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Primary Dealer Systems in the European Union

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 they usually enter into cooperative agreements with selected banks. The best known and most widespread form of cooperation is the primary dealer system. A primary dealer is a bank that commits to purchasing a certain percentage of government debt at each auction and to intervene as a formalized market maker in the debt market if necessary. Most of the primary dealer systems involve the banks being financially neither remunerated nor compensated for their activities, and if there is some kind of financial compensation, it is on a low level. The article analyses 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; Marketmarket; Hierarchy; International Competition.

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

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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 a formalized market maker in the debt market if necessary.

The USA can be considered a forerunner of the primary dealer system, as 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]. Even if there is no verifiable evidence for these self-declarations, it must be said that 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 and that the profit margins on resale.

A sociological perspective focuses on the social construction of markets and thereby on the positioning of the actors on the markets [Fligstein 2002; Fligstein and McAdam 2012], which raises the question of what the banks expect in return for their primary dealer membership(s). Drawing on Bourdieu's capital and field approach [1986, 2005a, 2005b], I shall argue that the major advantage for a bank is not so much financial capital, but rather 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. In analysing primary dealer systems, I shall focus on the specific ways in which banks position themselves in 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

[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.

have primarily focused on government debt management [Lemoine 2017; Streeck 2014; Trampusch 2015, 2019; Massó 2016]. This article explores the transnational structures of government debt markets by way of European primary dealer systems.

My argument is developed in five stages: the first is an outline of the architecture of primary dealer systems, which is yet to be studied extensively [for an exception, see Lemoine 2013, and a reconstruction of 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, and subsequently present the results of my case study. My thesis is that banks have prioritized long-term social relationships with governments, as well as their own status on the global financial markets, over short-term economic interests. I demonstrate that the banks' strategies are not shaped by national traditions but by their positions in relation to their global competitors. Some define and position themselves as national experts, others as regional specialists, and still others as global players. Finally, the article concludes with a short summary.

Intermediary groups in primary dealer systems

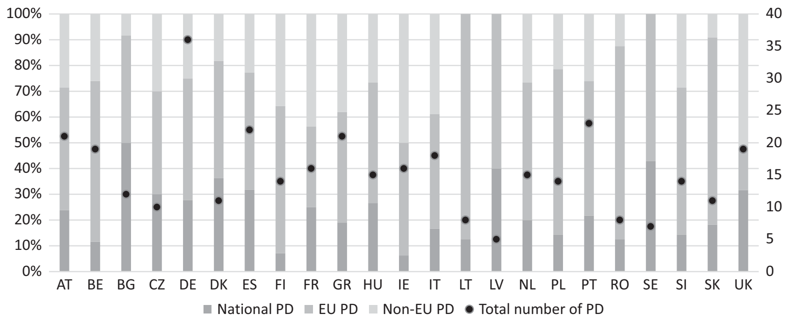
Primary dealers are banks which "trade for their own account and risk their own money through position-taking" [Knorr Cetina 2009: 338]. They intermediate between the specific credit needs of governments and investors' interests in tradable securities [Abolafia 1996; Baker 1984]. This implies that they act as market makers and buy debt securities from governments, convert them into standardized financial securities, and sell them on [Carruthers and Stinchcombe 1999]. In recent years, market sociologists have shown a growing interest in these intermediaries; in their analyses, they focus on the function of such intermediaries for the financial markets, and also the implications for those involved and for the market structures [Beckert 2010; Fourcade 2007; Preda 2005]. However, the strategies pursued by the intermediaries are less well known.

To become a primary dealer, a bank has to meet certain criteria, which 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 in both the primary and the secondary markets. In the primary market, it is obliged to participate in government auctions on a regular basis [Ecofin 2000]. 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 fulfil a "market maker obligation" and "to enhance the liquidity of the secondary market" [*Ibid*.]. This may include quoting government debt prices to other primary dealers and final investors and displaying indicative prices on screen.

In most primary dealer systems the banks are neither financially remunerated nor compensated for their activities; if there is any kind of financial compensation, it is at a low level. For instance, the Dutch national bank pays 25,000 DKK to all Dutch primary dealers per annum. However, all governments offer certain non-financial 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 of "primary dealer" and offer them a particularly close relationship with their treasuries [*Ibid*.].

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 (UK) 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 licence; OECD 2000: 64; see also Lane 2006; Rossi 2013]. The transnational dimension of the primary dealer systems is already evident in their composition: on average 23 per cent of the banks in each system are domestic banks. This figure nonetheless varies between around 50 per cent in Bulgaria and 0 per cent in 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: the governments of Croatia, Cyprus, Estonia, Luxembourg, and Malta. This is not due to their credit ratings, since these are low in some of these countries and high in others. However, these states are all economically insignificant, 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 who did this sought "to expand their investor base outside their traditional 'home' market[s]" [ECB 2001: 16]. Globally active banks as primary dealers should help to place government debt on the global market [Santillán, Bayle, and Thygesen 2000: 44]. Later, primary dealer systems were implemented chiefly in response to the European integration process and the associated transnationalization of European markets [*Ibid*.: 44; ECB 2004]. National treasuries, in particular in smaller countries like Austria, feared the competition on the transnationalized markets; in this example, primary dealers were intended to act as bridges between treasuries and investors. Other national treasuries, e.g. those in larger countries like Germany, use primary dealer systems to strengthen their market position. 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 as it transitions towards a "market-based banking" approach [Hardie *et al.* 2013: 722].

The global financial market as a weakly institutionalized field

First, following Bourdieu, I 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]. The market structures result from the positioning of the participants, their mutual relationships, and the competition between them for the best positions possible in the field [Beckert 2010: 606]. For Bourdieu, an actor's market position depends not only on 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 2005b: 194]. At the same time, they not only try to achieve short-term financial gain through their market position, but also pursue long-term profit strategies, which can go hand and hand with the acquisition of other types of capital and also facilitate that acquisition.

Primary dealer systems are based on long-term relationships between a government and the banks involved. The latter initially enter into financial commitments; that is, using the capital approach of Bourdieu, they invest financial capital. Conversely, 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 status is important [Podolny 1993, see also Knorr Cetina and Bruegger 2002; Preda 2005]. A high status, 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 number of opportunities a bank can canvass new clients and is especially useful in the global competition for financially valuable clients. Based on the assumption that being a primary dealer implies a certain status, it can be argued that this status goes hand in hand with the acquisition of symbolic capital. Thus, it will be argued in the following 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 conclude the most lucrative deals 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]. It is therefore to be expected that not all primary dealers pursue the same strategy in the field, but that different strategies with different scopes and goals will be observed. Bourdieu himself [2005a: 79; see also Fligstein 2002: 17; Fligstein and McAdams 2012: 8] differentiates between the challengers and the market leaders in a field. The former have limited resources, can only accumulate a limited amount of new capital, and tend to be positioned on the periphery of the field. In contrast, the latter have a significant amount of resources and the ability to accumulate a larger amount of capital, while also occupying a central position in the field. Based on this differentiation, it is argued in the following that the respective financial resources not only increase or decrease the primary dealers' scope of action, but also result in their adopting different strategies. These strategies affect both the number of primary dealer memberships that a bank enters into and the accumulation of capital that it can achieve through those memberships.

Research design

The starting point of this article 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 article 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 analyse 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 in 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 undertook 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). Deviations from the AFME data set result from the fact that I always refer to the parent companies and not to possible subsidiaries, even if the latter still operate under their own names. On the basis of the AFME data, it was possible to establish which European countries the primary dealer banks are active in. However, to analyse the global relationships, the European data had to be complemented by a separate survey.[2] In total, twenty-nine

[2] For an additional 166 countries, the home pages 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 serves 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 home pages 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

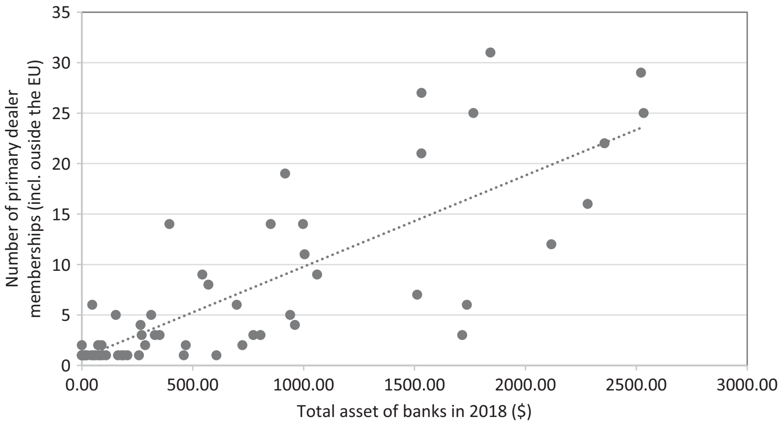
additional primary dealer systems were identified worldwide. Five of these systems do not play a role in this study, as they do not contain any banks active in the EU and are mostly closed national systems. This leaves twenty-four systems, of which two are European (Norway and Turkey) and twenty-two 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, as the number of banks involved per country ranges from one (e.g. Belgium, Ireland, Latvia, and Lithuania) to ten (Germany). Fourteen of the banks are headquartered outside of the EU: these are based in Norway (1), Switzerland (1), Japan (2), Canada (3), and the USA (7).

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

Primary dealers are obliged to participate in both the primary and secondary markets on a regular basis. Thus, 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. In addition, the investment is even higher when the bank wants to be seen as a top primary dealer. Each year, the financial authorities rank the banks' involvement in the national primary dealer system. 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 strategies in the field observed here, as will be seen below. Unfortunately, the rankings are not always published. However, when it comes to the banks for which information is available, the data shows that

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.

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

financially strong banks in particular can be found in the top rankings. There is thus a first pattern of power structures on the financial markets: financially strong banks have many primary dealer memberships and dominate the rankings, i.e. they are particularly active in government auctions, while financially weaker banks tend to have fewer memberships or only one, and tend to be found towards the bottom of the rankings.

As primary dealers, banks buy government bonds in order to then sell them on the financial markets. As mentioned by Dunne [Dunne, Moore, and Portes 2006], in the past banks had problems with reselling these bonds or were sometimes forced to buy government debt at a higher price than they could later sell it for, limiting profitability. Today, however, European governmental bonds and bills are in high demand as financial products, which reduces the risk that primary dealers will be unable to sell them or will have to resell them with losses. This has been even more true since the European Central Bank started its public sector purchase programme in 2017; since then, it has intermittently bought government bonds and bills on the secondary market.

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Nevertheless, being a primary dealer means a bank must invest financial capital, while the direct benefits of selling the government bonds and bills on the secondary market tend to be rather low; this is why Dunne argues [Dunne, Moore, and Portes 2006: 31] that the "corresponding benefits arise from other activities for which primary dealer status confers an advantage." According to my interviewees, dealer membership(s) help one to position oneself in the field both in regard to one's own government, or governments in general, and in terms of investors and potential customers. All in all, trade-offs can pay off financially in the long run.

The long-term relationships between a government and its primary dealers can be understood (in Bourdieu's words) as social capital. Acquiring a dealer membership opens up access to social capital, and the bank's engagement in the systems results in its accumulation. The higher a bank's engagement as a primary dealer – which is documented in the rankings – the more it is able to accumulate. This social capital is built up and accumulated by primary dealers in two ways, whereby a distinction must be made between a bank's relationships with its own government and its relationship with governments in general. With one exception, which can be explained historically[3], all banks are members of their home primary-dealer systems, which is a first indicator of a special relationship and thus a special form of social capital. The interviewees indicated that the relationship between a bank and its home government extends beyond normal business calculations, which is why it will be referred to as loyal-social capital in what follows. 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). Even when the respondents view the relationship between the banks and their own government in a more neutral manner, they still refer to it as a particularly close partnership. All banks are strongly represented in 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. At the same time, it is also true that governments help banks in times of crisis. For example, governments granted loans during the global financial market crisis and some banks were nationalized. An analysis of German and Italian banks shows very clearly that those banks that received state aid – for instance the

[3] The exception is the Allianz Bank Bulgaria, which used to be a Bulgarian bank and is now owned by German Allianz.

Commerzbank in Germany or Banca Monte dei Paschi di Siena in Italy – were particularly active in the primary government debt markets and were therefore very high in the ranking of primary dealer systems at the time of state aid. Hence, the acquisition or even accumulation of loyal-social capital with their home government is only rational for the banks, as supporting the government's financial stability is in their interest.

In addition to these special social ties with their own governments, the banks have also build up the social capital to initiate further business with governments at home or abroad. The combined acquisition and accumulation of this 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, which is why it will be referred to as commercial-social capital in this article. 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 ties 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 commercial-social capital thus also serve as potential gateways to lucrative business.

When it comes to the relationship between banks and the global financial markets, both primary dealer membership and ranking are associated with a higher reputation, which is (in Bourdieu's words) symbolic capital. 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 also 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 help banks get ahead of the global competition. Thus, the number of primary dealer memberships and a bank's ranking are used to signal to (new) clients that the bank has exclusive access to premium products such as European government bonds and treasuries, and therefore they help to improve its status in the field.

In line with this observation, it becomes obvious why all my interviewees position their own bank in the global stratification based on its number of primary dealer memberships and its ranking. For instance, if a bank only has one membership, it is called a small player and a national expert. On the other side, a bank that has multiple primary dealer memberships and high rankings is called a global player. 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. (Global Markets, n.d.)

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 sinks to a lower position in one or more rankings, this may be seen as the bank having financial problems.

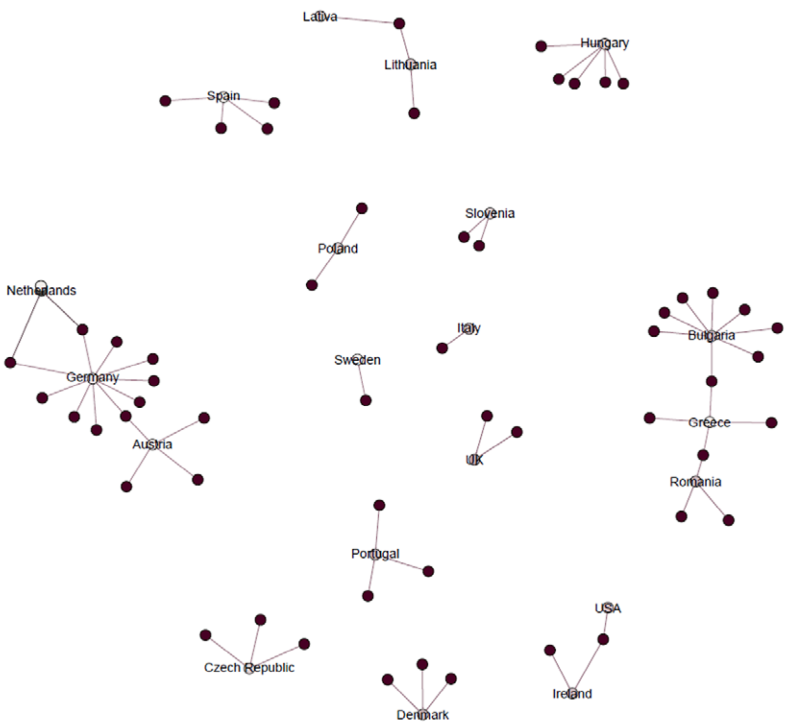
Different strategies among primary dealers: national experts, transnational specialists, and global players

The study involved ninety banks from twenty-four countries participating in twenty-three European primary dealer systems. 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 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 eurozone and the UK in addition to their home markets. All members of this group are referred to here as transnational specialists.

National experts

In my interviews, *national experts* are banks that act as primary dealers for one (i.e. their own) government and/or a maximum of one other government. In Europe, fifty-six banks are active in this capacity, yet they are not distributed equally between all systems (see Figure 3). Their spread reveals a division between Eastern and Western Europe, although there are some significant exceptions: Eastern European banks are mainly nationally active, while in Western Europe (with the exception of Ireland) the field is more heterogeneous. The fact that nearly all of the Eastern European banks are only nationally active may be explained by their limited economic capacity: they may lack the economic resources to assume a more transnational engagement. The national level of Irish and Portuguese banks is probably a late consequence of the current crisis. By contrast, the Belgian, Dutch, Finnish, French, and Slovakian banks do

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

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not act only as national experts; all are also active outside their respective national borders.

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, they would be unprofitable. One of my interviewees noted that there were differences of opinion within the bank about the merits of joining even one primary dealer system (from one's own nation). When considering the asset expectations of national experts, it becomes obvious that financial costs are not only an important barrier to membership of further primary dealer systems but also reduce the possibility of accumulating social and symbolic capital and by doing so reduce the benefit of primary dealer memberships.

My interviewees from national expert banks acknowledge the possibility of using primary dealer membership to build up not only loyal but also commercial-social capital. 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 ten. My interviews with national experts emphasize the political importance of their partnerships with their domestic governments to building up and accumulating loyal-social capital. 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 interviews with national experts emphasize their banks' national expertise. Compared to the portfolios of global primary dealers, their portfolios are highly specialized. On the national level, however, they are 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 divide between national experts can also be seen here. Interviewees from German banks, for

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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 as lower than those of transnationally active banks, although banks from economically and symbolically powerful countries position themselves above banks from economically and symbolically weaker ones. 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 is unclear.

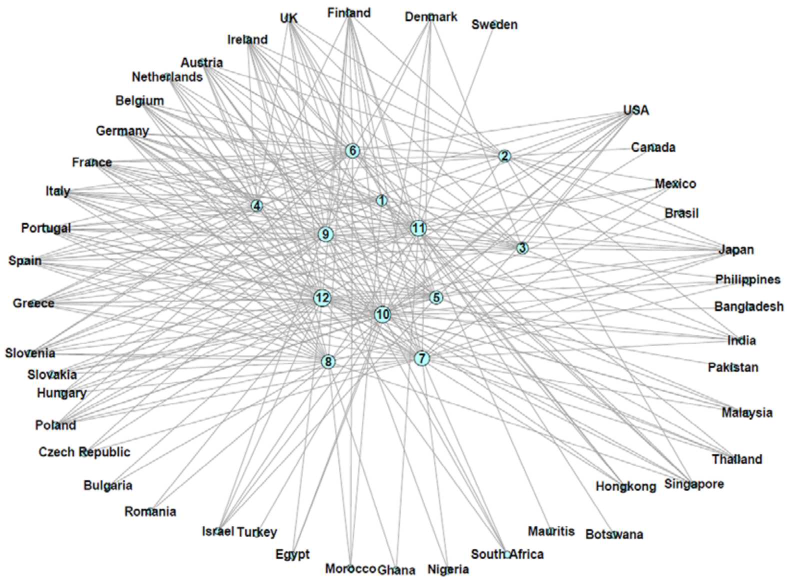
Global players

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 centres of the global financial markets. On average, global players each 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 banks' relations with their own governments as close. However, it seems to be more important to establish a broad network with governments worldwide. According to my interviews, by means of these relationships and high rankings, the banks want to present and establish themselves as close and reliable partners of their governments. At the same time, the accumulation of social capital allows them access to further business with the government. My interviewees from the 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.

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

On the financial markets, the global players were defined in all my interviews as the top of the hierarchy. According to my interviewees from the global players, it is an important part of a top bank's self-image that it should have access to all the 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 is derived more from having the widest possible range of products than from the quality of certain instruments.

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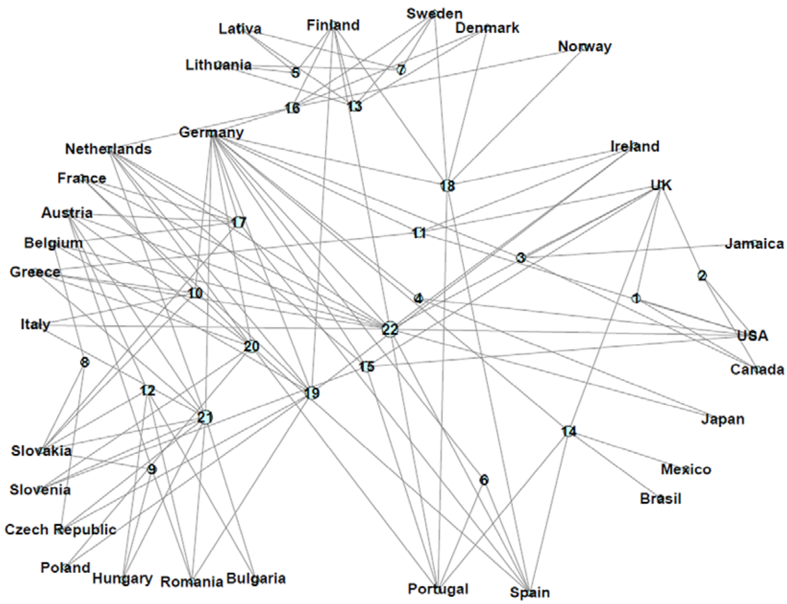
Regional specialists

At one end of the continuum are the national experts and at the other are the global players. My interviews nonetheless revealed banks which are transnationally active without being global players. These twenty-two banks, referred to here as *regional specialists*, concentrate on a certain region or group of countries. Fourteen are based in the EU and eight outside it. On average, the regional specialists each 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 regional specialists' choice of primary dealer system. 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, regional specialists come mainly from Northern, Southern, and Western Europe and from Canada, Japan, and the USA. Many of them are particularly active in Eastern Europe, although no banks from this area are involved in regional primary dealer relationships for the previously mentioned financial reasons.

The regional specialists are the most heterogeneous of the three groups. Nevertheless, my interviews also suggest that the members of this group have some strategies in common. For these banks, the costs of membership necessitate a selective approach. Regional 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 attain 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 commercial-social capital is concerned, according to my interviewees, 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 a 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.

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 (FI), 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

On the financial markets, the aim is to live up to their own claims 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 impressive a portfolio as possible. Regardless of whether they are based within the EU or outside 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."

Conclusion

Primary dealers are important intermediaries that help 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 Bruegger 2002: 913–914; see also Baker 1984: 780]. Thus, the starting point for this 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 investment, 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 their own or even multiple 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 loyal and/or commercial-social capital with one or more 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 serve principally as primary dealers for their own governments. Their limited resources prevent them from having any broader engagement; their social ties to their own government are a prestigious project and offer them the opportunity to support and stabilize that government in times of crisis. On the global financial markets, they position themselves with a mostly national portfolio. The next group is that of the regional specialists. The costs of primary dealer relationships lead to specialization. Regional 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

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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 and with as high a ranking as possible. 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.* 2013; Lemoine 2017; Massó 2016; 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 European primary dealer systems can only be understood from a transnational perspective. Not only do all European primary dealer systems include foreign banks, but some are even based purely on their relationships to foreign banks—all of my sources have 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 in order to position themselves in the said global markets, and increasingly operate independently of their respective national institutional frameworks. The analysis found little evidence that the banks follow "German", "Italian", "British" or "US" strategies; that is, 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; there are no 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 interviewees, 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. Particularly in my interviews with both transnational specialists and national experts, they 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, national experts stress the high level of prestige claimed by their own governments and that their banks attempt to use this as a form of "national capital" [Bourdieu 2005b: 229] within globalized competition. For instance: German national experts position their banks below

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transnationally active primary dealers in the global hierarchy, but above national specialists from the European periphery. Having access to German bonds seem 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 were those from global players, as it is their understanding that their banks 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, this study focuses on banks based in economically strong states. For instance, banks from the European periphery were not included in the analysis. It is therefore important to ask how they position themselves and whether one can also observe differences between the centre and the periphery. The political consequences of this new market hierarchy for governments also remain to be clarified. Until now, banks have mainly been seen as important investors for governments; 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, Leblon, and Niemann 2015: 162]. On the basis of my current results, however, the question should not only be of how to reduce the interdependence between governments and their domestic banks, but also of the type and extent of the 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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Résumé

Les États ont besoin d'argent pour fonctionner et, par conséquent, chaque gouvernement doit continuellement lever de nouveaux fonds. Sur les marchés financiers, les gouvernements ne peuvent pas être sûrs que les adjudications de leur dette seront suffisamment attrayantes pour les investisseurs financiers, c'est pourquoi ils concluent généralement des accords de coopération avec des banques sélectionnées. La forme de coopération la plus connue et la plus répandue est le système de *primary dealer*. Un *primary dealer* est une banque qui s'engage à acheter un certain pourcentage de dette publique à chaque adjudication et à intervenir en tant que faiseurs de marché formalisés sur le marché de la dette si nécessaire. La plupart des systèmes de *primary dealer* impliquent que les banques ne sont ni rémunérées ni indemnisées financièrement pour leurs activités, et s'il existe une forme de compensation financière, celle-ci est faible. L'article analyse les systèmes européens de *primary dealer*. Pourquoi les banques sont prêtes à participer à ces systèmes ? Je montre que les banques nationales et étrangères utilisent leur statut de *primary dealer* pour construire des relations à long terme avec un ou plusieurs gouvernements européens et pour obtenir un avantage sur la scène mondiale. Dans les termes de Bourdieu, les banques *primary dealers* utilisent leur capital financier pour accumuler du capital social et symbolique.

Mots-clés : Europe ; Marchés financiers ; Marché de la dette publique ; Hiérarchie ; Compétition internationale.

Zusammenfassung

Staaten brauchen Geld, um zu funktionieren, und daher muss jede Regierung ständig neue Geldmittel generieren. Auf den Finanzmärkten können die Regierungen nicht sicher sein, dass die Versteigerung ihrer Schulden für Finanzinvestoren ausreichend attraktiv ist, weshalb die Regierungen in der Regel Kooperationsvereinbarungen mit ausgewählten Banken eingehen. Die bekannteste und am weitesten verbreitete Form der Zusammenarbeit ist das Primärhändlersystem. Ein Primärhändler ist eine Bank, die sich verpflichtet, bei jeder Auktion einen bestimmten Prozentsatz der Staatsanleihen zu kaufen und bei Bedarf als formalisierter Marktmacher auf dem Schuldenmarkt zu intervenieren. Bei den meisten Primärhändlersystemen werden die Banken für ihre Tätigkeit weder finanziell entlohnt noch entschädigt, und wenn es eine Art von finanziellem Ausgleich gibt, dann auf niedrigem Niveau. Der Beitrag analysiert die europäischen Primärhändlersysteme und hinterfragt, warum die Banken sich an diesen Systemen beteiligen. Ich werde zeigen, dass sowohl inländische als auch ausländische Banken ihren Status als Primärhändler nutzen, um langfristige Beziehungen zu einer oder mehreren europäischen Regierungen aufzubauen und sich einen Vorteil auf der Weltbühne zu verschaffen. Im Sinne von Bourdieu nutzen Primary Dealer-Banken ihr Finanzkapital, um soziales und symbolisches Kapital zu akkumulieren.

Schlüsselwörter: Europa; Finanzmärkte; Staatsanleihenmarkt; Hierarchie; Internationaler Wettbewerb