global competition on the government debt market. Nevertheless, my study focused on banks based in economically strong states. For instance, banks from the European periphery were not included in the analysis. It would therefore be important to ask how they position themselves and whether one can also observe differences between the center and the periphery. The political consequences of this new market hierarchy for governments also remain to be clarified. Until now, banks were mainly seen as important investors for governments, and more recently it was stressed that domestic banks can be "patient or loyal investors" (Hardie 2011, 160; see also Gros 2011) but that there is also a danger of a "bank-sovereign nexus" (Demosthenes et al. 2015, 162). On the basis of my current results, however, the question should be not just how to reduce the dependence between governments and their domestic banks, but also what influence the global players enjoy. This is because, ultimately, they are the most important banks for all governments within the European context.

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