EU Crisis Management and its Influence on the German Savings Banks

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Abstract

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European financial architecture has been rapidly changing since the outburst of the global financial crisis in 2008. On one hand, it sparked academic discussions about the European Union (EU) integration and the future of the EU project, on the other hand, it urged the EU member states and policymakers to deal with the consequences of the crisis. The eurozone crisis has also left its imprint on the European regulatory landscape. Since 2012, the European Commission (EC) has resumed its single financial market agenda and proposed the creation of the banking union. By analysing the European financial market integration, first, I trace the emergence of the banking union and, second, reflect on its implications on the German savings banks. In this dissertation, I seek to answer the following questions: *how are savings banks responding to the new challenges of the supranational financial regulatory policymaking processes, and what position are they taking against the banking union project in the political struggles within the EU, and why.*

The proposal of the banking union has been the most contested during the process of crisis management. By 2014, the first steps towards harmonizing the regulation and supervision of bank activities in the EU had been realized in two pillars of the banking union—the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The third pillar, proposed by the EC, a Euro-wide Deposit Insurance Scheme (EDIS), is currently being negotiated amongst the EU member states. The negotiations on this third pillar stumbled on the opposition from Germany, thus it has become central in the conflict over EU market integration. In this line, the main question posed by the research has been why the traditional model of public savings banks is becoming marginalized in the EU financial regulations even though it has proven to be stable. The identity of the savings bank model, which is perceived differently in the national and European context, sheds light in this regard. While it is still strong in Germany by securing support from the German banking industry, it loses its discursive power at the European level. Ultimately, the lack of understanding of the savings bank model, which is able to protect savings banks via the Institutional Protection Scheme (IPS), makes them policy-takers rather than policymakers in the European financial domain. The project remains an uncomfortable compromise, not only because of German opposition to the mutual support for the banks throughout the eurozone, but also because it ignores the complexity of the banking systems in each member state and their role in national economies. Thus, savings banks are pleading for fragmented oversight regulation and preservation of their own protective system. Overall, the banking union forced savings banks to employ defensive strategies in order to protect their business model, even though they were minimally exposed to the threats of the international financial crisis and were able to restore consumer confidence in the performance of financial markets (DSGV, 2010a). Still, finding allies to support their own model and winning a position as an alternative banking type on the EU level has been a challenging task for savings banks.

Key Words: Banking union, financial regulation, financial crisis, single market, savings banks.

Zusammenfassung

SEMENYSHYN, Halyna. Das Finanzkrisenmanagement der Europäischen Union und sein Einfluss auf die deutschen Sparkassen. 2021. Dissertation. Universität Kassel. Kassel, 2021.

Die europäische Finanzarchitektur hat sich seit dem Ausbruch der weltweiten Finanzkrise 2008 rasant verändert. Auf einer Seite regte sie die akademischen Diskussionen über die Europäische Union (EU) und über die Zukunft des EU-Projektes an. Auf anderer Seite forderte sie die EU-Mitgliedsstaaten und die politischen Entscheidungsträger auf, sich mit den Folgen der Krise auseinanderzusetzten. Die Eurokrise hat auch ihre Spuren auf der europäischen Regulierungslandschaft hinterlassen. Seit 2012 hat die Europäische Kommission ihre Agenda für einen EU-Finanzbinnenmarkt wieder anlaufen lassen und gelangte dabei zu dem Vorschlag, die Bankenunion zu schaffen. Durch eine Analyse der europäischen Finanzmarktintegration verfolge ich in dieser Arbeit erstens dem Entstehungsprozess der Bankenunion, und zweitens betrachte ich ihre Auswirkungen auf die deutschen Sparkassen. In dieser Dissertation suche ich die Antworten auf folgende Fragen: *Wie reagieren die Sparkassen auf die neuen Herausforderungen der supranationalen finanz- und ordnungspolitischen Entscheidungsprozesse? Welche Stellung nehmen sie zu dem Bankenunion-Projekt in den politischen Kämpfen in der EU ein und aus welchem Grund tu sie dies?*

Der Vorschlag zu einer Bankenunion ist am meisten im Krisenmanagementprozess angefochten geworden. Bis 2014 wurden die ersten Schritte zur Harmonisierung der Regulierung und Aufsicht für Banktätigkeiten in der EU in zwei Säulen — Einheitlicher Bankenaufsichtsmechanismus (englisch *Single Supervisory Mechanism, SSM*) und Einheitlicher Bankenabwicklungsmechanismus (englisch *Single Supervisory Mechanism, SRM*) — realisiert. Die von der Europäischen Kommission vorgeschlagene dritte Säule, Europäisches Einlagensicherungssystem, wird derzeit unter den EU-Mitgliedstaaten verhandelt. Die Verhandlungen über diese dritte Säule stießen auf Widerspruch aus Deutschland, daher ist diese Säule zentral im Konflikt über EU-Marktintegration geworden ist. In diesem Sinne ist die umfassendere Frage der Forschung: Warum wurde das bewährte Modell der deutschen öffentlich-rechtlichen Sparkassen in der EU-Finanzregulierungen marginalisiert, obwohl diese sich als stabil erwiesen hat? Die Identität des Sparkassenmodells, das unterschiedlich im nationalen und europäischen Kontext wahrgenommen wird, gibt in dieser Hinsicht Aufschluss. Zwar ist dieses Modell noch in Deutschland durch die Unterstützung der deutschen Bankenindustrie stark, aber es verliert ihre diskursive Macht auf europäischer Ebene. Schließlich führt ein Mangel an Verständnis für Sparkassenmodell, das die Sparkassen über ihr institutionelles Sicherungssystem (englisch *Institutional Protection Scheme, IPS*) schützen kann, seitens der EU dazu, dass die Sparkassen von einem Policy-Maker zum Policy-Taker im europäischen Finanzbereich werden. Das Projekt Bankenunion bleibt als unbequemer Kompromiss — nicht nur wegen des deutschen Widerstandes gegen die wechselseitige Unterstützung für Banken im gesamten Euroraum, sondern auch, weil es die Komplexität des Bankensystems in jedem Mitgliedsstaat und ihre Rolle in den nationalen Volkswirtschaften ignoriert. Deshalb plädieren die Sparkassen für eine fragmentierte Aufsichtsregulierung und für Aufbewahrung ihres eigenen Schutzsystems. Insgesamt zwingt die Bankenunion die Sparkassen, defensive Strategien einzusetzen, um ihr Businessmodell zu schützen, obwohl sie den Bedrohungen der internationalen Finanzkrise nur geringfügig ausgesetzt waren und das Vertrauen der Verbraucher in die Leistung der Finanzmärkte wiederherstellen konnten (DSGV, 2010a). So bleibt es für die Sparkassen eine anspruchsvolle Aufgabe, Verbündete zur Unterstützung ihres eigenen Modells zu finden und sich als ein alternatives Bankenmodell auf europäischer Ebene zu behaupten.

Schlüsselwörter: Bankenunion, Finanzregulierung, Finanzkrise, Single Market, Sparkassen.

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Acknowledgement

Since the beginning of the pursuit of my Masters in Global Political Economy at the University of Kassel in October 2008, my studies coincided with a period of acute financial crisis, which, in turn, increased my interest in the topic, from a time characterized with immense perplexity, till later when the financial industry showed signs of recovery through intense crisis management measures, continue until today. After investigating the financial crisis and risk management of small banks in my master thesis titled 'The Role of German Savings and Cooperative Banks in Providing Stability in the Time of Global Financial Crisis', I was inspired by my supervisor Professor Dr Christoph Scherrer to broaden my research focus towards European policymaking. For this reason, I delved into the analysis of European crisis management in the banking industry and investigated its imprint on the German savings banks. The process of establishing the European banking union sharpened the focus of my research.

The years of intense theoretical and empirical investigation would not have been possible without institutional and private support and encouragement. I am deeply thankful to the *Stiftung der Deutschen Wirtschaft* for awarding me with a full scholarship for my PhD research, offering additional financial support for my field trip to Brussels and Madrid and providing me with the opportunity to participate in numerous conferences, workshops, seminars and writing camps, and an additional space for academic exchange in Germany.

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List of Abbreviations

ACPR	Prudential Supervisory and Resolution Authority (l'Autorité de contrôle prudentiel et de résolution)
AQR	Asset Quality Review
ASBA	Austrian Savings Banks Association (Österreichischer Sparkassenverband)
BaFin	Federal Financial Supervisory Authority (Bundesanstalt für Bundesanstalt für Finanzdienstleistungsaufsicht)
BdB	Association of German Banks (Bundesverband der deutschen Wirtschaft)
BDI	Federation of German Industries (Bundesverband der Deutschen Industrie e.V.)
BPCE	Banque Populaire Caisse d'Epargne
BRRD	Bank Recovery and Resolution Directive
BSG	Banking Stakeholder Group
BSR	Bank Structural Reform
BVR	National Association of German Cooperative Banks (Bundesverband der deutschen Volksbanken und Raiffeisenbanken)
CDA	Critical Discourse Analysis
CEBS	Committee of European Banking Supervisor
CECA	Confederation of Spanish Savings Banks (Confederación Española de Cajas de Ahorros)
CEE	Central and Eastern Europe
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEO	Corporate Europe Observatory
CEPS	Centre for European Policy Studies
CESR	Committee of European Securities Regulators
CET	Common Equity Tier
CGAP	Consultative Group to Assist the Poor
CMU	Capital Markets Union
CRD IV/CRR	Capital Requirements Directive IV/Capital Requirements Regulation
DG FISMA	Directorate General for Financial Stability, Financial Services and Capital Markets Union
DG ECFIN	Directorate General for Economic and Financial Affairs
DG ENTR	Directorate General for Enterprise and Industry
DG GROW	Directorate General for Internal Market, Industry, Entrepreneurship and SMEs
DG MARKT	Directorate General for the Internal Market and Services
DGS	Deposit Guarantee Scheme
DGSD	Deposit Guarantee Schemes Directive
DIF	European Deposit Insurance Fund

DIHK	Association of German Chambers of Commerce and Industry (der Deutsche Industrie- und Handelskammertag)
DK	German Banking Industry Committee (Deutsche Kreditwirtschaft)
DSGV	German Association of Savings Banks (Deutsche Sparkassen- und Giroverband)
DWN	German Economic News (Deutschen Wirtschafts Nachrichten)
DZ Bank	German Central Cooperative Bank (Deutsche Zentral-Genossenschaftsbank)
EACB	European Association of Cooperative Banks
EAPB	European Association of Public Banks
EBA	European Banking Authority
EBF	European Banking Federation
EBIC	European Banking Industry Committee
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	European Parliament's Committee on Economic and Monetary Affairs
EDIRA	European Deposit Insurance and Resolution Authority
ECRI	European Credit Research Institute
EDIS	European Deposit Insurance Scheme
EFBS	European Federation for Building Societies
EFSF	European Financial Stability Facility
EFSF	European Financial Stabilisation Fund
EIOPA	European Insurance and Occupational Pensions Authority
EMU	European Monetary Union
EP	European Parliament
EPP	European's People Party
ERT	European Round Table of Industrialists
ESA	European Supervisory Authority
ESBG	European Savings and Retail Banking Group
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
EU	European Union
FBF	French Banking Federation (Fédération bancaire française)
FDIC	Federal Deposit Insurance Corporation
FMSA	Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung)
FSB	Financial Stability Board
GCEE	German Council of Economic Experts
GDP	Gross Domestic Product
Haspa	Hamburger Sparkasse
Helaba	Landesbank Hessen-Thüringen
HLEG	High-Level Expert Group

HSH Nordbank	Hamburgisch-Schleswig-Holsteinische Nordbank
ICDD	International Center for Development and Decent Work
IGA	Intergovernmental Agreement
IMF	International Monetary Union
IOSCO	International Organisation of Securities Commissions
IPE	International Political Economy
IPS	Institutional Protection Scheme
IR	International Relations
ISWA	Institute for Social and Political Education (Institut für Sozial- und Wirtschaftspolitische Ausbildung e. V.)
ITS	Implementing Technical Standards
KfW	German Government-owned Development Bank (Kreditanstalt für Wiederaufbau ('Reconstruction Credit Institute'))
KWG	German Banking Act (Kreditwesengesetz)
LSI	Less-significant Institutions
M&A	Mergers and Acquisitions
MaRisk	Minimum Requirements for Risk Management
MEP	Member of European Parliament
MiFID	Markets in Financial Instruments Directive
MS	Member State
NCA	National Competent Authority
NGO	Non-governmental Organisation
NOK	Norwegian Krone
NRA	National Resolution Authority
OECD	Organisation for Economic Cooperation and Development
RTS	Regulatory Technical Standards
SEA	Single European Act
SEK	Swedish Krone
SIFI	Systemically Important Financial Institution
S&D	Progressive Alliance of Socialists and Democrats
SDG	Sustainable Development Goal
SGP	Stability and Growth Pact
SME	Small and Medium Enterprises
SMP	Single Market Programme
SOFFIN	Special Financial Market Stabilisation Funds (Sonderfonds Finanzmarktstabilisierung)
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TBTF	Too-big-to-fail
TCTF	Too-complex-to-fail

TFEU	Treaty on the Functioning of the European Union
TITF	Too-interconnected-to-fail
TSB	Trustee Savings Bank
TSITF	Too-systemically-important-to-fail
UEAPME	European Association of Craft, Small and Medium-sized Enterprises
UK	United Kingdom
US	United States
ver.di	German United Services Trade Union (Vereinigte Dienstleistungsgewerkschaft)
VÖB	Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands)
WGZ Bank	Westdeutsche Genossenschafts-Zentralbank
WSBI	World Savings and Retail Banking Institute
ZDH	German Confederation of Skilled Crafts (der Zentralverband des Deutschen Handwerks)

Introduction: Understanding the Political Economy of the EU Crisis Management and Its Role in the German Banking System[1]

1. Towards Deeper Integration of the European Monetary Union and Completion of the Single Financial Market

The global financial crisis and the eurozone crisis have been shaping European political economy throughout the last decade. During this period, a large number of reforms in the governance of the financial system appeared with the aim to overcome the negative consequences of the above-mentioned crises. Recent negotiations on Brexit—Britain's exit from the European Union (EU)—demonstrate that the European space is in a state of constant transformation. The financial crisis emanating from the United States of America, led the European Commission (EC) to suspend further financial liberalization. By 2012, however, the EC had resumed its single financial market agenda. This time the Commission justified its agenda by pointing out the need for a more harmonized regulation in order "to break the link between sovereign debt and bank debt, and the vicious circle" that led to the use of the taxpayer's money to rescue the banks in the EU (European Commission 2012c, p. 3). The publicly stated primary goals, as set by the banking union, include: limit the use of public funds for stabilization purposes; develop control rules for the "highly vulnerable and interconnected banking system"; and construct an institution responsible for rescuing the banks through a common mechanism within the European zone (Bieling 2013, p.293).

By 2014, the first steps towards harmonizing the regulation and supervision of bank activities in the EU had been realized through two pillars of the banking union—the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The third pillar, a Euro-wide Deposit Insurance Scheme (EDIS), as proposed by the EC, is currently being negotiated amongst the EU member states. The efforts to finalize the banking union are articulated in the "Five Presidents' Report: Completing Europe's Economic and Monetary Union"[2] (Juncker et

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[1] Parts of this chapter are drawn from Semenyshyn (2017).

[2] The report presents deliberations and discussions of the five presidents: Jean-Claude Juncker (president of the EC), Donald Tusk (president of the Euro Summit), Jeroen Dijsselbloem (president of the Eurogroup), Mario Draghi (president of the ECB) and Martin Schultz (President of the European Parliament). It is based on the following reports: "Towards a Genuine Economic and Monetary Union" (the so-called "Four Presidents' Report"), the Commission's "Blueprint for a Deep and Genuine EMU" (2012), and the analytical note "Preparing for Next Steps on Better Economic Governance in the Euro Area" (12 February 2015) (Juncker et al. 2015, p.2).

al. 2015). Since the emergence of the banking union idea, various actors acknowledge the strong political will of the Commission and the five presidents being a key factor which keeps accelerating the process of building a new project within the EU arena (Interviews ASBA, DSGV Brussels, CEPS, EAPB, EFBS, ESBG I, III, Finance Watch I, II). The Commission aspires to accomplish its mission towards a Financial Union of an integrated finance for an integrated economy, which should be composed of "a fully-fledged" banking union and "a well-functioning" Capital Markets Union (CMU) (Juncker et al. 2015, p.11) where the inequalities and "asymmetries" in the EMU design and the single financial market should be eliminated (Howarth and Quaglia 2013).

Most commentators on the banking union see the project as the best solution to the financial crisis and the means to avoid future crises (Flassbeck and Lapavistas 2013; Lannoo 2015; Verón 2015). As Howarth and Quaglia (2013) point out, the banking union is seen "as an alternative route to stability: a European holy grail" (ibid., p.120). Verón (2015) labels the project as Europe's radical banking union, as far as it "marks a radical change that profoundly modifies the nature of European integration and the balance between member states and European institutions" (ibid., p.8).[3] For the proponents of the banking union, the new institution with its uniform deposit insurance, uniform resolution mechanism and additional banking monitoring, is a strong mechanism implying that "one eurozone country would have to commit public funds to rescuing the banks of another member country" (Flassbeck and Lapavistas 2013, p.21). This reform package is aimed specifically at the deeper integration of the EMU and completion of the single financial market (Gros and Schoenmaker 2014). Due to the fact that the commercial banks are mainly dependent on the national banking system, Flassbeck and Lapavistas (2013) see the solution for the banking crisis in the EMU in the form of future uniform deposit insurance and uniform resolution mechanism and additional banking monitoring.

In light of the development of the banking union, there has been an increase in the scientific debate around the topic of European governance of financial integration and banking regulations. In this realm, a large part of the literature focuses on the political dynamics behind the creation of the banking union (Epstein and Rhodes 2016b, 2018, Howarth and Quaglia 2013, 2014; Schäfer 2016; Spendzharova and Bayram 2016). In addition, many scholars search for theoretical explanations of a new political project—CMU (Braun, Gabor and Hübner 2018;

[3] In the same manner, Epstein and Rhodes (2016a) speak of "a radically new model of bank governance", which shifted an oversight of Europe's biggest and systematically important banks from national to supranational level (ibid., p.11); Moloney (2014) calls the banking union "the most radical of the crisis-era reforms" (ibid., p.1610).

Braun and Hübner 2018; Demary, Diermeier and Haas 2015; Engelen and Glasmacher 2018; Moloney 2016a, 2016b; Quaglia, Howarth and Liebe 2016). For example, Braun, Gabor and Hübner (2018) offer a critical take on the political economy of CMU.

From a supranational perspective, the creation of a banking union and CMU is very much celebrated. In the speech, 'Synergies between banking union and Capital Markets Union', Vice-President, European Central Bank (ECB), Vitor Constâncio, asserts how the banking union supports the CMU and vice-versa, and underlines that these institutional initiatives are the key catalysers of the financial integration of the EU in future (Constâncio 2017). This is reflected in academic discussions. Epstein and Rhodes (2018) analyse the emergence of the European banking union and CMU as the key pillars of European integration. They conclude that these two projects had profoundly weakened the ties between the bank and states and changed the nature of governance-cum-government in the sphere of nation-state political economies by centralizing governance and empowering market actors.

In discussions on European market integration, many authors emphasize the incomplete Single Market (Howarth and Sadeh 2010; Verdun 2015) or incomplete efforts to create an integrated banking market (Epstein and Rhodes 2016a). Furthermore, Jones, Kelemen and Meunier (2016) argue that such incompleteness of the governance architecture of Europe's EMU had caused the euro crisis and guided policymakers in responding to the crisis. In their view, the incomplete nature of European integration is driven by intergovernmental bargaining, which leads to the lowest common denominator solutions. In the crisis narrative of the "Liikanen Report", incomplete regulatory oversight of financial markets, among other factors, contributed to the deepening of the crisis (Liikanen et al. 2012). In the academic discussions, Howarth and Quaglia (2013) and Quaglia, Howarth and Liebe (2016) support the argument of the incomplete integration of the financial market in the EU and the creation of a banking union, and lately, the CMU.

2. Theoretical take on the political economy of financial regulation

Given the development of the European project in the post-crisis era, theoretical debates about this initiative have progressed reflecting on such dimensions as critical juncture, institutional change, power and ideas. Ioannou, Leblond and Niemann (2015) offer a broad discussion on European integration and crisis by covering various theoretical lenses. In describing the EU's institutional responses to the crisis and incorporating different theoretical discussions, they aim to answer the question: why did the EMU become deeper and more integrated when many feared for its survival? They argue that due to economic interdependencies among the euro area member states, there was no interest in the failure of EMU, but rather an incentive to avoid such scenarios. In this sense, the institutional choices were shaped by spillover logics, past and existing EU institutional arrangements and power relations (Ioannou, Leblond and Niemann 2015, p.172). Braun (2015) offers an analysis of ideational and institutional change within the euro area at the critical juncture of 2008–2013. In this context, the critical junctures are conceived in two phases—emergency crisis management phase and subsequent institution-building phase. The author suggests that the first crisis management phase might establish path dependencies, which then open up space for ideational entrepreneurs and institution building efforts. Taking into account the preparedness for the crisis and its lack in the euro area, he argues that the ECB has managed to take the leading position during the emergency phase of the crisis. Such acquisition of power by the ECB is believed to be the starting point of forming the future institutional architecture of the EMU.

Due to the new political reality shaped by the crisis, many scholars devote space for the question of power (Bauer and Becker 2014; Carstensen and Schmidt 2017; Conceição-Heldt 2016; Donnelly 2013, 2016; Epstein and Rhodes 2016b; Nugent and Rhinard 2016). Many studies focus on the debate about power and influence of the EU institutions, in particular the EC. Bauer and Becker (2014) call the Commission as "the unexpected winner of the crisis", whose role has been strengthened in the economic governance. They argue that during the crisis, its agenda-setting role was in decline, while its implementation powers had increased profoundly. Contrary to such arguments, Conceição-Heldt (2016) contends that the euro crisis has not led to the strengthening of the Commission, but rather resulted in its "subtle disempowerment" and as a result shifted the decision-making power and resources from the Commission to the intergovernmental level and to the ECB. Nugent and Rhinard (2016) dispute the view that the Commission's power and influence is in decline[4] by focusing on the Commission's three-core functions—agenda-setting, legislative and executive. They acknowledge a minor decline of the Commission's power; however, they conclude that its position within the EU system has been strengthened. For instance, the management of financial and eurozone crises, the Lisbon Treaty and the creation of new agencies empowered the Commission with new executive functions.

By analysing the political dynamics behind Europe's new banking union, Epstein and Rhodes (2016b) trace the process of change of power between the European and national levels in the

[4] For this argument, see also Kassim, Peterson and Bauer (2012), Majone (2014), Rasmussen (2003).

field of finance. In this case, the increase of power given to the EC and the ECB is examined. The financial and euro crises opened up opportunities for these two supranational institutions to consolidate their powers; they disempowered national actors and allowed the transfer of control from a national to a supranational level. For this reason, the authors view the creation of the banking union as a reflection of a neo-functionalist logic, which allows the supranational actors to push for supranational solutions and shape policymaking. Similarly, Krampf (2014) concludes that the EC and the ECB are the driving forces behind reforming the architecture of EMU, thereby pushing for the establishment of a banking union. On the contrary, by analyzing the politics of banking and fiscal union, Donnelly (2013) points out the intergovernmental nature of the process and bargains, and supports a realist interpretation of EU politics. In a later article, he concludes that the banking union is established through strong transfer of supervision to the European level, as well as significant conservation of national authority in deposit insurance, resolution and provision of public backstops (Donnelly 2016, p.13).

In the debate about which European actors are more powerful in the governance of the euro crisis, Carstensen and Schmidt (2017) move beyond intergovernmentalist and supranationalist explanations. They depart from grasping the euro crisis governance by only one dimension of power or one institutional actor and analyse it from the vantage point of a multidimensional conceptualization of power. The role of ideas is also used to explicate financial regulation politics in the crisis and post-crisis periods. In this respect, authors examine how various constellations of coercive, institutional and ideational power favoured different EU actors in the course of the crisis. They single out that in the first fast-burning phase of the crisis (2010–2012), intergovernmental actors of Northern European member states (particularly Germany) were stronger than supranational actors in exercising coercive and ideational power; while in the slow-burning phase (2012–2016), the supranational actors (the EC and ECB) exercized a greater influence using ideational and institutional power. Furthermore, the authors not only support the 'new' intergovernmentalists' view that member states are in the leading position of short-term crisis management and long-term reform, but also acknowledge a supranationalist view of the Commission as an entrepreneur, who implements economic governance reform and provides new ideas and interpretations.

Furthermore, the political economy of financial regulation is also analysed through the prism of interest group environment in financial regulatory politics (Culpepper 2015; Keller 2018;

Pagliari and Young 2014, 2016).[5] For instance, Pagliari and Young (2016) study how specialized regulatory agencies shape financial regulatory policies, and how interest groups advocate and arrange their policymaking activity. Culpepper (2015) reflects how structural power is used in the analysis of political development after the global financial crisis and eurozone crisis. He underlines that a new generation of structural power research deals with the question of how the structure of capitalism opens up opportunities for companies vis-à-vis the state, and how this structure gives leverage for some states to play off companies against each other.[6] With regard to the latter, Keller (2018) studies lobbying strategies and business success in influencing the post-crisis financial sector reform agenda. Drawing on an in-depth case study of the domestic and European lobbying activities of German business federations in the context of post-crisis banking reforms, he argues that due to '*noisy business politics*',[7] business lobbying was able to receive a favourable regulatory treatment of bank lending to SMEs.

3. Research question and overarching framework

What is often neglected in debates is the fact that the new regulation also puts pressure on small banking groups, which have not contributed to the crisis creation, but in the end, are also targeted strongly by the banking union architecture. The creation of the banking union as well as the CMU might be used by the EC as an umbrella to cement the neoliberal fundamentals into the new institution via a new form of re-regulation. This would lead to further deepened liberalization of the European Single Market. The proposal of the banking union has been the most contested during the process of crisis management. In this thesis, I argue that the project of the banking union remains an uncomfortable compromise not only because of the German opposition to the mutual support for the banks throughout the eurozone, but because it ignores the complexity of banking systems of each member state and their role in national economies. Thus, the banking union can be defined as a major institutional post-crisis reform that changes the competencies of national institutions, creates new agencies and institutions and puts pressure on the old banking structures within the EU member states. By not treating the alternative

[5] The role of economic interest groups in European integration had been also discussed before the crisis. For example, Grossman (2004) scrutinizes the power of banking interest groups in France, Germany and the UK.

[6] In regard to the structural power of business, Bell (2012) brings to the forefront the role of agency and demonstrates how ideas might help define relationships of power.

[7] Emphasis in original.

banks differently, the envisaged banking union threatens the existence of public savings banks as well as cooperative banks in the eurozone.

For this reason, my research attempts to bring some light into the politics of the European financial industry. In order to understand it, I do not restrict myself to looking at one theoretical dimension, be it power relations, institutional or ideational change. Drawing from different critical theories on structure and agency, institutional change, power relations and the role of ideas, I seek to provide a deeper understanding of the selected field of study. First, the historical method of Cox has inspired me to view EU as a historically specific conjuncture, which allows me to trace the process of change of both structure and agency. More specifically, the interpretative historicist approach had led me to grasp such aspects as knowledge construction, practices and interests of the agents. Second, by tackling the issue of institutional change, I am able to trace the process of development of the European project and construction of new European institutions and agencies. Third, I employ the conceptualization of power offered by the 'faces of power' approach, which allows to explore the struggle over banking regulations among various supranational and national actors. Fourth, I study the role of ideas in understanding the European context, as far as ideas guide actors in articulating their discursive strategies in political struggles. Bringing all these theoretical strands together allows me not only to examine factors and actors that lead to the creation of the banking union, but also to examine the development of the German savings banks sector within the broader European economic and political setting.

Alongside contributing to a better understanding of the European financial architecture under construction, my research relates to the role of Germany, which has a strong say and central position in shaping European politics.[8] Germany's role in European politics can be reflected in German Chancellor Angela Merkel's government statement on the European Council Meeting in the German Parliament on 18 December 2013. In the first statement after her re-election, Merkel pointed out that:

> The Federal Government of the grand coalition wants that Germany, as a founding member of the European Union, continues to play a responsible and integrative role in Europe. For the grand coalition, the European project is and remains one of the major tasks of this legislature. We want […] to shape Germany's future, and we want to help shape Europe's future (Merkel 2013, own translation).

[8] On the interaction between ECB, the Commission and Germany, see Krampf (2014). Using the ideational frames, Schäfer (2016) analyses the establishment of the banking union and preference formation of the German government through the lenses of ordoliberal ideas. For more on ordoliberalism, see Chapter One.

Furthermore, with regard to the European crisis management, the Chancellor underlined that the German government would advocate for a comprehensive political approach with the goal of "a strengthened Europe, Europe of stability, of growth and […] social security" (Merkel 2013, own translation). In this respect, the long-term strength of Germany is possible only under the circumstance that Europe is also strong.

Such a strong emphasis on Europe is not intermittent. Germany has to confront the consequences of new initiatives and projects within national space. The creation of the banking union is aimed at withdrawing the powers for regulating the financial industry from the national to supranational level. On the same day, late in the night before the European Council meeting (19/20 December 2013), the finance ministers agreed on the SRM, including the Single Resolution Fund (SRF), which takes over dealing with the bank failures. Also, a new directive for harmonization of deposit guarantee schemes in all member states was agreed on in December 2013.

In the report of the European Council on its activities in 2013, the progress on the three pillars of the banking union is summarized as follows:

> …the bridges are ready or under construction, and we are set to cross soon. The magnitude of this achievement, within just eighteen months since the decision to create a banking union, should not be underestimated. For the eurozone, it is the biggest leap forward since the creation of the euro itself; and by EU standards, it is happening with the speed of light (European Council 2014, p.7).

However, the speed slowed down while negotiating the third pillar of the banking union, the EDIS. As its progress stumbled on the opposition from Germany, this pillar has become central in the conflict over EU market integration. In its turn, the opposition has been driven by the interests of German savings and cooperative banks, whose associations object to the proposal of the EC. For this reason, my research relates to the issue of how such a transformation of European financial architecture plays the role in the national context, particularly for German savings banks. Deeg and Donnelly (2016) emphasize that alternative banks[9] are in danger due to the cost of new supervision, restrictions on the size and nature of their balance sheets, and pressure for the banks to look to outside investors that in the end could change their model. Besides, the capacity of national supervision for alternative banks is also already restricted by the new regulations. The authors conclude that the banking union is generally a threat to

[9] In some studies, cooperative and savings banks are referred to as alternative banks (Butzbach and Mettenheim 2014; Howarth and Quaglia 2016; Mettenheim and Butzbach 2012; Miklaszewska 2017).

alternative banking via ‘crisis-induced liberalization’, but they state optimistically, that the project is not a threat to the German savings banks model. On the contrary, I argue that the banking union has the potential to squeeze savings banks in the future, especially when the common deposit insurance mechanism is adopted. This last pillar of the banking union will force savings banks to abandon their own joint liability scheme.

The existing relevant literature for this dissertation can be categorized into the following studies: (i) striving to identify the development of the European project and the role of crises therein; (ii) analyzing the institutional reforms in the financial industry[10] and the role of different actors in constructing European banking union; (iii) examining the German savings banks sector and its role in the struggle over banking regulations. This thesis focuses on the case of German savings banks that fared relatively well in the crisis, but still could not avoid the impact of the banking union project. The study of German savings banks is brought into the European context by focusing on the academic debates on savings banks in Europe, revealing the political debates on savings banks, and portraying their actual position across Europe. The major puzzle is why the traditional model of public savings banks is becoming marginalized in the European Union (EU) financial regulations, even though it has proven to be stable. The aim of this thesis is to understand why savings banks were not able to position their model as an alternative within European space. To reach this goal, this research strives to answer the following questions: How are savings banks responding to the new challenges of the supranational financial regulatory policymaking processes? What position do they take against the banking union project in the political struggles within the EU and why? By process-tracing the emergence of the banking union, I analyse the power constellations at the supranational and national levels; identify the strategies of the EC, the German state, and the lobbying strategies of German savings banks. Furthermore, I reflect on the role of think tanks Bruegel and Centre for European Policy Studies (CEPS) in the policy debate on the banking union.

Methodologically, my research applies the extended case method, which allows for a triangulation of sources: in-depth interviews, participant observation and documentary research (see Chapter Four). Overall, I have conducted sixteen interviews in the frame of my dissertation. In addition, I use four interviews from my master thesis, which relate to the research theme of the doctoral project. I have conducted most of the interviews while being a trainee at the European

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[10] For a detailed progress of financial reforms in the EU, see the website of the European Commission https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-reforms-and-their-progress/progress-financial-reforms_en.

Savings and Retail Banking Group (ESBG) in Brussels for the period of two months from 1 October 2015 to 30 November 2015. This affiliation has allowed me to observe participants of various thematic and committee meetings of this institution, meetings of experts from European agencies and other banking associations. Participation in further academic seminars and conferences has allowed me to receive additional insights into the European financial industry. Furthermore, my research includes an analysis of the statements of politicians and excerpts from official documents, reports and position papers. These are drawn from the websites of various European and national institutions, banks, banking associations, NGOs and think tanks. To underpin my arguments, I have also studied news reports on finance, banking and crises following discussions from the *Deutsche Welle*, *Handelsblatt, Der Spiegel*, *Politico* and *The Economist*.

Since the financial crisis, the European project, particularly financial and banking regulation, has been transformed into the direction of more supranational governance. The national actors seem to have been losing their positions. Thus, the main objective is to analyse the EU's political economy, finance and banking regulation and its repercussions on German savings banks in the crisis and post-crisis period, and to illustrate the transformation of politics and the redistribution of power among the various actors within the given structure of EU's political economy. The interest lies in the strategies that various actors employ in the struggle over the banking union. The findings of this dissertation shed light on these politically highly relevant developments.

The central argument of this dissertation can be summarized as follows: the financial crisis caused the incremental change of EU institutions and led to the strengthening of the Single Market agenda by layering the new rules along the previous logic. The EC has utilized the crisis to build up the new institutional arrangement for the banking sector by shifting the supervision and resolution tasks from the national to the supranational level. The banking union forced savings banks to employ defensive strategies in order to protect their business model, even though they were minimally exposed to the threats of the international financial crisis and were able to restore consumer confidence in the performance of financial markets (DSGV, 2010a). Still, finding allies to support their own model and winning a position as an alternative banking type at the EU level has been a challenging task for savings banks.

The identity of the savings bank model is perceived differently in the national and European context. While it is still strong in Germany, securing support from the German banking industry, it loses its discursive power at the European level. Ultimately, the lack of understanding of the savings bank model, which can protect savings banks via the Institutional Protection Scheme (IPS), makes them policy-takers rather than policymakers in the European financial domain. The project remains an uncomfortable compromise, not only because of German opposition to the mutual support for the banks throughout the eurozone, but also because it ignores the complexity of the banking systems in each member state and their role in national economies. Thus, savings banks are pleading for fragmented oversight regulation and preservation of their own protective system.

One can conclude that due to strong political will from European institutions and lack of coalition partners within the European arena, the fight of the small public banks is almost lost at the EU level. They will face privatization pressure from the Commission in the future, notwithstanding the fact that the system of local and regional saving banks contributes towards the maintenance of a social market economy (Smith 2001, p.28). With the adoption of the EDIS, their own joint liability system is in danger, because even in a successful case, it might be abandoned in the end.

4. Organization of Dissertation

This dissertation is structured as follows. Chapter One underscores the debates on European integration and sketches the theoretical strands, which take their stance on conceptualization of the European integration dynamics and European project. This brief discussion leads me to single out the Neo-Gramscian analysis of European integration as the fundamental layer of my research. Furthermore, I trace the origins of the development of the EU as a neoliberal political project and present, in a historical order, the phases of transformation of EU project ranging from the Single European Act (SEA) to Lamfalussy Process. Turning to the issue of the financial crisis, I touch upon the regulatory side of crisis responses focusing on managing the crisis within the EU arena and on the role of various actors in this process. In the end, such developments of the European project prepared the solid ground to resume EC's Single Market agenda and start the realization of the new political project—the European banking union.

Chapter Two brings up the discussion on German savings banks into the European context. First, I contour the impact of the European project on the European savings banks by: (i) focusing on academic debates about savings banks in Europe; (ii) revealing the political debates on savings banks; and (iii) portraying savings banks' decline in Europe with the example of Finland, Norway, Sweden, Spain, Italy, France and Austria. Second, I draw attention to my main focus of research—German savings banks—by presenting their key characteristics. Third, I reflect on the role of German savings banks before and after the financial crisis.

Chapter Three offers a theoretical journey for the discovery of important critical thinkers, which provide me with the lenses to conceptualize the EU. To this end, the historicist method of Cox inspires me to view EU as a historically specific conjuncture, and additionally, the interpretative historicist approach of Amoore to focus on such aspects as knowledge construction, practices and interests. Furthermore, this chapter delivers my theoretical approach on the subject of institutional change, which draws upon historical institutionalism. As my attention is confined to the political struggle over financial regulations within the EU context, this chapter investigates the theorization of power concept and its application to my study. The construction of the European banking union is not only the outcome of power relations, but its policy design is also carved out by ideas, interpretations and discourses. For this reason, the last subchapter deals with theoretical discussion on the role of ideas in the academic world and underscores my application of ideational factors in the European context.

Chapter Four contours the methodological and conceptual frameworks of my research project. To achieve this goal, I present the discussion on the positive and reflexive scientific models and the extended case method, which is applied in this research for the empirical study of European integration, EU policymaking and decision-making processes. Furthermore, I shortly present how I became engaged in exploring my case study through my field research. Along this line, I present the design of my project by defining its key pillars: time frame covered, explanatory factors used and actors observed. Moving towards data collection, I devote space to introduce the techniques of empirical investigation: in-depth interviews, participant observations and documentary research. These techniques are used as sources for the analysis of the case study.

Chapter Five investigates the power struggle over the first two pillars of the banking union project based on the conceptual and methodological pillars developed in the two previous chapters. The attention is drawn to the analysis of the strategies of actors involved in the creation of the banking union. On these grounds, the chapter traces the process of designing a new European financial architecture based on the practices and interests of three main groups of actors. First, the chapter sheds lights on strategies employed by the key actor in the EU, the EC. It traces its role in changing discourses, initiating the institutional change and safeguarding the continuity of the Single Market project. Second, the chapter addresses the mediating role of the

German state in the negotiations over the banking union project. Last, it grasps strategies, interests and positions of other key actors who are part of this process with an emphasis on small banking groups. In this exploration, I focus on the power relations between these actors over the time frame discussed.

In Chapter Six, the analysis is devoted to examining the struggle over the third pillar of the banking union, the EDIS, as well as investigating the response of German savings banks towards the EU regulation package in the banking sector—the banking union. Throughout the process of discussing and establishing the banking union, savings banks as well as cooperative banks face renewed pressure, which places them in a defensive position. The biggest threat is imposed by the proposal for EDIS, against which the small banks strongly oppose. Therefore, this chapter delves into analysing the design of the third pillar of the banking union and its impact on German savings banks. Furthermore, it explores the strategies the German Association of Savings Banks (DSGV) employs at the European and national levels to promote and protect its model geared to serve the needs of the local economy. Lastly, the chapter discusses the future challenges of the savings bank model, which in some aspects does not fit in to the ideas of the Single Market agenda of the EC.

Chapter Seven brings to the fore concluding remarks and major arguments of this dissertation. It points out the key contributions of my research to the field of Europeanization and governance of the EU. In addition, after exploring the institutional setting of the EU financial regulatory domain, tracing and evaluating the intentions of the architects and builders of the Single Market and banking union, I am also able to reflect on the challenges, limits and opportunities for the savings bank model, which has a potential to become an alternative way of banking within the European arena.

Chapter One: The European Neoliberal Project and its Implications on European Finance and Banking Regulations

This chapter provides a background on the formation of the European project and seeks to investigate the question about the direction in which financial service regulations have developed since the inception of the Single Market within the European Union (EU). To this end, various theoretical debates will be discussed explaining the European integration from different angles. In the light of the formation of the European project, I reflect on the discussions of the EU as a neoliberal project from the tradition of critical political economy. Over the past decades, the European project has undergone major transformations leading to the strengthening of the financial market integration agenda. Several phases of transformation of the EU project have been identified and observed in this chapter. This overview leads me to the issue of European governance, which touches upon the role of the EC, the member states and other actors in the struggles over policymaking. In the context of these discussions, I look at how the financial and Euro-crises revitalized the construction of the European project. In a nutshell, the crises have been used by supranational actors to articulate a new supranational solution for the banking industry by creating of the banking union.

1.1. European Integration Dynamics

It is important to refer to the debates on European integration while discussing the development of the European project. EU's integration can be defined as a process where "(a) new policy areas are regulated partially or exclusively (sectoral integration) at the EU level, (b) competencies are increasingly shared across EU member states or delegated to autonomous supranational institutions (vertical integration), and (c) the EU expands territorially by accepting new members (horizontal integration)" (Schimmelfennig and Rittberger 2006, p.74). The EU's integration process also matters for this research. First, the EU's financial and banking sectors are becoming increasingly regulated by new regulations produced at the EU level. The most recent and vivid examples of regulatory initiatives from the European level are the banking union and Capital Markets Union (CMU). Second, the competencies of the member states are distributed among EU institutions or the tasks are delegated to new supranational institutions, for example, to the European Central Bank (ECB), European Banking Authority (EBA) and Single Resolution Board (SRB).

Approaches to research of the European integration are often grouped into two broad schools of thought: intergovernmentalism and supranationalism (Schimmelfennig and Rittberger 2006, p.76). For this reason, studies on the topic of European integration have been mainly built upon the intergovernmental and supranational logics. As Schmidt (2012) puts it, the main tension at the EU level comes via the articulation between supranational and intergovernmental politics. In the intergovernmental versus supranational institutional debate, the former adheres to interstate bargaining, whereas the latter acknowledges the agency of supranational institutions (specifically the Commission) backed by different transnational actors (Van Apeldoorn, Overbeek and Ryner 2003, p.22).

Intergovernmentalism

Intergovernmentalism, as a theory of regional integration, was first proposed by Stanley Hoffman in contrast to debates on neofunctionalism. From an intergovernmentalists' camp, the member-state governments are the driving forces behind the process of integration, thus, they define the pace and content of further integration dynamics via intergovernmental negotiations, where an agreement is reached through the consent of all state participants. The theoretical approach is divided into a realist (Hoffmann 1966; 1982; Milward 1984; 2000 [1992]) and liberal (Moravcsik 1993; 1997) intergovernmentalism based on the determinants of member-state government's preferences, their bargaining power, and the choice of EU institutions. Correspondingly, governmental preferences and bargaining power are sector-specific and are predominantly economy-based for the liberal camp while determined by the geopolitical situation for the realists. Hence, while liberals believe that institutions aim to monitor and control compliance to EU rules and negotiations, realists consider them essential to secure autonomy and influence (Schimmelfennig and Rittberger 2006, pp.76–78).

The main assumption of intergovernmentalism has been that European integration is analogous to general international politics and that the EU is an international institution. Second, the approach is based on a rationalist framework, which studies governments' exogenous preferences in international negotiations and the collective outcomes as a result of interaction of states, where each state represents its interests and aims to reach its goals. Along this line, the outcomes of international negotiations depend on the bargaining power of actors guided by the asymmetrical distribution of information and the benefits of a specific agreement and on the effects of international institutions. The states are keen on preserving their national sovereignty in interstate bargaining, so the outcomes of interstate bargaining depend on how relative power is distributed among the participating states (Van Apeldoorn, Overbeek and

Ryner 2003, pp.20–22). It is important to note that for the intergovernmentalist camp, the supranational EU institutions are regarded as weak with low expertise, resources and lacking popular support to increase their power. For this reason, the analysis of European integration is focused on state preferences, their interdependencies, interests constellations and negotiations among governments and between governments and EU organizations (Schimmelfennig and Rittberger 2006, pp.78–84). Thus, liberal intergovernmentalism is a state-centric theory with a focus on the strategic interaction among states, which requires an understanding of domestic politics and rational choices of governments (Van Apeldoorn, Overbeek and Ryner 2003, p.26).

Supranationalism

Supranationalist theory on European integration has also its origin in International Relations (IR) theory, as theorized by Ernst Haas, Leon Lindberg, Joseph Nye and Philippe Schmitter, who have defined the neofunctionalist research agenda (Schimmelfennig and Rittberger 2006, p.76). This approach is based on the transformative ontology, which assumes that the international system can be altered via institutionalization and identity change. In this respect, the process of integration is believed to have a transformative and self-reinforcing effect. According to the neofunctionalist logic, new institutions, which are created due to the integration process, are able to change the interests, beliefs and expectations of domestic actors, who will then back up future integration (Van Apeldoorn, Overbeek and Ryner 2003, p.21). In comparison to intergovernmentalism, where the state is the core, in supranationalist tradition, the plurality of state and non-state actors is at the core. In the end, a European supranational state is seen as the endpoint of European integration. To reach such a policy outcome, various interest groups exercise pressure, although less attention is paid to the analysis of "power within and between the groups, of why some groups are more powerful than others and may thus be more successful in setting the agenda of European integration" (ibid., p.22).

Supranationalism can be divided into two camps—a realist built on historical institutionalism and constructivist theory, which derives from theories of socialization (Schimmelfennig and Rittberger 2006). Primarily these two types of supranationalism vary because of the EU institutions' effect on the integration process. The realist approach explains that the member states lose control over the process of integration due to EU's institutional decision-making arrangement and its status quo bias. The constructivist approach considers identities and world views of governments and EU institutions to be the key factors, which affects the process of integration and is affected by the integration process. Thus, from the realist supranationalism perspective, institutions and the self-sustaining process of integration enable supranational actors and constrain member state governments. From the constructivist supranationalism view, the continuing process of integration is a result of actor socialization and identity change (Schimmelfennig and Rittberger 2006, p.84).

In their analysis of European integration theories, Schimmelfennig and Rittberger (2006) conclude that theories of intergovernmentalism and supranationalism are not incommensurable, but can be used for the 'theoretical dialogue' with their various theoretical foundations for explaining integration phenomena of a certain empirical domain. Apart from the two, the integration processes can be also explained from multilevel governance or historical materialism perspectives that offer additional theoretical lenses to interpret European integration (ibid., p.92).

Multilevel Governance

The multilevel governance approach departs from giving preference to a specific level. It analyses the interconnection of different levels: sub-national, national, and supranational, which "are connected in complex ways so as to constitute networks of governance" (Van Apeldoorn, Overbeek and Ryner 2003, pp.26–27). For this approach, nation-states still play a decisive role in EU's policymaking, however, it acknowledges an independent influence of the EC, the European Court and the European Parliament.

The 'multi-level governance' concept is used to analyse the area of European integration, EU's regional policymaking and decision-making processes and to depict EU's multilevel interactions (Bache 2004; Bache and Flinders 2004a; Bache and Flinders 2004b; Jessop 2004; Hooghe and Marks 2001; Perraton and Wells 2004; Piattoni 2010). The concept has been developed to analyse EU's decision-making process, after Gary Marks (1992; 1993) applies this approach for the first time to grasp the developments in EU's structural policy. Furthermore, the issues of EU governance have become more important with the deepening of the integration processes and with the signing of the SEA. Recent research on the EU has been utilizing this concept as far as "the EU neither resembles domestic polities nor international organizations, and therefore defies explanation from approaches applied either to politics within states or politics between states" (Bache and Flinders 2004c, p.1).

The concept of multi-level governance has been developed as an opposing view to the state-centric model of intergovernmentalism, which sees the EU as an international organization, where member states are predominately involved in the decision-making process. The multi-level governance defines the policy process in the EU as "the interaction between a constellation of public and private actors located at the supranational, national and sub-national level" (Hunt, cited in Marsh and Furlong 2002, p.36). In addition to this, the multi-level governance concept has been drawn from the policy networks approach, which illustrates how the supranational, national, regional and local governments are entangled in "territorially overarching policy networks" (Marks, cited in Bache and Flinders 2004c, p.3). Bache and Flinders (2004a) present four common characteristics of the multi-level governance concept: (i) decision-making is characterized by the growing role of the sub-national level and the involvement of non-state actors; (ii) the context of complex overlapping networks blurs the territorial levels of decision-making; (iii) the role and strategies of the state changes; (iv) the nature of democratic accountability has been challenged as well (ibid., p.197). Another key tenet of the multi-level governance model used for the study of the EU are as follows:

> First, that while nation states remain central actors in policy making, decision-making competencies are shared and contested by actors organized at different territorial levels rather than monopolized by national governments. Second, collective decision making among states in the European Union involves a significant loss of control for individual governments. Third, political arenas are interconnected, both formally and informally, rather than nested. Subnational actors operate in both national and supranational arenas, creating transnational networks in the process (Hooghe and Marks, Bache and Flinders 2004b, p.96).

Bache and Flinders (2004a) highlight that the concept of multi-level governance can be applied as an analytical model or as a normative concept. As a normative concept, the multi-level governance is defined "as a normatively superior mode of allocating authority" (ibid., p.195). As an analytical concept, multi-level governance is used as an established theory of EU's policymaking, drawing on the neo-functionalist approach. In this regard, the multi-level governance advocates "an emerging dynamic in the context of European integration that pulls authority away from national governments and empowers subnational and supranational actors" (ibid., p.197).

The multi-level governance framework can be used to discuss the issues of EU's 'high politics' of economic policymaking in order to analyse the formal layering of authority and non-state and multi-level interaction as well as the changing nature of policymaking. It portrays the dispersion of power away from national governments in both directions to the supranational and subnational levels. Multi-level governance has been also used as a tool to depict shifts in power, which result from strategic opportunities, which players use at the political arena (Callaghan 2008, p.10). The actors might build alliances to exploit these strategic opportunities in order to strengthen or weaken others. For example, lobby groups might align either with the national government or the EC to promote their interests. Furthermore, power relations in multi-level governance are also regarded "as reciprocal interdependence on each other's resources, rather than on conflict over either scarcity or fundamental values" (Marsh and Furlong 2002, p.37).

In a situation, when national governments give over the authority to supranational agents, not only the balance of power is changed, but also the balance of resources between the levels of government. It means that the sub-national authorities might lose the resources to achieve their goals at the national level, as the decisions at the EU level will be prioritized. Along this line, sub-national authorities follow their strategies, which can vary from settling their representation in Brussels to demanding more action from central governments (George 2004, p.115). Analytically, it is convenient to decompose the policy process into the stages of bargaining between the actors, which might lead to a tentative agreement and discussions within groups of actors on further actions in the policymaking process (Putnam 1988, p.436). The weakness of the multi-level governance is the situation of the 'joint decision trap', where participants of the decision-making process might be in danger of deadlock due to the multiplicity of the policymaking processes (Marsh and Furlong 2002, p.38).

To sum it up, the multi-level governance analytical framework fits in with the study of rules, norms, operating procedures, and structures of the EU multi-level polity, which determines the multiplicity of decision-making in the European context. Still, critics of this pluralist theory argue that multiple groups, who represent their interest and interact in a multiple system, do not compete on equal conditions due to the capitalist structure (Van Apeldoorn, Overbeek and Ryner 2003, p.28).

Critical Theory of European Integration

Van Apeldoorn, Overbeek and Ryner (2003) argue that the mainstream theories of European integration lack the understanding of the nature of power in the EU and the impact of power relations for legitimacy. For these scholars, who are guided by the work of Antonio Gramsci, power relations are fundamental in capitalist market structures, thus structural power is a determinant for a certain course of European integration. Critical political economy approach emphasizes power relations, special interests and arbitrariness of market forces and civil societal relations and combines these with state power (Van Apeldoorn, Overbeek and Ryner 2003, p.20). The main characteristics of this approach are rooted in historical materialism, transnationalism and neo-Gramscianism.

As historical materialism analyses the world based on grasping how human beings set up production and reproduction, the critical theory of European integration studies these processes as the dynamics of the capitalist mode of production in the long run. Reconstructing identifiable historical events, critical scientists aim to analyse "the instituted social practices associated with European integration as a phenomenon that is a relatively autonomous regional expression of an emerging capitalist global political economy" (ibid., p.34). At the most abstract level, European integration can be explained in terms of commodification and socialization. Commodification means spreading market relations over the lives of more people and socialization denotes transformation of individual-integrated labour into specialized labour, and displacement of an individual "out of closed, self-sufficient, kin-ordered communities into wider circles of social interdependence and 'imagined' communities" (ibid., p.35). Transnational historical materialism defines the allocation of social relations transnationally, but not within national boundaries, thus, placing capitalism in a global context.

The Gramscian concept of hegemony offers a framework to study complex and dynamic hegemonic structures of the EU (Bieling and Steinhilber 2000, p.34). Hegemony can be discussed at three analytical levels: "historic bloc", "hegemonic bloc" and "hegemonic projects". Hegemonic projects can be regarded as the political projects or "more particular and more concrete political initiatives presented as solutions of pressing social, economic, and political problems" (ibid., p.36). The building blocks of Neo-Gramscian analysis of European integration are interactions among actors, political organizations and institutions who shape agreements. The components of political projects are material-based interests, rational strategies of social actors, practices of discursive interaction and forms of affective imagination. According to Gramsci, the control over the coercive apparatus of the states does not completely or mainly build the political power of the ruling class as it is disseminated and located within institutions and relationships in civil society. Gramsci defines such a form of class rule as hegemony, which "is based on consent and is backed up only in the last instance by the coercive apparatus of the state" (Van Apeldoorn, Overbeek and Ryner 2003, pp.36–37).

1.2. Embedded Neoliberalism in the European Project[11]

The financial crisis of 2008–2009 and the consecutive Euro-crisis have left their imprint on the European project and brought new dynamics into the European space. Before these last developments Van Apeldoorn (2009b) had already discussed a multi-level legitimacy crisis, where the states "called into question the coherence and foundations of the European integration process as a political and social-economic *project*, which has been guiding the restructuring of state-society relations within Europe's transnational political economy" (ibid., p.21, emphasis in original). To clarify why the EU gets trapped in the crisis phases and why the above-mentioned crises undermine its strength, one needs to discuss the deeper origins of the development of the EU as a neoliberal political project. The historical analysis allows a look at the Europeanization processes, which demonstrates how the neoliberal discourses and ideas of liberalization, privatization, deregulation, and retrenchment get rooted into the EU political project (Schmidt 2002, p.1).

1.2.1. Defining Neoliberalism

In order to grasp the notion of neoliberalism,[12] first, it is important to reflect on the doctrine of liberalism, which has been born out of studies of Adam Smith and David Ricardo and has been used by classical and neoclassical economists. For these scholars, economic arrangements, grounded in the markets, are superior to state control. The other supporters of this concept explain liberalism as the freedom of the individual. Keohane (2002) defines liberalism "as an approach to the analysis of social reality", which, first, starts with individuals as the key actors (ibid., p.44). Second, it scrutinizes how aggregations of individuals make collective decisions and how organizations are made of individual interactions. Finally, this approach is utilized from the perspective of individual rights. Thus, liberalism allows to analyse markets, market failure and institutions in economics and state sovereignty in international relations (ibid.,

[11] In this dissertation, I refer to the Anglo-Saxon understanding of neoliberalism, which contrasts to German notion of neoliberalism. Such a differentiation is discussed by Young (2017) in terms of debates on ordoliberalism. Young underscores that the ordoliberals referred to the term neoliberalism too, however, to indicate that they do not agree with the *laissez-faire* liberalism of that time. Contrary to the *laissez-faire* approach, the ordoliberal intellectuals of the 1930s accentuated on "a normative-ethical foundation of economics, delineating an important role for the state in setting the constitutional framework for economic competition in order to serve the larger interests of society" (ibid., p.35, emphasis in original). Anglo-Saxon neoliberalism, which emerged in the end of the 1970s, "celebrates the ascendancy of private market forces and strives for a lean state through budget consolidation with austerity measures" (ibid.).

[12] For an additional analysis and critique of neoliberalism in the post-crisis world, see Wright (2015).

pp.44–45).

According to the liberal interpretation of world politics, liberalism can be differentiated into three doctrines: republican, commercial (economic) and regulatory liberalism. Republican liberalism deals with the issue of state behaviour at the international stage, while commercial liberalism acknowledges the impact of international relations on states' behaviour. This vision of liberalism combines politics with classical economists' teachings on trade, assuming that commerce or trade between nations can lead to peace. In this line, politics is determined by economics and the role of governments needs to be restricted. Regulatory liberalism views rules and institutions that regulate exchange among countries as the key factor leading to peace and cooperation (Keohane 2002, pp.46–51).

Since the 1970s, the transformation of the western European political economy has been based on the revitalization of economic liberalism, leading to the revival of theory and practice of the principles of free market economics and private enterprise (Van Apeldoorn 2002, p.1). Policies of privatization, deregulation and fiscal austerity, which construct neoliberalism, has increased the importance of private markets in comparison to the public sector. As per the tradition of critical political economy (Drahokoupil, Van Apeldoorn and Horn 2009), the EU is characterized as the European neoliberal project due to the fact that building the Single Market and the EMU has been based on neoliberal fundamentals. Conceptually, the EMU fits into three analytical dimensions of neoliberalism: as the regulatory experiment, which embraces "place-, territory- and scale-specific projects designed to impose, intensify or reproduce market-disciplinary modalities of governance"; as a system of inter-jurisdictional policy transfer of neoliberal policy prototypes; and as a transnational rule regime that determines the "rules of the game" on EU policy experimentation and regulatory reorganization (Brenner, Peck and Theodore 2010, p.335).

Van Apeldoorn (2002) discusses the transnational struggle over Europe's model of capitalism and rival projects for the relaunching of Europe. In this regard, he draws his attention to the transnational dimension of the political economy of conflicting capitalism and demonstrates how this struggle has played a role in the conflict over European socio-economic order (ibid., p.78). The integration course of the EU, therefore, is shaped through the struggle of three rival projects—'neoliberalism', 'neomercantilism', and 'supranational social democracy', which can be regarded as a reply to the crisis of European capitalism. In his analysis, Van Apeldoorn (2002) links these three projects to a certain model of capitalism: the British, the French and the German. These projects offer ideological and strategic orientation for the direction of European integration. Predominantly, the neomercantilistic and neoliberal strategies have guided the European market idea. The aim of the neomercantilistic project is to build a big home market and create 'European champions' in order to compete with the USA and Japan, the focus of the neoliberal project is the free market doctrine with further integration into the global market (Van Apeldoorn 2009b).

The supranational social-democratic project has been supported by the social-democratic, Christian-Democratic political parties and governments (for example, from Germany) after the primary triumph of the internal market programme, which fostered 'Europhoria'.[13] The Single Market has been expected to embrace a 'social dimension', thus enhancing a positive integration with a well-established regulatory political framework. Developed from the social-democratic tradition, the project has also been supported by the European trade union movement and envisaged as a strategy of European state-building with strong supranational institutions. 'Supranational social democracy' has been developed and carried out as a political strategy by Jacques Delors, the social-democrat president of the EC (1985–1995). Delors envisioned a 'European social model' aimed to preserve the tradition of the mixed economy and social protection, which differed from Anglo-American capitalism. Such an approach was later embodied into the German model of the social market economy. The construction of strong European institutions backed the preservation of this model which, first and foremost, enhanced state-building programmes, the principle of social protection and the interests of labour, and second, established a competitive home market (Van Apeldoorn 2002, pp.79–80).

The crisis of the European industry and the challenges of intensifying global competition has led to the development of the neomercantilist project. This one differs from the supranational social-democratic project inasmuch as the interests of industrial capital are prioritized over the principle of social protection. Therefore, support of 'European champions' lies at the core of a

[13] The relaunch of European integration in the 1980s and the 1990s is referred to as 'Europhoria'. Gill (2003) points out that the 1984 Fontainebleu Summit marked a turnaround from the previous phase 'Eurosclerosis' to 'Europhoira'. He underscores that the principle of international market discipline bounded with neoliberalism was institutionalized with ratification of the Single Market Act (SEA) in 1987 (ibid., p.63).

The term 'Eurosclerosis', which was associated with economic decline in Europe, was coined at the beginning of the 1980s by Herbert Giersch, president of the Hayekian Mont Pèlerin Society (Giersch 1985). Musolff (2004) analyses the use of metaphors in political discourse. In this respect, the term Eurosclerosis refers to the health and illness of Europe. Musolff cites that in the early 1980s Eurosclerosis was used "to warn against a decrease in economic and institutional *flexibility*" (ibid., p.99, emphasis in original); whereas in the 1990s, the meaning deviated from the source concept of sclerosis and signified "a *contagious disease that spreads across the EU* as an epidemic spreads through a population" (ibid., p.100, emphasis in original).

defensive regionalization policy. By creating a strong ‘home market’, the EU can win more niches of the world market and employ more protectionist measures against the competition. This rival project for relaunching Europe is partly related to the French model of capitalism (Van Apeldoorn 2002, pp.80–81).

The neoliberal project is based on the principles of economic liberalism and has emerged out of the crisis of post-war-embedded liberal order in Europe and the Eurosclerosis discourse. This project can be regarded as analogous to the (post-1979) British model of capitalism, as generally referred to Anglo-Saxon capitalism. The main postulates of the neoliberal European integration are framed in the direction of negative integration which supports market liberalization, deregulation, thus, less involvement of the state at all the EU levels. Free market, deregulatory effects and efficiency gains through increased (cross-border) competition are the pillars of the internal market project. Therefore, according to the advocates of the neoliberal strategy for Europe, the continent is seen “as an advanced free-trade zone within a free-trading world”, thus contributing to the globalization processes (ibid., pp.78–81).

In this realm, the restart of European integration in the 1980s and the 1990s is discussed as a move from “an international configuration of historic blocs based on Fordism, Keynesianism, and ‘embedded’ or ‘corporate’ liberalism to a transnational neoliberalism” (Van Apeldoorn, Overbeek and Ryner 2003, p.37). The authors offer five propositions, which can be tested and refined in further empirical research. First, theoretically it is important to acknowledge the dialectic relationship between neoliberalism as a process and as a project. The neoliberal project is shaped and reshaped in the process of struggle, where the agents have to agree to a compromise and readjust to the given structure. Second, neoliberalism might be discussed in three phases: (i) as a deconstructive project, which triumphs over corporate liberalism and social democracy after the crisis of Keynesianism; (ii) as a constructive project, which wins its validity and legitimacy on the pillars of structural adjustment, liberalization, deregulation, and privatization; and (iii) in its consolidation phase, which does not allow an alternative project to develop, but implants and cements neoliberal reforms as a norm. Third, the analysis of European integration is placed in the context of transatlantic and transnational class formation. Fourth, the nature of neoliberal hegemony can be understood by grasping the transnational process, which takes place in subnational, national, and international terrains at the same time. Last, from the point of view of a critical theory of European integration, European polity can be regarded as a complex system of multilevel governance, whose institutions exist in the domain of capitalist mode of production, which in its turn, shapes social, economic, political, and ideological interests and conflicts (Van Apeldoorn, Overbeek and Ryner 2003, pp.38–39).

1.2.2. Phases of Transformation of EU Project

The political system of the EU can be characterized as a complex political project, which has developed historically based on the need for social and economic modernization of Europe after the Second World War. A historical analysis helps to grasp the quality of international political dynamics and social contextual conditions of the EU project. Bieling (2012b) roughly presents two development phases that have guided the European integration process. The first phase refers to the post-war global constellation of 'embedded liberalism' (Ruggie 1982, cited in Bieling), where the regulation of the Bretton Wood system has paved the way for liberalization politics. This first phase was primarily aimed at easing trade and reducing tariff barriers. The second phase of European integration can be traced back from the middle of the 1980s. Since then, the process of integration has been boosted mainly by the impetus to unite the markets, which has materialized in the phases of consolidation and expansion and has become cemented in EU treaties.

Van Apeldoorn (2002) emphasizes that deregulation and the free play of market forces guide the process of European integration leading to negative integration (market liberalization) over positive integration (providing public goods at a European level). This is due to the fact that the process of European integration and construction of the European project is steered towards neoliberal lines. Regulatory liberalism (Mügge 2011) and financialization (Bieling 2013) have also influenced the transformation of the EU. Mügge (2011) argues that regulatory paradigm has guided policymaking in the EU, shifting EU's financial reforms from pragmatism to political contingencies and dogmatism. In addition to this process, the European economy has faced financialization in such areas as: (i) deregulation of financial markets, (ii) lowering of corporate and top income tax rates, and (iii) privatization of pensions and public infrastructure. Such processes change the direction of European integration (Bieling 2013, p.285). The politics of financialization is thus understood in the following three contexts. The first one relates to the transformation of the structural forms of socio-economic reproduction in form of increased shareholder value orientation of companies, reorganized intra-firm and inter-firm relations and the complex process of marketization and privatization. The second analytical context of a 'hegemonic block' refers to the transformation of power relations in favour of transnational industrial and financial capital. The third analytical context deals with the transformation of EU through new political projects and initiatives that aim to foster European monetary and fiscal market integration and promote the reproduction of European financial capitalism (Bieling 2013, pp.286–287).

Thus, from the neo-Gramscian insight, financialization is perceived “as an intermittently contested process driven by crisis-prone capitalist accumulation, (trans-)national power relations and the political initiatives of competing social forces” (ibid., p.284).

The gradual transformation of the EU has fostered development of such major economic integration projects as the European Single Market, the Economic and Monetary Union (EMU) and financial market integration (Bieling 2012b, p.18). The most far-reaching reforms of the EU project are the 1986 SEA aimed to create the common market and relaunch the integration process (Delors 2013), the Treaty of Maastricht of 1992 aimed to complete the monetary union (Van Apeldoorn 2002, p.1), and the Treaty of Lisbon of 2007, which introduced the separation of powers and the mandatory principle of subsidiarity (Joos 2011, p.61).

The Single Market Act

The single market was completed in 1992 and enforced by the SEA, approved by European heads of governments in 1986 (Moravcsik 1991). The SEA postulates that the four fundamental economic freedoms are the supreme rights, which need to be safeguarded in an economic constitutional framework (Van Apeldoorn, Overbeek and Ryner 2003, p.18). The aim of the Single Market programme is to eliminate all national or subnational obstacles to the free movement of goods, services, capital and labor among the European Union’s member states (Story and Walter 1997). It is regarded as “the most far-reaching and ambitious regulatory project in the world” (Young 2006, p.374).

According to the intergovernmentalist explanation, interstate bargains between Britain, France and Germany contributed to a successful negotiation of the SEA (Moravcsik 1991, pp.20–21). Therefore, this school challenges an alternative explanation of supranationalist perspective, which views EU reforms as the outcome of an elite alliance between the supranational Commission and pan-European business interest groups, who responded to structural changes in the world economy (Sandholtz and Zysman 1989, cited in Van Apeldoorn, Overbeek and Ryner 2003). Bieling (2013) points out that the Single Market programme had already initiated European monetary and financial integration by introducing liberalization directives—two directives on the completion of capital liberalization (1986/88), followed by the Second Banking Directive (1993), the Investment Services Directive (1993) and the Capital Adequacy

Directive (1996).

Van Apeldoorn (2003) describes the period from Europe in 1992 to Maastricht as a phase of a duel between the competing concepts of neoliberalism and neomercantilism which aimed to restart the European integration process. The neomercantilist project for European order, which advocated a European industrial policy with protectionist measures and the promotion of a big European home market with European champions, was enhanced by the members of the European Round Table of Industrialists (ERT).[14] Such protectionist logic had to confront the (neo-)liberal governments of Germany, the UK, and the Netherlands, who supported the globalist fraction of European capital. In the end, the growing and deepening globalization process strengthened the neoliberal forces to pursue their strategy of relaunching of the European integration process. For this reason, the Europeanists guided by protective regionalism lost to the globalists informed by neoliberal globalism. In the end, the globalist group became the dominant group of the ERT (Van Apeldoorn 2003, pp.153–155).

The Treaty of Maastricht

The Treaty of Maastricht marks a new turning point for European integration, marking the creation of the EMU. The origins of the EMU and financial integration are rooted in the Single Market programme. The EU Single Market expanded into the EMU, which "involves the co-ordination of economic and fiscal policies, a common monetary policy, and a common currency, the Euro" (European Commission 2016c). According to the critical scholars of European integration, the Treaty of Maastricht asserted "the essentially neoliberal content and social purpose of the 'relaunch' of European integration" (Van Apeldoorn, Overbeek and Ryner 2003, p.18). Sound money and finance built the core for the creation of a future institutional framework of macroeconomic governance, leading to the loss of the social democratic interpretation of Maastricht (ibid., p.155). In this line, the Maastricht agreement embraced partial components

[14] The ERT is a forum uniting approximately 50 European Chief Executives and Chairmen of key multinational companies representing a broad range of industrial and technological sectors. Membership in the ERT is based on personal invitation to the forum. According to the ERT, their members are located across Europe, with total revenue exceeding €2,250 billion, offering around 6.8 million jobs in the region (ERT 2018). ERT is a powerful lobby for big businesses at the EU level and has been successful in promoting their ideas in the negotiations on the Single Market, Maastricht Treaty and monetary union, as well as on the Lisbon Treaty. For more details, see https://www.ert.eu/.

However, the role of ERT in policymaking is seen critically. For example, Corporate Europe Observatory (2014c) reports how ERT, together with the other industrial lobby organization BusinessEurope, exercised their influence on the agenda and discussions for the EU Summit in 2014, pushing the 'competitiveness' discourse in the interests of big business, which disregards the interests of citizens (e.g., labour rights, wage, social rights, climate change).

of the three competing projects: neoliberalism, social democracy and neomercantilism. Neoliberal dimension prevailed providing the foundation for the EMU. However, chapters on 'Trans-European [infrastructure] Networks' and 'Research and Technological Development' served as the basis for some kind of European industrial policy or *Ordnungspolitik* of the German model of Rhineland capitalism.[15] Lastly, the European social democracy and trade unions, to a certain extent, were integrated into the 'New Europe' via the 'social chapter'[16] (Van Apeldoorn 2003, p.156).

Additionally, the Maastricht arrangement denotes a shift to what the critical authors term 'embedded neoliberalism'. Embedded neoliberalism reflects neoliberalism because it underlines "the primacy of global market forces and the freedom of transnational capital. Yet, as a result of such processes, markets become increasingly *disconnected* from their post-war national institutions. Embedded neoliberalism is thus 'embedded' to the extent that it recognizes the limits to *laissez-faire*, and thus to the disembedding process, and accepts that certain compromises need to be made; hence at least a limited form of 'embeddedness' is preserved" (ibid., p.156, emphasis in original). Embedded neoliberalism is, thus, interpreted as the result of the transnational struggle of the above-mentioned projects or "as the emerging hegemonic project of Europe's transnational capitalist class" (ibid., p.157). This force seeks for market liberalization, but needs a reliable institutional environment to keep on with neoliberal policies.

Competitiveness is another guiding concept, which leads the neoliberal ideology to win a hegemonic position leaving the discourses of social democratic and neomercantilist projects to be conquered. Industrial policy and macroeconomic management of the Commission becomes informed by the competitiveness discourse, which uses this bench-marking as a tool for increasing competitiveness (ibid., pp.159–160). For these reasons, structural reform, flexibilization and boosting competitiveness were the primary focus of the Lisbon Strategy (Hacker and Van Treeck 2010, p.7).

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[15] German variety of capitalism is often described as "coordinated market economy", which is based on a "particular system of collective agreements between workers and employers, stability in employment relations, high social security standards, and high productivity gains in manufacturing" (Bathelt and Gertler 2005, p.1). Since the late 1990s, the global competitive forces put pressure on the German corporatist structure, collective bargaining process, the institutional structure and conditions for its reproduction.

[16] The 'Social Chapter' is the Protocol on Social Policy and the Agreement on Social Policy annexed to the Maastricht Treaty. Essentially, it delivers a legislative tool, which extends qualified majority voting to some areas of social policy, though in an extremely restricted form (Council of the European Union 1997a).

The Treaty of Lisbon

The Treaty of Lisbon, which was adopted on 1 December 2009, determined the institutional structure of the EU. Fabbrini (2013) argues that the Treaty of Lisbon set two decision-making regimes or constitutional frameworks: supranationalism to deal with the Single Market policies and intergovernmentalism to cope with the policies of financial stability. Dinan (2011) points out that the Treaty of Lisbon touched on the issue of "the chronic crisis of EU legitimacy" elaborating on the topics of citizen's initiative and subsidiarity guarded by national parliaments (ibid., p.103). In the case that the principle of subsidiarity is violated, national parliaments have the power to engage in EU's legislative process adhering to the Lisbon Treaty (Christiansen and Neuhold 2013, p.1200).

Through such a transformation, the EU has developed into a complex and multifaceted policymaking system (Richardson 2006) in which the economy is integrated into the EMU. In a nutshell, this complexity can be regarded as the main reason why euro area countries are prone to the crisis. The EMU is viewed as a political project, but not as an optimal currency union or economic endeavour (Dadak 2011, p.593). It is developed as the political union with independent governments, but not as a fiscal union as in the case of the federal states like the USA (Arestis and Karakitsos 2012, p.22). The EMU arrangement is based on a centralized monetary policy conducted by the European Central Bank (ECB) and a decentralized financial, fiscal and budgetary policies delivered by the member states of the eurozone (Dyson 2008a; Fabbrini 2013).

The Lamfalussy Process

The new phase of the transformation of the EU project was marked by the Lamfalussy Process. Launched in 2001, it aimed to create an efficient mechanism, which could start the convergence of European financial supervisory practice and provide community financial services legislation with new ways to deal with developments in the financial markets (European Commission 2007, p.2). Thus, it changed the procedures for designing, implementing and putting into effect EU financial legislation and rule (Posner and Véron 2010).[17] As an outcome of this process, financial regulation has been organized through a four-level legislative procedure.[18] 'Level 1' corresponds to the first phase of proposing and adopting a legislative act

[17] See also Coen and Thatcher (2008), Posner (2010), Quaglia (2008).

[18] The four-level approach of the so-called 'Lamfalussy framework' is presented in Appendix I.

"by co-decision after a full and inclusive consultation process in line with the better regulation disciplines" (European Commission 2007, p.2). At 'Level 2', the Commission formally implements measures after advice from the European Supervisory Authorities (ESAs)[19] taking into an account the European Parliament's position. At 'Level 3', the ESAs are responsible for consultation and guidance of the legislative process and for "the harmonization of technical rules applicable to financial institutions" (Barnier 2011). By agreeing and applying common non-binding guidelines and recommendations, the Commission strives to foster and achieve the convergence of supervisory practices across member states (European Commission 2007, p.6). 'Level 4' stands for enforcement and transposition of EU legislation into national law.

Formally, the Lamfalussy Process started the process of change of EU's financial governance model by shifting the competencies of rule-making and supervision from a national to a multi-level and networked arrangement, and by creating an integrated financial market in the EU (Posner 2010, pp.43–50). Additionally, the Lamfalussy Process accelerated the liberalization of national financial markets, integration and governance of this market, which fostered construction of an integrated project, shaped by the struggle over the rules of mutual market access (Mügge 2006, p.991).

From the supranational perspective, "The Lamfalussy Process has significantly contributed to the development of a more flexible European regulatory system and has begun to pave the way for greater supervisory convergence and cooperation" (European Commission 2007, p.3). At the same time, its aim has been to grant the primacy of EU directives over national rules by reducing gold-plating.[20] Therefore, member states have to justify and explain regulatory additions or add-ons to EU legislation, which are adopted at the national level (ibid., p.5). Thus, the Lamfalussy Process marked the new pattern of supranational financial governance in Europe, which is intensified through EU's crisis management.

As western European capitalism transformed, the EU project has turned the euro area into a

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[19] From January 2011, the ESAs replaced three 'Level 3 Committees'—the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR). The committees were set up of representatives of national supervisory bodies, who agreed on implementing measures and coordinated the supervision of cross-border institutions (European Commission 2007).

Three new ESAs are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), which took over from the Advisory Committees.

[20] 'Gold-plating' refers to a situation, when the member states go beyond what is strictly required by EU legislation, while implementing it at the national level (European Commission 2015e, p.8).

complex construct, which keeps on restructuring due to crisis impact and the aspirations of Eurocrats to finalize the EMU. The politics of liberalization, deregulation and privatization built the core of the neoliberal discourse, which is implemented through EU political projects.

1.3. Governance of the European Project

While analysing the European project, the problematique of European governance comes to the forefront. This requires a careful scrutiny of "the role of broader political struggles within the EU, the role of interest groups and the processes of public policymaking" (Van Apeldoorn 2002, p.42). Some studies have examined the governance of macroeconomic policy as a two-level game (Putnam 1988) or as a double game (Schmidt 2012) or as a three-dimensional governance (Baker 2005). Héritier (1996) portrays that the European regulatory policymaking is born on the grounds of various interests and traditions of member states whose policy traditions collide and need to be brought into balance. Wallace and Wallace (2006) emphasize that the EU is an outcome of "segmented political constellation and engagement on specific policy issues—among states, within states, and across states" (ibid., p.339). The cumulative patterns of policymaking materialized into political projects, which involved interaction of actors, political organizations and institutions. Political projects come into being through active involvement of political forces, their interests and through cooperation, compromises and alliances (Bieling and Steinhilber 2000).

Due to the financial and Euro-crises, the focus has very much shifted to the analysis of crisis management. In this regard, the literature has been mainly categorized around two topics: governance of the Euro-crisis[21] and integration and liberalization of the financial sector (Bieling 2013). Before shifting to the discussion on the governance of financial regulation in the EU, let us understand the management procedure of the Euro-crisis, which had left its imprint on the development of the European project.

1.3.1. Euro-Crisis and its Implications for the European Project

The Origins of the Euro-crisis

[21] The Euro-crisis is also referred to as the European debt crisis, eurozone crisis or the European sovereign debt crisis. A country gets trapped in the sovereign default when a national government fails to fulfil its debt obligation. The European debt crisis started in 2010 and spread over several eurozone member states (Greece, Portugal, Ireland, Spain and Cyprus). These countries either faced difficulties in repaying or refinancing their government debt or in bailing out over-indebted banks under national supervision.

As the Euro-crisis began to unfold, a range of literature was published, mostly emphasizing that the flawed original design of the euro[22] and the fragility of a monetary union account for the origin and propagation of the European sovereign debt (De Grauwe 2011; De Grauwe 2015, Lane 2012; Scharpf 2014). In this respect, De Grauwe (2015) maintains that two design failures of the EU has contributed to the emergence of the eurozone crisis after 2010. He contends that the first failure lies in the absence of a smooth mechanism to fix external imbalances that occur due to the fluctuation of the business cycle at the national level. The second failure for the liquidity crisis lies in the loss of lender of the last resort function of the central banks of the eurozone member states making them unable to intervene in case their national economy moved from the boom phase to bust (ibid., p.105).

Concerning the relationship between the euro and the European sovereign debt crisis, Lane (2012) identifies three phases of their interaction. In the first pre-crisis phase, the initial institutional design of the euro is seen as a reason for the expansion of fiscal risks. In the second crisis phase, this institutional arrangement is believed to deepen the fiscal impact of the crisis through multiple channels. Given the framework of the Stability and Growth Pact (SGP) rules[23] and the rules of the 'no bailout' clause, the national fiscal policymakers of eurozone countries have been facing the fiscal impact of the crisis dynamics. In the post-crisis recovery phase, the restrictions of the monetary union design, ill-organized political response and lack of institutions responsible for crisis management are perceived as factors determining the length of the recovery period.

While analysing the flaws of the design of the monetary union, some scholars like Arestis and Sawyer (2011), Bieling (2013), and Lane (2012) highlight the imbalances in Europe, which causes the crisis to emerge.[24] Arestis and Sawyer (2011) emphasize on the duality of economic reality in the EMU with the existence of northern and southern divide, which endangers the existence of the EMU and the Euro. In their conclusion, they claim that the fallacies lie in the neoliberal design of the euro project, which is embedded in the Lisbon Treaty. In his analysis

[22] An overview of the euro's architecture, in particular the European Central Bank (ECB), its principal institution and the Stability and Growth Pact (SGP) before the crisis can be found in Mulhearn and Vane (2008).

[23] According to the design of the rules of the Stability and Growth Pact (SGP), the member states of the EU are obliged to pursue sound public finances and coordinate the fiscal policy especially in the form of a limit to the size of annual budget deficits at 3 per cent of GDP and the stock of public debt at 60 per cent GDP (Council of the European Union 1997b, pp.1–5).

[24] More on imbalances in Europe, see Bergery and Nitschz (2012), Chen, Milesi-Ferretii, and Tressel (2013), Knedlik and Von Schweinitz (2012).

of crisis developments within the European space, Bieling (2013) uses the concept of financialization. He upholds that the intricacy of the Euro-crisis is based on a different mode of financialization within the core economies of the 'Nordic countries'—Germany, France, the UK, the Netherlands, Austria, Scandinavian countries, and the Southern European periphery of Greece, Portugal, Spain, Italy, Ireland as well as the Central and Eastern Europe (CEE) (Baltic countries and Visegrád economies). When the first group of countries gets expertise in financial services and integrates into the Dollar Wall Street Regime, the second group of countries build their financialization models around housing bubbles or export surpluses (ibid., p.291).

Other terms are also used to explicate the nature of the euro crisis. For example, Shambaugh (2012) defines it broader in three areas: governmental debt, banking crisis and growth and competition crisis. He claims that as the banking crisis led to the sovereign crisis in the eurozone,[25] so did the austerity measures which had a strong impact on the growth dynamics within the euro area, leading to the growth and competitiveness crises. The author demonstrates that stringent fiscal tightening caused very slow growth and relative uncompetitiveness in the periphery countries, and at the same time, led to the worsening of the sovereign debt crisis respectively, where the austerity measures were too severe (ibid., pp.192–193). Lane (2012), too, recognizes that "the sovereign debt crisis is deeply intertwined with the banking crisis and macroeconomic imbalances that afflict the euro area", however, he focuses more on its fiscal dimension as discussed above (ibid., p.50).

The Euro-crisis can be regarded as the reverberation of the global financial crisis. Flassbeck and Lapavistas (2013) claim that from its outset, the eurozone crisis was a banking crisis, as far as many banks got into insolvency through the impact of the global financial system. Furthermore, they argue that not only national institutional characteristics shaped the behaviour of commercial banks, the institutional structure of the ECB also preserved the design of national financial systems. With regard to the deficiency of EMU, they sum up as follows: "while EMU is endowed with a central bank that operates in a homogeneous interbank market, it does not have a similar homogeneous commercial banking system. This is a contradiction that lies at the heart of EMU and undermines the functioning of the union" (ibid., p.18). Similarly, Howarth and Quaglia (2013) relate disparities in the sovereign risks in the core and

[25] For additional discussion on the relationship of global financial crisis and the eurozone crisis, see Mody and Sandri (2012), Welfens (2011).

periphery countries to the issue of fragmentation of eurozone/EU financial markets. They state that in the aftermath of the global financial crisis, the periphery countries were experiencing retreat to domestic debt based on the loss of confidence of the non-periphery banks in the value of the sovereign and corporate debt issued in the periphery (Howarth and Quaglia 2013, pp.105–106).

Approaches to Euro-crisis Management

Due to political developments, many scholars have delivered proposals for crisis management and governance. Some researchers have advocated the idea of Eurobonds (Claessens, Mody, and Vallee 2012; Delpa and von Weizsäcker 2010; De Grauwe and Moesen 2009; Jones 2010; Muellbauer 2011). However, such an approach has been disputable (Gros 2011; Wagner 2011). The high point of the Eurobond controversy and struggles over the euro-saving operation was in the years of 2010–2012. Later, in 2015, the debate was revitalized by Syriza government, which was not able to win the battle for Eurobonds (Plehwe 2017). Analysing the story of the rise and fall of Eurobonds, Matthijs and McNamara (2015) claim that the solution to the crisis were framed toward ordoliberal and neoliberal ideas. In this sense, they argue that the debate over Eurobonds "demonstrated the strength of the German economics profession and the dominant view of the euro as an economic problem with mainly national economic solutions" (ibid., p.243). By verifying this argument, Plehwe (2017) calls for a study of domestic and transnational networks that advocate more or less pragmatic austerity perspectives.[26]

Apart from discussions on the Eurobonds, other scholars concentrate on additional ways for dealing with the crisis and saw a glimpse of hope in solving the crisis by applying multiple strategies. For example, Suarez (2011) calls for three sets of measures aimed to end the eurozone crisis: the European charter for well-capitalized financial institutions, Eurobond programme with fiscal consolidation and a debt-restructuring programme[27] for insolvent countries. With regard to discussions on new reforms with the EMU, Lane (2012), too, in addition to introducing common area-wide Eurobonds, pleads for the creation of a banking union and "*a deeper level of fiscal union*, agreeing to share certain tax streams or spending programs in a way that would be delinked from fluctuations in national-level output" (ibid.,

[26] A recent publication of Plehwe, Neujeffski, and Krämer (2018) builds on this argument and focuses on austerity think tank networks in the European Union and their role for the hegemony of austerity perspectives in the EU.

[27] See more on proposals for European debt restructuring mechanism in Andritzky et al. (2016), Corsetti et al. (2015), Große Steffen and Schumacher (2014), Panizza (2013), Weder die Mauro and Zettelmeyer (2010).

p.64, emphasis in original). For reaching this initiative, he emphasizes the need for change of EU treaties and a higher degree of political integration. Similar proposals are outlined by Pisani-Ferry (2012) who call for a broader European Central Bank (ECB) mandate, creation of a banking federation and fiscal union with common bonds. For De Grauwe (2012), a smooth functioning monetary union can only be ensured via a collective mechanism of mutual support and control, which is part of a political union. Tabellini (2011) suggests that the eurozone leaders should reach an agreement on European-level institutions for monitoring national budgets and banking policies and draw a line between solvent and insolvent eurozone member states to avoid contagion effects.

What crisis management has turned out to be is different from the recommendations and measures discussed above. As cited in Shambaugh (2012), "[t]he supranational aspect of the policy response in the euro area has been to try to remove market pressure by making loans to countries after they announce budget consolidation plans" (ibid., p.196). For this reason, the European Financial Stabilization Fund (EFSF) was established in 2010 to support the member states that faced difficulties in refinancing their public debt. As EFSF was limited in size and scope, it has been replaced by the European Stability Mechanism (ESM) as a permanent institutional structure with the aim to assist euro area countries in severe financial distress, which can provide bailouts for any eurozone member state (ESM 2018; Shambaugh 2012; Verdun 2015). Furthermore, the European economic governance has led to the imposition of harsh neoliberal austerity measures[28] in periphery countries introduced by Troika[29] and a series of new EU measures and laws (Bieling 2012a; Corporate Europe Observatory 2014b). The latter include five reform packages—the European Semester, the Six-Pack, the Two-Pack, the Euro-Plus Pact and the Fiscal Compact[30] (Hacker 2013, p.2). As a result, such mode of reproduction and governance of the European political economy has placed the European countries in the periphery (Greece, Portugal, Spain and Italy) into a more difficult situation

[28] More on the nature of austerity, see Blyth (2013), Clarke and Newman (2012), Jessop (2016).

[29] The Troika is one of the key players to develop and force these economic reforms; it consists of three institutions: the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). According to Corporate Europe Observatory (2014b), "[t]he Troika, with its neoliberal policies, should not be viewed as a stand-alone actor, but rather as an instrument that is part of a general push towards neoliberal measures and reforms in Europe".

[30] For an assessment of the European economic governance from a historical institutionalist point of view, see in Deeg and Posner (2015), Salines, Glöckler, and Truchlewski (2012), Verdun (2015); from a critical perspective, see Bieling (2012a), Corporate Europe Observatory (2014b); and from a legal perspective, see Dawson and de Witte (2013).

(Bieling 2012a).

Many studies discuss austerity measures in the crisis and their impact on European countries in the periphery (Andini and Cabral 2012; Deutschmann 2011; McBride 2016; Plehwe 2017). For example, Andini and Cabral (2012) argue that further austerity and wage cuts as the solutions to the euro-area crisis, offered by the EU, will deteriorate already weak economies of the countries. Deutschmann (2011) emphasizes that "policies of raising taxes and reducing expenditures will curb economic growth and make the national debt burden even heavier. For highly indebted states it will become even more difficult to escape the vicious circle of declining tax revenues and rising interest obligations" (ibid., p.19). Overall, Bieling (2013) argues that "the European crisis management differed depending both on the political priorities of national governments and supranational bureaucrats and on the respective phase of the crisis" (ibid., p.284).

The EC and the ECB are two supranational institutions that had roles in the crisis, which were largely discussed. Flassbeck and Lapavistas (2013) claim that the neoliberal and neoclassical thinking prevailed in the decisions taken by ECB and EC before the crisis. Hence, these and the other institutions, which are supposed to regulate and protect the EMU, were unable to deal with the global crisis successfully (ibid., pp.7–8). The Maastricht Treaty granted the Commission the power to act and use all possible measures to overcome the difficulties in the crisis, i.e., in situations of difficulties in the balance of payment of the member state, which might "jeopardize the functioning of the common market or the progressive implementation of the common commercial policy" (The Maastricht Treaty 1992, Article 109 h–1). Along this line, the European Council is responsible for mutual assistance and for adopting directives and decisions, which would allow to implement such preventive measures for the member state in need (Herr 2014).

According to many critiques, there is a failure in the Maastricht Treaty to delegate the ECB the role of lender of last resort in the case of a banking crisis (Mulhearn and Vane 2008, p.95). During the time of Euro-crisis, De Grauwe (2011) argues that the ECB should be granted full responsibility of being the lender of the last resort in governing the bond markets of the eurozone (ibid., p.5). Herr (2014) claims that during the crisis the ECB was "muddling through", supporting some governments to a certain degree, but without undertaking a full role of the lender of the last resort (ibid., p.73). He summarizes that "[t]he price Europe paid for the failure of the ECB, to take on the role as a lender of last resort for governments early on, was high" (Herr 2014, p.76). Bibow (2013) also examines the role of the ECB in the (mal)functioning of EMU with an emphasis on the German intellectual and historical traditions behind the euro policy regime and its central bank guardian. He claims that "stability-oriented" principles of the Bundesbank, which penetrated the establishment of the EMU, formed an inappropriate policy regime for the euro area (ibid., p.609).

Apart from the Troika, the leading role in addressing crisis management of the Euro-crisis was undertaken by the founding member states of the European Union: France and Germany (Dyson 2002; Flassbeck and Lapavistas 2013; Howarth 2002; Quaglia 2012). According to Bieling (2012a), it is due to high disparities in the eurozone that the leading role was under-taken by the core countries whose economic strength allows them partly to dictate the new rules of the game. Thus, a vast majority of literature discussing the development of the EMU in the crisis period concentrates on the German-Franco tandem and evaluates the German and French models of management of the crisis and their impact (Bieling 2012b; Bohn and de Jong 2011; Crespy and Schmidt 2012). In this sense, the German approach is labelled as *ordoliberalism*,[31] whereas the French is cited as *dirigisme*.[32] Discussing the French state in the eurozone, Howarth (2002) describes *dirigisme* as "a manifestation of *étatisme*", which indicates a strong distrust of market mechanisms and advocates active state intervention in the economy, called *volontarisme* (ibid., p.150, emphasis in original). Its primary goal is state-led economic growth, while keeping the conservative liberal goals of a strong currency, monetary stability and a trade surplus (ibid.).

By analysing the French and German leadership in the crisis, Crespy and Schmidt (2012) define that the German approach to managing the economy is based on the *ordoliberal* economic principles, which allows for corporatist management of the economy and labour coordination of wages and work conditions, whereas the French political philosophy is based on *dirigisme*, where the state is actively involved in macroeconomic steering and microeconomic industrial policy. The authors point out that divergent political economic policy ideas, cultures, and practices made it difficult to agree on common solutions to the eurozone crisis. In a similar way, Bohn and de Jong (2011) bring the role of culture to the forefront in order to explain a

[31] See a more detailed discussion on ordoliberalism below.

[32] More on a debate dirigisme vs ordoliberalism, see Amable (2017), Clift and Ryner (2014), Vail (2014). Further discussions on political economy of France and references to dirigiste tradition can be found in Clift (2003), Mulhearn and Vane (2008) and Schmidt (2002). In his later research, Clift (2012a, 2012b) discusses political economy of France as *post-dirigisme*.

standoff between France and Germany during the crisis. In their article, the authors argue that such a standoff discloses deep differences in leadership styles and political culture between these countries, which explains the severity of the euro crisis. There are also opposing perceptions with regard to French and German approaches in the crisis. Schelkle (2012), for example, argues that the answers to the crisis from these two countries contradicted the ideas of (post-) dirigisme and ordoliberalism even though the governments have used them in their rhetoric.

It is beyond the span of my dissertation to move deeper into theorizing the philosophies of ordoliberalism and dirigisme. Nevertheless, I devote some space to reflect on a very debatable issue of ordoliberalism below. This reflection is necessary with regard to my focus on the role of Germany in establishing the banking union, which I analyse in the empirical chapters of this dissertation.

Ordoliberalism: What is Behind the Concept?

An intense debate on these issues started with an article "Freedom and the Strong State: On German Ordoliberalism" (2012) by Bonefeld, bringing in "the ordoliberal argument that the free economy presupposes the exercise of strong state authority, and that economic liberty is a practice of liberal governance" (Bonefeld 2012, p.1). Berghahn and Young (2012) delivered a response to Bonefeld's interpretation of the Freiburg School of economists and the development of Germany's Social Market Economy (*Soziale Marktwirtschaft*), as well as presented their explanation of ordoliberalism ideas in Germany's very much contested role in managing the eurozone crisis. In their text, the authors underlined that the ideas of the Freiburger ordoliberals have transformed historically from sympathizing a strong state to favouring "a constitutional state as guarantor of economic stability" (ibid., p.777). This way, the ideas of Freiburger ordoliberal school contribute to Germany's role in managing the Europe crisis.

Berghahn and Young (2012) point out that a debate on the legacy of ordoliberal ideas in Germany's way of handling the Euro crisis started with the eurozone sovereign debt crisis in 2010 and Germany's emphasis on "strict rule-based austerity measures for all EU-countries" (ibid., p.774).[33] For example, Dullien and Guérot (2012) engage in a discussion on ordoliberalism's

[33] Still, a reference to ordoliberalism can be found before the Euro crisis. Schmidt (2002) touches upon this concept in light of presenting the economic model in Germany; Dyson (2002) also refers to ordoliberalism while examining Germany's response to EMU and while discussing a crisis of German leadership in the euro area in the period 1999–2005 (Dyson 2008b).

role in shaping Germany's approach to the euro crisis. Hien (2013) discusses the concept of ordoliberalism in the *Critical Exchange*, claiming that "the current resurgence and popularity of ordoliberalism rests on a flawed perception of ordoliberal thought and of its historical track-record in the German case" (ibid., p.350). He also underscores that the concept is often equated to the notion of the social market economy. Furthermore, Hien and Joerges (2017a) question the European perception of the ordoliberal tradition in the German scientific journal, *Leviathan*.[34] They put forth that the role of ordoliberalism in formulating Germany's policy toward Europe is exaggerated. A critical reflection on this concept is also delivered in *Ordoliberalism, Law and the Rule of Economics* (2017b), co-edited by Hien and Joerges. The contributors of the book present an interdisciplinary many-sided analysis of ordoliberalism grounded on a synthesis of economic theories and legal concepts.

A recent book *Ordoliberalism: A German Oddity?* (2017a), co-edited by Beck and Kotz, sheds light on ordoliberalism, its relation to crisis resolution, macro-management and global imbalances. In general, the concept signifies an approach towards economic policy in Germany, which is based on order, rationality and sound economic reasoning. Ordoliberalism was conceptualized by Walter Eucken and his team during the 1930s at the University of Freiburg (Beck and Kotz 2017a; Feld, Köhler, and Nientiedt 2017; James 2017; Young 2017). It is distinguishable from the so-called Anglo-Saxon-Latin pragmatism (Beck and Kotz 2017a). Such a policy approach was developed as an answer to an economic challenge caused by "the malfunctioning, highly cartelised economy of the Weimar Republic" and to the political challenge of "the statist, authoritarian interventionism of the Nazi regime" (Beck and Kotz 2017b, p.13).

Beck and Kotz (2017b) emphasize that the underlying philosophy of the Freiburg School is mainly aligned with the Old Chicago School. Reflecting on ordoliberalism alignment to Keynesian thinking, Feld, Köhler, and Nientiedt (2017) argue that Eucken did not engage in discussing Keynesian theories in detail because, being isolated, German scientists could not keep up with international scientific debates. For this reason, the exchange of Eucken with Henry Calvert Simons, an economist at the University of Chicago, inspired his rule-oriented thinking significantly (ibid., p.42).

Nonetheless, there are some studies that do not reduce their explanation of a German model only to ordoliralism. For example, Bonatti and Fracasso (2013) investigate the rationale of the German take in crisis management in light of the (corporatist-etatist, neo-mercantilist) German socio-economic model and German's anxiety about losing the competitiveness.

[34] An English version of the article has been published recently in Hien and Joerges (2018).

The origins of ordoliberalism are often misperceived in the literature. For example, Crespy and Schmidt (2012) cite it as a paradigm founded by a discourse coalition led by Alfred Müller-Armack, which was conceived “as an alternative to Keynesianism” (ibid., p.12).[35] A clarification on this issue is brought by Briggite Young (2017), who distinguishes various branches of ordoliberalism. The most prominent branch is the Freiburg School represented by the economist Walter Eucken and the jurists Franz Böhm and Großmann-Doerthas; the other sociological alternative of German neoliberalism is established by Wilhelm Röpke, Alexander Rüstow and Alfred Müller-Armack, who are responsible for coining the term social market economy. Young points out that after being internationally forgotten, the concept of ordoliberalism became the topic of discussion over the course of eurozone crisis management, but mainly in negative light neglecting the theoretical development and its modernization after World War II. Particularly, in the Anglo-Saxon academia, ordoliberalism is believed to be a ‘pure’ school (Young 2017, pp.31–33).

Eucken’s constitutive principles of a competitive market economy are the functioning of the price system, open markets, private property, freedom of contract, the constancy of economic policy and particularly the “primacy of currency policy” and the principle of liability. The last two principles are key references in current debates about the eurozone crisis.[36] In this respect, the primacy of current policy corresponds to the objective to keep price stability, whereas the liability principle postulates the alignment of liability and control, which means that those who receive profits from a certain action should bear potential costs and risks too. It was not until the beginning of the 1950s that Keynesian ideas were accepted in Germany. This led to a creation of the German Council of Economic Experts (GCEE), which followed such principles as: price stability, high level of development, steady and adequate growth, and external equilibrium. In addition, the GCEE was guided ideas of by ordoliberalism. In general, Eucken’s rule-oriented approach can be characterized as ‘rules versus discretion’, which is found in the writings of macroeconomists (Prescott, Barro, Gordon, Taylor) or constitutional economics (Buchanan), thus, does not remain limited to a German context (Feld, Köhler and Nientiedt 2017, pp.43–44).

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[35] Feld, Köhler and Nientiedt (2017) emphasize that the Keynesian thinking started to carry weight in Germany only after Eucken’s death.

[36] For a detailed discussion, see the full lecture *Krisenmanagement und Ordnungspolitik* in the *Walter-Eucken-Vorlesung* series by Dr. Jens Weidmann, the President of the *Deutsche Bundesbank* (Weidmann 2013).

The rules versus discretion insights can also be found in the Maastricht Treaty, which forbids monetary financing of fiscal policy and the so-called no-bailout clause, which does not allow the member states to be liable for commitments or debt of the other countries (The Maastricht Treaty 1992, Article 125). Thus, each member state bears the responsibility for its fiscal and monetary policy. These two elements of the eurozone architecture—an independent central bank with price stability mandate and the no-bailout rule—implement the primacy of currency policy and the liability principle of Eucken's constitutive principles (Feld, Köhler and Nientiedt 2017, pp.44–45).

In discussions, whether ordoliberalism has weight in German policy during the eurozone crisis, Feld, Köhler and Nientiedt (2017) emphasize that it holds in a single policy area the creation of the banking union. In this case, German policymakers are seen as being guided by the liability principle, which, however, was only adopted after the bailout of German banks during the course of the financial crisis. With regard to the eurozone crisis, German policymaking is viewed as being shaped by pragmatism while negotiating the Greek rescue package and accepting ECB's monetary policy. Young (2017) emphasizes that in the management of the eurozone crisis, Germany was guided by national egoism and national interests at the cost of European solidarity. Given these arguments, German crisis management is not principally determined by ordoliberalism (Feld, Köhler and Nientiedt 2017, p.46). Also in the case of the banking union, the German policymakers had to abandon their ordoliberal arguments and make pragmatic compromises (Schäfer 2016). These discussions are useful to better comprehend an idea and narrative of German ordoliberalism that should have guided eurozone crisis management. Following the above-mentioned discussions, a belief in Germany being a rule-follower can be discarded as far as its policymakers do not stick to rule-based behaviour even when national interests or other political debates come to the forefront and follow a pragmatic approach on such eventualities (Feld, Köhler and Nientiedt 2017, p.47).

1.3.2. European Governance of Financial Integration Processes

The financial crisis has had its impact also on the development of the Single Market project. European governance of financial integration and banking regulations has renewed intensively after the crises to dissolve the fragile configuration of the EMU. Concerning the state of play of politics within financial service regulations in the EU, Quaglia (2010; 2012) groups the literature around four sets of actors and their role in promoting European financial integration: (i) member states and intergovernmental character of the negotiations; (ii) the EC as the key supranational driver; (iii) the private sector; and (iv) EU agencies (formerly networks of supervisors) (see subchapter 1.2. on the Lamfalussy Process).

Taking into account that the initial studies on European regional integration focus on intergovernmentalism, so has the literature on financial service regulation. Story and Walter's *Political Economy of Financial Integration in Europe: the Battle of the Systems* (1997) reflects the intergovernmental nature of the negotiations over financial market regulations in the EU since the 1970s till early 1990s. In their analysis, the authors describe the political, financial and economic steps towards a financial union in Europe, but with an emphasis on the dynamics of a Europe with sovereign states. Hence, the member states agree on the EU rules in accordance with their domestic regulatory approach. Similarly, Underhill (1997) illustrates how political processes and conflicts contribute to the rise of the single financial area in Europe. In this respect, the conflict within the 'triangle' of the financial systems of the EU member states (British, French German) is seen as the key to shape EU financial regulations. He summarizes that "the European Union has moved decisively in the direction of a more transnationalised, marketised, and desegmented financial system based on a single legislative framework" (ibid., p.118). Quaglia (2012) criticizes the above-mentioned studies for overlooking the other actors, the EC and the financial industry.

In the course of development of the Single Market for financial services, financial market integration is explained from a different angle—supranationalism. Following this approach, the ECis the core supranational actor to accelerate and foster financial market integration (Jabko 2006; Posner 2005).[37] Jabko (2006) argues that the ECwas successful in building a coaltion for deeper financial market reform by speaking to different audiences with an approapriate meaning of the 'market'. In his article, Posner (2005) summarizes that "a supranational bureaucrats approach accounts for the creation, form, and timing of the new markets better than the other approaches" (ibid., p.38). For this reason, officials in Brussels are seen as the most influential agents to foster institutional change. Based on these accounts, Quaglia (2012) argues that the role of the ECin regulation financial markets is exagerarated as far as this policy area is guarded by the member states.

In her book *The Future of European Capitalism* (2002), Vivien Schmidt argues that supranational economic, institutional and even ideational forces have been influencing and altering the

[37] For theoretical discussion on European integration and supranational governance, see Sweet and Sandholtz (1997).

national economic policies, practices and discourses. Furthermore, Schmidt (2000) argues that by using its right as a guardian of the Treaty and as an administrator of European competition law, the Commission can shape Council negotiations beyond its agenda-setting powers. Along these lines, she argues that the Commission can change the preferences of some member states. Also, with the agenda-setting power, the Commission plays a major role in initiating and articulating the projects in the EU. Nugent and Rhinard (2016) analyse agenda-setting, legislative and executive functions of the Commission by emphasizing on the role of both formal and informal resources that are available to this supranational institution. On the one hand, due to treaty powers the Commission can set the EU's agenda; on the other hand, relying on its informal resources, this institution can take advantage of windows of opportunity to expand the EU's policy agenda significantly. In this way, scholars challenge the position of "new intergovernmentalism",[38] which points out to the fact that the EC is on the path of decline.

Nonetheless, it is not only the power of members states and supranational institutions that contributes to how financial regulation is negotiated within the EU, but it is also the private sector that promotes European financial market integration. As discussed in previous sections, Van Apeldoorn (2002) argues that an emergent transnational capitalist class shapes the (socio-economic) governance of the European region and transforms the European political economy. Bieling (2003), too, traces the process of establishing and organizing an integrated financial market. The Lamfalussy Process is believed to set the course for accelerated financial integration. In his analysis, he points out that the creation of the finance-led regime[39] takes place as a transnational process. More specifically, he argues that European policy agenda has been adjusted to the advantage of transnational finance and its European associations, which leads to a new mode of finance-led restructuring in Europe. In a later article, Bieling (2013) argues that "the financial power elites[40] have been fairly successful in terms of warding off de-financialization" and "even managed to put forward an agenda of further 'political projects' or initiatives of financialization" (ibid., pp.295–296). The author asserts that "the rescue operations—bank bailouts, austerity programmes and the rejection of much stronger financial re-regulation—

[38] See debates on new intergovernmentalism discussing the institutional change during the crisis in Bickerton, Hodson and Puetter (2015), Lequesne (2016).

[39] For a discussion on finance-led growth regime, see Aglietta (2000), Boyer (2000); on financialization, see Epstein (2005), Foster (2007); on finance-led capitalism in the crisis, see Guttmann (2008), Ribeiro de Mendonça and Deos (2009).

[40] See more on financial power elites in Foster and Holleman (2010).

have brought about a transition toward a state-backed and increasingly politicized mode of financialization" (Bieling 2013, p.295).

Mügge (2006) grasps the processes of European financial market integration using the concept of inter-firm "competition politics". These politics can be understood as the competition among service providers for the place in the market. His argument is as follows: "changes in regulatory content (in this case liberalization) and governance institutions (integration of policymaking) are a function of changing competitive dynamics in the marketplace itself" (Mügge 2006, p.997). As far as regulation sets the line for competition, firms struggle with each other for the outcomes of regulatory politics (ibid., p.998). Analysing European banking policy, Grossman (2005) speaks of transnational financial policy community, which is developed at the European level. He underlines that due to financial restrictions, only a certain range of banks are present in Brussels to lobby for their interests in the European institutions. For example, Wolf, Haar and Hoedeman (2014) investigate the influence and power of financial industry, measure their expenses on lobby activities, and analyse the presence of representatives of the private financial sector in the advisory bodies of the EU.

In this respect, the associations of the European banking industry have a significant influence on regulation. Studies on financial governance present that "the financial industry groups who were to be regulated routinely *make* policy, rather than *take* policy at the expense of consumers and the general public" (Pagliari and Young 2014, p.577, emphasis in original). The EU institutions offer access to lobbyists through formal institutional contexts (e.g., the mandate of regulatory agencies, their internal governance structure, or the opaque and discretionary environment) and via informal institutions of "revolving doors". Using their corresponding business associations, the firms (in my case the banks) try to shape macro-developments in the market and political institutions. This gives rise to the emergence of new networks and policy communities, which in turn, share similar beliefs and values (Mügge 2006, p.999; Pagliari and Young 2014, pp.577–578).

In this regard, Baker, Hundson and Woodward (2005) underline the concept of authority while evaluating monetary and financial issues. They claim that based on technical supremacy, the personnel of finance ministries, central banks, regulatory agencies and private financial institutions are able to monopolize financial governance and isolate the wider public from monetary and financial governance debates. The technical expertise of sophisticated economic models allows the above-mentioned actors to advance their sophisticated analyses of financial market developments and promote policy recommendations in their favour (Baker, Hundson and Woodward 2005, p.7). The study of Underhill, Blom and Mügge (2010) support this argument. The authors assert that members of relatively closed policy communities negotiate to define the scope of the market, the terms of competition and the costs of supervision and regulation. Thus, the outcomes of policy making in the financial realm are born out of a close alliance between private actors and autonomous state agencies (ibid., p.12).

Grossman (2005) tries to find out the degree of multi-level governance in European banking, which has experienced slow integration and profound resistance from the key actors. However, the author concludes that national resistance has been gradually defeated by the dynamics of European integration. The mode of governance has changed from the multi-level coexistence of national and European regulatory authorities to complete integration of national regulatory authority. He discusses a shift towards a single European banking regime as follows:

> The European level of banking regulation has increased its authority and competencies since the beginning of the Single Market Programme (SMP), over a decade and a half ago. It has repeatedly tried to revitalize the project of a Single Market in financial services. The kind of market that the Commission intends to build is very much in line with the most liberal demands of transnational financial firms. Moreover, the Commission has been able to offer support to liberalization through state-aid policy. Both examples clearly confirm continuing integration and the relative weakening of national institutions and arrangements (ibid., p.126).

Furthermore, in his conclusion, Grossman (2005) illustrates the example of an alliance in regulatory policies in banking and finance. He points out how the private sector manages to 'lobby' EU institutions. Primarily, the author underlines the Commission's behaviour, which chooses its coalition partners in the private sector cautiously, mainly with the aim to push its own agenda and expand its own competencies. To win the political struggle over such competencies, the Commission can use such 'resources' as expert committees auditions and expertise. The Council is seen as more responsive to lobbying activities from the market participants, particularly if they come from the same member state. The Parliament, on the other hand, is seen as less sensitive to 'national' lobby groups. Such constellations have led to the emergence of the policy community with an implicit alliance between major European banks and the Commission, who became the strongest proponents of deeper integration. The Parliament is also regarded as a part of this alliance. At this initial stage of establishing a single European banking regime, it is emphasized that the smaller banks were less heard of and faced difficulties to organize, with an exception of some German public banks, who used their veto rights (ibid., p.130).

In his earlier paper, Grossman (2004) underlines that European integration challenges interests groups, their knowledge and political strategies, thus leading to stronger relations of these groups with national authorities. For this reason, interest groups need to adapt to European governance and policymaking. By analysing the role of national economic interest groups in formulating national contributions to EU and international policy making, Quaglia (2008c) confirms that financial interest groups are active policymakers. Two factors define the degree of this involvement: first, the interest of policy content and second, domestic institutions that might provide access to policymaking due to domestic distribution of power among these groups.

Another strand of literature focuses on the role of network of regulators (supervisors), their institutional character and their part in regulatory governance in Europe (Coen and Thatcher 2008; Quaglia 2008b; De Visscher, Maiscocq and Varone 2008). Coen and Thatcher (2008) emphasize on the limited formal power and resources of European regulatory networks and their dependency on the EC. Quaglia (2008b) intensively scrutinizes the nature of the Lamfalussy committees in banking and securities with a focus on their composition, functioning, interactions and contributions to the policymaking process. She concludes that "[t]hese committees are neither 'epistemic communities' of experts with no policy-making power, nor simply 'intergovernmental' forums for political negotiations. They are committees of experts that deal with technical issues, some of which have political salience, and this might affect the policymaking process" (ibid., p.575). Moreover, she underlines that major political battles take place in the Council and the EP, thus, restricting the influence of the committees. However, the technical forums of the levels 2 and 3 committees might allow some space for promoting national interests and reconciling various regulatory approaches.

Quaglia (2010; 2012), in her later articles, underlines the role of ideas in shaping policymaking and analysing the 'belief systems' of policymakers. To this end, she uses the advocacy coalition approach that takes a pluralistic view of the policy process. According to this approach, public and private actors build advocacy coalitions at all levels of the multi-level governance of the EU (national, EU and international). In her analysis, two competing advocacy coalitions are believed to shape the direction of the completion of the Single Market in financial services. The first one is referred to as "market-making" consisting of the UK, Ireland, the Netherlands, Luxembourg and the Scandinavian countries, whereas the second one called "market-shaping" comprises France, Italy, Belgium and the other Mediterranean countries. The market-making coalition is defined as acting in accordance with market liberalization principles with a focus on the objectives of market access, competition and market efficiency, while the market-shaping coalition prioritizes on “re-regulation” at the EU level focusing on such objectives as consumer protection and financial stability (Quaglia 2010, p.1011). She concludes that policymakers of the market-making coalition were able to use their regulatory paradigm to shape EU financial market integration and regulation before the crisis; the policymakers of the market-shaping coalition could use the window of opportunity to push for their regulatory approach in the course of the crisis and win the balance of regulatory power in the EU to its advantage (Quaglia 2010; 2012).

As stated by Underhill (1997), the EU has chosen the direction of building a “transnationalized, marketized, and desegmented financial system” (ibid., p.118). The development of this direction was interrupted by the financial crisis, which emerged in the US. The financial crisis also brought the European space into turmoil, thus leading the EC to suspend further financial liberalization. Nesvetailova and Palan (2010) try to find out whether the global financial crisis shifted the pillars of global financial architecture away from the philosophy of ‘neoliberalism’ and assume that the neoliberal project is more likely dead. However, as underlined by Quaglia (2012, p.529), the crisis did not lead to a paradigm shift, as far as the (neoliberal) fundamentals of the regulatory system in the EU were not called into question. This happened despite the fact that the positions of ‘market-making’ approach to financial regulation was shaken and the belief in efficient, self-regulation financial markets was challenged by the financial crisis. By the year 2012, the EC had resumed its single financial market agenda by bringing negotiations over the European banking union. For this reason, in my empirical analysis, I use it as a case study to analyse European governance of financial integration and banking regulation. It is my task as part of my empirical research to find out the power of the set of actors—the member states (with a focus on Germany), the Commission, other supranational institutions, transnational industry and other actors and their influence in the realm of financial market integration. The analysis is not only limited to the power issue, but it also takes into account the ideational factors in explaining the transformation of the European financial market architecture.

1.4. Conclusion: Strengthening the Single Market Agenda by New Institutional Design?

In the previous subchapters, I started my literature review with a presentation of theoretical debates about European integration. This literature provides a sound basis for understanding how the European project is perceived to be taken by the theoretical lenses of intergovernmentalism, supranationalism, multilevel governance or historical materialism. In the related discussions on intergovernmentalism, the member states are regarded as the driving forces behind the integration process, whereas debates on supranationalism adhere to the plurality of state and non-state actors. The multilateral governance approach tries to resolve such a dichotomy by examining the relations within different levels: be it subnational, national, or supranational. The critical studies move beyond these explanations by bringing the analysis of power relations to comprehend the EU. These studies not only underline the role of structural power in determining the direction of European integration, but also analyse the issue of neoliberal economic settings in the EU.

To understand the crisis-prone nature of the EU, the authors bring the discussions on neoliberalism to the forefront and claim that the EU has transformed into a neoliberal political project. The explanation regarding reasons for such a course of integration of the EU is the outcome of the struggle among three rival projects of 'neoliberalism', 'neomercantilism' and 'supranational social democracy'. The neoliberal project succeeded due to the fact that liberalization, privatization, deregulation and retrenchment discourses and ideas penetrated widely into the thoughts of EU architects. It is also argued that in addition to the neoliberal logic, the construction of the EU has been guided by regulatory liberalism and financialization. In this realm, the EU transformed through such projects as the European Single Market, the EMU and financial market integration. The neoliberal direction of the European project has also been accelerated by the Lamfalussy Process, which has fostered the liberalization of national financial markets and has led to a new mode of supranational financial governance.

As the financial crisis began to unfold, another issue came to the forefront, namely European governance, which covers the political struggles within the EU, the role of interest groups and process of public policymaking. The Euro-crisis, too, raised questions about modes of governance and institutional change in the European arena, not least about the future of European project and financial integration. Taken into account these developments, the studies revolving around crisis management have flourished. Broadly speaking, the management of the European crisis has been categorized around two topics: management of the Euro-crisis and further integration and liberalization in the financial sector. An assessment of the European economic governance in the eurozone crisis is presented from many points of view, however, most studies around this topic underline the role of Germany and France in resolving the crisis. They have a point in highlighting the key role of the core states in governing the EU, however, they fall short in discussing other actors, structures, institutions and ideas. These points receive more attention in the literature on European financial integration.

The financial crisis emanating from the US led the EC to suspend further financial liberalization. Yet, the Commission renewed its course for strengthening its single financial market agenda by 2012. As summarized by Quaglia (2012), a researcher of financial services regulation, the financial crisis did not foster a paradigm shift as the (neoliberal) fundamentals of the regulatory system persisted and were not challenged. Hence, the regulatory reform in the financial sector is under construction and many assessments deliver only partial explanations of EU governance. My attention has been drawn to one of the reform packages of European economic governance, the European banking union. By analysing the establishment of this particular project, I aim to demonstrate how the Single Market develops by new institutional design. This will assist me in getting a fuller picture of European governance of financial integration and banking regulations. This assessment will follow in Chapters Five and Six.

Chapter Two: German Savings Banks—The Stumbling Stone in the European Project[41]

The first subchapter gives an overview of the realm of academic and political debates on the savings banks in Europe. It draws on the liberalization debate on public banks in Europe, which were put under liberalization pressure before the crisis because of the outcomes of internal market integration. The debates on savings banks demonstrate that their model does not fit into the logic of the EU. In this subchapter, I examine how the presence of savings banks has changed in Europe since the establishment of the Single Market agenda. The second subchapter outlines the literature on German savings banks and their role in Germany's economic model. Furthermore, the third subchapter discusses the role of German savings banks in the crisis and post-crisis period. The last subchapter briefly summarizes the position of German savings banks within the European political domain.

2.1. The European Project and its Impact on European Savings Banks

Formally, the EC recognizes and values the diversity of the banking sector and banking business models within Europe, which provides a competitive environment, increases efficiency of the whole banking system and helps to cope with the shocks experienced by the system (ESBG 2014b; Liikanen et al. 2012). This is stated in the "Liikanen Report",[42] which points out that the differences in the banking sector are present across member states, ranging from the size, market concentration, foreign ownership, asset and liability structure, supervision and credit cycle to public involvement. Ayadi et al. (2009) argue that the increased diversity of the financial system in relation to size, ownership and structure of business helps to weather the strains of the normal business cycle and avoid the bandwagon effect (ibid., p.iii). In addition, the "Liikanen Report" emphasizes that the EU treaty explicitly guarantees diversity. In evaluating the sector after the financial crisis, the "Liikanen Report" points out that this diversity increases the resilience of the banking system as it reduces vulnerability to systemic interdependence (Liikanen et al. 2012, p.32). More specifically, Ayadi et al. (2009) maintain that it is the

[41] Parts of this chapter are drawn from Semenyshyn (2017).

[42] A report of the EC's High-level Expert Group on reforming the structure of the EU's banking sector, as published in October 2012. The Group was established by the former Commissioner Michel Barnier and chaired by Erkki Liikanen, Governor of the Bank of Finland and council member of the ECB. It is also referred to as the "Liikanen Group" (Liikanen et al. 2012).

traditional model of savings banks, which is more resistant to financial systemic instability (Ayadi et al. 2009, p.iii). At the same time, the "Liikanen Report" envisions a project of banking structure reform, which might change the European banking industry landscape and result in the transformation of the legal form and structure of the savings banks.

Academic Debates on the Savings Banks in Europe

In the past, the savings banks contributed enormously to economic and social progress of different financial systems, including most advanced economies (Ayadi et al. 2009, p.5).[43] In Europe, the presence of savings banks is still prominent (Austria, Finland, Germany, Norway, Sweden), whereas in some other countries they have either been privatized (Italy) or restructured (Spain and France), or have disappeared (Belgium), or been absorbed by commercial banks (UK)[44] (Ayadi et al. 2009; Butzbach 2007; ESBG 2014b). Despite the fact that savings banks differ in their legal system, I delve into the realms of how the savings banks are defined, how their role is articulated in the current academic and political debates and how the legal system of the savings banks has developed and changed in response to the transformation and integration dynamics in Europe.

A comprehensive research of Ayadi et al. (2009) on savings banks confirms that ownership structure and business model of savings banks vary from country to country. However, at the same time, savings banks possess three common characteristics: (i) their model is not solely profit orientated, which is also termed as a stakeholder's value banking model; (ii) they fulfil a "social mission" in the regions based on their historical roots,[45] and (iii) their ownership stakes cannot be traded in a secondary market in comparison to the shareholder-value model of banking. In addition, the presence of alternative business models such as savings, mutual and cooperative banks in the financial sector contributes to the systemic stability. For this

[43] On the world scale, for instance, the Post Office Savings Bank of Japan contributed towards economic growth after World War II, channeling savings from the rural regions to the urban centres (Ayadi et al. 2009); in Brazil, two important Brazilian public banks, Banco do Brasil and Caixa Econômica Federal, acted anti-cyclical during the crisis (Deos, Ruocco and Sotto Tibiriçá Rosa 2017); in India, public banks support agricultural sector and small enterprises (Chavan 2017). Besides, savings banks in Africa, Asia and Latin America engage in providing usable services to the poor (WSBI 2012). In the US, the savings banks have played a limited role (Ayadi et al. 2009, p.7), and were shifted from the mainstream to the margin after 1945 and increasingly after the liberalization and deregulation trend in the 1970s (von Mettenheim 2014, p.178).

[44] In the recent research on alternative banking, Butzbach (2014) analyses the case of the British building societies and how they can possibly contribute to setting a feasible alternative to the failed business model.

[45] The historical reason for the creation of the savings, cooperative banks and similar types of institutions was "to serve people who would otherwise not have access to finance, but without the incentive to 'overcharge' their clients" (Ayadi et al. 2009, p.18).

reason, authors argue that "there is a powerful *systemic* interest" in preserving a sound stakeholder value banking sector and this matter is referred as a legitimate public policy issue (Ayadi et al. 2009, pp.i–ii, emphasis in original).

The nineteenth century marked the emergence of the savings banks in most advanced countries. However, this type of banks has changed their structure as compared to the past. As a result, nowadays they represent a heterogeneous group of financial institutions banded together by not being solely devoted to profit-maximization. This imposes the challenge to define what a savings bank is and what characteristics it possesses (ibid., p.7). At their outset, the savings banks were predominantly alike sharing common origin, mission, activities, organizational form, legal status and ownership structure. The first savings banks were mostly organized as public or welfare institutions, which, primarily, had the mission of boosting the "spirit of thriftiness" (an opportunity for poor people to save money in safe deposits), furthermore, provided access to financial services, and lately, financed housing, regional SMEs, and local public investment projects (ibid., p.8).

Initially, savings banks were established under a public law regime or in the form of foundations or associations with a non-profit mission acting in a certain geographical region. Moreover, they were firmly connected to the corresponding municipality governed by politicians, who spoke for public or private entity. In many cases, the savings banks also belonged to a regional or national association, which allowed a single savings bank to cooperate with other regional second-tier financial institutions. Such interaction formed a decentralized network with second- and third-tier organizations, where savings banks received additional support for tasks beyond their competencies (ibid., pp.8–9).

In the case of Germany, a savings bank has a public ownership structure. However, it might be the case that public banks are not savings banks and savings banks are not public. For example, savings banks in Spain are private entities; however, they keep their social mandate. Not surprisingly, there have been abundant political discussions and some reservations against public and state-owned banks. Especially at the European level, the privatization of savings banks was a big issue at the time of changing the competition law (Interview UEAPME). However, it has been the financial crisis that softened and restrained the increasing skepticism against public ownership of banks (Ayadi et al. 2009, p.11), as the savings banks proved to be important and helpful for SMEs (Interview UEAPME). This group of banks together with cooperative banks was able to secure credit provisions and did not experience any credit crunch in the financial crisis (Semenyshyn 2011). There are two clauses as the backbone of the political debates on savings banks: i) they are to a certain degree different from the typical model of a bank and ii) in most countries, they create a competition to other banks (Ayadi et al. 2009, p.14).

Even though European savings banks have more differences in their models than what they share in common, overall, they are not so much focused on profits, they fulfil their mandate to serve the 'general good' and bring the decentralized elements to the bigger system, network or nexus. It is important to note that not all these features are attributes of the savings banks. Similar characteristics are also shared by the cooperative or member-owned financial institutions, or in some cases by privately-owned banks with a social mission. However, what savings banks have in common with the cooperative banks is their function as 'double-bottom' line institutions,[46] which pursue both social and financial objectives (ibid., p.10) acting commercially and also carrying out the developmental objectives of the state and local governments (Goddard, Molyneux and Wilson 2010), with a particular focus and expertise with regard to the local community (Ayadi et al. 2009, p.iii).

However, Körner and Schnabel (2011) point out that according to the *development view* (Gerschenkron 1962) and *social view* (Hakenes and Schnabel 2006; Hainz and Hakenes 2008), "public banks are beneficial and foster economic development". The *agency view* and the *political view*, on the contrary, underline that "public banks are harmful and lower social welfare" (Körner and Schnabel 2011, p.410, emphasis in original). The proponents of the *agency view* put an emphasis on "the conflict of interest in state-owned companies between the owner—the state represented by politicians—and the managers" (Banerjee 1997; Hart, Shleifer and Vishny 1997), because managers of public banks might be weakened by soft budget constraints; the supporters of the *political view* emphasize on "the conflict of interest between society (the taxpayer) and politicians in state-owned companies" (Shleifer 1998; Shleifer and Vishny 1994), which can lead to the abuse of public banks by politicians if they misuse their power (Körner and Schnabel 2011, pp.411–412, emphasis in original). La Porta, Lopez-de-

[46] Ayadi et al. (2009) borrow the term 'dual-bottom line institutions' from Christen, Rosenberg and Jayadeva (2004), who present a survey of the Consultative Group to Assist the Poor (CGAP) on global outreach of a wider range of institutions, which are involved in expanding financial services downward beyond the economic bottom-line of the clientele of the commercial banks. For them, these institutions hold a 'double bottom line': in addition to a financial objective, they also follow a developmental or social objective. This objective of extending outreach to people remains mostly the key objective of such institutions, which are also referred to as 'alternative financial institutions' (ibid., p.2).

Silanes and Shleifer (2002) criticize state-owned banks for causing slow financial development and growth of per capita income. Besides the critique with regard to the savings banks has increased due to the privileges that savings banks might have enjoyed because of being owned by public entities and due to the fact that they have transformed into full-service universal banks hence, not much different from their commercial counterparts.

Despite this criticism, the savings banks are necessary from a political and social angle, as far as they provide financial inclusion in the developing, transition, as well as advanced economies. In addition, notwithstanding the evidence that with time such institutions turn into modern professional banks offering universal banking services, they mostly keep their social role supporting the poor. Besides, from the economic theory point of view, savings banks might be seen as institutions providing positive external effects that enhance social welfare by coping with market failures or by 'correcting' unfair and inequitable market outcomes.[47] Ayadi et al. (2009) provide strong arguments in defense of 'double-bottom' line institutions. They underline that financial exclusion remains the problem in particular in countries where the savings banks models have been abandoned. Furthermore, they assume that private and purely profit-oriented banks would abstain to deliver some services offered by the savings or cooperative banks. Besides, they recognize that the savings banks have weaknesses depending on the characteristics of the respective national savings banks systems or on the form of the financial, economic and political system of the country. Still, the strengths of savings banks tend to overweight their weak points in most cases (ibid., pp.19–22).

At the peak of the political debates about savings banks and later during the course of the financial crisis, academic researchers articulated additional arguments supportive of savings banks and other less profit-oriented banks (Allen and Gale 1997; Allen and Gale 2000; Beck et al. 2009; Butzbach and von Mettenheim 2014; Carbó-Valverde 2007; Körner and Schnabel 2011;[48] Fischer 2006). One can single out three major arguments in favour of savings banks. They foster regional development; mitigate intertemporal risk; and (iii) capitalize on the value of diversity (Ayadi et al. 2009, pp.23–28).

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[47] See also Hainz and Hakenes' (2008) discussion on the efficiency of different measures for granting state aid. They contend that public banks can have positive externality on social welfare by financing social projects.

[48] Körner and Schnabel (2011) argue against the statement of La Porta, Lopez-de-Silanes and Shleifer (2002) that public ownership of banks has negative impact on economic growth. On the contrary, their research points out that the negative effects disappear as soon as country's financial and political system develops. Furthermore, in the case of highly developed countries, there is no evidence of negative effects, but rather of positive ones.

In line with the first argument, Fischer's (2006) research shows that for the case of Germany, savings banks are able to enhance competition in the regions, which consequently boosts regional development. In addition, the savings banks stay in the poor regions, where the private banks would not prefer to operate, by substituting private banks in a setting with fragile economic and financial institutions (Gerschenkron 1962). Developing an argument in defense of the regional public banks, Hakenes and Schnabel (2006) accentuate on one distinct aspect of these banks, which is their commitment to invest local funds in local projects. Therefore, the savings banks hinder a 'capital drain' from less-developed regions to more economically advanced regions within a financially integrated economy. An empirical research of Hakenes, Schmidt and Xie (2009) advocates that an efficient savings bank can spur regional growth and more profoundly in relatively poor regions. Moreover, the presence of savings banks in the regions attracts people to stay there, strengthens their relationship with local businesses, which provides local employment, and supplies tax revenues which stay in the regions (Ayadi et al. 2009, pp.23–24).

As mentioned before, savings banks compose a big part of the stakeholder-based banking in Europe and various regulations and governance influences differently the performances and risk-taking schemes of the group (Carbó-Valverde 2007). Analysing the impact of Basel accords on the relationship type between capital and risk, Carbó-Valverde (2007) constitutes that small domestic banks already showed higher average solvency ratios than medium-sized and larger banks. The reason might lie in the fact that small banks could have been accumulating capital in response to a greater compulsory capital requirement under Basel II regulation (ibid., p.393). In addition, these banks represent financial institutions with lower-risk profile (Ayadi et al. 2009, p.iii). The authors put forward the argument that savings banks are able to cope with the 'intertemporal risk'.[49] This risk occurs due to the developments of the entire economy, as far as its income might vary in an unpredictable way (ibid., p.24). To cope with such a systematic and macroeconomic risk, banks are able to survive by building reserves in good times and unlocking these reserves in unstable times. Such reserves creation in good time and their unlocking is possible in the savings banks because of their institutional and legal design, which restricts their sale at their full value (ibid., p.25). Comparing financial systems in Germany and the United States, Allen and Gale (1997) highlight that due to intermediated financial system in Germany, the German banks have high level of hidden reserves, which

[49] This argument relies on the research paper of Allen and Gale (1997), who focus on the *intertemporal smoothing* of risk, which can be either hedged by *intergenerational risk sharing* or *asset accumulation* (emphasis in original).

fosters intertemporal smoothing. Furthermore, the authors contend that countries, where the banks' shares are not easily traded on a stock market, are less vulnerable to intertemporal risk, in comparison to countries, whose financial systems allow such trading (Allen and Gale 2000).

The third argument in support of savings banks discussed by Ayadi et al. (2009) refers to diversity, which lays the foundation for new ideas to appear and for old ideas to invigorate. The key rationale for openness and diversity in the banking industry is that they allow the emergence and existence of different organizational forms of banking. These various institutional designs are born out of struggle and then compete with each other. Savings banks represent one of these institutional designs. They "have demonstrated an impressive ability to compete with other institutional forms of banking, to adjust to new circumstances, to create and harbour new ideas and new products and processes and to survive in environments that are more and more shaped by fierce competition" (ibid., 27). The savings banks together with other banking models such as cooperative banks, small and large private banks and other types of banks possess their strengths and merits, which needs to be developed and displayed in the competitive environment. Bülbül, Schmidt and Schüwer (2013) also bring in the argument of diversity. The authors emphasize that small stake-holder banks should be 'preserved' as an endangered species and prevented from abolishment due to the fact that one cannot confirm, which model of a bank or which mix of various types of banks works at best for the financial system and society. Besides, they bear valuable knowledge and social capital that might be transferred to future generations (ibid., pp.19–20).

A series of papers in a recent publication by Miklaszewska's (2017) *Institutional Diversity in Banking: Small Country, Small Bank Perspectives* demonstrates a strong interest in the issue of banking diversity. In the introduction to the above-mentioned book, Miklaszewska and Wachtel (2017) confirm that an extensive diversity in the structure of the banking industry enhances competition in the sector, which increases resilience of banks to both cyclical and global shock as the financial crisis. They put forward that diversity in the banking sector has two characteristics. First, the small banks perform vigorously, coexist and prosper beside the biggest banks. Second, diversity delivers different functional and organizational structure of banks, who have a mandate to support households and SMEs or a developmental mandate for the region. Furthermore, they emphasize strongly that the issue of diversity in banking is often underestimated in the discourses on the crisis (ibid., pp.xix–xx).

Ferri (2017) traces the evolution of banking regulation in the post-crisis period using the example of cooperative and savings banks and contends that new regulations place these two groups of banks in a disadvantageous position. Such developments might restrain the smooth flow of credit to the economy and limit the access to credit to the marginalized groups of society. Therefore, banking diversity is an important cornerstone to keep the economy sound. Kalmi (2017) sketches the history of such stakeholder banks in Europe as cooperative banks and savings banks. Within the diversity of stakeholder banks, he singles out “external” and “internal” diversity, where the former means differentiation between shareholder and stakeholder banks and the latter denotes heterogeneity with stakeholder banks. The author also emphasizes on the crucial role of regulation, which leaves its imprint on the architecture of banking diversity. Regulation often aims to adapt banks to similar rules, standardize their structure and homogenize their operations, which in the end endangers the resilience of the whole banking group. In the end, he concludes that stakeholder banks, who shaped the financial landscape through the history, are the key players to boost diversity in the banking industry (ibid., pp.46–48). Furthermore, Ayadi (2017) presents different models in European banking and confirms that small and non-shareholder-owned banks are important suppliers of financial intermediation. Based on such an analysis of diversity in the European banking industry, Miklaszewska and Wachtel (2017, p.xvi) suggest that policy and regulation should be aimed to keep diversity and foster non-traditional forms of banking.

At the beginning of the CEPS study, Ayadi et al. (2009) pose the questions about the benefits of savings banks to a country, an integrated economic and political EU project and the position of policymakers and political authorities with regard to these institutions (ibid., p.11). In sum, in its investigation, the study reveals that savings banks intensify competition in the financial sector, strengthen stability characteristics, commit to alleviation of social exclusion and foster regional development (ibid., p.ii). Furthermore, the authors emphasize that the financial crisis proved once again that there is a need to keep and advocate a pluralistic market concept in Europe as well as acknowledge and safeguard all types of ownership structures (ibid., p.3). However, the authors state that the principle “same business, same risks, same rules” should be preserved for all, which might be questioned given the fact that banks with a traditional model are more risk-averse than shareholder banks.

Political Debates on the Savings Banks

The savings banks have received attention not only in academic discussions but have been also part of political debates in the past decades. These debates can be grouped according to their developments at the international, European and national levels (Ayadi et al. 2009; Schmidt 2009).

In light of the international debate on savings banks, public banks and policies attached to them have gone through two major transformations since World War II. Until the beginning of the 1970s, state ownership of the banks and heavy-handed regulation were part of the general economic policies. Due to good performance of the public banks, the legal structure and state involvement were not questioned at that time. Consequently, backed by the World Bank and International Monetary Fund (IMF), the model of public banks from the advanced economies was transferred to the developing world. A shift of the dominant economic philosophy in the direction of becoming more 'liberal pro-market', 'anti-government' and 'anti-interventionist' with its key postulates of deregulation and privatisation, reoriented the attitude and perception of the public banks. As a result of this change, public banks were put under political pressure and faced a wave of privatisation by the middle of the 1980s. It was believed that unlimited competition in the financial domain would foster the development of the financial sector and growth respectively (Ayadi et al. 2009, pp.28–31).

The financial turmoil caused by the crisis of American and international financial systems questioned the liberal orthodoxy of Washington consensus and reawakened the debates on the state's involvement in the financial system and on the need for more solid banking regulation. In addition, the view on the development of the financial sector and growth as the guiding principles for policies has changed to a different angle based on the theoretical elaborations of Armatya Sen. It has been discussed that there is a need to create inclusive financial systems, which can provide access to financial services to a wider population. Correspondingly, savings banks are the 'inclusive' financial institutions, which try to combat financial exclusion. It is now recognized in the debates that "savings banks have been able and willing to continue playing this role because of their specific legal and ownership structure and their specific business models of being connected through national networks as a feature that contributes to their stability" (ibid., pp.32–34).

The debate on the savings banks at the European level was partly shaped by the tendencies at the international level, as well as by the impetus to create an integrated market for financial services guided by deregulation and privatization discourses from the DG Internal Market. Under these circumstances, the banks had to enhance their efficiency, risk management policies and value creation for shareholders, and extend their activities across borders within Europe.

In addition, it was expected that public banks would change their legal structure to unrestricted private ownership. Keeping the public ownership, savings banks were not conforming to the norm implied by the EU's policy orientation, particularly, due to the fact that some of them are not open to outside investment and do not take part in cross-border integration (Ayadi et al. 2009, pp.34–37).

Still, the European treaties do not prohibit diverse ownership forms of financial institutions. Therefore, the German savings banks were able to preserve their legal status. However, the DG Competition managed to phase out state guarantees for public banks in Germany using the so-called "sector inquiries" of EU competition policy (Seikel 2013; 2017). Still, the savings banks managed to keep their political standing because they work profoundly on fighting financial exclusion at the EU level. In addition, being less integrated into the international financial system, they managed to act as the stabilizing institutions in the financial crisis. Last, a wave of state interventions in purely private banks in the financial crisis altered the perception of the savings banks' ownership structure and strengthened their positions in the post-crisis phase (Ayadi et al. 2009, pp.37–40).

Not surprisingly, the debates on public banks at the international and European levels have had their imprint on the national discourses. Taking the case of Germany, the privatization debate of the German savings banks commenced after Germany's reunification after 1990. One of the stumbling stones was the above-mentioned state guarantees to the public banking sector. Furthermore, private banks were unable to buy single savings banks from the municipalities, which was seen as a barrier to the free movement of capital. Besides, the savings banks performed well in the retail market, while the German financial architecture remained unchanged. The pleas to transform the savings banks into private institutions with equity stakes were supported by the IMF. However, the network of the savings banks have managed to withstand this pressure winning the support of the German government[50] and trade unions.[51] The privatization debates are not on the surface now, however, the pressure to transform the legal status and fully privatize savings banks still remains (ibid., pp.41–43).

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[50] See http://www.tagesspiegel.de/wirtschaft/regierung-hofft-im-sparkassenstreit-auf-kompromiss/746648.html on the political debates about the privatization of savings banks and the position of Finance Minister Peer Steinbrück supporting the savings banks against the pressure from the European Commission.

[51] See the press releases of ver.di against the privatization of savings banks in Germany in 2002: http://www.verdi.de/presse/pressemitteilungen/++co++eb408800-4708-11d9-530a-003048429d94, and in 2005: http://nrw.verdi.de/presse/pressemitteilungen/++co++4be67356-87fc-11e2-9dff-52540059119e.

Savings Banks's Decline in Europe

Discussing the role of stakeholder banks in the European banking sector, Kalmi (2017) points out that since the outset of savings and cooperative banks, cooperative banks have strengthened their positions, whereas savings banks have been under threat (ibid., p.38). One important finding underlined is the diverging track record of cooperative versus saving banks, induced by the pressure for savings banks to change their structure, while cooperative banks being able to keep their form (ibid., p.54).

Cooperative banks have managed to keep a large market share in retail banking: 50 per cent in France, over one-third in Austria, Italy, Finland and the Netherlands (ibid., p.38). In Germany, cooperative banks held a second position in retail banking with a market share of 26.3 per cent, whereas savings banks continued to be the market leader with 32.1 per cent in 2015 (Statista 2017a). In contrast, the savings banks sector shrank in many European countries. Ayadi et al. (2009) emphasize that in the early 1980s, the savings banks were market leaders in the Nordic countries, Spain and Germany, and played an important role in Austria, Belgium and Italy. While they are still strong in Germany and Austria, their existence has come to a halt in Italy, Denmark and Belgium owning to the deregulation wave of the 1980s–1990s (Ayadi et al. 2009; Kalmi 2017). In addition, such type of banks have also disappeared from the Netherlands and the UK,[52] where the Lloyds Banking Group bought the former public savings bank (Trustee Savings Bank, TSB) (Ayadi et al. 2009, p.118; Bülbül, Schmidt and Schüwer 2013, p.16). The deterioration of the savings banks sector in the Nordic countries (mostly in Finland) was caused by the financial crisis of the late 1980s/early 1990s (Kalmi 2017, p.38). Savings banks are still present in Finland, Norway and Sweden (ESBG 2014b).

In Finland, savings banks sector comprises 23 savings banks, owning total assets of €9.2 billion, loans to customers €6.3 billion (3 per cent of the market share) and total deposits of €5.9 billion (4.1 per cent of market share) (Finanssialan Keskusliitto 2016; Säästöpankki 2016). The savings banks adhere to their original savings bank's mission of economic, social, environmental responsibility and fostering well-being in communities (ESBG 2014b). These banks build an amalgamation constituted in the Act on the Amalgamation of Deposits Banks ('Amalgamations Act', 599/2010). According to this regulation, the Union Coop, the central institution of savings banks, is responsible for the supervision of the institution and for the joint

[52] For more on the history of the savings banks in the UK, see Pratt (1842).

liability, as in the case of German savings banks. Also, banks are obliged to be part of the Deposit Guarantee Fund (ESBG 2014b; Säästöpankki 2016).

Savings banks are significantly present in Norway, where 105 out of Norway's 126 banks belong to the group and are part of the 25 savings bank foundations (Sparebankforeningen 2017). In 2015, the savings banks sector owned a total asset of €126.5 billion (NOK 1.214.4 billion),[53] a sum of about €97.3 billion (NOK 934.3 billion) as loan to customers and a total deposit of €76.3 billion (NOK 733.0 billion) (Finans Norge 2017). Savings banks have three ways of organization: as independent foundations without external owners; as banks with equity certificates and as private limited companies, when at least 10 per cent shares are under control of the savings banks' foundation. The Norwegian savings banks and foundations are also part of the Norwegian Savings Banks Association (Sparebankforeningen i Norge). The association works on behalf of the savings banks vis-à-vis the authorities, supporting the banks on economic policy matters, engages in lobbying activities, fosters cooperation among the savings banks in the country and represents their interests at the European level. As in the case of Finland, they are local institutions that operate in local districts and regions regulated by the Savings Banks Act and partly by the Financial Institutions Act. The Norwegian savings banks keep donating to their communities, even though the Savings Banks Act does not obligate them to do so. Importantly, the banks are members of the Norwegian Banks' Guarantee Fund, which secures the deposits of banks' clients.

The tradition of savings banks in Sweden goes back to 1820, when the first savings bank was founded in Gothenburg. Before Sweden's financial crisis in the beginning of 1990s, the savings banks' ownership structure was rooted in a foundation principle, which safeguarded the flow to the community. In 1992, the savings banks were allowed to form limited ownership (ESBG 2014a).[54] As of 2014, the savings banks sector was made up of 63 savings banks and Swedbank AB. In 2015, savings banks owned total assets of €35.3 billion (SEK 323 billion),[55] the market share of loans to customers and of total deposits was 6.4 per cent and 8 per cent (Sparbankernas Riksförbund 2017). All of the banks have different ownership: some have remained to operate

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[53] Authors' own currency conversion from Norwegian Krone into Euro according to the exchange rate of the ECB on 31.12.2015. The exchange rate for €1 equalled 9.603 NOK.

[54] See more on the savings banks reform in Sweden from the perspective of the Deutsche Bank Research (Polster 2004), which presents the processes of privatization and consolidation as the way to follow for the German savings banks.

[55] Authors' own currency conversion from Swedish Krone into Euro according to the exchange rate of the ECB on 31.12.2015. The exchange rate for €1 equalled 9.1593 SEK.

as self-owned institutions, some have turned out into limited liability companies, whereas the others are owned by one foundation, or by a consortium of couple of foundations, or are linked to Swedbank of which they are partial owners (around 9 per cent) (ESBG 2014b).

Swedbank has moved beyond the traditional savings bank model of a local community-based bank and nowadays also operates in Norway, Finland, Denmark, the US, China, Luxembourg and South Africa (Swedbank 2017). Still, 47 of these banks are savings banks by statue and 59 out of 63 are members of the Swedish Savings Bank Association (Sparbankernas Riksförbund) (ESBG 2014b). Reflecting on the impact of the financial crisis on the Swedish savings banks sector, Öivind Neiman, Managing Director of Sparbankernas Riksförbund emphasized that "[t]he financial crisis didn't affect Sweden as much as it did the rest of Europe. This is partly because Sweden had its own huge domestic crisis back in the early 1990s and learned from it" (ESBG 2014a). Still, there were two large banks that faced problems in the crisis due to their exposure in the Baltic states and consequently, received state support (ibid.). Similar to Finland and Norway, the Swedish savings banks are also part of the mandatory deposit guarantee scheme, which is administered by the Swedish National Debt Office (ESBG 2014b).

The Spanish banking sector was hit by the financial crisis of the 2010s leading to banks mergers and conversions (Kalmi 2017, p.38). Even before the crisis, the Spanish savings banks (cajas) were already functioning as private organizations regulated by the private law (Ayadi et al. 2009, p.118). The change of the business model of the Spanish savings banks was fostered by the deregulation of Spanish financial markets from the mid-1970s.[56] This was a point, when the savings banks were privatized, abolished the regional principle, turned to the universal banking model, lowered their regional involvement and strengthened national activities, thus becoming strong competitors to commercial banks (Ayadi et al. 2009; Bülbül, Schmidt and Schüwer 2013; IMF 2012). Bülbül, Schmidt and Schüwer (2013) accentuate that reform of the Spanish savings bank were due to Spain's accession to the EU in 1986 and the EU's opposition to publicly owned banks. The authors contend that the half-hearted privatization with badly adjusted ownership and governance and the demise of the regional principle contributed to the crisis of the Spanish savings bank sector (ibid., pp.14–15).

After the financial crisis, the Spanish banking system faced sharp adjustments in the form of

[56] For more on the development of the Spanish banking system, see Malo de Molina and Martin-Aceña (2012), Martin-Aceña (2012) and Comin (2012); for the discussions on the current developments and future challenges for the Spanish banking system, see Vives (2012).

restructuring, mergers, concentration processes and reduction in capacity, thus reducing the number of savings banks from 45 to 17 in 2011 (Ordóñez 2011, p.26) to 13 by the end of 2012 (Martin-Aceña 2013). Kalmi (2017) accentuates that out of the remaining savings banks, there are only two savings banks that keep functioning as previously, the rest of banks have been transformed into joint stock bank (ibid., p.38).[57] The Spanish savings banks belong to the Confederation of Spanish Savings Banks (Confederación Española de Cajas de Ahorros, CECA). In 2016, they owned a total asset of €800.1 billion, loans to customers of €508.7 billion (36 per cent of market share) and total deposits of €514.9 billion (38 per cent of market share) (CECA 2017).

Italian savings banks as well as cooperative banks developed in the nineteenth century primarily following the German model. They, too, started as small local banks supporting the local population, though did not gain solid positions as the savings banks in Germany, Austria and France (Bülbül, Schmidt and Schüwer 2013, p.13). Milani (2017) points out that the launch of the European Economic and Monetary Union (EMU) contributed to the transformation trend in the Italian banking market. Since the late of 1980s, the Italian savings banks faced the privatization process. It started in 1990 with the Amato legislation, which declared the reorganization of state-owned banks into joint-stock companies and change of ownership rights. This carried on with the 1993 Consolidated Law on Banking, which paved the way for the consolidation of savings banks into new corporate forms (Ayadi et al. 2009, pp.157–158). In the early 1990s, the state ownership of banks with regard to total assets was around 70 per cent, while nowadays this number is close to zero (Milani 2017, p.104). The Italian savings banks sector was converted into the private banking form or was absorbed by the big private banking groups INTESA and UNI-Credit (Ayadi et al. 2009, p.118). As a result, the public savings banks in Italy do not exist anymore and the banks born from reorganization do not carry the characteristic of the local savings banks (Bülbül, Schmidt and Schüwer 2013, p.13).

The tradition of the savings banks in France can be traced back to 1818, when the first saving bank was created in Paris. Through the twentieth century, they experienced widening of the scope of activities and transformed into the locally oriented universal banks (ibid., pp.11–12). In the 1990s, France also confronted mergers and acquisitions (M&A) among savings banks as the number of savings banks shrank from 450 to around 40 within a few years (Butzbach 2007,

[57] For further discussions on reform of the Spanish savings banks after the crisis, see the report of the IMF (2012); on the regulatory framework and supervisory processes in Spain, see Ruiz, Stupariu and Vilarino (2016) and Poveda (2012).

p.149). The Savings and Financial Security Act 99–532 of 25 June 1999 and the Act 2008–776 of 4 August 2008 on the modernization of the economy changed the structure of Caisses d'Epargne—the French savings banks (ESBG 2014b). Consequently, these savings banks were transformed into the cooperative banks in the form of limited companies and became the fourth pillar of the cooperative banking group (Ayadi et al. 2009, p.118; ESBG 2014b, p.21; Polster 2005, p.16).[58] For this reason, the savings banks in France build a network, which consists of National Federation of Savings Banks, Group Banque Populaire Caisse d'Epargne (BPCE), 17 savings banks (Caisses d'Epargne) at the regional level and 228 local savings companies (Sociétés Locales d'Epargne) at the local level.[59] In 2016, Caisses d'Epargne gave €236 billion loans to customers and made total deposits of €399 billion. In the same year, together with the regional banking network Banque Populaire, Caisses d'Epargne made 21 per cent of the market share in loans and 22 per cent in customer deposits and savings (BPCE 2017).

Legally, the French local savings banks are organized as cooperative societies, whose capital is 100 per cent owned by cooperative shareholders. In comparison to regional savings banks, these institutions are not allowed to undertake banking operations and are not commercial companies. The regional savings banks function as universal credit institutions and are also part of the guarantee and solidarity mechanism and Deposit Guarantee Fund (ESBG 2014b). Bülbül, Schmidt and Schüwer (2013) point out that even though French savings banks are present as a brand under BPCE, their model does not match with the traditional one of publicly owned savings banks (ibid., p.12).[60]

As in the case of many other European countries, the Austrian savings banks were also founded in the nineteenth century, namely in 1819. They were organized by the public authorities or citizens, who were socially committed in their regions. In 1979, the Austrian savings banks have undergone structural changes becoming universal banks, dismissing the regional principle and letting some savings banks to operate nationally. Later in 1986, after the revision of the Savings Banks Law, a savings bank was allowed to be split into two different legal entities: a 'savings bank stock corporation' representing the operational part of the bank, and savings

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[58] For more details on the savings bank reform in France, see Polster (2005).

[59] For more information on the structure of the Group BPCE and the savings banks network, see http://www.federation.caisse-epargne.fr/une-identite-cooperative/.

[60] For its lobby activities, BPCE uses three channels while being a member of the European Banking Federation (EBF), ESBG European Savings and Retail Banking Group (ESBG) and European Association of Cooperative Banks (EACB) (Interview ESBG III).

banks, keeping the function of owning the shares. Such a reform created a more complicated structure of cross-ownership, when some savings banks hold shares in other savings banks (Bülbül, Schmidt and Schüwer 2013, p.10). Savings banks interests at national and European levels are represented by the Austrian Savings Banks Association (ASBA) (Österreichische Sparkassenverband).[61]

Today, Erste Bank Österreich ('Erste Bank'), 46 regional and local savings banks, the holding company Erste Group Bank AG ('Erste Group') and a couple of associated services institutions built the Austrian savings bank group. Savings banks' own total assets of €208.2 billion, loans to customers of €130.7 billion (19 per cent of market share) and total deposits of €138.0 billion (18 per cent of market share) (Erste Group 2017). Currently, the Erste Bank is the key savings bank in Austria holding more than half of the total assets of all savings banks, while the other savings banks fulfil the secondary role (Bülbül, Schmidt and Schüwer 2013, pp.10–11). The Erste Group is also actively involved in the Central and Eastern European (CEE) region (Czech Republic, Slovakia, Hungary, Romania, Croatia, and Serbia). Besides, it is also indirectly present in Croatia and Moldova (Erste Group 2018).[62] In Austria, as in the Nordic countries, the concentration degree of the savings bank groups is also higher than in Germany (Ayadi et al. 2009, p.118). Even more, Austria has a very dense branch in Europe (Interview ASBA). Similarly to Germany, the Austrian savings banks sector did not have a damaging impact owing to the financial crisis (Kalmi 2017, p.39). Since 2002, the Austrian savings banks too have developed their own protection mechanism, the Joint Liability Scheme, thus, in case of difficulty, the savings banks are liable to one another under this regulation (Interview ASBA; Arnoldt 2016).

Until 30 years ago, the 'three-pillar' banking system existed in almost all European countries, where the savings banks adhered to the regional principle, functioned under public ownership and fulfilled primarily their social and developmental objectives. The political impetus for EU-wide harmonization, belief in weak competitiveness and low efficiency of regional banks were the driving forces for a change in the landscape of the banking sector in Europe (Bülbül, Schmidt and Schüwer 2013, pp.16–17). As shown above, the German savings banks have lost

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[61] In addition, the ASBA serves as a discussion platform for the savings banks within the group, as a representative of the savings banks as an employer for arranging collective agreements with the trade union, as a service provider in the areas of service, tax and banking law, and as a foundation for sponsoring various projects (Sparkassenverband 2018). For more information, see https://www.sparkassenverband.at/de/ueber-uns/ueber-uns.

[62] For a more detailed information about key figures, markets, group structure, history and strategy of the Erste Group, see https://www.erstegroup.com/en/about-us.

many of their European allies such as Belgium, France, Italy, and Spain, where savings banks have been restructured, privatized or completely eliminated (Ayadi et al. 2009; Bülbül, Schmidt and Schüwer 2013; Butzbach 2007; Ordóñez 2011). As underlined by Bülbül, Schmidt and Schüwer (2013, p.18), in case there are still saving banks present in other European countries, they do not possess the same institutional characteristic as 30 years ago. Nowadays, the lack of allies of the same nature and model makes it harder for savings banks to establish strong coalitions. Thus, the interests of a small bank are marginalized in the agenda-setting and decision-making phase of European financial market politics.

2.2. Public Banks in Germany's Economic Model

The German financial system may be characterized as 'bank-based' in contrast to being 'market-based' as exists in the US (Dietrich 2009; Schrooten 2008).[63] Dietrich (2009) considers it to be a singularity in international banking because it combines two main models of banking system architecture: unitary banking and branch banking (ibid., p.1).[64] Germany's banking system is divided into universal and special-purpose banks (e.g., mortgage banks and building societies). Private banks (e.g., Deutsche Bank, Commerzbank), Landesbanken and savings banks, and cooperative credit institutions (Volksbanken, Raiffeisenbanken) fall in the category of universal banks. These banks also have different legal forms. Figure 2.1 depicts the structure of the German banking industry, where public banks (Sparkassen and Landesbanken) have a great role with the market share of 28.6 per cent.

For a long time, the German three-pillar bank system (Dreisäulensystem), which represents the three forms of ownership of banks: private, public and cooperative (Brunner et al. 2004; Engerer and Schrooten 2004), has been viewed as stress-resistant and stable. According to Dietrich (2009), the soundness and efficiency of the German banking system is crucial for the performance of the German economy as a whole, as banks in Germany have played a great role in funding the economy. Germany has a large banking sector; and, because of the regional

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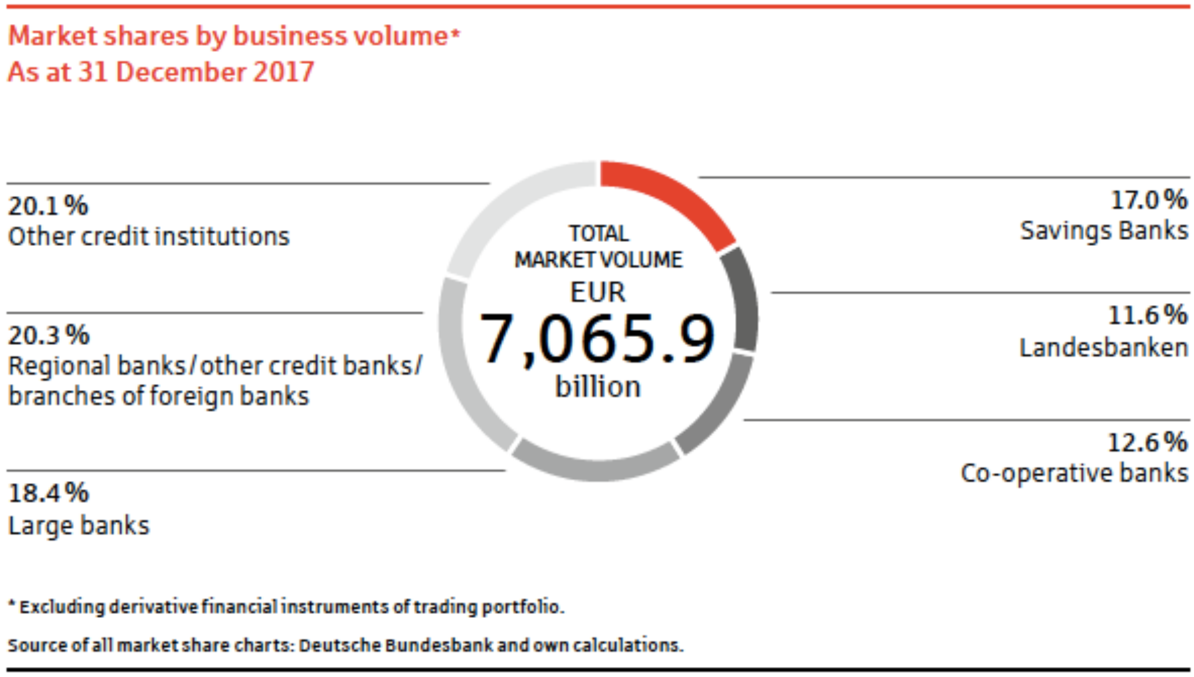
[64] The term 'unitary banking' denotes an atomistic market structure; 'branch banking' refers to an oligopoly of larger banks. Small banks, in relation to the national level, may enjoy market power in their local markets, thus may be able to extract monopoly rents. Small banks with a limited range of services and a limited geographical presence may also have greater incentives than large banks to exploit bank-specific lock-in effects. Unitary banking is modelled by assuming that each banking office represents an independent bank. Branch banking segments the banking market in two holdings and their networks (Dietrich 2009, pp.31–32).

principle, the concentration levels are considerably higher at the regional or even local level when compared to the national plane.

Figure 2.1 Structure of the German banking industry by market shares by business volume



Source: DSGV (2018, p.41).

One of the key features of the German banking system vis-à-vis other European countries is the high degree of public ownership. The regional public bank sector is represented by savings banks who are members of the German Savings Banks Association (Deutscher Sparkassen– und Giroverband, DSGV), and speaks for the savings banks to policymakers, public authorities and the general public. In addition, the national association is responsible for framing the general policy of the group (Bülbül, Schmidt and Schüwer 2013; DSGV 2016b). Besides, the savings banks belong to the Savings Banks Finance Group,[65] which comprises approximately 540 institutions: 390 savings banks (2016: 403; as of 15 June 2018: 385), six state bank groups (Landesbanken Gruppen), eight regional building societies (Landesbausparkassen), 11 public primary insurance groups and a number of asset management, leasing, and factoring companies

[65] In a similar way, local cooperative banks belong to Cooperative Financial Services Network. It is a consolidated banking group, which is comprised of the National Association of German Cooperative Banks (BVR), regional associations, DZ Bank (central bank), cooperative service organizations and local cooperative banks (BVR 2017; Cupei 2016, p.3).

with overall combined total assets of €2,840 billion[66] in 2017 (DSGV 2018, p.49). The savings bank group might be seen as a three-level network with savings banks operating at the local level; Landesbanken, building societies and insurance companies at the state level; and other institutions, like DekaBank or Deutsche Leasing at the national level. Thus, the DSGV is organized according to a three-level structure of financial institutions. Even though such a structure might resemble a hierarchical system with the concentration of power at the highest level, it is not the case for the savings banks group neither by law and statute nor de facto (Bülbül, Schmidt and Schüwer 2013, pp.6–7).

In Europe, the origin of savings banks structure can be traced back to the historical development of the regions in the eighteenth–nineteenth century. First, they served as an instrument to improve the situation of the poor population and second, as the means to stabilize social order (Seikel 2013, p.86). Therefore, the savings and cooperative banks managed to internalize the tradition of savings, based on the "close, symbiotic relationship" between the banks and small business, who were merchants, craftsmen and farmers (ibid., p.89). The model of small savings banks got deeply rooted into the economic structure of Germany, as it aimed to support the development and welfare orientation (Gemeinwohlorientierung) of the regions. Historically, savings banks stayed in the regions which offered the lowest profitability (Seikel 2013; 2017).

Historical examination singles out two types of savings banks, which developed in Germany at that time. As a follow-up to the French Revolution, the bourgeoisie tried to establish virtues like education and saving; thus, the first education institutions and free savings banks (Freie Sparkassen) were founded, for example, in Bremen, Hamburg, Lübeck—Hanseatic cities with many merchants and in Frankfurt—a trading city with a lot of middle class. Interestingly, the communal savings banks appeared later by the end of the nineteenth century, when the municipalities, foundations or associations established savings institutions (Interview Frankfurter Sparkasse). For example, the Polytechnic Society founded the Frankfurter Sparkasse in 1822, where less prosperous individuals could save small amounts (Polytechnische Gesellschaft Frankfurt am Main 2018).

At the same time, the big private joint-stock banks like Deutsche Bank, Commerzbank and Dresdner Bank, fostered the industrialization of the big enterprises. In the 1960s, the savings banks and the Landesbanken adhered to the Keynesian paradigm of demand-driven growth

[66] This includes foreign branches as well as domestic and foreign subsidiaries of Landesbanken. Business volume without these branches and subsidiaries amounts to €2,700 billion (DSGV 2018).

impulse, which secured the growing profitability of this banking pillar (Seikel 2013, p.103). Since then, the small banks have been positioned as a countervailing power to the big banks. The Landesbanken were able to supply funds to the mid-size and big enterprises, in case the savings banks possessed excess liquidity. Gradually, the big private banks also extended their activities to the mid-size companies, which stipulated the competition of three bank groups in all areas of banking business. Thus, the current three-pillar bank system reflects the path dependency of the banking system in Germany.

Savings banks are the local communal banks, which are committed to their traditional model, do not go out of their territory and keep a joint liability scheme to support each other. The guiding principle of a savings bank is the promotion of the common good and fostering close relationships between local government institutions and the cities and communities in the region; therefore, its main target are small and medium enterprises (SMEs) in its own specific regional area (Döring 2003). Savings banks function on the basis of a regional principle[67] that does not allow them to compete amongst each other (Dietrich 2009; Gärtner 2009; Hessiches Sparkassengesetzt 2008, § 1, cl. 3[68]). Savings banks work directly in the regions throughout the country. The goal of a savings bank is to establish long-term business relationships with private and corporate customers. This type of bank is the platform for the regional economic development in Germany (DSGV 2010a). Since profit maximization is not the primary objective (Hessisches Sparkassengesetz 2008, § 2, cl. 1, 6), they are not engaged in speculations in the global financial markets.

What contributes to the difference of savings banks from the other two pillars is the 'public ownership' or public 'Trägerschaft' (Ayadi et al. 2009; Hessiches Sparkassengesetzt 2008, § 3, cl. 1, 2). The 'Träger' can be translated as a 'sponsor' or 'responsible or supporting entity', which denotes the public or private entity. For a savings bank, it is a municipality, a group of municipalities, or a county or a foundation or an association that is in charge of establishing the general oversight of its activities (Ayadi et al. 2009, p.10).

Until 2005, the savings banks enjoyed institutional and guarantor liability (Seikel 2013; 2017; Staats 2005, p.70). Such a law change was an outcome of the growing process of European

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[67] The origin of this principle can be also traced back to the end of the nineteenth century, when the fist communal savings institutions were established. As far as the savings banks were under the jurisdiction of the municipalities, their business activities were limited to the areas of the municipality (Interview Frankfurter Sparkasse).

[68] Each state in Germany has its own savings banks law. I am referring to the Hessisches Sparkassengesetz, which covers the savings banks in the state of Hessen.

integration in the financial domain, which was marked by the processes of liberalization, flexibilization and deregulation in the economy. Not the last factor of an attack on the communal finance was the power game between the different banks. Over time and due to technological progress, the Landesbanken were losing their old functions of central giro institutions and were joining the big private banks in their pursuit for large margins. Not surprisingly the big German private banks relying on the European law and support from the EC and the European Banking Federation (EBF) were able to win the game against public banks and remove state guarantees (Seikel 2013; 2017). Landesbanken were hit by this abolition.

Unlike the Landesbanken, the removal of these public guarantees did not threaten the savings banks' business model because in the 1970s they established among themselves common institutional protection (Institutssicherung) and joint liability schemes (Haftungsverbünde).[69] The latter is used as "a special form of deposit insurance with an institutional guarantee" and can be compared to an insurance tool (Käfer 2015, p.6). For example, if a savings bank has depleted its own deposit insurance, other savings banks would help with their deposit insurance. This institutional protection has been modified most recently in response to the EU Directive on Deposit Guarantee Schemes (DGS). The savings bank Institutional Protection Scheme (IPS) is organized into 13 guarantee funds for (i) the regional savings banks associations, (ii) the regional building societies, and (iii) the Landesbanken and giro centres. In addition to institutional protection, IPS provides deposit protection;—it can cover customer claims related to savings deposits, savings certificates, time deposits, sight deposits and bearer bonds, and allows the customer to claim up to €100,000 of their deposits.

Landesbanken also belong to the decentralized structure of the Savings Banks Finance Group. Historically, they have developed as the clearing houses of the savings banks (Girozentrale), and assumed the function of a central financial intermediary, thus becoming the key advisor and support for financial issues to the savings banks (Pohl and Freitag 1994, p.447). Since the late 1960s, the Landesbanken have also served large corporate customers and are active on international financial markets (Seikel 2013; 2017). The respective German states (Länder) and regional savings banks own Landesbanken, which are represented by the regional associations of savings banks (DBRS 2006, p.2). The Landesbanken have their own safeguard funds;

[69] Bülbül, Schmidt, and Schüwer (2013) provide three reasons why the savings banks were able to avoid the negative effects of phasing out the guarantees. No public guarantees were requested by the savings banks, first, due to the retail deposit of savings banks, and second, due to the solid internal risk control. Furthermore, the savings banks continued to operate locally according to their core business model (ibid., p.6).

however, if they exhaust these funds, the savings banks can theoretically use their deposit insurance to bail out the Landesbanken in their group (Interview BaFin—the Federal Financial Supervisory Authority).

Despite the fact that savings banks did not experience the negative effects of phasing out the state guarantees, they still remain closely related to the Landesbanken, thus they face the liberalization pressure as well. Due to the pressure on the overall public banking sector, the savings banks criticized their corresponding Landesbanken for their involvement into the risky international business, where the savings banks were supplying the Landesbanken with the equity capital (Seikel 2013, p.135). Such privatization pressure highlights that identity, governance structure and management of the Landesbanken and savings banks are different. In addition to the practices of policymaking in the European financial domain, which has made this divide more visible, the other factor that distinguished a model of a small savings bank is a financial crisis.

2.3. The Importance of the Savings Banks before and after the Crisis

This section describes how the savings banks managed to perform relatively well before and after the crisis. As argued by Deos, Ruocco and Sotto Tibiriçá Rosa (2017), savings banks have acted and can act as stability anchors for the financial system. Bülbül, Schmidt and Schüwer (2013) confirm that local and regional banks are not involved into too risky operations and thus can contribute to the stability of the whole financial system (ibid., p.19). In the European case, the CEPS study contends that savings banks have been to a lesser extent hurt by the financial crisis in comparisons to other banks in general (Ayadi et al. 2009, p.iv).

Good performance of the savings banks could be explained by the alternative view on the classical banking theory. New banking theory does not support maximum bank competition as an ideal in the financial markets. Its approach focuses on the information capital of the banks and on the asynchronous distribution of information between debtors and creditors, and the assumption that information could be used more than one time (Gärtner 2009, p.47). Strong, long-term customer ties contribute to the good performance of savings banks during a financial crisis as well as in stable times. This is due to the concept of a relationship in which savings banks are able to collect information beyond accessible public information, so that they can share and assess risks better.[70] The main aim of the smaller banks is to build long-term credit relationships with their customers, which explains higher returns on equity and lower volatility in the crisis (Interview Kasseler Sparkasse). Dietrich (2009) argues that there is a trade-off between efficiency and stability: higher competition increases efficiency but decreases stability (ibid., p.22). Analysing a bank-level panel dataset from 1995 to 2007, the research by Beck et al. (2009) finds that the cooperative and savings banks are more stable and further from insolvency than the privately owned banks, even though the latter enjoy higher profits. Ayadi et al. (2009) summarize that savings banks secure access to financial services, counterbalance for negative external effects, enhance regional development, alleviate intertemporal risk and capitalize on the value of diversity (ibid., p.1).

The German savings banks did not directly experience the financial crisis in the credit business, the securities business, special funds, or liquidity provision.[71] The crisis has influenced them through real economy and level of interest rates. Financial strength was in decline due to an increase in unemployment and a fall in production in firms. However, as their business partners recovered quickly, so did the savings banks. Besides, they were not exposed to the securitization process, one of the financial innovations, which, on the one side, helps banks to diversify and manage risks, but on the other hand, makes them more prone to systemic risk. This group of banks together with the cooperative banks was able to keep up lending. Thus, these banks did not need any standby packages or support.

The savings banks' commitment to the Landesbanken, however, is an external risk that is difficult to manage. Many savings banks were influenced indirectly by the difficulties in their Landesbanken during the time of the crisis.[72] When the Landesbanken are not able to generate additional capital, it creates a systemic risk impacting the smallest savings bank, which might have to absorb the losses of the Landesbanken caused by their involvement in risky financial operations (Interview BaFin). However, there was no need for the savings banks to tap into

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[70] See more on the discussions about relationship lending in Berger and Udell (2002; 2006), Allen and Carletti (2010).

[71] The exceptions are some savings banks, e.g., Südholsteiner and Nord-Ostsee-Sparkassen in Schleswig-Holstein, that were also involved in trading on the international market (Interview Schrooten; BVR 2017; Drost 2010).

[72] Four Landesbanken (HSH Nord, BayernLB, SachsenLB and WestLB) were affected by the crisis, consequently, some local savings banks as co-owners, guarantors and business partners of these Landesbanken. As a result, HSH Nordbank and BayernLB were under major reforms, SachsenLB merged with LBBW and WestLB was liquidated. Helaba, which weathered the crisis rather well, remained well-positioned within the group (Deutsche Bundesbank 2016a).

their reserve funds, as the Landesbanken were supported through guarantees by the state and the Special Financial Market Stabilization Funds (Sonderfonds Finanzmarktstabilisierung, SoFFin).

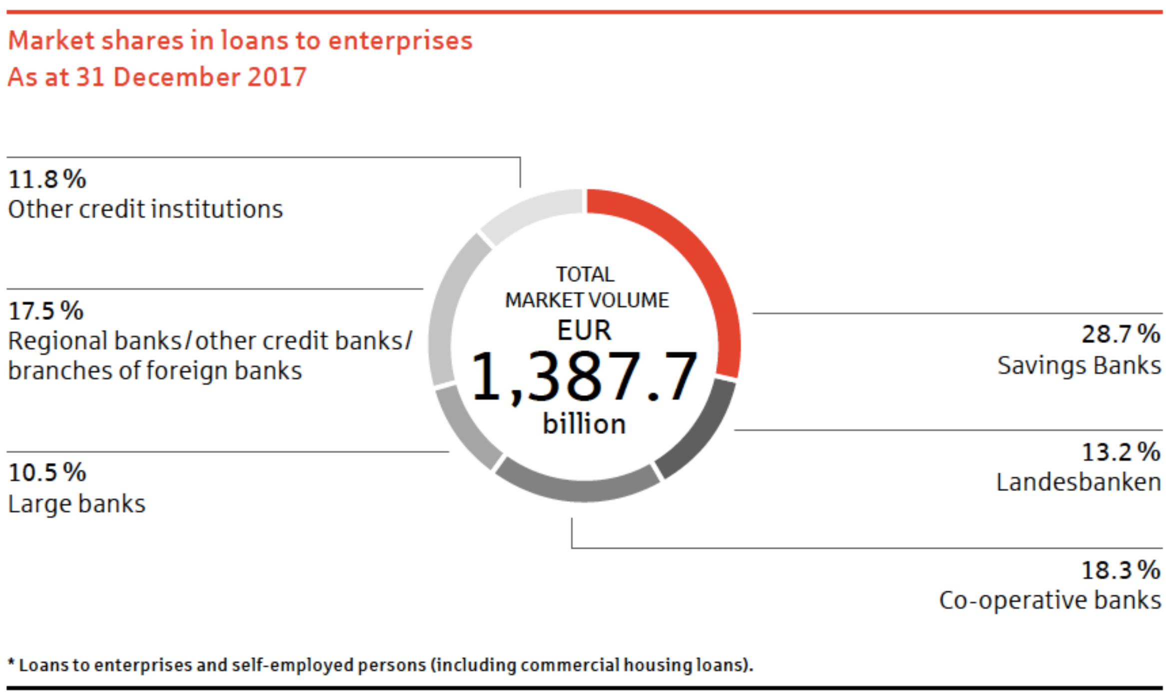
In contrast to the big private banks and Landesbanken, the savings banks managed to act as a stabilizing factor due to their operation in lending and their strategy in providing credit to SMEs (Interviews Kasseler Sparkasse, BaFin). One of the tasks of the savings banks is to support enterprises and self-employed individuals even in the time of the financial turbulence. According to my interview partner in the savings bank:

> the savings banks are able to engage in trading on the international markets. They can invest in risk assets, shares, hedge funds or engage in securitization. However, this happens within certain limits in regard to the legal or regulatory rules, which the savings banks need to follow. On the other side, the level of fulfilment of these requirements depends on the performance of each savings bank and is especially influenced by the risk appetite of the board of directors and risk baring capacity of the savings bank (Interview Kasseler Sparkasse, own translation).

The savings banks conduct their business investing in safe bonds or rely with great trust on the public issuer. Besides, they use their profits for two main goals: build contingency funds and promote public welfare (DSGV 2012b, p.50). The own contingency funds as well as funds from the Joint Liability Scheme could be used by the savings banks in the time of downfall. The savings banks could also refinance through deposits from retail customers, whereas Landesbanken had problems refinancing in the capital market. Bülbül, Schmidt and Schüwer (2013) highlight that a possible recipe for (relative) success and survival might be the preservation of an appropriate business model and institutional structure. The main features of this model are keeping the roots in the local economy, finding the right balance between running a profitable business and serving the community, whereas the key characteristic of the appropriate institutional structure is embeddedness in a decentralized and dense network of financial and non-financial institutions (ibid., pp.18–19).

According to the assessment of the DSGV, the decentralized business model of the Savings Banks Finance Group proved to be more resistant to the financial crisis than the centralized models of the large banking groups (DSGV 2010). As international banks withdrew many of their activities from the market, savings banks obtained more space to expand their business. In 2009, savings banks and Landesbanken made business relationships with around three quarters of German companies, granting 41.7 per cent loans to companies and self-employed individuals (DSGV 2010, p.19). In 2017, the market shares in loans made 41.9 per cent, with savings banks granting 28.7 per cent loans and Landesbanken granting 13.2 per cent (Figure 2.2).

Figure 2.2 Market shares in loans to enterprises

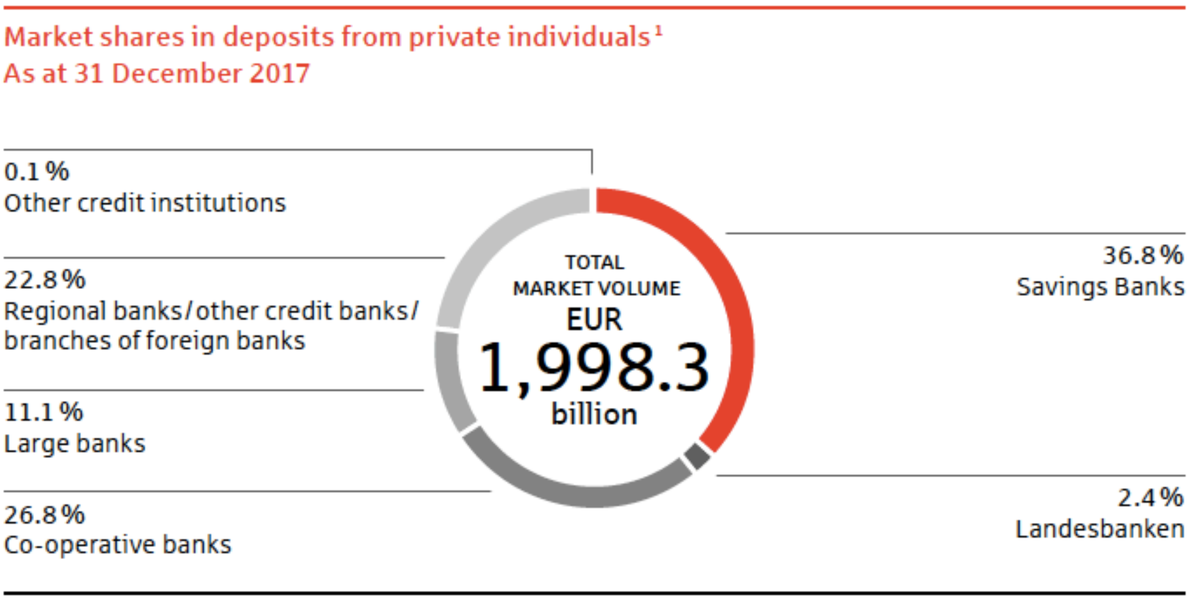


Source: DSGV (2018, p.42).

In 2017, savings banks continued to be the market leader for deposit-taking businesses with a market share of 36.8 percent of deposit-taking business with private customers (Figure 2.3). In comparison, savings banks' market share in deposits amounted for 40.4 per cent of all the deposits from private individuals in 2009 (DSGV 2010a, p.20). The DSGV complains that this market segment has been mainly marginalized due to the low interest rates environment during recent years. Still, it remains ahead of cooperative banks, which compete with savings banks in retail business (DSGV 2018, p.44).

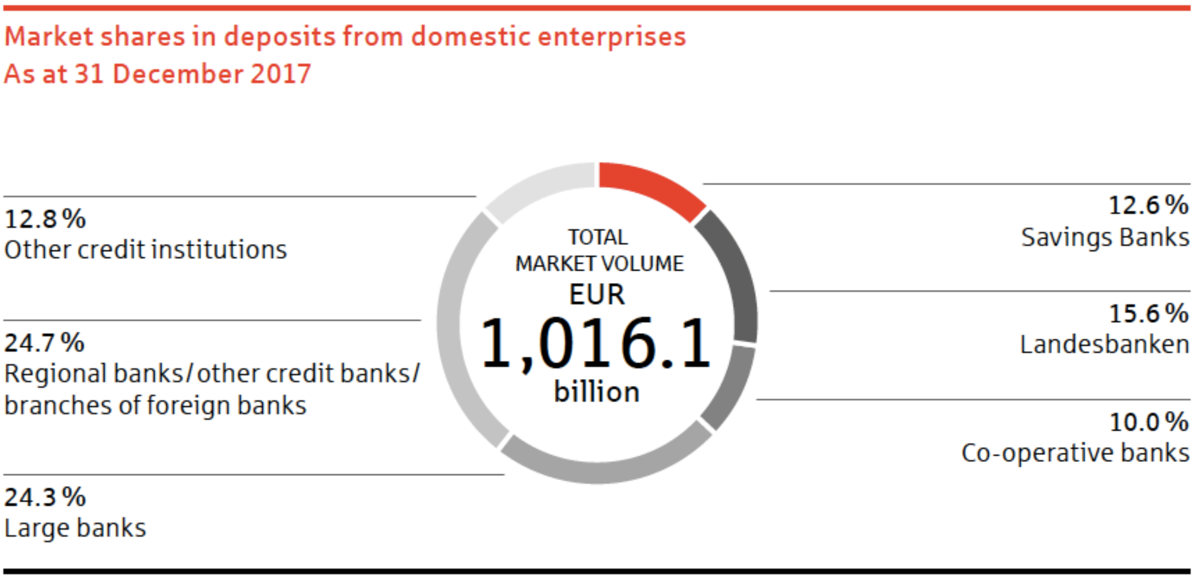
The savings banks' portfolio of deposits from domestic enterprises declined from 13.1 per cent in 2016 to 12.6 per cent in 2017 (Figure 2.4; DSGV 2017, p.37). In comparison, the market share from business deposits amounted to only 10.5 per cent in 2009. This was still more than before the crisis (DSGV 2010, p.20).

Figure 2.3 Market shares in deposits from private individuals[73]



Source: DSGV (2018, p.44).

Figure 2.4 Market shares in deposits from domestic enterprises



Source: DSGV (2018, p.45).

Concerning the law in banking—the German Banking Act (1998) (Kreditwesengesetz, KWG)—the requirements have increased, especially after the crisis. The savings banks have been regularly adapting to the new regulations in risk management and risk monitoring as

[73] Excluding term deposits with a maturity of more than two years.

outlined by the MaRisk requirements,[74] which also contributed to their stability in the crisis (Semenyshyn 2011). In addition to the new rules created at the national level, the small banks need to adjust to the newest regulatory developments, which have become standard in European and international finance. Affected by this increase of regulation requirements at different levels, savings banks are faced with additional reporting, which requires a costly overhaul of their IT facilities. In addition, the savings banks group has to modify and monitor the effects of the new regulations on its processes and procedures. Nevertheless, the minimum capital requirements demanded by the Basel regulations, as well as the Capital Requirements Directive's (CRD IV/CRR) guidelines are fulfilled by the savings banks (Interview DSGV II).

In the aftermath of the crisis, the savings bank's idea has been spread as never before (DSGV 2012a), igniting the interest of bankers from some European countries in the savings banks' knowledge and experiences (Interview DSGV I). However, the representative of DSGV notes that "the increasing markets shares and the stable situation in the financial crisis are not attributable to the regulation" (ibid.). The other factors are seen as contributing to such a success of the savings banks. First, by not being misguided by the short-term thinking as in the case of big banks, the savings banks were able to supply credits to enterprises also in the times of crisis. Second, their position of trust, built towards the customers before the crisis, attributed to winning the new market shares. The last explanation of savings banks' success lies in the fact that big banks often leave the small customers out of their scope, as far as they mostly deal with the big customers due to the scale effect (ibid.). For this reason, after the crisis, the so-called old-fashioned and outdated model of savings banks was reassessed politically and the small institutions managed to regain some recognition (Bülbül, Schmidt and Schüwer 2013, p.19). Savings banks have proved to be the stability anchors and an important banking pillar in Germany, helping to resist the financial crisis.

[74] Minimum requirements for risk management (MaRisk) provide a legal framework for managing all possible types of risks, and deliver "a flexible, hand-on framework for risk management at institutions based on section 25a (1) of the German Banking Act (KWG)" (BaFin 2009, p.3). In 2009, it put into effect the qualitative requirements of Pillar 2 in the regulatory practice of BaFin (DSGV 2010a, p.39).

Since then, the MaRisk requirements have been constantly adjusted to the new developments in financial industry and international regulation initiatives. In 2017, BaFin and Deutsche Bundesbank adapted MaRisk to the new European and international guidelines and standards. The changes occurred in the areas of data aggregation and risk reporting, risk culture and outsourcing (BaFin 2017). BaFin published the current version of this circular as 09/2017 (BA) (BaFin 2018).

2.4. Conclusion: A Fragile Position of Savings Banks within European Political Arena

The discussion on the German public banks, presented along this chapter, can be taken to conclude that the case for public savings banks is specific, i.e., it does not fit with the general development of the European banking landscape and EU's policy orientation. It is specific because, to a certain extent, the savings banks are distinct from the typical model of a bank, based on their structure, size and legal status, as in the case of Germany. Furthermore, this sector is less integrated into the international financial system. The reservation against public savings banks in political debates softened, as the German savings banks managed to weather the financial crisis well.

The critical studies bring three key arguments in support of savings banks emphasizing their role in boosting regional development, mitigating intertemporal risk and contributing towards the diversity of the financial system. It is underlined that diversity improves resilience of the banking system and contributes to the systemic stability. The authors have a strong point in arguing that savings banks intensify competition, strengthen stability, commit to social and financial inclusion and promote regional development. In this way, savings banks also benefit the economic development of an integrated European project. For this reason, an alternative business model of a savings bank that belongs to a decentralized and dense network of financial and non-financial institutions should be preserved. In my research, I support such an argumentation line.

It seems quite difficult for the savings banks to communicate to the European level the meaning and role of the German banking system. In addition, savings and cooperative banks seem to have too high shares for such small banking groups. This is due to the fact that a model of a small stakeholder bank focused on development of its respective region has become completely atypical (Interview Frankfurter Sparkasse). However, it is not the only reason, which imposes the challenge to promote an idea of a savings bank. It is also savings banks' affiliation to a heterogeneous group of financial institutions banded together under one umbrella, which changes the perception of these institutions at the European level. Besides, the position of savings banks changed in the light of transformation of economic thinking into the direction of deregulation and privatization. As discussed in previous sections, this induced a decline of public savings banks at international and European markets, as banks were under political pressure to privatize. As far as an establishment of a European integrated market was guided by deregulation and privatization postulates, the public savings banks were expected to change their legal structure, even though the European treaties allow diverse ownership of financial institutions. Before the crisis, the German savings banks succeeded in resisting the pressure to privatize and change their structure having German state and trade union as their coalition partners. It remains open how the savings banks aim to defend their model by lacking allies of the same nature at the EU level.

In the years since the financial crisis, the focus on privatization of public banks has shifted to changing the institutional design of financial regulation. It seems that the privatization debate is put on hold overshadowed by the urgency to handle the financial crisis and the eurozone crisis. As tackled in my field trip, the EC is in general not satisfied with the institutions under the public law and public ownership because they cannot be bought and sold as private companies (Interview FISMA—Directorate-General for Financial Stability, Financial Services and Capital Markets Union). It is only due to the success of savings banks in the crisis that there is no attack in this respect. However, there is a constant suspicion that the issue of privatization of savings banks remains at the working level of the Commission. Thus, the representatives of the German savings bank are convinced that there will be new European initiatives to privatize the savings banks in the future (Interview DSGV II). By tracing the evolution of banking regulation in the post-crisis, the task for the next chapters is to discover whether the success of savings banks in the financial crisis in Germany has contributed to their standing at the European level.

This chapter has provided a short overview on the structure of the Savings Banks Finance Group with its three-level network of financial institutions consisting of savings banks, Landesbanken and other financial establishments. This network is an additional complex maze of financial organizations at the national level that needs a thorough research on its history, institutions, actors, power and governance structure. Taking into account the unwillingness of Landesbanken representatives to participate in the interviews for my master research, I have not included these actors in the list of my interviewees. Complex relationships within the structure of German public banks are subject to future research, which might bring clarity to the theme, decrease an outside critique and change perception of the Savings Banks Finance Group. In this chapter, the attention was entirely confined to the debates around the German savings banks. Deliberately, I have not yet touched upon the establishment of the banking union and the role it plays for this particular sector not only in Germany, but also within the eurozone. To clarify this point and develop my argumentation line, I have intensively engaged in a detailed process tracing the making of the banking union project in chapters Five and Six. In the subsequent chapter, I turn to theoretical discussions to get equipped with theoretical lenses and conceptual insights, which will guide me in answering the research question posed at the beginning of my research. The issues in question are: structure and agency, institutional change, power and ideas.

Chapter Three: Reading the EU through the Theoretical Lenses

This chapter starts with the exploration of the question of structure and agency, which helps to address the problem of social and political change (Hay 2002). Subsequently, it investigates the institutional characteristics and modes of change, which can be applied to the analysis of institutional change within the EU. To understand the power relations, the chapter reviews theories of power and summarizes the theoretical propositions of the three-dimensional view on power from Steven Lukes (2005 [1974]) or three 'faces of power' Colin Hay (2002). Those faces are: decision-making, agenda-setting and preference-shaping. In addition, this chapter introduces the post-structuralist analysis of the role of ideas and interpretations in political process, highlighting the literature of Laclau, Mouffe and Fairclough to define the articulation of discourses in political projects.

3.1. Theorising Structure and Agency

How the EU political world exists may be defined by the structure and agency (or context and conduct) relationship, or more specifically by the relationship between the political actors and the environment where they interact. Analysing this issue in international relation, Bieler and Morton (2001) apply an historicist Neo-Gramscian perspective developed by Robert Cox and emphasize that the problem of structure and agency can be regarded as a Gordian knot, which cannot be resolved. In order to solve it, one has to observe each single thread. I try it by highlighting the contributions of various theorists, who dealt intensively with this problematique. The structure–agency debate has been extensively elaborated by political science and international relationship theorists ranging from pluralist theories, which assume that the decision-makers are capable to shape the context, to structuralist theories, which underlie the importance of the structure and its capacity to limit agents' autonomy (Hay 2002). For example, a critical theorist, Knafo (2008), focuses on the notion of agency as being crucial to a critical perspective on social construction.

In more general terms, structure and agency is a good analytical lens to study and explain social and political phenomena. Along this line, *structure* is understood as "context and refers to the setting within which social, political and economic events occur and acquire meaning" and *agency* means "action, political conduct, ability or capacity of an actor to act consciously and, in so doing, to attempt to realize his or her intentions" (Hay 2002, pp.93–94, emphasis in original). In a simplified manner, structure can be seen as a complex labyrinth under constant construction with its multiple walls, zigzags and ways (i.e., rules, regimes and practices), which predetermine the parameters for agency's action and, in some cases, can even restrict it. On the other hand, actors build and reconstruct the labyrinth continuously. The labyrinth itself has been also construed by the agents in a former historical period, therefore, time is an additional essential key factor, which helps to trace changes within structure. The labyrinth might be seen as a stable construct, however, its walls can be demolished, rebuilt in a new way or strengthened by using old fundament and design; the same refers to a man-made structure, which is permanently reshaped in the social interaction despite the fact that some actors aim at preserving its old design. To have an academic all-encompassing overview of the maze, one needs to keep a bird's eye view of it and at the same time dig into the 'brains' of engineers constructing it. Unfortunately, this task is impossible. What remains possible is a thorough analysis of a specific case, which allows tracing the historical development of a certain structure as well as actions and strategies of actors involved in this process.

In case the researchers use structural and contextual factors to explain the political effects, outcomes and events of their analysis, they represent a *structuralist* camp; those highlighting the agential factors form the *intentionalist* or *voluntarist* group (Hay 2002, p.102, emphasis in original). Structuralism is present in systemic theories such as structural realism (Wendt 1987) and world system theory (Hopkins and Wallerstein 1983; Wallerstein 1974; 1980; 1989). When structuralism marginalizes actors and agency, intentionalism accounts that actors can realize their intentions (Hay 2002, pp.102, 109). Therefore, for structuralists, structure determines agency, and, for intentionalists, agency causes structure. In other words, in the first case, the social, political and economic determinants set the rules for the human agency, and in the second case, the human agents are the drivers of change. For example, Knafo (2008), while reassessing the legacy of the structure and agency debate in International Relations (IR), argues that agency should be the focal point of analysis by critical scientists "since the development of agency is the motif behind social construction" (ibid., p.22). Still, it seems that most of the discussions are locked more into underlying the structuralist factors rather than the agential ones. The reason is simple; it is easier methodologically to conduct a structural analysis, which is more static by its nature, than the dynamic interaction of agents.

The reason why I do bring the structure and agency debate into my research is two-fold: first, I endeavour to grasp the structural factors by referring to the European context in the realm of European finance and banking regulation and to the German setting with its banking structure;

second, I am aware of the agential factors that play the key role in shaping the contexts, where actors are located and interact. Thus, bringing the case of construction of European project and the banking union, I aim to explore the interaction of both structure and agency without detaching the agential factors from structuralist or the other way around.

Gidden's Structuration Theory

Gidden's *structuration theory* and the *critical realism* of Bhaskar and Archer offer their "solutions" to the problem of structure and agency (Hay 2002, p.117, emphasis in original). In his book *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis* (1979), Giddens analyses social systems that involve activities of human subjects and structures. For him, "to study the structuration of a social system is to study the ways in which that system, via the application of generative rules and resources, and in the context of unintended outcomes, is produced and reproduced in interaction" (ibid., p.66). In his structuration theory, Giddens commences to transcend the dualism of structure and agency, where structure and agency are "internally related or ontologically intertwined" (Hay 2002, p.118). Along the logic of the theory of structuration, structure and agency form a *duality*, "which relates to the *fundamentally recursive character of social life, and expresses the mutual dependence of structure and agency*" (Giddens 1979, p.69, emphasis in original). By defining the duality of structure, Giddens views the structural properties of social systems as "both the medium and the outcome of the practices that constitute those systems" (ibid., p.69). He focuses on the process of change and the mutual symbiosis of structure and agency and not specifically on the context or actors (Hay 2002, p.119).

Giddens sees the condition of social and political interaction and agency of actors as the opposite faces of the coin, emphasizing on the mutually constitutive and dependent nature of the structure and agency relationship. Such analogy with the coin receives criticism for providing an analytical dualism (separation), while invoking an ontological duality (interlinking) of structure and agency. Because it is impossible to see both sides of the coin at the same time, one of the sides, "strategic conduct" or "institutional analysis", needs to be "bracketed off" for the analysis (Hay 2002, p.120). With his structuration theory, Giddens states that the main features of an institutional order can be conceptualized by identifying structural sets. In his book *The Constitution of Society: Outline of the Theory of Structuration* (1984), Giddens emphasizes that "[s]tructures refer to a virtual order of relations, out of time and space. Structures exist only in their instantiation in the knowledgeable activities of situated human objects, which reproduce them as structural properties of social systems embedded in spans of time-space" (Giddens 1984, p.304). Thus, he states that a study of dimensions or axes of structuration are needed for an observation of the duality of structure.

By coining his theory of structuration, Giddens is torn apart between the analysis of "strategic conduct" or "institutional analysis". Giddens' duality of structure makes it difficult to examine structure and agency simultaneously (Hay 2002, p.120). Implying this approach to my case of European finance and banking regulation, I would be restricted with either the analysis of economic, political and social determinants, which define the European and national contexts, or with the observation of actors and their activities. Furthermore, the structures are built, but they also need to be preserved over the time. For this reason, I would like to choose a different theory as the lenses for my research, which takes account of time factor more profoundly.

Morphogenetic Approach of Margaret Archer

Further advancement of the structure and agency problem has been accomplished by critical realists Roy Bhaskar and Margaret Archer. According to critical realists, the world is structured in such a way that its appearance and reality are separated (Hay 2002, p.122) and "the social world is always pre-structured" (Archer et al. 1998, p.xvi). This latter characteristic is a major discrepancy between Bhaskar's transformational model of social activity and Giddens's theory of structuration. For the critical realist school, "agents are always acting in a world of structural constraints and possibilities that they did not produce. Social structure, then, is both the ever-present condition and the continually reproduced outcome of intentional human agency" (ibid., p.xvi). Reflecting on this statement for the case of the EU, it is obvious that the actors operate within the complex EU structure. This structure is, however, constantly undergoing the dynamic reconstruction and reproduction process shaped by the human agency.

Seeking for alternative solutions to the problem of structure and agency, Margaret Archer (1995; 1998) develops her "morphogenetic approach". She regards identically the fundamental issues of "individual and society", "voluntarism and determinism", "structure and agency" or "the micro versus macro", which are studied by many theorists (Archer 1995, p.7). As opposed to Giddens, who conflates structure and agency by rejecting their separability and independence (Hay 2002, p.123), the morphogenetic/morphostatic framework provides a conceptual method for analysing the interplay between structure and agency over time and space (Archer 1995, p.15). Social realism emphasizes the importance of emergent properties at the levels of both agency and structure (ibid., p.14), therefore, "structure and agency are both regarded as emergent strata of social reality and linkage consists in examining their interplay" (Archer 1995, 60). This interplay can be observed due to the temporal separability of structure and agency.

To grasp a problem of structure and agency in the distinct manner, Archer (1995) incorporates time, which is innovative. The temporal dimension of the morphogenetic approach is termed as the morphogenetic sequence, which proposes that "structure necessarily pre-dates the action(s) which transform it; and that structural elaboration necessarily post-dates those actions" (ibid., pp.75–76). She points out that the terms "morphogenesis" and "morphostasis" are related to the notions of transformation and reproduction. All of these four definitions are regarded as processes, which take place "after" something that existed "before" them (Archer 1998, p.360). Thus, the *agents* do not create the social structure, but rather *reproduce* or *transform* it (Bhaskar 2005 [1979], p.30, emphasis in original). Hay (2002) criticizes Archer's approach for delivering "the rather episodic, disjointed and discontinuous vision of agency", where structure is conceptualized as "distant external and long-enduring" (ibid., p.126). Thus, he argues that the morphogenetic approach might be reproducing the proposal of Giddens to bracket off structure and agency, which appears to legitimize an alternation between structuralism and intentionalism.

With her morphogenetic approach, Archer proposes a very appealing entry point to focus upon. However, the interplay between structure and agency can be grasped by incorporating many factors over different periods of time, which makes it methodologically unclear. For this reason, I would like to use a different approach, which applies the time factor more concisely.

Strategic–relational Approach of Bob Jessop

Bob Jessop, a notable theorist of state, offers the strategic-relational approach to transcend the dualism of structure and agency drawing on the critical realism of Bhaskar. His major propositions are as follows: (i) the distinction of structure and agency is presented as analytical, which consequently allows to depict both at the same time in any given situation; (ii) being analytically separable, structure and agency "do not exist as themselves but through their relational interaction"; (iii) the dialectical interplay of structure and agency takes place in real contexts of social and political interaction; (iv) the distinction between *strategic action* and *strategically selective context* are more important conceptually than the one between structure and agency (Hay 2002, p.127, emphasis in original).

In his two-folded strategic-relational approach, Jessop tries to integrate agency into structure and structure into agency, thus producing a structured context (an action setting) in the first case and a contextualized actor (a situated agent) in the second case. In addition, he singles out a *strategic actor* within a *strategically selective context*. Therefore, the approach maintains that the major relationship is not between structure and agency, but "rather more immediate interaction of strategic actors and the strategic context in which they find themselves" (Hay 2002, p.128, original emphasis). Hay states that Jessop's approach differs from the ones highlighted above, because not only are social and political outcomes dependent upon strategic choices, the context offers an unevenly contoured ground, which places certain strategies at an advantage over others (ibid., p.129). Hence, the concept of strategy and strategic selectivity are the building blocks of this approach. The aim of the approach is to avoid favouring structure or agency in their dialectical and relational interaction (ibid., p.134).

Jessop's operationalization seems to offer a more precise tool to proceed with the discussion by exploring structurally inscribed strategic selectivity and strategically calculated, structurally oriented agency and emphasizing spatial and temporal horizons (Jessop 2005). However, the question arises whether it is capable to solve this Gordian knot. While conducting my research, I realized that it is easier to portray a strategic actor, who can reflect strategically on the context given the limited knowledge he possesses about this context; however, it seems too sophisticated and phantasmagorical to operationalize a strategically selective context. In my understanding, the context is rather an abstract notion, which cannot be strategically selective per se, as it cannot undertake an action. The proposition to catch the immediate interaction of strategic actors and the strategic context restricts the observer with a rather episodic view on such an interaction. In my opinion, it is rather a continuous interaction of structure and agency over time and space, which shapes both along the spiral of their interactions.

Grasping the structure and agency question in the field of International Relations (IR) from a Neo-Gramscian perspective, Bieler and Morton (2001) remain skeptical that the dualism of structure and agency can be transcended using both modes of explanation and understanding of social reality. They base their analysis on the readings of what they frame the 'first wave' (Dessler 1989; Hollis and Smith 1990; Wendt 1987) and the 'second wave' (Doty 1997; Wight 1999) of agent–structure debate, and on reflections of the developments in social sciences. Supporting Archer, Bieler and Morton (2001, p.8) remark that Giddens exaggerates voluntarism and minimizes constraint due to the lack of differentiation between diverse types of structural properties, and pays less attention to the observation of the capacity for change in a particular historical situation. The authors acknowledge Archer's morphogenetic approach, which incorporates temporal dimension to the issue, which "makes it possible to investigate when different degrees of determinism or voluntarism might prevail" (ibid., p.9). Still, they note that Archer fails to discuss various types of structural properties, which overlap each other at a specific time. They argue that the most prominent deeply embedded structures, such as feudalism or capitalism, are difficult to change. To make the alteration possible, one needs to differentiate between changes of “deep structural properties” and “micro-structural properties”, where the former fosters action and the latter does not influence conditions for action (Archer, Bieler and Morton 2001, p.10).

Structural-historical Approach

Structural-historical analysis of Wendt (1987) focuses on the specific historic events, which occur based on the conditions provided by the social and internal organizations. The structural analysis mainly deals with theorizing and spelling out “the causal powers, practices, and interests of states”, whereas precise historical analysis touches upon “the causally significant sequence of choices and interactions”, which induce particular events or transform social structures (ibid., p.364). As critique to Wendt’s structuralist approach, Bieler and Morton (2001) assert that first, Wendt’s combination of Gidden’s structuration theory and Bhaskar’s understanding of structure is questionable, and second, his theoretical developments remain within state-centric concerns of mainstream approaches of IR, failing to analyse social construction of predominant social and power relationships and institutions (ibid., pp.11–12). Furthermore, Dessler elaborates a transformational model integrating intentional rules into the notion of structure. The model proposes two important relations between action and the materials (structure) presumed by it: “[f]irst, structure both enables action and constrains its possibilities. Second, structure is the outcome as well as the medium of action” (Dessler 1989, p.452). However, Bieler and Morton reflect that Dessler’s understanding of structure as resources, unintentional and intentional rules, follows Gidden’s steps overemphasizing human action. Based on the criticism mentioned above, I discard the possibility to place my research in the domain of the structural-historical approach.

The Post-Structural Approach

The post-structural approach tries to overcome the dichotomy of a structure and agency probeématique. Doty (1997) examines the issues of practices, discourse and contexts of meanings and argues that indeterminacy and undecidability of practice are significant for the agent-structure debate. Reflecting on existing approaches to the issue, Doty emphasizes that scientific realisms is coupled to an essentialist notion of structure and fails to theorize the practices of agents properly. Furthermore, she states that Gidden’s methodological device of bracketing does not follow ontology of structuration theory and that structuration theory's "dialectical synthesis" does not provide solutions to the challenges of individualist and structuralist ontologies. For these reasons, the "solutions" from scientific realism and structuration approaches are not able to transcend the subject-object dualism of the structure and agency problem (Doty 1997, p.366).

Recognizing the importance of practices, Doty stresses that "practices, because of their inextricable link with meaning, have an autonomy which cannot be reduced to either the intentions, will, motivations, or interpretations of choice-making subjects or to the constraining and enabling mechanisms of objective but socially constructed structures. Practices overflow that which can be accounted for in purely structural or agentic terms" (ibid., p.377). In addition, she brings in the notion of power, which is used in the "structuring of structure", and points out that the system of relations/differences that build structures is the outcome of the productive power of practices and cannot be scaled down to the observation of either structures or independent actors or their relationship (ibid., pp.378–379). Bieler and Morton (2001) recognize that her elaborations of the intersubjective realm are significant for the identity and interests of agents; however, they criticize her for the lack of definition of practices and conditions that lead to them (ibid., p.16). By bringing in the notions of practices, discourse, contexts of meaning, and power, Doty's dynamic post-structural approach becomes appealing to my study of the European financial domain. Still, I remain cautious to situate it in the pure post-structuralist realm for the lack of operationalization tools.

The Historicist Method

The historicist method, based on the works of Robert Cox, examines the historical structures that portray concrete eras and are the outcome of collective human action over the course of time. The social and political institutions are seen as created by human action, by people, thus, history is used to scrutinize "the changing mental processes of the makers of history" (Bieler and Morton 2001, p.17). The crucial themes of the method is its recognition of both objective and subjective elements within the historical process and the accentuation on the role of the past in determining social relations in the present (ibid., p.18). Cox circumvents the trap of the positivist mode of understanding of 'science', which separates observing subject from the observed object. He summarizes that "in historical study (any by extension in a hermeneutical social science), the enquirer's mind enters into the historical process—observer and observed, agent and structure, become intertwined" (Cox 1996, p.29), and "what is subjective in understanding becomes objective through action" (Cox 1992/1996, p.145). To capture the historical dimension to the study of the EU, I present the phases of transformation of the EU project in Chapter One.

Cox's method of historical structures[75] goes in line with Robert Keohane's understanding of the historical materialism method, which aims "to find the connections between the mental schema through which people conceive action and the material world which constrains both what people can do and how they can think about doing it" (Cox 1985/1996, p.52). Furthermore, his historicist approach does not seek to establish any general or universally valid laws. It rather processes change of both human nature and the structures of human interaction and tries to provide explanation of transformations from one structure to another and thorough examination of historically specific conjunctures (Cox 1985/1996, p.53). Within his theorization, the change of the world happens through its understanding, namely understanding of the structures of reality that surrounds us (ibid., p.51). Keeping an eye on the EU as a historically specific conjuncture, allows me to trace process of change of both agency and structure.

According to Cox, historical structures consist of three components—*ideas*, *material capabilities* and *institutions*, which move within three spheres of activity—*the social relations of production, forms of state, and world order* (Bieler and Morton 2001, p.22, emphasis in original). Cox's method of historical structures tries to grasp structural transformation for various consecutive epochs. The aim of my research is to grasp the institutional and discursive dimensions of social relations within the EU complex embedded in the neoliberal world order, where identity and interests of agents are partly formed by these relations. Importantly, even though agency is embedded in historical structures, it is not necessarily determined. Agents have constantly a couple of multiple possible lines of action available, even though structures shape, constrain or even enable them (ibid., pp.24–25).

In my particular case of the European banking regulation, I will cover more precisely two categories of forces—ideas and institutions—with a minor reference to material capabilities. The study of institutional setting of the EU regulatory domain leads me also to the question of power, which is discussed in this chapter. As put in Cox's own words:

> Institutionalization is a means of stabilizing and perpetuating a particular order. Institutions reflect the power relations prevailing at their point of origin and rend, at least initially, to encourage collective images consistent with these power relations. Eventually,

[75] Robert Cox borrows the term "historical structure" from Fernand Braudel (1979, 1980).

> institutions take on their own life; they can become a battleground of opposing tendencies, or rival institutions may reflect different tendencies. Institutions are particular amalgams of ideas and material power which in turn influence the development of ideas and material capabilities (Cox 1986, p.219).

Bieler and Morton (2001) summarize that, at first glance, the historicist method mirrors Gidden's understanding of structure, as far as it is envisioned that historical structures consist of intersubjective ideas, which are 'made' by human interaction and are not 'given'. Still, this method, similarly to Archer, brings forward time dimension, therefore, what has happened in the past conditions the agency's action in the present. In addition, structures are seen as a couple of distinct layers, which overlap each other and might be seen by humans as objective and unchangeable. Besides, structures might be classified in line with their levels: macro (e.g., feudalism or the capitalist mode of production), meso (e.g., the liberal international economy, the era of rival imperialism, or the neoliberal world order), and micro (structures instantiated through regular everyday interaction). Consequently, the micro and meso structures are easier to change in comparison to the macro structures. In case the structures are deeply enrooted, it is difficult to trace back their origins as an outcome of agents' interaction as well as to alter them. The goal of the historicist Neo-Gramscian perspective is to foster change by uncovering the objective status of structures (Bieler and Morton 2001, pp.25–26).

More specifically, the interpretative historicist method grasps both understanding and explanation of the social phenomena. This method holds that structures must be placed in their historically concrete forms through the lenses of an interpretative method, which seeks to reveal the shared understandings of structure that exists among agents themselves. These theorists deal with the issues of (i) the ideational dimension of structures framing shared understandings of social life among agents; (ii) the socio-temporal dimensions of structures; and (iii) the individual and/or collective nature of agency. Such a method enriches a historicist method by explicitly combining knowledge construction, human practice and interests, and providing a terrain to accumulate a transformative knowledge about human practice (Amoore et al. 2000, p.60). My theorization of the EU follows this interpretative historicist approach, paying attention to the understanding of complex EU structures, its construction, knowledge construction, practices and interests of the agents.

The Gordian knot cannot be solved by tying it up with more threads or by applying all the theoretical approaches dealing with this question at once. Therefore, I put on the lenses of the interpretative historicist approach. Keeping in mind my illustration of labyrinth as the structure with agency being its architect and builder, the interpretative historicist method can be used to reflect the construction process. It can help to trace and understand the intentions of the architects and builders in retrospect by applying the methodology of in-depth interviews, documentary research or participant observation. Before addressing the methodological approach, which follows in Chapter Four, I would like to integrate into my research the theoretical elaborations of historical institutionalists, who deal intensively with the questions of institutional change.

3.2. Institutional Characteristics and Modes of Change

Theoretical frameworks on institutional change have been extensively elaborated by historical institutionalists (Boas 2007; Mahoney and Thelen 2010; Paul Pierson 2000b; Thelen 1999) and applied to the analysis of various political science themes (Deeg 2001; Ebbinghaus 2005; Hall and Thelen 2008; Morgan and Kubo 2005; Posner 2005; Streeck and Thelen 2005). The subject of institutional change matters to this research as far as the European project has been undergoing a constant development since its outset; additionally, it has faced the institutional transformation after the financial crisis. One can pose a question whether there is a change or continuity of the Single Market agenda after the financial crisis and whether the new institutional reform, the banking union, presents a renegotiation of the pre-crisis rules or marks a continued politics of the European Union.

Streeck and Thelen (2005) contribute to the debate in political science and sociology on institutional change and present a typology of institutional change, which helps to understand mechanism of social and political stability. The authors assume that "there is *a wide but not infinite variety* of modes of institutional change that can meaningfully be distinguished and analytically compared" (ibid., p.3, emphasis in original). They aim to create an analytical tool to capture ongoing changes of political-economic institutions of advanced capitalism, criticizing the literature for minimizing the degree of change, or for classifying the changes as slight adaptive adjustments to modified conditions in the continuous process of reproduction of the system. In addition, most literature, which theorizes the issues of institutional change, focuses "on a strong punctuated equilibrium model that draws an overly sharp distinction between long periods of institutional statis periodically interrupted by some sort of exogenous shock that opens things up, allowing for more or less radical reorganization" (ibid., p.3).

In the institutional analysis of the past, by referring to former political conflict, institutions have been conceptualized as 'frozen' residues, or 'crystallization' or "as the static, sticky legacies of previous political battles" (Lipset and Rokkan 1968, cited in Thelen 2003, p.211). The present literature views "institutional reproduction as a dynamic political process" (Streeck and Thelen

2005, p.6). In the studies on path dependency the question is how institutions are sustained and reinforced over time. Path-dependency scholars premise change in two ways: (i) "as very minor and more or less continuous", which happens more often, and (ii) "as very major but then abrupt and discontinuous", which occurs rarely (Streeck and Thelen 2005, p.6). For Pierson (2000a), for example, path dependency is conceptualized as a social process grounded in a dynamic of "increasing returns". Thus, one group of scholars supports the idea that legacies of the past influence decisions and changes in the present (Lipset and Rokkan 1968). Contrary to this account, the other authors (Collier and Collier 1991) differentiate between 'critical juncture' moments, which lead to the creation of the institution, and long statical periods marked by institutional continuity. Their book *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (1991) elucidates the dynamics of political change in Latin America during the twentieth century and illustrates the impact of a 'critical juncture' for setting trajectories of change for the countries.

Pierson (2000a) summarizes the key developments of historical institutionalism scholarship, which recognizes: (i) the role of specific patterns of timing and sequence; (ii) the possibility of a broad range of social outcomes; (iii) the significance of relatively small or contingent events, which might lead to large consequences; (iv) the difficulty or impossibility to reverse a certain direction of action, once introduced; and finally, (v) critical moments or junctures interrupt the process of political development and consequently shape the essential forms of social life (ibid., p.251). Historical institutionalists do the macro-historical analysis of critical junctures that define various developmental paths of countries (Thelen 1999, p.388). Streeck and Thelen (2005) contend that change can happen not only via some exogenous shift or shock, but also through endogenous institutional change (ibid., pp.6–7).

Streeck and Thelen (2005) suggest further not to follow a conceptual schema that "provides only for either incremental change supporting institutional continuity through reproductive adaptation, or disruptive change causing institutional breakdown and innovation and thereby resulting in discontinuity" (ibid., p.8). Important to note is that significant change might be reached through the building up of small, often ostensibly insignificant adjustments. For this reason, the authors propose to differentiate between the "*process* of change, which may be incremental or abrupt, and *results* of change, which may amount to either continuity or discontinuity" (Streeck and Thelen 2005, p.8, emphasis in original) (Table 3.1).[76] Certainly, the authors allege that in some cases there is a piece of continuity notwithstanding the "historical break points", as well as tense institutional transformation, which happen beneath the layer of supposed stability or adaptive self-reproduction due to accumulation of subtle incremental, 'creeping' changes, which accumulated over longer periods of time. In their research, the authors focused on *gradual transformation* in order to conceptualize developments in the political economy of modern capitalism, analysing *incremental change with transformative results* as opposed to big changes in regards with big shocks (Streeck and Thelen 2005, pp.8–9, emphasis in original).

Table 3.1 Types of institutional change: process and results

		Result of change	
		Continuity	Discontinuity
Process of change	Incremental	Reproduction by adaptation	Gradual transformation
	Abrupt	Survival and return	Breakdown and replacement

Source: Streeck and Thelen (2005, p.9).

Conceptualizing the definition of institutions is necessary for understanding an institutional change. In general, institutions might be described "as sets of regularized practices with a rule-like quality" (Hall 2010, p.204) or "*as building blocks of social order:* they represent socially sanctioned, that is, collectively enforced expectations with respect to the behaviour of specific categories of actors or to the performance of certain activities" (Streeck and Thelen 2005, p.9, emphasis in original). Historical institutionalists, while analysing institutions, do not focus on one institution or process at a time, but rather embrace macro contexts and consider the cumulative outcomes of institutions and processes (Skocpol and Pierson 2002; Thelen 1999). According to historical institutionalist view, institutions are seen "as enduring legacies of political struggles" (Thelen 1999, p.388).

Also, the institutions might be regarded as formalized rules, which might be enforced by the third party, or as social regimes, which denote "a set of rules stipulating expected behavior and 'ruling out' behavior deemed to be undesirable" (Streeck and Thelen 2005, pp.10, 12–13). The

[76] The model is used to reflect on the role of crisis as an important critical juncture and as a catalyst for change of a Single Market project. The considerations on process and results of change of the project are summarized at the end of the subchapter.

expectations of a regime are enforced by the society, thus legitimizing a regime. Rule makers and rule takers are part of the regime. Regarding institutions as regimes allows to use this concept to the empirical studies, as well as signifies institutional relations as relations between identifiable social actors. Alongside, it is significant to differentiate between the rules and their implementation or ‘enactment’. In case, there is a gap between the *ideal pattern* of a rule and the *real pattern* of life under it, actors receive opportunities for strategic actions, which causes incremental endogenous change (Streeck and Thelen 2005, pp.13–14, emphasis in original).

The relationship of the ideal and real pattern of the rule can be characterized by four dimensions. First, the meaning of the rule is never self-explanatory and is always exposed to the intepretation. Second, the rule makers have limited cognitive capacity to predict rule applications to empirical conditions. Implementation of the rules might lead to unanticipated results, which vary from the intention of the rule makers. Third, along the process of implementation of the rules, the rule takers have the capacity to amend the rules or even circumvent them, using their knowledge and finding loopholes. Last, socially authorized agencies of social control have limited capacities to avert and adjust discrepancy from social rules (ibid., pp.14–16). Thus, the institution can be “defined by continious interaction between rule makers and rule takers during which ever new interpretations of the rule will be discovered, invented, suggested, rejected, or for the time being, adopted” (ibid., p.16). Certainly, the complexity of institutional design and decisions of the rule makers lead to more unanticipated consequences, which need to be adapted.

Modes of Change

In sum, institutions can change through tense historic ruptures and openings, but also through an accumulation of gradual and incremental change. Streeck and Thelen (2005) discuss five modes of such gradual, but transformative change: *displacement, layering, drift, conversion, and exhaustion* (emphasis in original). The authors summarize that according to the ‘new’ institutionalism theory in sociology, displacement occurs in situations when new models develop and disperse, thus changing the previous organizational forms and practices, which were taken for granted before; according to political science understanding of displacement, change emerges from shifts in the societal balance of power. Reflecting on the financial crisis, one cannot claim that it has led to the process of displacement as far as the new models have not emerged and the societal balance of power has remained unchanged. Displacement can also happen endogenously by rediscovering or activating possibilities that have been concealed.

Importantly, the exercise of power and the expenditure of resources are necessary conditions to promote the new institutions. Besides, endogenous forces can drive exogenous change and provide the basis for the new logic of action, which is triggered by the outside factors or activated by interested parties (Streeck and Thelen 2005, pp.19–22). In the following paragraphs, I would like to present these five modes of change in more detail and use them to reflect on my study of the EU and the Single Market project.

Institutional change of political institutions might also occur through the mechanism of layering. In the process of layering, an institution is transformed incrementally by adding rules or structures, amendments, additions or revisions to the existing institutions (Boas 2007, p.47; Streeck and Thelen 2005, p.24). Each added layer creates a minor change to the whole institutional structure, but over the time, accumulation of many small changes might transform the fundamental nature of the institution. Streeck and Thelen (2005, p.23) point out that change through layering might lead to the path-altering dynamics, which might seem as *differential growth*, or might cause dynamics that change the institution drastically or make it obsolete (Dixon and Monk 2009, pp.622–623, emphasis in original). New developments might be stimulated by the actors working on the margins, who propose reforms as improvements to existing institutions (Streeck and Thelen 2005, p.23), and who shape the development of an institution when they are not able to change it at a macro-level or are not willing to change it (Boas 2007, p.47). Before the crisis, the Single Market agenda has gone through the process of layering, when the liberalization policies were penetrating the institutional building of the Single Market without major external ruptures. The introduction of the new supranational policies in the financial sector had been directed to crowd out and replace the old national system of financial regulation. Thus, the process of incremental layering produced deep transformation, which later has been accelerated by the financial crisis.

The following mode of incremental and gradual change can be termed as drift. Hacker (2004, p.246) defines drift as “changes in the operation or effect of policies that occur without significant changes in those policies’ structure”. Such stability of institutions still requires recalibrations and renegotiations to deal with the changing political and economic environment, though institutions “may be masked by stability on the surface” (Streeck and Thelen 2005, p.24). A prolonged situation of drift can lead to the atrophy and demise of the institutional arrangement.

A situation, when institutions change in the direction of new goals, functions, or purposes describes the fourth mode of change—conversion. Such transformation might be caused by new external conditions, leading to the use of institutional resources for the new goals, or by changed power relations, involving new actors in redesigning an institution to new ends. Thus, the already existing institutions face adaptation to the new objectives and serve the interests of new actors. Political contestation is a driver for the redirection of institutional resources, which may emerge by the gaps in the institutional design or between rules and their enactment. For example, the gaps in the design of the Single Market project redirected part of the institutional resources of the ECB to embrace the new supervisory role in the European banking sector. Therefore, through political contestation over the functions and purposes of the ECB, the institution serves new goals and has an effect on new actors. The process of institution-building involves such aspects: (i) a problem of *unintended consequences*, which can deliver a space for political contestation; (ii) through political negotiations it entails *compromise* of coalitions of actors; (iii) actors play strategic role, those who design institutions and those who might interpret the rules according to their interest or *circumvent* or *subvert* rules, which are in conflict to their interests; (iv) *time matters*, because it has the capacity to open gaps and space for further institutional conversion (Streeck and Thelen 2005, pp.26–28, emphasis in original).

The fifth mode of incremental change is termed as exhaustion, which means a gradual collapse or breakdown of an institution. In the process of institutional exhaustion, actions framed by the rules lead to undermining the rules. Such process can be caused by aging of an institution, meeting 'limits to growth' or growing too complex ruining its legitimacy or practicability (ibid., pp.29–30). In his book *Re-Forming Capitalism: Institutional Change in the German Political Economy* (2009), Wolfgang Streeck uses this mode of institutional change to analyse and trace how a gradual exhaustion of social policy, which caused a series of privatization of public enterprises and broke the German company network, led to a change of the collective bargaining system and the demise of corporatist industrial relations. Almost a decade before, the authors discusses a *secular exhaustion* of the "German model" (Streeck 1997, emphasis in original).

Path dependency is another aspect thoroughly elaborated by the historical institutionalists, which involves the analysis of "critical junctures". "Critical juncture" moments connote a situation, when the institutions are originally formed (Streeck and Thelen 2005, p.7). In analysing path dependency, the critical juncture or triggering events are the object of study, "which set development along a particular path, and the mechanisms of reproduction of the current path" (Paul Pierson 2000a, p.263). Ideas are also responsible in the critical junctures moments that are key to developing diverging paths (Mehta 2011, p.30). Observing the European integration from a historical institutionalist perspective, Pierson (1996) views integration "as a path-dependent process producing a fragmented but discernible multi-tiered European polity" (Pierson 1996, p.123). In his analysis, he studies the gaps in member-states' control over the evolution of European institutions and how these openings create channels for other actors to impact the process of European integration. For example, in her book *Central Banking Governance in the European Union: A Comparative Analysis* (2008a), Lucia Quaglia uses path dependency for the analysis of governance of the Bank of England, the German *Bundesbank* and the Italian *Banca d'Italia* and concludes that the establishment of EMU can be denoted as the major critical juncture for the mode of central banking governance of German and Italian central banks, who joined the single currency. In the European context, financial and Euro-crises can be regarded as the critical junctures that cause gradual institutional change of banking and finance regulation, which led to the creation of new institution in frame of the old pre-crisis agenda.

A researcher of comparative historical analysis Katznelson (2003) has introduced the notions of 'settled' and 'unsettled' times in his reflections of purposive action. He puts forward that (i) "structurally induced unsettled times can provoke possibilities for particularly consequential purposive action", thus, structures can be reshaped by personal preferences, choices, and transformative visions; (ii) settled periods are time spans between change on a mega-scale, where structure prevail (ibid., p.274). Furthermore, he maintains that "the very character of critical junctures as relatively open times produced by concatenations of structural processes invite elucidations of the preferences and choices of the actors—grand to ordinary—placed inside such situations when the potentiality of alternatives explodes as previous constraints on belief and action erode" (ibid., p.277).

The EU is the political construct and experiment, which has unfolded over the time, and is embedded in institutions, be it formal rules, policy structures or norms (Pierson 1996, p.126), which represents the dynamic tension between structure and agency along the path of its development. A series of crises has had an impact on the EU and has led to a phase of unsettled times, thus, the institutional arrangements und rules for financial supervision within the eurozone have been questioned. Such a period of unsettled time has opened opportunities for interest groups and European institutional actors involved in policymaking process to set a new course of institutional arrangements, which might differ substantially from its original design or previous pattern. At the same time, the efforts of actors can be aimed not for the purpose of institutional change, but rather for reinforcing the old rules. Both scenarios might also lead to unintended consequences, which might determine a new trajectory of development that in the end might also change the rules or settings of institutions. In addition, the actors might identify the gaps between the new rules and implementations, which furthermore opens opportunities for actors to perform strategically and purposively in order to carry out their intentions and preferences (Hay 2002, p.131). I discuss this point in greater length in Chapter Five, where the EU strategies of EU as well as of the German state and representatives of interest groups in the struggle over the banking regulation are examined.

Reflecting on the institutional change within the EU, one can state that the European project with its Single Market agenda had been formed in the political struggles, where actors utilized opportunities for their strategic actions. The crisis has been an important critical juncture moment that pushed for re-regulation in financial sector and set a new path for the development of Single Market project. The crisis can be regarded as a situation of opening, which plays a major role for an institutional change. Even though the financial crisis has been an abrupt moment that might have led to an abrupt process of change and to a discontinuity of a Single Market programme leading to the new logic of action, the crisis has caused an incremental change of EU institutions and the reproduction by adaptation of the previous logic of action with the EU context. The Single Market agenda is rather transformed through the process of layering of the new rules and the process of revising the existing institutions by constant interpretation of the new rules. The new institutional arrangements of the banking union, namely the already approved SSM and SRM, have been born out of the process of conversion. Caused by the crisis, the rules and the system of banking supervision and banking resolution have been shifted from the national to supranational level. Thus, the power relations has changed, leading to the new interaction of actors, and redirecting institutional resources for the new goals of providing the safety and soundness of the European banking system, raising financial integration and stability and safeguarding consistent supervision (ECB 2014b, p.5).

3.3. “Faces of Power” in EU’s Policymaking

The construction of the EU projects, including the banking union, is a political answer to cope with the crisis and its uncertainties. Political actions to handle these uncertainties are influenced by the interpretations, interests and power relations within the EU context (Bieling 2012b, p.19). As claimed by Bhaskar (2011), “[t]he structures which agents reproduce or transform in their activity are also structures of power” (ibid., p.5). However, questions, with regard to the kind of power relation that prevailed while designing the EU regulatory domain and how power was exercised, emerged. The elaboration of power concept and the focus on policymaking in the banking sector opens the door to the analysis of power and strategies of financial groups and their role as stakeholders to consult and shape the EU's legislative process. The aim of this section is to develop a framework for an analysis of a power struggle in designing new regulations in the financial domain. Before coming to this point, I will discuss the development of debates on conceptualizing and theorizing power.

3.3.1. Genealogy of Theories of Power

In order to grasp the more general patterns in the discussion on power, Jonathan Hearn, in his book *Theorizing Power* (2012), provides a conceptual 'reference grid' of opposing and contrasting pairs of terms, which help to follow the disputes on power and on its definition. These include: physical versus social power, power 'to' versus power 'over', asymmetrical versus balanced power, power as structures versus agents, actual versus potential power. Hay (2002) points out that power signifies the central position as the concept to political analysis. He denotes that "*power is to political analysis what the economy is to economics*" (ibid., p.168, emphasis in original). Based on this, the political science scholars examine in detail the nature, exercise and distribution of power (Dahl 1963; Mills 1956; Weber 1919/46); they grasp it either in structural forms (Gill and Law 1989; Strange 1994 [1988]) or as a capacity of agents (Barry 2000; Knafo 2008), or as a resource (Baldwin 1979); or argue whether power is an analytical (related to the identification of power) or normative (concerned with the critique of the distribution and exercise of power) question (Hay 2002, p.187). Hay (2002) points out that the key power debates can be split into two groups: (i) "the faces of power" debate (classically Anglophone and Anglo-US debate of (Dahl 1961; 1963; Bachrach and Baratz 1962; 1963; Lukes 2005 [1974]), which seeks to define the nature of power and develop a methodology to measure power; and (ii) the Foucault-Habermas debate (continental European debate), which disregards methodological considerations and deals with the questions of whether power is ubiquitous and whether a liberation from power is possible. The latter debate views power as social and structural, whereas the former as interpersonal (Hay 2002, pp.169–171).

Hearn (2012) sketches a map of the main theorists of power based on the historical and theoretical ground (ibid., p.39). His genealogy of theories of power is divided into three historical blocks: European sources, American debates (c. 1950–1970) and bifurcated approaches (c.1970–present). The European tradition of social theory, which provides inputs for the debates on power, starts with the period of early modern (approximately 1500 to 1700) represented by Niccolo Machiavelli and Thomas Hobbes. This first phase is proceeded by the period of classic modernization (nineteenth and early twentieth centuries), marked by the studies of Karl Marx, Emile Durkheim and Max Weber on a set of social problems and conflicts. The last phase, which coined the European debates in the twentieth centuries, has been enriched by the concept of elites and the analysis of political leadership by Vilfredo Pareto, Gaetano Mosca and Antonio Gramsci (Hearn 2012, p.41).

Three Dimensions or 'Faces' of Power

American debates, which took place in the academic environment from the 1950s to the 1970s, were primarily aimed on discussing power from the inward point of view. For example, with his book *Community Power Structure: A Study of Decision Makers* (1953), Floyd Hunter commences the debates about the nature of power and decision-making in US cities. As far as community power studies multiplied, Charles Wright Mills moves further to the next level of analysis and expounds the national power structures in the US in his book *The Power Elite* (1956). His approach to the study of power is marked either as "pluralist" for assuming power to be distributed among different groups in society or as "behaviorist" for using research methods in order to grasp observable measures of power (Hearn 2012, pp.66–69).

Hunter and Mills and their 'elite' theories have been challenged by another American scholar Robert A. Dahl in his work *Who Governs: Democracy and Power in an American City* (1961) and his student Nelson Polsby, who conducted an in-depth study on New Haven.[77] The study of Dahl is aimed to back a range of observations about pluralist democracy in the US, where power is visible in the relationship, i.e., when one actor changes the behaviour of the other (Hearn 2012, pp.71–73). Bachrach and Baratz (1962; 1963) support the pluralist criticism of the elite theories and elaborate it further arguing that "power is not just about winning a decision, but about preventing decisions from being made, by shaping the public agenda" (Hearn 2012, p.74).

Domhoff (1967), a researcher of psychology and sociology, challenges the pluralist argumentation and defenses the elite model. He contends that power cannot be directly observed, and its investigation needs a set of indicators or signs. Those are: "who benefits", "who governs", "who wins", and "who stands for" (Hearn 2012, pp.74–75). Talcott Parsons (1957), in his review of Mills' *The Power Elite*, criticizes Mills' notion of a coherent national power elite. His understanding of power is associated with legitimate authority, power is "generated by the

[77] A coastal city in the US state of Connecticut. The city is the home of Yale University.

social agreement to constitute institutionalized authority"; the power not only denotes "the 'distribution' of limited goods, but also the 'collective' capacity to achieve ends" (Hearn 2012, p.76).

These American debates are summed up and received a new direction by Steven Lukes' prominent essay 'Power: a Radical View' (2005 [1974]). Lukes builds his own "radical" or "three-dimensional view of power" based on the review and elaboration of "liberal" or "one-dimensional view of power" of Dahl and Polsby, and the "reformist" or "two-dimensional view of power" of Bachrach and Baratz. For the analysis of power relations, Lukes, unlike the previous theorists, not only focuses on overt, observable conflicts in the decision-making of public politics and policy, or in decision-making and marginalization of decisions in the agenda-setting, he also asserts that conflicts might be "latent" and not apparent, therefore, there is a need for articulation of counterfactual hypothesis to grasp "real interests" of people. In his analysis, Lukes adheres to a concept of power as domination, as "power over", shifts the problem of power to a problem of knowing, and places questions of power within the roles of belief, ideology and hegemony (Hearn 2012, pp.78–80).

After Lukes' original 1974 essay, the trend of power theorization turned into placing the study of power in questions of epistemology (Hearn 2012, p.81). The focus of the epistemological approaches turn to the conceptualization of the relationship between knowledge and power (Barnes 1998; Foucault 1980). For Barnes, power is a collective capacity, does not only mean "power over", but also denotes a system property, fundamental for the social order. Power is made up by what people know, and knowledge resembles not an individual, but a collective phenomenon. Barnes puts further that "knowledge about socially defined objects is 'self-referring' and 'self-validating'", which is available by observation, explanation of terms and conventional collective knowing and understanding of them (Hearn 2012, pp.86–87).

Epistemological Approaches to Power

Michel Foucault develops his understanding of power relations based on recognizing the role of historically formed discourses and practices. In his analysis, 'discourses' can be ascribed as "identifiable collections of utterances governed by rules of construction and evaluation which determine within some thematic area what may be said, by whom, in what context, and with what effect" (Gordon 2000, p.xvi). Rejecting the traditional philosophical conception of the subject, Foucault offers to conceive a subject through discourse, which can be also grasped "as consisting of a set of strategies which are part of social practices" (Foucault 2000, p.4). He holds that people are exposed to discursive practices, which constitute their social worlds and relations of power (Hearn 2012, p.88). In addition, Foucault tries to decode discourse by using spatial and strategic metaphors, which allows to understand exactly "the points at which discourses are transformed in, through and on the basis of relations of power" (Foucault 1980, p.70). Furthermore, he broadens the analysis of formation of discourse by adhering not only to types of consciousness, modes of perception and forms of ideology, but to tactics and strategies of power (ibid., p.77).

The *how* of power (ibid., p.92, emphasis in original) also concerned Foucault and he delivered methodological prescriptions for the analysis of power (Hearn 2012, p.89). First, the analysis should deal not with the regulated and legitimate forms of power stemming from the central locations, but with its extremities in "more regional and local forms and institutions" (Foucault 1980, p.97). Second, he recommends that power should be studied in its "external visage", having a direct and immediate relationship with an object and producing real effects. Third, Foucault argues that power must be scrutinized as something, which circulates or works as a chain. Individuals are seen as the "vehicles of power", which "is employed and exercised through a net-like organization" (Foucault 1980, p.98). Fourth, he appeals for an *ascending* analysis of power, "from its infinitesimal mechanisms, which each have their own history, their own trajectory, their own techniques and tactics, and then see how these mechanisms of power have been—and continue to be—invested, colonized, utilized, involuted, transformed, displaced, extended etc., by ever more general mechanisms and by forms of global domination" (ibid., p.99, emphasis in original). Fifth, he contends that ideology is not the sole mechanism of power. He claims that "[i]t is the production of effective instruments for the formation and accumulation of knowledge—methods of observation, techniques of registration, procedures for investigation and research, apparatus of control", which matter (ibid., p.102). This means that power organizes and sets in motion a knowledge or apparatuses of knowledge, which do not represent ideological constructs. Knowledge plays a role in Foucault's analysis. He contends, that "it [power] produces effects at the level of desire—and also at the level of knowledge. Far from preventing knowledge, power produces it" (ibid., p.59).

Pierre Bourdieu's (1990; 1991) understanding of power and domination is conceptualized by the mediating concept of "practice". Bourdieu opposes the Marxian orthodoxy, though uses Marx's core categories of "capital" and "class" for his theoretical elaborations. Primarily, he tries to resolve objectivism and subjectivism in social sciences (Hearn 2012, p.97). In his book *The Logic of Practice* (1990), Bourdieu states that "[t]he theory of practice as practice insists, contrary to positivist materialism, that the objects of knowledge are constructed, not passively recorded, and, contrary to intellectualist idealism, that the principle of this construction is the system of structured, structuring dispositions, the *habitus*,[78] which is constituted in practice and is always oriented towards practical functions" (Bourdieu 1990, p.52, emphasis in original). In his research, Bourdieu focuses on the structuring of power relations through practice, emphasizing the role of agents in the reproduction of structures (Hearn 2012, p.97; Bourdieu 1990, pp.64–65).

In addition, Bourdieu develops a concept of "symbolic power", which in his understanding "works partly through the control of other people's bodies and belief that is given by the collectively recognized capacity to act in various ways on deep-rooted linguistic and muscular patterns of behaviour, either by neutralizing them or by reactivating them to function mimetically"[79] (Bourdieu 1990, p.69). Thus, as with an example of language, relations of domination can evolve from the habitual speech, in case a particular dialect or pronunciation is privileged or devalued (Hearn 2012, p.98). The belief in the legitimacy of words and those who articulate them leads to the power of words and slogans (Bourdieu 1991, p.170). In economic terms, the accumulation of material wealth causes accumulation of symbolic power, which can be regarded as the power to secure recognition of power (Bourdieu 1990, p.131).

Evolutionary Approaches to Power

Another stream of approaches in the genealogy of theories of power, presented by Hearn (2012, p.106), are labelled as 'evolutionary approaches'.[80] For the theorists of evolutionary approaches, Marx and Weber remain main interlocutors and progenitors. In comparison to the epistemological approaches, the evolutionary camp uses human prehistory to capture trajectories of social power, leaving out objective and subjective perspectives out of the debate. Gerhard Lenski and Richard Adams represent intellectuals of evolutionary approach. Lenski's research on the stratification in the US (1952; 1954) guides him to answer the questions about the root

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[78] Bourdieu defines *habitus* as "systems of durable, transposable dispositions, structured structures predisposed to function as structuring structures, that is, as principles which generate and organize practices and representations that can be objectively adapted to their outcomes without presupposing a conscious aiming at ends or an express mastery of the operations necessary in order to attain them" (Bourdieu 1990, p.53, emphasis in original).

[79] Practical *mimesis* (or mimeticism) indicates an overall relation of identification (ibid., p.73, emphasis in original).

[80] Hearn (2012) prefers the term "evolutionary" over "historical" because the former allows him to incorporate the approaches, which study the unfolding of human history as a tool to understand the nature and dynamics of power in a better way (ibid., p.106).

of social stratification and the distribution of power (Lenski 1966). Reflecting on the distribution of wealth over the long period of human history, he asserts that the distribution of power determines the distribution of wealth (Collins 2004, cited in Hearn 2012, p.109). In his research, power is viewed as institutionalized, including authority, legitimacy and bureaucratization, and is intrinsically perceived as the possession of a strategically advantageous position. He recognizes the historical patterns with regard to the constitution of power and sees *technology* as the key factor in this process (ibid., pp.109–110, emphasis in orignal).

Such evolutionary approach is also used by Richard Newbold Adams (1975; 1988), who deploys the concept of energy out of the theories of material energy to construct a theory of power. Adams extends biological evolution to social evolution, which in his understanding follows the rules of the former. Human history is depicted as the process of competitive energy seize and deployment that promotes more successful operating units over time, wiping out the other groups (Hearn 2012, pp.112–113). Even though Adams' theory might seem controversial, it emphasizes that "the integral relationship between power to, here in the form of physical energy, and power over, in the guise of centralized institutions of power" (Hearn 2012, p.113).

Furthermore, Ernest Gellner and John A. Hall develop their approaches as "philosophic history" using power as the main analytical concept. Partly resembling Lenski and Adams' emphasis on the emergence and control of the surplus, in his book *Plough, Sword and Book: The Structure of Human History* (1989), Gellner theorizes about the forms of human society based on their classification as production, coercion and cognition, and focuses on the "power over". His research again outlines that in the heartland of industrial capitalist development there were various centres of power, albeit social power was distributed and balanced, but with tension and conflict (Hearn 2012, pp.115–116). Also, power concept lies at the core of John A. Hall's book *Powers and Liberties: The Causes and Consequences of the Rise of the West* (1986). Hall tries to develop a kind of "organizational materialism", which is *contra* to Marxian economic determinism, and articulates a social evolutionary narrative, which recognizes economic, political and ideological ways of organizing power (Hearn 2012, p.118, emphasis in original). Hall's theoretical insights allow him to conclude that a unique conjuncture of circumstances advanced the evolution of concentrated and systemic powers (economical, political, ideological) within the European terrain. Such developments led to the "rise of the west" and consequently shaped patterns of power arrangements in the rest of the world (Hearn 2012, p.119).

Macro-analysis of Power

Macro-analysis of power and its historical manifestations are elaborated by Eric R. Wolf, Gianfranco Poggi and Michael Mann. Wolf's works more in "Marxian" tradition and uses both the "materialist" approach to the analysis of humankind with an interest in the "idealist" dimensions of social life (Hearn 2012, p.121). He offers to capture power as operating in four interacting "modes": (i) "as the attribute of the person, as potency or capability"; (ii) "as the ability of an *ego* to impose its will on an *alter*, in social action, in interpersonal relations"; (iii) as tactical or organizational power that "controls the settings in which people may show forth their potentialities and interact with others", referring to the "operating unit" of Adams; and (iv) as power that "organizes and orchestrates the settings themselves, and that specifies the distribution and direction of energy flow", resonating it with Marx's argumentation of power of capital (Wolf 1990, p.586, original emphasis), and as structural power that "structures the political economy", echoing with Foucault's notion of "governance" and ability of power to govern consciousness (Hearn 2012, p.121; Wolf 1990, p.587).

Gianfranco Poggi, a social and political theorist, worked in the Weberian tradition trying to apprehend the historical development of the modern state in his book *Forms of Power* (2001). Based on Weber's distinction between the main resources bases for arranging power relations—classes, status groups, parties, Poggi develops three "forms" of power: economic, ideological/normative and political (Hearn 2012, pp.121–122). For Poggi, in the "ideological/normative power" form of power, custom is a prevalent mode; in such a system, a favoured "status group", who possesses intrinsically valuable attributes, deprives a disfavoured group who is excluded from the possession of the critical resource (status) (Poggi 2001, p.18). In the "economic power" form, exchange is the prevalent mode; the possession of wealth (critical resource), which is pronounced through a circuit of acts of exchange, impacts the production and reproduction of material resources in the society. In the "political power" form of social power, command denotes the prevalent form of allocation. Thus, the access to rulership (critical resource), which is "an individual's or a group's ability to make enforceable arrangements and issues orders as to who should have access to the society's goods or be deprived of them or shoulder its burdens", is its main characteristic (ibid., pp.18–19).

Besides, a macro-historical analysis of power has been undertaken by Michael Mann, who can be named a Weberian with connotations of Marx and social theorist of war (Hearn 2012, p.126). In his two volumes of *Sources of Social Power* (2012a [1986]; 2012b [1993]), Mann studies human history and develops principles and model of his approach. He formulates his approach in two statements. First, "[*s*]*ocieties are constituted of multiple overlapping and intersecting sociospatial networks of power*" (Mann 2012a [1986], p.1, emphasis in original), and second, "*A general account of societies, their structure, and their history can best be given in terms of the interrelations of what I will call the four sources of social power: ideological, economic, military and political (IEMP) relationships*" (ibid., p.2, emphasis in original). Thus, this model presents power by deriving it from four types of institutionalized social networks of actors (Hearn 2012, p.127), by measuring sociospatial capacity of organization and explaining its development (Mann 2012a, p.3).

3.3.2. Power Relations within the EU Context

To understand the power relations in the EU context, the concept of power can be grasped by the "faces of power" approach (Hay 2002). As reviewed above, the first face of power—decision-making—represents the actor-centered (classic) pluralist conception of power, which depicts the powerful as "those whose opinion holds sway in the decision-making arena, whether a parliament, cabinet or diplomatic negotiation" (ibid., p.172). Within this definition, power has the following characteristics: (i) it is perceived in terms of *effects*; (ii) it is a characteristic of *individuals*, practiced in their relations, thus, it is also *behavioral*; (ii) it is viewed as *domination* or *power over*; and (iv) as a zero-sum, where one party gains power, whereas the other loses it (ibid., p.172, emphasis in original). Access to and employment of political resources play an important role in the decision-making process. Thus, the tabulation of patterns of influence and monitoring of the outcome of the decision-making process can provide a picture of power constellation within a certain political setting. In the empirical case of the EU political system, the distribution of power can be depicted by the decision-making at the EP, analysing the success of certain political parties or lobby groups for policy adoption, which they favoured or by identifying a clear-cut conflict of interests.

The second "face of power" elaborated by neo-elitists Peter Bachrach and Morton S. Baratz refers to the exercise of power in "non-decision making", in exerting the power through setting the agenda for the decision-making (non-decision-making) process (ibid., p.174). They contend that "power is also exercised when A devotes his energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A. To the extent that A succeeds in doing this, B is prevented, for all practical purposes, from bringing to the fore any issues that might in their resolution be seriously detrimental to A's set of preferences" (Bachrach and Baratz 1962, p.948). With their perspective, Bachrach and Baratz (1962) criticize the pluralist approach for only analyzing observable participation in the decision-making of concrete issues and for discarding "unmeasurable elements" as unreal (ibid., p.952). In the European context, this power might be attributed to the EC, however, the other actors can interfere latently in the agenda-setting phase and bring in their interests. In sum, institutions like EP and the European Council, whose opinion prevail in the decision-making process, the EC, who exerts the power through setting the agenda for the decision-making process, and successful political parties or lobby groups, whose favoured policies are adopted or who win the political conflict, are considered powerful (Hay 2002, pp.172–174).

The third dimension of power—preference-shaping—relates to the "radical" three-dimensional conception of power by Steven Lukes (2005 [1974]), whose framework accounts for: (i) "the strategies, struggles and practices that characterize the decision-making process; (ii) the actions and *inactions* involved in shaping the agenda for the decision-making process; and (iii) the actions and *inactions* similarly implicated in the shaping of perceived interests and political preferences" (Hay 2002, p.179, emphasis in original). However, Lukes has been criticized for differentiating between subjective or perceived interests and actual or "real" interests, which is difficult to sustain (ibid., pp.179–181). Hay tries to solve this problem by separating the analysis and identification of power from its critique. Power is then conceptualized not only in terms of the impact of one actor's choices for the *actions* of another actor, but also in terms of their effects upon the *context*, where the action occurs. Therefore, power is perceived as *context-shaping*, which refers to "the capacity of actors to redefine the parameters of what is socially, politically and economically possible for others"; and can be defined "as the ability of actors to 'have an effect' upon the context which defines the range of possibilities of others" (ibid., pp.184–185, emphasis in original).

Such elaboration offers the *analytical* foundation for Lukes' third face of power and proposes two types of power—indirect power or power as context-shaping and direct power or power as conduct-shaping, where the former characterizes "power relations in which structures, institutions and organizations are shaped by human actions in such a way as to alter the parameters of subsequent action" and the latter is "a behavioral phenomenon which is immediate, directly observable, and empirically verifiable" (ibid., pp.185–187, emphasis in original). Such an approach relates actors to their surrounding structures, where the actors also have several possible strategies from which to choose a particular course of action. Thus, EU structure not only determines policymaking outcomes, but sets the potential range of alternative strategies for the actors to choose (Bieler and Morton 2001, p.27). This approach can be used in the analysis of the struggle over banking regulation, by exploring strategies and practices of the EC, EP, ECB, various agencies, banking associations, expert groups, their actions and inactions to shape the agenda and shape and redefine the structured context.

This can be reflected by the fact that financial industry groups instead of taking policy are routinely making policies (Pagliari and Young 2014, p.577). Along this line, the banking industry has a significant influence on regulation; however, it might be argued that the power varies within the banking industry group. Pagliari and Young (2014) emphasize the important role of actor plurality to influence the policymaking process in addition to other factors such as significance of lobbying resources available to financial firms and associations, institutional context in which financial regulation is designed and implemented and structural power of financial industry groups. Acknowledging the financial policymaking as a plural place, the research focuses on the financial industry groups targeted for regulation.

3.4. The Role of Ideas in Understanding the EU

The next issue to be considered regarding the political process within the EU is related to the role of ideas, interpretations and discourses. In their book *Ideas and Politics in Social Science Research* (2011), Béland and Cox deliver a straightforward message that "ideas are at the core of political action" (ibid., p.vi) or "a primary source of political behaviour" (ibid., p.3). Such an expression denotes that ideas frame our understanding of political problems and interests, inspire the arrangement of political and social institutions, and symbolize the currency of our discourse about politics, as they equip us with interpretative frameworks. Similarly, Hay (2002) highlights that "ideas often hold the key to unlock political dynamics", as far as they are informing policy and are able to lead to changes in societal preferences, which in turn might accelerate, change the path or increase the significance of the institutional reform. Undisputedly, the realm of ideas is closely linked to issues on structure and agency, change and power, as discussed in previous subchapters (ibid., pp.194–195).

3.4.1. Ideas in Political Analysis

The end of the Cold War caused a reassessment of the debates in political science and opened the field of international relations to the questions of the constitutive and causal role of ideas (Hay 2002, p.198). It was a moment of change that opened windows of opportunity for the 'turn to ideas' (Blyth 2003, p.695). This ideational turn has been pushed by the theorists of historical institutionalism and constructivist international relations by re-evaluating interests as explanatory instruments, scrutinizing the concept of action that assumes action as given and reflecting critically on the rationalists' theorization of interests, ideas and change. An attempt to analyse political change shifted the focus from the analysis of stasis to the development of such concepts as ideas, identity, culture and norms (Blyth 2003). Analysing the case of economic policymaking in Britain, Peter A. Hall (1993) tries to understand the relationship between ideas and policymaking and how the ideas develop behind policy change. Berman (1998) and McNamara (1998) extend historical institutionalism scholarship and move to ideational institutionalism, which not only looks at institutions as sources of agent's preferences, but views them as something more dualistic (Blyth 2003, p.700). Numerous schools of thought offer their distinct view on the role of ideas in the political process.

Historical Institutionalism

For instance, in her book *The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe* (1998), Berman grasps political decision-making explaining the main factors that "lead political parties and politicians to choose one course of action over another at particular points in time" (ibid., p.ix). To handle this, the author connects ideas with politics and looks how and when ideas impact the behaviour of political actors. Importantly, she emphasizes that ideas have been regarded as problematic variables mainly because of a failure of political scientists to conceptualize properly their role and influence and as ideas have not been the subject of research. Furthermore, she points out that ideas vary across a spectrum, articulated as ideologies or world views (*Weltanschauungen*), which "provide mental frameworks within which human beings can order and understand the entire world in which they live. They furnish abstract guidelines, a general outlook, a manner of thinking" (ibid., pp.19–21). In her study, she focuses on "programmatic beliefs", which lie between ideologies and policy. Such beliefs are used by political actors to deal with the challenges and provide solutions to everyday problems. The researcher emphasizes that structures do not provide exact rules for action, but they leave room for manœuvre of agents for action based on their structurally given interests (Blyth 2003, p.698).

In the field of European monetary integration, Kathleen McNamara's book *The Currency of Ideas: Monetary Politics in the European Union* offers an analysis of the politics of monetary cooperation among the EU states. She looks for the origins of neoliberal policy consensus and its political foundations based on the interaction between a changing international economy and the domestic policymaking process with an emphasis on the beliefs of political leaders about macroeconomic strategy. For her, changes in the international economy and the ideational factors that contour how policymakers answer to structural changes are the key to the study of European monetary integration. McNamara traces the process of policy choice and focuses on the ideas of political leaders about macroeconomic policy. She regards ideas as shared causal beliefs, which are used by political actors to assess the costs and benefits of monetary cooperation and to draw a policy strategy (McNamara 1998, pp.3–5).

Drawn from Risse-Kappen (1984), McNamara emphasizes that ideas are born out of agents' experiences within their setting and out of their interactions among themselves. In case, ideas are important, they might be implemented into policy. In sum, the author delivers the sources of neoliberal change. First, the oil crisis caused a reconsideration of the role of government in the macroeconomy; second, monetarist theory provided a background for a new economic strategy prioritizing neoliberal and anti-inflationary policies over employment and growth goals; and finally, a success story from Germany offered a model for policymakers to follow. Thus, the neoliberal consensus was guided by interpretations of shared experience of the European political leaders, the impact of the monetarist paradigm, and the German policy model (McNamara 1998, pp.5–6).

Constructivism

Constructivism has a distinct take on the role of ideas. Philosophical constructivists are inclined to assert that ideas or discourse do not represent or misrepresent "reality", but it is "constituted *as reality* in and through discourse" (Hay 2002, p.199, emphasis in original). In the field of international relationship, Alexander Wendt challenges the mainstream stance with a social constructivist approach. Remaining with the structuralist position, which contends that "deep, unobservable structures constitute agents and rules of interaction", he supports the idealist position, which views the social life as "ideas all the way down" (or almost anyway) (Wendt 1999, p.90). He criticizes the mainstream approach for using ideas to explain causal relations that move beyond the effects of power, interest, and institutions[81] (ibid., p.93). His social constructivist approach tries to grasp "the extent to which ideas *constitute* those ostensibly 'material'

[81] His criticism refers to the study of Goldstein and Keohane (1993) for using power and interest concepts to account for changes in policies; Orren (1995) and Skocpol (1995) for juxtaposing ideas to institutions as competing causes; and Fiorina (1995) for juxtaposing ideas and interests (Wendt 1999, p.93).

causes" (Wendt 1999, p.93, emphasis in original) and posits that "the meaning of power and the content of interests are largely a function of ideas" (ibid., p.96). Wendt points out that "ideas also have constitutive effects, on power and interest themselves"; he argues that interests are constituted mainly by ideas and extends his theorization to preferences, desires and beliefs (ibid., pp.114–119).

Yet, Hay (2002, p.199) labels the theoretical advancement of Wendt as "thin" constructivism based on its main assertions: i) "states are the principal units of analysis for international political theory"; ii) "the key structures in the states system are intersubjective, rather than material"; and iii) "state identities and interests are in [*sic.*] important part constructed by these social structures, rather than given exogenously to the system by human nature or domestic politics" (Wendt 1994, p.385). Such theoretical underpinnings demonstrate the importance of intersubjective and ideational factors in Wendt's research; however, he is criticized for separating the material and intersubjective or ideational, focusing not on the dualistic relationship, but on the dynamic interaction of them (Hay 2002, p.200).

To introduce a "thick" version of constructivism, Hay (2002) offers Ian Hacking's (1999) book *The Social Construction of What?.* Hacking manages both to clarify "a common sense of social construction…and a common and *normative* purpose underpinning the claim that each has been socially constructed" (Hay 2002, p.201). Inevitably, he tries to include ideas in his theorization. For him, "[i]deas do not exist in a vacuum. They inhabit a social setting", which is referred as the *matrix* within which an idea, a concept or kind, evolves (Hacking 1999, p.10, emphasis in original). This matrix is a compound of institutions, actors and material infrastructure, which contribute to the construction of a certain idea. Important is that ideas and classification function only within a matrix. Taking the example of the *idea* of the woman refugee, that classification, kind of person, as Hacking emphasizes, "[w]hen we read of the social construction of X, it is very commonly the idea of X (in its matrix) that is meant. And ideas, thus understood, do matter" (1999, p.11, emphasis in original). In a nutshell, the constructivism of Hacking underlines the "contingent and open-ended nature of social and political processes and dynamics" and attempts to reconstruct politics and agency to a world disclosing the contingency of social construction (Hay 2002, pp.201–202).

Poststructuralism

Ideational factors play the key role for the theorists of contemporary idealism—postmodernists, deconstructivists, interpretivists, hermeneuticists and poststructuralist discourse analysts.[82] Over the last decade, there has been an increased interest and development of discourse analysis in social sciences. Most prominent are elaborations of Michel Foucault's archaeological and genealogical approaches to investigate discourses and systems of power/knowledge; development of Critical Discourse Analysis (CDA) by Norman Fairclough; advancement of a Discourse Historical Approach in relation to discourse analysis by Martin Reisigl and Ruth Wodak; incorporation of different forms of discourse analysis into the policy studies by Frank Fischer, Herbert Gottweis and Maarten Hajer; articulation of a post-Marxist theory of discourse by Ernesto Laclau and Chantal Mouffe (Howarth 2009, p.311). In addition to building on Foucault's analysis of discursive formations, some post-structuralist discourse theorists work with Jacques Derrida's deconstruction, Jacques Lacan's psychoanalysis, Roland Barthes' semiology and Slavoj Žižek's theoretical elaborations (Howarth 2009; Laclau 2000).

For idealists, the material realm does not intersect with the world of ideas (Hay 2002, p.205). Therefore, for the post-structuralists, language plays a crucial role in advancing the concept of discourse. "Discourse" or a "discursive structure" corresponds partly with Wittgenstein's idea of a "language game", which is built out of language and action (Howarth 2009, p.311). Jacques Derrida, the discourse theorist, advances the concept of discourse to the realm of all social phenomena (Torfing 2005, p.8). In the translator's preface to Jacques Derrrida's book *Of Grammatology* (1997 [1967]), Gayatri Chakravorty Spivak points out Derrida's claim "that a certain view of the world, of consciousness, and of language has been accepted as the correct one, and, if the minute particulars of that view are examined, a rather different picture (that is also a no-picture, as we shall see) emerges" (Spivak 1997, p.xiii). And the deeper inquiry involves the use of language, as "[*t*]*here is nothing outside of the text* [there is no outside-text; *il n'y a pas de hors-texte*]" (Derrrida 1997 [1967], p.159, emphasis in original).

Furthermore, in his book *The Critical Discourse Analysis: The Critical Study of Language* (1995), Norman Fairclough attempts to explore the relationship of language and ideology. He "locates" ideology in language structures, which are formed as a result of past events and are the bases for current events and language events as "they reproduce and transform their

[82] In the field of social and political research, the conception of *discourse* was intensively developed by the scholars of the graduate programme in Ideology and Discourse Analysis at the University of Essex. They envisioned this concept as "an alternative approach to the understanding of the structuration of socio-political space", derived from a range of theoretical elaborations (post-Heideggerian phenomenology, Wittgenstein's conception of language games, and post-structuralism) (Laclau 2000, p.x, emphasis in original).

conditioning structures" (Fairclough 1995, p.72). Referring to the term discourse, Fairclough incorporates language in social relations, where "language is a material form of ideology, and language is invested by ideology" (ibid., p.73). In the dialectic relation of structure/event, structures shape discourse, but also discourse shapes, reshapes, reproduces and transforms the structures. Discourse is then built around three components—social practice, discoursal practice and text, which are also interrelated among themselves (ibid., pp.73–74). By incorporating the concept of practice to discourse, one can define *discourse* "as an ensemble of ideas, concepts, and categories through which meaning is given to phenomena, and which is produced and reproduced through an identifiable set of practices" (Hajer 2005, p.300).

Built on the Gramscian theory of power and hegemony, which assumes that hegemony and hegemonic practices are established through the discursive practices of institutions and organizations, Fairclough (1995) develops the term "technologization of discourse" to connote a modern mode of language policy and planning, which is used in various institutions, in the service industries and in the professional world. Technologization of discourse is understood as "a process of intervention in the sphere of discourse practices with the objective of constructing a new hegemony in the order of discourse of the institution or organization concerned, as part of a more general struggle to impose restructured hegemonies in institutional practices and culture" (ibid., p.102). "Technologists of discourse" are then social scientists, experts or consultants who can intervene in the discursive practice with their knowledge. In the relation to institutions, those are stuff members or consultants working on the development of specific projects (ibid., p.103).

Ernesto Laclau and Chantal Mouffe attempted to create a "synthetic post-Marxist, post-structuralist, and postmodern political theory", built on the developments of the discourse theory (Torfing 2005, pp.8–9). Placing themselves within the field of articulation and renouncing the conception of "society", Laclau and Mouffe (1985) maintain that "a discursive structure is not a merely 'cognitive' or 'contemplative' entity; it is an *articulatory practice* which constitutes and organizes social relations" (ibid., pp.95–96, emphasis in original). By analyzing the category of *articulation,* they attempt to specify the elements of articulatory relation and define the specificity of relational moment, which involves the articulation. They agree on Foucault's view on the internal power and discourse relation, but define discourse as "the historically variable conditions of possibility of what we say, think, imagine and do" (Torfing 2005, p.9). With regard to Fairclough's elaborations of CDA, Laclau and Mouffe do not agree that discourse is defined by extra-discursive powers at the economy or the state level, and that agents are reflective while reproducing and transforming the social world.

Instead of a causal approach in social and political analysis, the idealists focus on *constitutive* logics and processes—the construction (Glynos and Howarth 2007; Howarth 2009). They aim to "deconstruct" and demark the discrepancy between the ideational and the material, and try to form the (discursive) conditions, which enable certain social and political practices. It is the opposite in the materialist explanation, where the material plays the key role in the analysis and non-material factors are dismissed or where ideas are shaped by material circumstances and do not possess any independent causal role. In terms of constructivism, political behaviour can be understood by reflecting on the ideas that actors possess about the environment, where they are situated. So, the ideas are granted the explanatory causal power, and material and ideational factors are seen in their interaction (Hay 2002, pp.206–208).

3.4.2. Relationship of Structure, Agency and Ideas

As discussed above, the relationship between discursive and material dimensions has been an issue of controversy for critical theorists. Yet, following the dialectical view between structure and agency, one can consider the dialectical relationship between the ideational and material. According to the strategic–relational approach of Bob Jessop, actors are strategic, and structures are selective of strategy,[83] as far as within a given context, actors have limited courses of strategic action to choose. Besides, political and economic contexts are tightly structured setting opportunities and constraints to the actors. However, actors do not possess perfect information about the context, thus, to act strategically they engage in the interpretation of the world. So, "[*i*]*deas provide the point of mediation between actors and their environment*" (Hay 2002, pp.209–210, emphasis in original). Therefore, ideas fulfil an independent role and impact political outcomes.

Within the strategic–relational approach, actors are envisaged as reflexive and strategic, as those who reflect on the impact of their actions within a given context and who acquire knowledge and draw conclusions over the time. Still, notwithstanding the fact that actors are reflexive, the social and political interaction can be described as indeterminate, unpredictable and contingent. For this reason, unintended consequences are inevitable, but provide a possibility of strategic learning. Underpinning the role of discursive in the structure and agency

[83] See my critique on Jessop's *strategically selective context* on p.85.

debate, the world view of the actor is shaped and guided though the lenses of a certain paradigm, idea or ideology (Hay 2002, pp.210–213). As Hay (2002) puts it, "[h]ow actors behave—the strategies they consider in the first place, the strategies they discount, the strategies they deploy in the final instance and the policies they formulate—reflect their understanding of the context in which they find themselves" (ibid., p.211). Thus, in addition to a strategic selectivity, the theorists of structure and agency ascribe the context to a feature such as *discursive selectivity*, which connotes the ability of the context to choose for or against certain ideas, narratives and construction. Similar to the discussion on a *strategic actor* and *strategically selective context* in subchapter 3.1 (see p.85), a concept of *discursive selectivity* depicts the same problem as far as the context cannot be strategically selective or discursively selective by itself. Such an argument is based on a false theoretical assumption about the context, which assumes that the latter can act as an actor and be selective. Thus, only actors can act strategically within the given context and thereby shape it. From the ideational perspective, people are seen as the agents that develop their ideas to make sense of the world. These ideas leave their imprint on agents' action and interactions among themselves.

> Shared ideas lend themselves to routine practices that give rise to institutions. Then lesson-drawing processes reshape ideas, exposing and sorting out the tensions among competing ideas. Such processes offer lots of opportunities for conflict, misinterpretation, miscommunication, deception, and duplicity, as well as cooperation, enlightenment, and resolution. At the core of politics is the way ideas are packaged, disseminated, adopted, and embraced. The muddle of politics is the muddle of ideas (Beland and Cox 2011b, pp.12–13).

In a nutshell, ideas structure the world and specific world view structures how people are thinking. Following Heidegger's terminology, Howarth and Stavrakakis (2000) emphasize that "human beings are 'thrown into' and inhabit a world of meaningful discourses and practices, and cannot conceive or think about objects outside it" (ibid., p.3). Actors are allocated in the world, which has been already structured by ideas from the others. Thus, using ideas actors are engaged in a constant process of understanding or misunderstanding the terrain, where they find themselves.

For a policy analysis, it is crucial to grasp policy paradigms and frames through which actors understand and interpret the context as well as the mechanism and processes, which lead to the origin of these paradigms. The role of ideas and especially of the new ideas increases in the time of crisis. This is partly because the old narratives and discourses are questioned, and the new ones receive a space in the debates. Such opening moments in the crisis does not affirm that the new ideas will internalize into the practices of actors and transform the context. Still, with regard to policymaking, ideas might have more power to change the key paradigm, which inform policy, and to transform the institutional context than the access to governmental power (Hay 2002, pp.213–215).

Howarth and Stravrakakis, in the introductory text to the book *Discourse Theory and Political Analysis: Identities, Hegemonies and Social Change* (2000), contour the underlying assumptions of discourse theory. The primary assumption concedes all objects and actions as being meaningful, where the meaning is bestowed by historically specific system of rules. Furthermore, discourses are perceived as a social and political construction that creates a certain system of relations between various objects and practices, delivering positions, which guide the social agents. For this reason, discourse theory explores how social practices articulate and contest the discourses, which form social reality (ibid., pp.2–3). The key assumptions conveyed by the authors are summarized in the following words:

> [D]iscourses are concrete systems of social relations and practices that are intrinsically *political*, as their formation is an act of radical institution, which involves the construction of antagonisms and the drawing of political frontiers between "insiders" and "outsides". In addition, therefore, they always involve the exercise of *power*, as their construction involves the exclusion of certain possibilities and a consequent structuring of the relations between different social agents. Moreover, discourses are *contingent* and *historical* constructions, which are always vulnerable to those political forces excluded in their production, as well as the dislocatory effects of events beyond their control (Howarth and Stavrakakis 2000, p.4, emphasis in original).

In this thesis, I discard the purely structuralist view of the world, which perceives it as one broad cohesive structure. I rather follow Cox's method of historical materialism, which investigates change of both human agents and the structures of human interactions, striving to analyse the transformation from one structure to another while focusing on historically specific conjunctures (Cox 1985/1996, p.53). Thus, there are multiple structures that surround us. Howarth and Stavrakakis (2000) emphasize that discourse theorists are not only dealing with analysing the manner in which social actors understand their particular world, but they are also concerned with the "creation, disruption and transformation of the structures that organize social life" (ibid., p.6). Social practices structure the identities of subjects and objects as an outcome of the articulatory practice in a discursive field[84] (Howarth and Stavrakakis 2000, pp.6–7).

Unlike post-modernists and poststructuralists, who use textual and discourse analysis to understand social reality, constructivists apply an interpretative approach as the mediative position underlying the ontological reality of intersubjective knowledge and the epistemological and methodological implications of this reality (Adler 1997). They emphasize that collective meanings, interpretations and assumptions about the world are the driving forces to construct identities, interests and behaviour of political agents. In this realm, it is considered that "ideas" possess structural characteristics. They are seen as collective knowledge institutionalized in practices and embedded in social routines, which mediates and drives social actions. At the same time, knowledge-based practices are the result of the interactions of the agents who perform according to their personal ideas, beliefs, judgements and interpretations. Intersubjective meanings are ascribed with structural attributes, which, on the one hand, restrain or empower actors, and on the other hand, determine their social reality. Thus, social institutions and social change are analysed through the lenses of combined interplay of agents and social structures (ibid., pp.325–327).

Following the constructivist approach for grasping change in the international political economy, it is crucial to mention the role of epistemic communities, which are "rather a vehicle of collective theoretical premises, interpretations and meanings" and which are contributing to the construction of the social reality (Adler 1997, p.343). Delving into the sphere of cognitive evolutionary process, one can point out that knowledge construction is shaped both by the epistemic communities and by individuals and institutions, which are in constant interaction in domestic and international political systems. Indisputably, epistemic communities that adhere to the mainstream ideas and manage to disseminate them to the public awareness are more successful in defining social reality (ibid., p.344).[85] These mainstream ideas become embedded in social routines and practices and are reproduced by the agents.

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[84] Laclau and Mouffe (1985) develop the term *field of discursivity*, which denotes "the form of its relation with every concrete discourse: it determines at the same time the necessarily discursive character of any object, and the impossibility of any given discourse to implement a final suture" (ibid., p.111, emphasis in original). For the researchers, "[*t*]*he practice of articulation, therefore, consists in the construction of nodal points which partially fix meaning; and the partial character of this fixation proceeds from the openness of the social, a result, in its turn, of the constant overflowing of every discourse by the infinitude of the field of discursivity*" (ibid., p.113, emphasis in original).

[85] See also Adler and Haas (1992), Haas (1991), Haas (1997).

It also follows that in case a new idea relates to the established dominant ideas or discourse, it will be translated quicker into social routines and practices. Still, there is a need to differentiate that not all the epistemic communities and actors in the political realm are keen on following the mainstream trend; some might not be willing to translate the predominant intersubjective meanings into their practices. For this reason, the marginalized epistemic communities will try to bring in new ideas in the policymaking process and reach broader audience in order to foster transformation of identities, interests and practices. In case more actors adhere to the new ideas, it will offer a fertile ground for a change in practices. To a certain extent, crisis plays a role of a catalyst that might lead to a transformation of dominant collective meanings that further change the social construction of reality.

3.4.3. Ideas behind EU's Policymaking

In the European context, politics evolve through the struggle of ideas and discourses, which empower actors with discursive strategies for decision-making and agenda-setting and shaping and redefining the structured context.

Discourse matters in the European financial domain. Brussels seems to become a major terrain for the struggle of interests, ideas and preferences of different actors over political projects. The construction of the Single Market project in the EU appears to represent technologization of discourse (Fairclough 1995). The idea of the Single Market is built on the mainstream economic fundamentals of a self-regulating system. Such a discourse is furthermore advanced by the technocratic employees of the key institutions in the EU, who generate the discursive practices for the financial industry. In addition, such practices are supported within the epistemic communities of academics and professionals, who are salient to the Single Market idea.

After the crisis, the advancement of the Single Market project and architecting of the new financial regulations is connected to the major crisis narratives of stability or growth. The powerful ideas of the first two pillars of a banking union—SSM and SRM—are defined along the narratives of the Single Market agenda and could be pushed through the stability narrative of crisis management of the Commission. For example, the former President of the EC, Jose Manuel Barroso proclaims that agreement on the SRM "will strengthen confidence and stability in the financial markets and help restore lending to the economy" (European Commission 2014a, p.2). The discourse of stability in the financial markets demonstrates the main motive for the generation, construction and implementation of a political project of a banking union embedded in a Single Market idea.

Meanings are made through the ability of language "to create signs and symbols that can shift power-balances and impact on institutions and policymaking" (Hajer 2005, p.300). Thus, a policy analysis cannot be done without the scrupulous observation of narratives, story lines or metaphors. Torfing (2005) points out that social and political events can modify the use of our vocabulary, and "linguistic ambiguities and rhetorical innovations facilitate the advancement of new political strategies and projects" (ibid., 5). Thus, the discourse can be used to understand the political power struggles. In the European context, intellectual reforms that are produced due to the crisis can potentially "break up the ideological terrain" and rearticulate "the ideological elements in order to create a new political project" (Torfing 2005, pp.10–11). According to Gramsci's terms, "politics in the modern mass society takes the form of a struggle for hegemony in terms of the establishment of a political and moral-intellectual leadership" (ibid., p.11). Furthermore, Torfing emphasizes that "[b]ecause politics takes place in an undecidable terrain of non-totalizable openness it will always involve both inclusion and exclusion of meanings and identities" (ibid., p.12). Exercise of power through bringing in meanings and identities from different actors leads to establishment of beneficiaries and losers from the struggle and project building.

3.5. Conclusion: Lessons from Theoretical Discussions for Understanding the Creation of Banking Union

In this chapter, I took a glance at various theoretical theories and concepts, which social sciences offer in order to tackle and understand the phenomena in question. Equipped with these theoretical lenses, I aim to understand EU's political world. This chapter provides theoretical discussions on such issues as structure and agency, institutional change, power relations and role of ideas and tries to understand them from different angles. First, I focused on the definition of structure and agency relationship in the context of construction of the European project. In so doing, I singled out the interpretative historicist approach to understand the making of complex EU structures, knowledge, practices and interests of the agents. Second, by exploring the development of the European project and construction of new European institutions and agencies only, I could not have touched upon the topic of institutional change. Within this conceptual framework, I argue that the financial crisis caused incremental change of EU institutions and led to the strengthening of the Single Market agenda by layering the new rules along the previous logic. The EC has utilized the crisis to build up the new institutional arrangement for the banking sector by shifting supervision and resolution tasks from the national to supranational level. Third, such a reading of institutional change within the EU brought me to theorization of power relations. The conceptualization of power offered by the "faces of power" approach allows to scrutinize the struggle over banking regulation among various supranational and national actors. Fourth, the analysis would not be complete without bringing in the role of ideas in understanding the social phenomena. I follow the argument the ideas lie at the heart of political action. Moreover, they also equip actors with the discursive strategies in their political struggles and can lead to the institutional change. Bringing all these discussions together, this chapter offers a set of theoretical lenses to capture a key subject of inquiry of this dissertation—the creation of the banking union. These conceptualizations will be used in the analyses of findings of this dissertation. Before I move further with an exploration of establishing of the banking union, in the next chapter, I present my methodological approach aimed to steer the analysis of my case study.

Chapter Four: Methodology and Field Research

> We cannot see social reality without theory, just as we cannot see the physical world without our eyes. Everyone carries and uses social theory, cognitive maps of the world we inhabit, although not everyone is a social theorist, that is, someone who specializes in the production of such maps (Burawoy 2009, p.xiii).

This chapter reflects on my engagement as a political science researcher in studying the architecture of European financial industry and its repercussion on the German savings banks. Given the fact that I have chosen to analyse the establishment of the banking union, a newly-designed political project under construction, my research has been exploratory seeking to comprehend the world with the theoretical lenses developed. Yet, to proceed with the observation and to bring my theoretical considerations into a dialogue with praxis, I have had to find my way of working within critical political economy. By investigating and explaining the case of German savings banks, I have singled out the extended case method developed by the British sociologist Michael Burawoy (1998). This approach has delivered methodological insights into my understanding of my role as a researcher. By diving into the field, it has helped me to navigate a terrain of constantly changing financial regulations. Thus, while analysing German savings banks, I have followed the tradition of qualitative sociological inquiry—what Burawoy calls—the *reflexive* model of science.

This chapter is organized as follows: Subchapter 4.1 discusses the positive and reflexive scientific models and introduces the postulates of the extended case method. Subchapter 4.2 sheds light on the construction of my case study, which has led me to engage in field research. The last subchapter 4.3 focuses on the techniques of empirical investigation deployed in my research: interviews, participant observation and document analysis.

4.1. Mapping the Methodological Framework

Political scientists' orientations are framed by their ontological and epistemological positions, which consequently give the direction, and the theories or methods to apply for the chosen research (Marsh and Furlong 2002). The ontological position of positive science (foundationalist) is rooted in the belief that there is an "external world that can be construed as separate from and incommensurable with those who study it" (Michael Burawoy 1998, p.10); whereas the ontological position of reflexive science (anti-foundationalist) accentuates on "the social construction of social phenomena" (Marsh and Furlong 2002, p.18). The epistemological position deals with the theory of knowledge. In the literature, there are various ways of classifying epistemological positions. The most common classification is the division into scientific (positivist) and hermeneutic (interpretist) positions. Marsh and Furlong (2002) single out between positivist, realist, and interpretist positions. In other studies, the approaches are divided into quantitative and qualitative (Cox, Geisen and Green 2008b; Geisen 2008). Lincoln and Denzin (2003) discuss the turning points in the qualitative research, emphasizing on the role of such methods of qualitative research as interpretivist forms, phenomenology, case study research, constructivist models of inquiry and narrative inquiry.

Geisen (2008) emphasizes that "[t]he quantitative approach essentially searches for similarities and general patterns in the actions and thinking of people, relies on numbers, and tends to neglect the characteristics of the single case. In contrast, the qualitative approach focuses its inquiries on the possibilities and limitations of individual action and aims at understanding the special characteristics of each single case" (ibid., p.36). Thus, the quantitative research aims at establishing causal relationships between social phenomena, while the qualitative research seeks to reconstruct the meaning given in a specific context. The biggest strength of the paradigm of the qualitative research is its exploratory and descriptive power "that assumes the value of context and setting, and that searches for a deeper understanding of the participants' lived experiences" (Marshal and Rossman 1995, p.39). The origins of the qualitative research together with its epistemological framework can be defined as "processes of exploration, understanding, and learning" (Cox 2008, p.29).

Michael Burawoy (1998) spells out two strategies for the researchers to get involved into the world of study. The first strategy is labelled as the *positive* approach, which limits researcher's involvement into the world she/he studies and foresees insulation from the research subjects that should be either observed from the outside or interrogated through intermediaries. On the contrary, the second strategy—the *reflexive* model of science—concentrates on researcher's participation in the world of study and her/his engagement as the road to knowledge. To reach explanations of empirical phenomena, the researcher is equipped with theory that leads the dialogue with participants (ibid., p.5, emphasis in original).

By reflecting on his engagement in Zambianization research, Burawoy (1998) demonstrates how it violated four prescriptive postulates of positive social science—reactivity, reliability, replicability and representativeness. Similarly, this has been true for my research. Entering the trainee's position at the European banking association, I have not only been an academic researcher and observer with the aim to adhere to the principle of reactivity, but I was also a member of a team, supporting the advisors with daily tasks. In regard to the principle of reliability, I have not used a defined catalogue of criteria for selecting data; on the contrary, I have been able to develop my questions being a participant in the same time and space with the ones I studied. Nevertheless, as pointed out by Burawoy, I have entered the field with certain presuppositions, questions, and frameworks, which crystalled and transformed through the research process (Burawoy 1998, p.11).

Concerning the third principle of replicability, I must admit that my identity as a female doing research about the financial industry has shaped my performance as an interviewer.[86] Indeed, I have felt more comfortable talking to women notwithstanding which interest group or institution they represent. In frame of conducting the expert interviews and participating in various meetings and conferences, I have been able to get a glimpse of the role of women in the financial industry and their experiences. What has become evident is the lack of gender balance in positions of power,[87] but also women representation per se.[88] This might explain, to some extent, a paternalistic and educational attitude of some male interviewees towards me as a young female researcher. By bringing these insights to the forefront, I would like to highlight that a careful attention to women's experiences and expertise in the European financial sector is subject to future research in the International Political Economy (IPE), political science, sociology and feminist studies.[89]

Being a doctoral student from Germany and my focus on the impact of German savings banks

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[86] A thorough discussion on these issues is delivered by Devault (1990) in her article 'Talking and Listening from Women's Standpoint: Feminist Strategies for Interviewing and Analysis'.

[87] *Financial Times* research demonstrates the gender gap in middle and senior roles in finance management (Noonan et al. 2017). The European Commission's "2017 Report on Equality between Women and Men in the EU" also emphasizes on the need for more gender-balanced leadership. To promote diversity in the financial sector, Article 91 of the Capital Requirements Directive (CRD) calls financial and credit institutions to set up a policy fostering diversity on the management body based on age, gender, geographical provenance, educational and professional background (European Commission 2017b, p.31). In addition to delivering evidence, achievements and good practices, the Annual Report monitors and reviews the Sustainable Development Goals on gender equality (SDG 5) of the UN 2030 Agenda and other SDGs, which intersect with the gender perspective.

[88] In the committee meetings of ESBG, women representation has ranged from 17 to 61 per cent. The highest gender balance has been observed in the Corporate Social Responsibility and Accounts and Audit Committee Meetings. On average, women representation in different committees and platforms has been around 34 per cent. Also, in the Finance Watch public conference *Representation of the Public Interest in Banking* on 7 December 2016, women had made up 33 per cent. The same observation has been, too, in the academic context, where the per centage of women doing research on finance remains low.

[89] For more discussions, see Hoskyns (1996), Kantola (2010), Kantola and Lombardo (2017), Kantola and Nousiainen (2012), Russell and Villiers (2017), Young, Bakker and Elson (2011)..

influenced the way people spoke with me during my field trips. Besides, having been a trainee at the European Savings and Retail Banking Group also contributed to how the interviewees perceived my identity. Interestingly, one of my interviewees have mentioned that I have been the third person conducting an interview with him with a focus on interest group representation and their role in shaping the new regulations in the European financial sector. Possibly, the outcomes of the studies vary as each researcher has produced different observations based on the chosen frameworks. The principle of representativeness does not hold for my research. My observations of the process of establishment of the banking union and its repercussions for savings banks is not typical for the whole world. They might be representative for the alternative banks across Europe, however, they are not for the savings banks in Brazil, where the banking sector has its own dynamic.

Having discussed the limitations of the positive science model, Burawoy (1998) offers to use a reflexive science model, which derives its principles from the context effects (interview effects, respondent effects, field effects, and situation effects) that are seen as hindrances to positive science (ibid., p.12). The first principle is intervention that encourages to take an advantage of interview, which allows an interviewer to intervene into the lives of interviewees, and by mutual reaction reveal the characteristics of the social order. Positive science criticizes the interview for respondent effects, i.e., delivering multiple meanings of the world. What the reflexive model offers is gathering multiple readings of a single case and "the aggregation of *situational knowledge into social process*" (ibid., p.15, emphasis in original). The third criticism relates to the field effects, which hinder the replication of the case. Reflexive science, however, encourages to follow the principle of structuration, which views the world "as simultaneously shaped by and shaping an external field of forces" (ibid., p.15). In my case, for example, the EU might be seen as an external field with its own autonomous dynamics (see more on theoretical debated in Chapter Three). Lastly, the reflexive science seeks the reconstruction and deepening of the theory, but not the representativeness.

The *extended case method*[90] follows such a reflexive model of science with the aim "to extract the general from the unique, to move from the 'micro' to the 'macro', and to connect the present to the past in anticipation of the future, all by building on preexisting theory" (ibid., p.5, emphasis in original). In my use of the extended case method, I have explored the construction

[90] The term "extended case method" was coined by the representatives of the Manchester School of social anthropology (Burawoy 1998, p.5).

of complex EU structures, knowledge construction, practices and interests of the agents, reflecting on the theoretical elaborations of institutional change, power and ideas. Furthermore, by applying this method, I have been able to relate savings banks to a broader European context, which takes its own development over time and space. This method has allowed me to observe processes, interests and identities of financial industry at the macro (regional), meso (national) and micro (local) levels. This method has also served as an umbrella for triangulation of different *techniques* of empirical investigation (expert interviews, participant observation, and documentary research) (Burawoy 1998, p.6, emphasis in original).

By applying this method, I have been aware of the limitations of reflexive science. I acknowledge that through intervention into the field, the researcher might also distort it and cannot avoid the unintended consequences of what she/he writes. Furthermore, using participant observation, I have aimed to capture the reproduction of the regime of power. I have tried to analyse such practice as lobbying in the struggle around the regime of power in the financial industry by studying the activities of interest representation groups, interactions among themselves and with the key institutions. It is also true that in the study of savings banks in the European context, I cannot demonstrate a general law derived from this specific sector, however, the extended case method offers a different strategy of "*tracing the source of small difference to external forces*" (ibid., p.19, emphasis in original). In this respect, Burawoy proposes to connect a case with the other cases for comparison. In my case, I trace the differences of lobbying activities of savings banks before and after the financial crisis, but also interpret lobbying of other actors.

Another limit or challenge of the extended case method is its approach towards theory. In the field work, it encourages not to seek for the confirmation of the theory, but its refutations. As viewed by this approach:

> Theories do not spring tabula rasa from the data but are carried forward through intellectual debate and division. They then reenter the wider world of participants, there to be adopted, refuted, and extended in intended and unintended ways, circulating back into science. Science offers no final truth, no certainties, but exists in a state of continual revision (ibid., p.16).

Along my research endeavour, I have started with the theorization of financial crisis, which has been extended to the theorization of the European Union. While I have been trying to deconstruct the steps for the banking union creation, theories on institutional change developed by Streeck and Thelen and theory of "faces of power" developed by Lukes and Hay has guided my analysis. As I proceeded with the expert interviews, I realized that I cannot limit myself only to these theorizations and need to extend my research to the ideational factors that have had an impact within the European financial domain.

Furthermore, by applying the extended case method, I have become more aware of the 'effects of power' inherent in the reflexive science itself. These are domination, silencing, objectification, and normalization. As an outsider participant, I have entered into relations of domination having the power to analyse existing hierarchies, competing ideologies and struggles over resources in networks of power of European financial industry. Especially in some interviews with representatives of interest groups, I have been able to observe the defensive and cautious attitude towards me as a researcher. On the contrary, the representatives from the think tanks have been the ones who tried to dominate the conversation. Reflecting on the next face of power—silencing, I have realized that the course for financialization has been dominant in influencing the transformation of the EU. There are very few marginalized voices coming from the public interest associations that articulate alternative views. Also, the German savings banks with their public ownership are caught up in the world of marketization and privatization, which rejects and marginalizes them. The third effect of power, discussed by Burawoy is objectification, "that is hypostatizing social forces as external and natural" (Burawoy 1998, p.23). The author highlights, however, that due to the temporal and spatial capacity, the scientists are limited in extending interests in social processes to the forces of social structure. The last effect of normalization touches upon the process of theory creation and the link between knowledge and power. Burawoy summarizes that

> [r]econstructing theory is itself a coercive process of double fitting. On the one side, complex situations are tailored to fit a theory. The field site is reduced to a case, albeit one that is anomalous vis-à-vis theory. On the other side, theory is then tailored to the case, recomposed to digest the anomaly. This mutual fashioning creates an apparatus for reducing the world of categories that can be investigated, sites that can be evaluated, people, that can be controlled (ibid., p.23).

In sum, taking the path of reflexive science, I have been aware of the dangers of power effects and also agree with Burawoy that recognition of the limits of reflexive science provides the foundation for a critical theory of society, by emphasizing the limits of human freedom. Also, the goal of a research is not to deliver the definitive 'truth' about the external world, but to engage in knowledge production focused on improving the existing theory. In highlighting the interest group environment and the power constellation in financial regulatory politics, I have aimed to demonstrate the neoliberal direction of financial market integration.

4.2. Construction of the Case Study

As outlined in the introduction, the goal of the PhD project is to analyse and understand the European financial architecture under construction and the role of German savings bank in shaping European politics. Prior to doctoral studies, in my master course I have studied the role of German savings and cooperative banks that have fared well in the crisis in the German economy. This helped me to narrow down my focus for my PhD thesis from the beginning of the research. Deliberately, I have excluded the German cooperative banks from the analysis. Even though these two groups of banks share common characteristics and follow a relatively similar strategy in their European politics, they differ in their ownership structures. This difference let each banking group follow its path within the European space. Rather than comparing variables in these two cases, I have chosen to trace in detail processes of a particular case aiming to enrich my understanding of it as far as possible. For this reason, I have decided to bring up the case of German savings banks into the European context by focusing on the academic debates on the savings banks in Europe, revealing the political debates on savings banks, and portraying their actual position across Europe.

Similarly, I have had to narrow down a very broad topic of European financial architecture and crisis management in order to be able to discover deeper processes and relationships. For these purposes, I have studied the literature on theoretical debates about European integration from the point of view of intergovernmentalism, supranationalism, multilevel governance, and historical materialism, and the literature that reveals the processes of European financial market integration. What I have been able to understand from the literature is the crisis-prone nature of the EU, which has transformed into a neoliberal political project. Another strand of literature singles out regulatory liberalism and financialization, which has guided the development of the EU project. As pointed out by Mügge (2010), the European supranational governance has prevailed in order to finish the integration of financial markets, making Brussels the centre of policymaking of the EU political project. Before the crisis, the EU has faced the initiation of such projects as the European Single Market, the EMU, and financial market integration. In particular, the Lamfalussy Process has been aimed at deeper liberalization of national financial markets and the creation of a new mode of supranational financial governance.

The financial and Euro-crises suspended the liberalization agenda in the EU. The crisis could be regarded as a discursive window of opportunity to reform agendas at the European arena and to change the EU legislations in financial banking services. As discussed in Chapter One and

Three, the crisis can be regarded as a critical juncture that has challenged the EU project and financial integration process and opened the window of opportunity for alternative projects.[91] In this critical moment, various actors could set the trajectory for change in the EU project and participate in shaping its new institutional design. It has been a moment, where the savings banks or other financial institutions, too, could come to the forefront and change the pattern of supranational governance offering their alternative model at the European level. However, what the literature shows, the EC has resumed the course for strengthening the single financial market agenda by the year 2012. For this reason, my attention has been drawn to the creation of the European banking union. The case is manifold: it covers the political struggles within the EU, the role of interest groups and the process of public policymaking.

My research also builds on the study of Seikel (2013), who explores how the Commission has widened its sphere of influence over the public banking sector in Germany by using the competition policies regulation before the crisis and how it has been able to deepen the financial integration further by using the developments of the European law. Seikel's study demonstrates how the EU served the state and the private banks to strengthen the competition law and remove the state guarantees for the public banks in Germany. Besides, it illustrates how the national struggle between public and private banks moved from the national scene to the European arena. Not surprisingly, crisis management remains a supranational issue rather than the sphere of influence of national authorities that have become restricted by EU's legislation framework.

While tracing back the construction of the neoliberal financial market, there is a range of examples of liberalization processes and dismantling of the public state banks in the countries of the eurozone. As shown in the second chapter, the European banking landscape has changed drastically due to the fact that savings banks in Belgium, France, Italy and Spain have been restructured, privatized or completely eliminated. Germany, with the existence of the public banking sector, demonstrates an interesting case, where the liberalization process has not been accomplished yet due to the crisis moment. As the EC initiated the banking union project, the German savings banks had to develop their positions towards the new initiative. For this reason, the major question posed by this dissertation is to enquire *why the traditional model of public savings banks is becoming marginalized in the European financial regulations, even though it has proven to be stable.* Its goal is to understand why savings banks were not able to position

[91] The window of opportunity discourse normally adheres to the critical literature; however, it can be used favourably by the other groups to push their agenda. For instance, Copeland and James (2014) analyse how the EC managed to use policy windows to successfully relaunch the EU's economic reform agenda.

their model as an alternative within the European space.

The analytical part of this research presents the analysis of the struggle of the EC, the German state, the private and savings banks and other actors over the banking union. Particularly, I have been interested in the following questions: (i) how savings banks answer to the challenges imposed by the new regulatory framework, (ii) what positions do they take against the banking union and (iii) why do they follow these particular positions. The study reconstructs how the banking union was conceptualized and enforced, following the Commission's agenda for finalizing the Single Market project. While reconstructing the struggle over the new political project, the case study reveals what is at stake, what sort of bargaining power actors have, whose interests prevail and what strategies different actors pursue. By tracing the strategies of the savings banks, I have aimed to find out whether they are reaching out to find allies or whether they only rely on their own capacities. At the broader level, the entry point is to present the identity of the savings banks and how it might prevent them from building alliances with the other actors.

The study assesses in which way the banking union changes the quality of financial governance and whether it contributes to the creation of a sounder European banking system or whether it holds the lengthening shadow of crisis, caused by the neoliberal course of the European project. The analysis encompasses the developments of banking regulations from 2012, when the Commission issued a proposal to advance financial and banking integration at the EU level, till 31 December 2016, when the EC scheduled a deadline for the report on whether the EU should have a common rule on the minimum amount of bail-inable liabilities for.

In sum, my research project has aimed to understand, explain, represent and interpret the transformation of the regulatory framework in the banking sector within the European context. It has sought to trace complex and subtle interactions within the European environment and to identify processes within the EU regulatory domain. Within the span of this research, I have not engaged in the detailed interpretation of each phase of the policy circle (defining problems, agenda-setting, negotiations, decisions/compromises, implementation and effects).[92] As far as the banking union is a complex project made of three distinct pillars, I rather analyse its creation

[92] Moving into the analysis of policymaking, one can apply the 'policy circle' model, which is a useful hermeneutic instrument to explain and examine policy as a process focusing on key phases and elements of this process, which include actors, interests and power (Cox, Geisen and Green 2008, p.10). Katrin Kraus (2008) emphasizes that policy is a dynamic process, which requires a thorough analysis of both elements—various phases and the whole process. According to the author, the policy circle aims to "alert to the dynamics and complexity of policy" by keeping track of the broader process dimension (ibid., p.175).

as a broader continuing flow of policy process.

4.3. Data Collection

The empirical research of my PhD project is built around triangulation of sources[93] including expert interviews, participant observation and documentary research (see Figure 4.1). Indeed, it is an extended case method, which allows me to bring these different sources together. Gillham (2005, p.167), for example, stresses that a research case study method is comprehensive in its use as far as it allows to examine a social phenomenon in its contemporary context by integrating *multiple*[94] forms of evidence: observation, collection of documents and records, and the compilation of 'artefacts' and interviews in different forms. Yin (2003), too, underlines that using multiple sources of evidence allows a researcher to cover a wider range of historical, attitudinal and behavioral issues. Furthermore, he emphasizes that

> the most important advantage presented by using multiple sources of evidence is the development of *converging lines of inquiry*, a process of triangulation [...]. Thus, any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information, following a corroboratory mode (ibid., p.98, emphasis in original).

Figure 4.1 Triangulation of sources in research design

[93] In conducting a research, there are other types of triangulation. In his book *The Research Act: A Theoretical Introduction to Sociological Methods*, Denzin (1978) advocates triangulation—the combination of methodologies in the study of the same phenomena. He singles out four basic types of triangulation: data triangulation, investigator triangulation, theory triangulation and methodological triangulation. In his definition, data triangulation is divided into such subtypes as (i) time, (ii) space and (iii) person. Denzin believes triangulation of method, investigator, theory and data to be "the soundest strategy of theory construction" (ibid., p.294). For a detailed description of each type, see Chapter 10 *Strategies of Multiple Triangulation* of the book.

[94] Emphasis in original.

By discussing the triangulation approach, Flick (2009) points out that it has been initially developed as a strategy for validating outcomes gathered with the particular methods. Yet, the use of triangulation "has shifted increasingly towards further enriching and completing knowledge and towards transgressing the (always limited) epistemological potentials of the individual method" (ibid., p.444).[95] As discussed by Yin (2003), this approach deals with the issues of *construct validity*, as far as the multiple sources of evidence deliver multiple measures of the same issue of inquiry (ibid., p.99). In my study, the triangulation of sources (see Figure 4.1) is not solely used to compare the results, look for the similarities or differences and find the common denominator. Yet, this methodological design is used to receive a comprehensive and in-depth understanding of the case while engaging with multiple actors, discovering their reasons, positions, strategies and world views. Moreover, it gives me a possibility to get involved in exploring, learning and understanding participant's practices and experiences, to get a glimpse into how a certain policy, discourse or logic is constructed and interpret how actors, institutions and structures change over time.

To understand the staggering political complexities of the European context, the expert interviews are used as the main data source of this research project. In their book *Interviewing Experts*, Bogner, Littig and Mentz (2009) introduced the reader to the extensive methodological debate around the expert interviews that have been widely used in social research.[96] The scientists emphasize that talking to experts allows a researcher to squeeze the time-consuming data-gathering process. This way experts are perceived as the 'crystallization points' to get an insider knowledge in a particular field, but also to get access to the extended circle of experts (ibid., p.2). While conducting the expert interviews for my project, most of the experts helped me to expand my access to the field by mentioning potential interviewees. In some cases, they have indicated the additional experts who I have already interviewed. This demonstrates that it is indeed an extended circle of experts that deals with the topic of regulation in financial

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[95] A detailed discussion about critique on Denzin's conception of triangulation can be found in Flick (1992). On the one hand, Denzin's conception of multiple triangulation is criticized for resembling the research methods of 'correlation' in data analysis, and on the other hand, his conception of triangulation as a strategy of validation is criticized by Fielding and Fielding (1986) for assuming "*one* reality and *one* conception of the subject under study independent of the special methodical approach" (Flick 1992, p.178, emphasis in original). For this reason, the critiques offer to use triangulation not as a strategy of validation, but as an alternative to validation in the direction of in-depth-understanding. In this respect, Denzin has changed his position to a more interpretive one.

[96] Meuser and Nagel (2009) point out that starting in the early 1990s, the expert interview has developed as a method of qualitative empirical research, aimed to investigate expert knowledge. In their conceptualization of expert interview, the authors refer to the definition of expert and expert knowledge as coined in the sociology of knowledge and through the lenses of modernization theory. They posit that "expert knowledge is a knowledge sui generis with its own characteristic traits necessitating a particular methodological approach" (ibid., p.17).

industry.

In their article *The Theory-Generating Expert Interview*, Bogner and Menz (2009) present the debate about the methodological foundations of the expert interview adhering to the sociology of knowledge, which presumes "social reality as a construction created by acts of interpretation" (ibid., p.45). According to their typology, the expert interviews can be: (i) *exploratory* aimed to set up the primary orientation in a field for a researcher, as a tool to clarify the research puzzle or problem or as a preliminary step for developing a final interview guide; (ii) *systematizing* targeted at receiving exclusive and specific knowledge of the expert; and (iii) *theory-generating* seeking "the communicative opening up and analytical reconstruction of the subjective dimension of expert knowledge" (ibid., pp.46–48). In my research, I have been interested in exploring the decision-making and policymaking processes in the financial and banking sectors and in understanding the strategies of actors behind the establishment of the banking union. Hence, I conducted 'the theory-generating expert interviews' focusing on experts' knowledge, their understanding of the world, evaluation of their routines and practices, decision-making processes that evolved through their activities in the financial industry.

Furthermore, Bogner and Menz (2009) elaborate on the debate of who might be counted as an expert. Depending on the analytic and normative perspectives used for the definition of an expert, they single out the voluntaristic, constructivist and the sociology of knowledge concepts of the expert. However, they emphasize that what is present in practice is a mixture of various conceptualizations geared towards particular research interests. For this reason, the authors offer their approximate methodological definition of the concept of the expert.

> An expert has technical, process and interpretative knowledge that refers to a specific field of action, by virtue of the fact that the expert acts in a relevant way (for example, in a particular organizational field or the expert's own professional area). In this respect, expert knowledge consists not only of systematized, reflexively accessible knowledge relating to a specialized subject or field, but also has to a considerable extent the character of practical or action knowledge, which incorporates a range of quite disparate maxims for action, individual rules of decision, collective orientations and patterns of social interpretation. An expert's knowledge, his or her action orientations and so on, also (and this is decisive) point to the fact that she or he may become hegemonic in terms of practice in his or her field of action (for example, in a certain organizational-functional context). In other words, the possibility exists that the expert may be able to get his or her orientations enforced (at least in part). As the expert's knowledge has an effect on practice, it structures the conditions of action of other actors in the expert's field in a relevant way (ibid., pp.54–55).

Such a definition of an expert fits well to the purpose of my field research. By choosing the interviewees, I have searched for the experts who have been able to deliver these three types of knowledge (technical, process and interpretative) in the field of financial regulation. In this respect, the experts have been able to provide the "technical knowledge" with regard to the functioning of the European financial industry, its rules, routines and practices; the "process knowledge" reflecting the experts' practical experience while being engaged in the activities of a certain banking association, think tank, European institution or NGO and through their interaction with other institutions in different events; and the "interpretative knowledge" resembling the experts' own subjective judgements of European financial industry, their positions on and interpretations of the developmental trajectory of the Single Market project (Bogner and Menz 2009, p.53).

Bogner and Menz (2009) emphasize that by reconstructing such a heterogenous conglomeration of interpretative knowledge, the researcher delves into "the sphere of ideas and ideologies, of fragmentary, inconsistent configurations of meaning and patterns of explanation" (ibid., p.52). The expert interviews offer a researcher a tool to understand the meaning actors attach to their experiences, interpret the language they use to express themselves, evaluate actors' actions and the meaning attached to them and to follow the ideas that inform the thinking of the actors (Hollis and Smith 1990; and follow Chapter Five).[97] Yet, along the process of conducting and analysing the interviews, I have been aware of the double hermeneutic, which implies that the actors interpret the world (one hermeneutic level) and the observer understands their explanation (a second hermeneutic level) (Marsh and Furlong 2002, p.19).

Along my PhD project, I have conducted semi-structured interviews with various actors at different levels. At the European level, these have been the representatives of the European Savings and Retail Banking Group (ESBG),[98] European Banking Federation (EBF), European Association of Public Banks (EAPB),[99] European Federation of Building Societies (EFBS), an expert from the EC, advisors from a public interest association—Finance Watch,[100] experts

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[97] More specifically on interpretive research design can be found in Bevir and Rhodes (2006); Fischer and Forester (1993); Glynos and Howarth (2007); Yanow (1995); Yanow and Schwartz-Shea (2006).

[98] ESBG includes a few retail banks with savings bank characteristics such as local commitment (interview with ESBG). See Appendix for ESBG members' key figures.

[99] Primarily, EAPB plays an advocacy role on behalf of the European and German development banks. Secondary, the association represents the interests of Landesbanken. In the first line, the Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB) speaks on behalf of Landesbanken and is largest member of EAPB. Also, these two associations share an office in Brussels (Interview EAPB). For more information, see https://www.voeb.de/de/verband/english.

[100] Finance Watch is a public interest association created in 2011 as a counterweight to the powerful financial lobby (Finance Watch 2018). For more, see http://www.finance-watch.org/about-us/why-finance-watch.

from the leading think tanks—the Centre for European Policy Studies (CEPS) and Bruegel,[101] representatives of the national associations—German Association of Savings Banks (DSGV), Austrian Savings Banks Association (ASBA), and an expert from the Frankfurter Sparkasse (local savings bank) at the sub-national level. To conduct the interviews at the European level, I have been a trainee at the ESBG in Brussels for a period of two months from 1 October 2015 to 30 November 2015. During the research stay, I have had a chance to delve into everyday activities of the ESBG, follow intensively EU's policymaking process in the banking industry and learn how the ESBG represents the interests of savings and retail banks at EU's institutions. In addition, I also refer to the semi-structured interviews conducted for my master thesis in 2011: with the experts from the Federal Financial Supervisory Authority (BaFin) in Bonn, risk manager of the Kasseler Bank (local cooperative bank), Professor Dr Mechthild Schrooten and the representatives of the risk management department of the Kasseler Sparkasse (local savings bank).

For the expert interviews, I have arranged formal meetings the representatives and experts from the banking associations, NGOs, banks and EU officials. During the time of my field trip in Brussels, I have presented myself to the interview partners as a doctoral researcher and a trainee at the ESBG, in other cases, I have used my identity of the doctoral fellow. Overall, I have conducted 16semi-structured interviews within the frame of my PhD research. With the exception of one interview, which had taken place in a coffee shop, all the interviews have been held in the premises of the corresponding institution. The anonymity has been guaranteed to the interviewees. Three interviews have been conducted with two experts from a corresponding banking association. The time of the interviews has varied from 20 minutes to one hour and a half. The interviews have been recorded after the respondents' permission to audio record the conversation and were transcribed.[102] At the beginning of my interviews, I have introduced myself and my research and used an interview guideline. In the interviews with the experts from the banking associations and banks, the guidelines have been built around the following facets: (i) background of the corresponding banking associations; (ii) their role and positions in the dialogue between European level politics and banks; (iii) their lobby strategies, positions,

[101] Bruegel is a European think tank based in Brussels; it posits itself as an independent private sector non-profit organization with the mission to contribute to a better decision-making process by delivering analysis, ideas and recommendations to policy-makers (Interview Bruegel).

[102] Due to technical problems, one interview from a banking association has been lost while recording. To follow the conversation precisely, I have used the official position papers of the association, which reflect the content of the lost interview.

power tools in the negotiation on the banking union (different pillars); (iv) their interaction with other banking associations and political actors; (v) their evaluation of tension and conflict of interest among the newly created European institutions and agencies in the financial area; (vi) their experiences with the new pillars of the banking union and the legislation of the Single Rulebook; (vii) their thoughts on the crisis management of the EU; and (viii) their views on future challenges for the corresponding banking group.

The conversations with the representatives from the Finance Watch, a key public interest association, and CEPS and Bruegel, two leading think tanks based in Brussels, have offered additional insights on the European political system and power relations. The experts delivered their views on the architecture of financial regulation and on the role of actors to promote or contest supranationalism in the EU. Moreover, I have had a chance to talk with the representative from the EC, Directorate-General Financial Stability, Financial Services and Capital Markets Union (DG FISMA), who has shared the Commission's views on the operation of the EU financial architecture, legal system, and on relations of EU institutions and financial industry. Unfortunately, I have not managed to arrange interviews with some of the Members of the European Parliament (MEPs) or with the officers of the Permanent Representation of the Federal Republic of Germany to the European Union in Brussels.

For the analysis of the above-mentioned expert interviews, I have partially followed the analytical strategy offered by Christiane Schmidt (2004). She describes this analytical strategy as follows:

> The guiding principle in this analytical strategy is the interchange between material and theoretical prior knowledge. This interchange process begins not only when the data are available in a transcribed form, but at the beginning of the data collection—as a kind of interplay between, on the one hand, theoretical considerations in reaction to literature and theoretical traditions, and on the other hand experience and observation during exploration of the research field. In the course of this interchange process the theoretical pre-assumptions may also be refined, questioned and altered (ibid., p.253).

In the first stage of material-oriented formation of analytical categories, I have engaged in an intensive and repeated reading of the material, fully transcribed interviews. To a certain extent, my theoretical prior knowledge, research questions and interview guidelines have guided me in reading the transcripts. This has assisted me in taking notes of the topics and aspects related to the context of the research questions. As outlined by Schmidt, it has been important to me "to consider whether the interviewees actually take up these terms [the formulations from the questions], what the terms mean to them, which aspects they supplement, which they omit and what new topics, which were not foreseen in the guide, actually turn up in the collected data" (Schmidt 2004, p.254). In this stage, I have marked similarities and differences between the interviews. Having discovered the topics and aspects of the material (e.g., lobby strategies, positions, routines and power tools of banking associations), I have been able to formulate analytical categories for my analysis. As a result, I singled out such categories as interests, strategy, resources, ideational factors, practice, identity, other motivation to action, external perception, change of strategy, institutional change, crisis, power (ibid., pp.254–255).

In the following stages of analysing the expert interviews, I have assembled the analytical categories into a guide for coding. The process of coding is described as "relating particular passages in the text of an interview to one category, in the version that best fits these textual passages" (ibid., p.255). In this sense, I have assessed and classified every interview using analytical categories previously developed. Thus, I have applied the analytical categories, which were derived *from* the material, *to* the material in the next stage (ibid., p.256, emphasis in original). In the next stage, Schmidt (2004) offers quantifying surveys of material by presenting them in the form of tables (ibid., p.257). As far as quantifying surveys of material does not constitute the result, I have omitted this stage in my analysis. In the final stage of my analysis, I have focused on detailed case interpretations with the aim to revise existing theoretical frameworks (ibid., p.257). The result of the interpretation was summarized and written in the conclusion of the dissertation.

While preparing for the expert interviews, I have been aware of the limitations of interpreting the narratives. To cope with the challenge that the 'narratives' of interviewees deliver 'good quality' (Geisen 2008, p.40), I have also used participant observation in order to include more key actors for my research project. Furthermore, participant observation allowed me to capture interaction of actors and widen the knowledge gathered by conducting the expert interviews. As summarized by Denzin (1978) participant observation can be defined

> as a field strategy that simultaneously combines document analysis, interviewing of respondents and informants, direct participation and observation, and introspection. […] Participant observation is one of the few methods currently available to the sociologist that is well-suited to an analysis of complex forms of symbolic interaction. In contrast to the survey, which may be best suited to the analysis of stable forms of interaction, participant observation can better handle forms of interaction that are in change (ibid., p.183).

Participant observation has been done in frame of my field work in Brussels, Frankfurt and Madrid including participation in the thematic and committee meetings of ESBG with the members of the association,[103] meetings with experts from the European agencies and other banking associations,[104] and observation and participation in the debates and conferences.[105] Being part of these events, I have followed certain themes more precisely: first, actors' understanding of the European and national contexts with regard to financial regulation; second, the role of different actors—banking associations, NGOs, scholars, think tanks, EU officials in promoting or challenging the supranational logic within the Brussels bubble; and third, I have tried to understand the relationship between the banking associations among themselves and in relation to the EU institutions. Furthermore, participant observation has offered an interesting setting, which has enriched the information acquired by the means of interviews. Participating in the above-mentioned events, I have made notes during events, which I have used for the analysis and reflections in empirical chapters.

After having conducted several interviews with the European actors, I am aware that my field research lacks interview partners and their views on the creation of the banking union from the position of the German Bundesbank, German Financial Ministry, German MEPs and German representation in Brussels, who were difficult to access for the interviews in the timespan of my research. By participating in the above-mentioned seminars on the European politics I could observe that the representatives of the German government are much inclined to the European vision of EMU and advertise the European project to the German business. Therefore, this

[103] For example, meetings of ESBG Market Regulation Committee, Prudential and Supervision Committee, and Corporate Social Responsibility Committee.

[104] For instance, meeting with the experts of the Single Resolution Board (SRB) and ESBG on technical information and guidelines on completing the SRB template, calculation of the base contribution, additional guidelines on derivative adjustment, deductions and covered deposits.

[105] These included participant observation at various events in Brussels: the speech of Danièle Nouy, the chair of the supervisory board of ECB, at the European Parliament on 19 October 2015; the Capital Markets Union debate of the various stakeholders (representatives from DG Financial Services, European Commission, DSGV, UEAPME, and Bruegel) at the World Savings Day on 23 October 2015; the Parliamentary Evening organized by the savings and cooperative banks in Brussels on 10 November 2015; and participation in the Finance Watch public conference *Representation of the Public Interest in Banking* on 7 December 2016.

In addition, there was an opportunity to get to know a stance on EU from the representatives of the German industry by participating in the political seminar *Europäische Union—Aktuelle Lage und Zukunftsperspektiven* [European Union—the Current Situation and Prospects for the Future] of Institut für Sozial- und Wirtschaftspolitische Ausbildung e. V. (ISWA) [Institute for Social and Political Education] in Berlin on 25–27 September 2016. Enriching for my research were the talks of Dr. Ulrich Hoppe, Director General of the German-British Chamber of Industry and Commerce, on the topic *Brexit and its Consequences*, Sven Schulze, MEP from the European People's Party (EPP), on the issue *European Parliament—Bulwark against Renationalization*, Claudia Dörr-Voss, Director-General for European Policy, Federal Ministry of Economics and Technology of the Federal Republic of Germany, on the European politics from the perspective of the German government and Reinhard Felke, Directorate General Economic and Financial Affairs of the European Commission, on the future of EMU.

aspect on the role of the German government and Bundesbank against the third pillar of the banking union is subject to further research.[106]

Alongside expert interviews, the empirical part is based on the documentary research, which includes the work in the archives of the ESBG, analysis of the statements of politicians and excerpts from the official documents, reports, position papers, which could be drawn from the websites of various EU institutions, banks, banking associations, NGOs and think tanks. In addition, I have reviewed available printed materials and followed the news reports on finance, banking and crisis with a focus on articles from the *Deutsche Welle*, *Der Spiegel*, *Handelsblatt, Politico* and *The Economist*. The field research in Brussels has allowed me to reflect on the research design, while working in the archives of the ESBG. To establish important links between research question and observations of actors' interactions and policy processes in the European environment, the field research has been documented in the diary. Also, the research includes reviews of position papers of bank associations, research papers from the Deutsche Bundesbank, statements, press releases, speeches and interviews from the European Parliament and ECB at the European level, and from the German government, Financial Ministry and BaFin at the national level.

In the following chapter, I present how the EC has driven the creation of the first two pillars of the banking union—SSM and SRM. Furthermore, I expound on the strategies of the German state and other actors whose interests are touched by this project.

[106] See Chapter Five and Six on the new role of Bundesbank within the SSM, the first pillar of the banking union.

Chapter Five: The Single Supervisory Mechanism and the Single Resolution Mechanism—Setting up the First Two Pillars of the Banking Union[107]

This long chapter traces the process of constructing the banking union and presents the results of my research in the form key actors' strategies. It concerns with a pattern of strategies of certain actors involved in the EU policymaking process with an emphasis on the struggle over the banking regulation. It also discusses how these strategies work together or against each other in relations to different actors and contexts. Throughout this chapter, I focus on activities, strategies and operations of various actors and their involvement into the construction of the European project. This chapter is organized in five parts: In the first subchapter (5.1), I discuss the prevalent role of the EC in setting the course of the European project. In the second sub-chapter (5.2), I explore the course of the banking union reflecting on the involvement of the German state and other actors in the EU's decision-making process. The following two sub-chapters reconstruct in detail the establishment of the first two pillars of the banking union—SSM (5.3.) and SRM (5.4). The intention of the last subchapter (5.5) is to reflect on the EU's institutional design under construction and on the new dynamics along this process.

5.1. The Rhetoric of the European Commission in Combating the Crisis

As presented in the introductory chapter, the cardinal questions under examination in my dissertation are: (i) how the German savings banks respond to the EU crisis regulation and (ii) and what position do they take in the political struggle over the banking union project, and why. The very first puzzle, which struck my mind upon starting my field research, was investigation of the genesis of the banking union. The questions of how the idea of the banking union was born and what factors and circumstances contributed to this process evolved during the discussions that guided me through the interviews. One of the interviewees reflected on the creation of the banking union; "it was clear from the early stage of the financial crisis that the European politics eventually wanted to take further steps in order, in a certain way, to give the citizens more security" (Interview DSGV Brussels, own translation).[108] For this reason, the project was

[107] Parts of this subchapter are used in Semenyshyn (2017).

[108] Interviews conducted in German language were translated on my own.

not seen as something coming ‘out of the blue’. On the contrary, for my interview partner, it seemed to be a topic “hovering somewhere in the air”, which was caused by the financial crisis (Interview DSGV Brussels). This position is confirmed by another actor, who considered the crisis to be the driving force that allowed the EC to proceed with the further steps of integration (Interview UEAPME). Another interviewee from a banking association recalled that an idea for the European supervision mechanism had been present in the European Parliament already in 2001. However, this idea was not received positively at the time, as far as there was no political will to give up the national supervision power (Interview ASBA).

The genesis of the banking union can be traced back to the so-called the “de Larosière Report”. The report depicts debates and examinations of the high-level group on financial supervision in the EU. This expert group was initiated by José Manuel Barroso, former president of the EC, after the outbreak of the financial crisis in 2008 (Interview FISMA). Jacques de Larosière, former governor of the Bank of France, former member of the Delors Commission and former director of the IMF, chaired the expert group of top-representatives[109] from the financial industry. The de Larosière Group received a mandate from the former president of the EC to consult this institution and develop recommendations on the future of European financial regulation and supervision (Nagy et al. 2010, p.7). On 25 February 2009, the de Larosière Group released the report titled “High-level Group on Financial Supervision in the EU” (de Larosière et al. 2009).

In the words of Jacques de Larosière, “[t]his report lays out a framework to take the European Union forward” (de Larosière et al. 2009, p.4). All the recommendations of the report are presented around three key goals: (i) towards a new regulatory agenda targeted at risk reduction and improvement of risk management; enhancement of systemic shock absorbers; reduction of pro-cyclical amplifiers; augmentation of transparency; and provision of the right incentives to the financial markets; (ii) towards stronger coordinated macro-prudential and micro-prudential supervision of all financial actors in the EU, which can safeguard maintenance of equivalent standards and fair competition for all players within the EU internal market and (iii) towards

[109] These independent specialists were: Leszek Balcerowicz (former finance minister of Poland, former president of the National Bank of Poland), Callum Mc Carthy (former chairman of the Financial Services Authority), Rainer Masera (Chief Executive Officer of the Group Sanpaolo IMI), Lars Nyberg (Deputy Governor of Sveriges Riksbank, member of Basel Committee on Banking Supervision), Otmar Issing (former member of the Executive Board of the European Central Bank), Onno Ruding (former Minister of Finance of The Netherlands, former Director of Citicorp), and José Pérez Fernandez (former member of the Executive Commission of Bank of Spain) (Nagy et al. 2010, p.7).

effective crisis management procedures aimed to establish confident supervisors, thus securing investors, depositors, and citizens in the member states of the EU (de Larosière et al. 2009, p.4).

De Larosière summarized his avant-propos by emphasizing on the expert group's choice to follow the second alternative solution of an "enhanced, pragmatic, sensible European cooperation of all to preserve an open world economy" that promises future economic gains, and by discarding the "first '*chacun pour soi*' beggar-thy-neighbour solution" (ibid., p.4, emphasis in original). Such a rhetoric of the chair of the expert group confirmed the previous discussion on the construction of the European project: the European integration is guided by the postulates of market liberalization (see Chapter One). Due to the crisis, issues such as consumer protection and financial stability appeared in the agenda, however, market access, competition and market efficiency remained the primary goals of the policymakers. This example of reliance on market liberalization world view demonstrates the importance of ideas and their role in how actors interpret and perceive the world, choose their political strategies and participate in policymaking and decision-making processes (see subchapter 3.4.2 on the role of ideas). The "de Larosière Report" offered 31 recommendations to reform the international financial architecture. The report is built around four chapters: (i) causes of the financial crisis; (ii) policy and regulatory repair; (iii) EU supervision repair; and (iv) global repair. The expert rhetoric mainly explicated the financial crisis issue without questioning the fundamentals of market liberalization and deregulations; it addressed managing the crisis in a different manner. As the chair of the group put it, "attention must now be devoted to drawing the lessons from the weaknesses of the current international financial architecture that have been revealed by the recent events" (de Larosière et al. 2009, p.59).

Internationally, the first point to tackle the issue of the weaknesses of the financial system took place at the G20 Summit in Washington on 15 November 2008. As an outcome, the summit set up an action plan with the broad goals "to strengthen transparency, to enhance sound regulation, to promote integrity in financial markets and to reinforce international cooperation" (ibid., p.59). It is interesting to observe that such a narrative is used in the language of DG for Financial Stability, Financial Services and Capital Markets Union (FISMA).[110] The EC

[110] Before taking the office on 1 November 2014, Jean-Claude Juncker, president of EC, restructured it. It was an outcome of the realization of Juncker's 10 policy areas published in his political guidelines of the next EC (Juncker 2014), which later became 10 Commission priorities for 2015–2019 (European Commission 2017a).

adopted the argument that weak supervision at the national level was the fundamental flaw of the system. The Commission claimed that it could not provide a better management of the crisis as the supervision was still in national hands (Interview FISMA). Such a narrative turned into a strong discourse, got adopted by the EC and became conductive in further expanding and strengthening the positions of the supranational body.

Based on the measures offered by the de Larosière's expert group, the goal to enhance supervision was realized by setting up the European System of Financial Supervision (ESFS) (Interview FISMA). This multi-layered system of micro- and macro-prudential authorities was first introduced in 2010 and started to operate on 1 January 2011. The European Systemic Risk Board (ESRB), the three ESAs, consisting of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) and the national supervisors are part of the ESFS system (European Parliament 2017a, p.1).

The above-mentioned discussion explicates the second 'face of power', the agenda-setting role of the EC, in architecting the regulatory framework for financial industry. The EC has taken the leading role in reinforcing its existing political agenda, setting new institutional practices and bringing its preferences to the forefront that limit the role of national financial institutions in the political process. However, as already noted in subchapter 3.3.2, the other actors contribute to shaping the European politics by interfering in the agenda-setting phase and by bringing in their interests through their lobbying activities. As far as the Commission progressed with setting the course for new regulations, the German state has been contributing to crisis management and influencing EU's policymaking. For example, Horn (2012) perceives Germany's mediating role in softening the agency of the EC as a 'European state actor' (ibid., p.21). In the case of the banking union, the role of Germany has been very important. In general,

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Two departments, which were affected the most by the restructuring were the old Directorate-General for the Internal Market and Services (DG MARKT) and the old Directorate-General for Enterprise and Industry (DG ENTR). The Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) was newly created as a separate department taking over the tasks for regulating financial services from the DG MARKT, whose main role was to secure the functioning of the European Single Market and remove barriers to trade in services and financial markets. In addition, it got some divisions, which belonged to the Directorate-General for Economic and Financial Affairs (DG ECFIN). The other parts of the old DG MARKT were moved to DG Enterprise and received a new name DG Growth (DG GROW) (European Commission 2017f; Interview FISMA; Politico 2015).

This new directorate-general did not only get the new broader name, but also received the mandate to work on issues such as regulation and prudential supervision of financial institutions, financial system surveillance and crisis management (see Appendix II). DG FISMA is also responsible for enforcement of the Single Market legislation. As stated in one of the interviews, the role of FISMA in crisis management is seen as limited in comparison to ECB, ESM and SRB. The latter are seen as 'the main firefighters' in case of a new crisis (Interview Bruegel).

the German Chancellor is perceived as having a leading role in reshaping the European political landscape (The Economist 2013). On the one side, *The Economist* holds Mrs Merkel responsible for the failure to create a complete banking union. On the other side, in light of the German election on 22 September 2013, she is believed to be the right person to lead Germany and Europe and to become "Europe's dominant politician", whose EU agenda is "to build a stronger financial union, to push more liberal policies, to complete the Single Market, to cut welfare and to trim regulation" (The Economist 2013). What makes the role of Germany so decisive is also the fact that the German Chancellor and the Finance Minister have to consider the interests of the German savings banks, who oppose the changing form and mode of regulation.

Furthermore, notwithstanding the fact that the EC is the key driver in setting and shaping EU regulations, associations of the European banking industry have a significant influence on regulation. Various banking groups have distinct interests and positions regarding the progress of the banking union and the reinforcement of the Single Market project. Instead of taking policies, the banking industry routinely makes policies (Pagliari and Young 2014, p.557). This resembles the third face of power, preference-shaping, when actors are involved in the shaping of the decision-making by promoting their strategies and practices or when they neglect this process. Besides, through such actions or 'inactions' these actors are engaged in framing perceived interests and political preferences (Hay 2002, p.179). As discussed in subchapter 3.4.3, actors use ideas to articulate their interests and preferences leading to a crystallization of certain discourses and practices in the European financial domain. The EU institutions offer access to lobbyists via their formal institutional context (e.g., the mandate of regulatory agencies, their internal governance structure, or the opaque and discretionary environment) and via the informal institutions of 'revolving doors'. This gives rise to the emergence of new networks and policy communities, which in turn share similar beliefs and values (Mügge 2006, p.999; Pagliari and Young 2014, pp.577–8). In the end, such an institutional setting provides ideal channels for lobbying practices that are used by different actors to promote their ideas and interests. The banking sector's main lobby associations at the European level are the European Banking Federation (EBF) for the private banks, the European Savings and Retail Banking Group[111] (ESBG) for the savings banks and retail banks, and the Association of Cooperative Banks (EACB) for the cooperative banks. In terms of financial yearly expenses on lobbying,

[111] ESBG brings together savings banks and retail banks with savings bank characteristics such as local commitment. Reflecting on the position of banking associations, ESBG representative underlines that the EBF is the key association in the banking industry vis-à-vis other EU actors. ESBG posits itself complimentary to the EBF mostly going in the same direction but with some specificities (Interview ESBG III).

the association of private banks, the EBF with €4,375,000, significantly outweighs the financial potential of the ESBG (€275,000) and EACB (€225,000) (Wolf, Haar and Hoedeman 2014, p.18). In addition, the respective national banking associations also have a presence at the EU level.[112] A representative from CEPS confirms that lobbying of banks is 'very strong' in Brussels. However, he argues that the capacity of various banking groups to influence the decision-making agenda is weakened because of dispersed interests (Interview CEPS).

Being affected by the lobbying from the banking industry, the Commission's representative recognized that the associations heavily lobby in the meetings with the commissioner, cabinet, parliament and other actors by bringing their interests.[113] The interviewee emphasized that the DG FISMA is aware of industries' concerns, as far as the advocates from the financial industry meet with the policy officers in the DG FISMA too. In this way, the lobbying is evaluated as follows:

> they do their lobbying in a positive sense, that's their job, they are therefore here, they are part of the Transparency Register[114] […]. Of course, they try to make their concerns heard. Normally, this is our policy to meet with all these people and, of course, also take their concerns into account as much as possible. The only thing, I mean, if there is a political will to go one step further and harmonize, we either most of all do it, or it does not make sense (Interview FISMA).

Such an assessment from the Commissions manifests an air of ambivalence. On the one side, it is articulated that the interests of the industry are considered, but on the other side, they are neglected as soon as they do not fit the Commission's own agenda. The term "political will"[115] has been used predominantly as a discursive strategy from the side of the Commission to bring

[112] For example, the Austrian Savings Banks Association (Österreichischer Sparkassenverband, ASBA), the German Association of Savings Banks (Deutsche Sparkassen- und Giroverband, DSGV), the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros, CECA), the Association of German Banks (Bundesverband der deutschen Banken, BdB), the National Association of German Cooperative Banks (Bundesverband der deutschen Volksbanken und Raiffeisenbanken, BVR), and the French Banking Federation (Fédération bancaire française, FBF).

[113] For more on the analysis of interinstitutional relations and party politics in the EU, see Christiansen (2016), Franchino and Mariotto (2013).

[114] For more on EU Transparency Register, see http://ec.europa.eu/transparencyregister/public/homePage.do. The Register is organized to deal with such questions as: what interests are being represented at the EU level, who represents those interests, and on whose behalf, and with what budgets (European Commission 2017i).

[115] As a fixed collocation, political will means "specifically the firm intention or commitment on the part of a government to carry through a policy, especially one which is not immediately successful or popular" (*Oxford Dictionaries, s.v.* "political will", accessed on 23 January 2018, https://en.oxforddictionaries.com/definition/political_will).

forward and shape the new policies.[116] Another discursive tool used by the Commission and by the representatives of big banks is the idea of a level-playing field, which denotes "an expression for a market or industry in which all participants compete under the same conditions from regulatory and fiscal points of view" (Financial Times 2017). As pointed out by one of the interviewees, the Commission has been using such empty words as "full harmonization targeted" or "same business, same rules" in order to support its arguments for a level-playing field (Interview EFBS). Such a discursive strategy of the EC once again depicts the preference-shaping dimension of power, when the Commission's representatives are actively engaged in articulating and framing Commission's perceived interests and political preferences in the political struggle. The small banking groups use a different discursive strategy, they rather adhere to the principles of subsidiarity and proportionality as outlined in *Better Regulation Guidelines* (European Commission 2017e) and *Better Regulation 'Toolbox'*[117] (European Commission 2017c). The guidelines are developed as the principles which should be followed by the EC while arranging new initiatives and proposals and maintaining and assessing existing legislation.[118] Furthermore, they should be applied by legislators to each phase of the law-making cycle.[119] To ensure that every proposal corresponds with the principles of subsidiarity and proportionality, in 2014, president Juncker appointed Frans Timmermans, the first vice-president, as a coordinator of better regulation in the Commission (European Commission 2018, Interview ESBG III). As postulated in the guidelines, better regulation is "a way of working to ensure that political decisions are prepared in an open, transparent manner, informed by the best available evidence and backed by the comprehensive involvement of stakeholders" (European Commission 2017e, p.4). By setting a new agenda and designing new regulation the EC fosters institutional change through the mechanism of layering. As pointed out in subchapter 3.2, incremental institutional transformation might be caused by adding, amending or revising rules or structures to the existing institutions (Boas 2007, p.47; Streeck and Thelen 2005, p.24). The subsidiarity and proportionality principles help the small banking groups to exercise

[116] According to the personal opinion of one of the interviews, the success of EC with the first pillars of banking union cannot be attributed to a specific strategy or a strategic calculation, but rather to a political pressure and political will that allowed to 'box' a political agenda (Interview EAPB).

[117] The Toolbox was designed as a complementary to the better regulation guidelines presented in *Better Regulation Guidelines*.

[118] In addition, these guidelines give room for manouvre for interest representation. In case, a new piece of legislation causes unintended consequences, it allows to have an adjustment of provision (Interview ESBG III).

[119] See Kraus (2008) for a detailed description of the policy circle with six different phases.

their preference-shaping power in this process of layering as far as their perceived interests are implicated in better regulation rules.

As stated in the *Better Regulation 'Toolbox'*, "all Union actions are governed by the overarching principles of subsidiarity and proportionality"[120] (European Commission 2017c, p.25; Interview ESBG III). These principles should ensure that the Union intervenes and acts at the EU level only if necessary to achieve the objectives set out in the treaties and does not exceed its powers while resolving the problem (European Commission 2017c, 2017e). In this way, this piece of legislation clearly defines the limits of the decision-making power of the EC, the first face of power after Lukes. Additionally, the principles of subsidiarity and proportionality play an important role for the stakeholder groups in their lobbying practices: in case of non-compliance, these may be employed to challenge the lawfulness of the Union's legislative acts before the Union courts.[121] Furthermore, national parliaments have a particular position and function in investigating the Commission's respect of the subsidiarity principle (European Commission 2017c, p.25).

By definition, the goal of subsidiarity principle is to guarantee that policy measures, which are not included in the exclusive competence of the Union, are resolved at the closest level to the citizen and at the Union level only if necessary. Still, there are some areas such as commercial policy or competition,[122] where the Union has exclusive competence, so the subsidiarity principle cannot be applied. Additionally, such areas as budgetary and institutional matters exceptionally belong to the Union's exclusive competence 'by nature'. Referring to the other areas and cases, when the Union is granted competence, subsidiarity implies that the Union should only act: if, and in so far as, the member states cannot achieve sufficiently the objective of the action; but the Union can better achieve them because of the scale or effects of the proposed action (European Commission 2017c, p.26). Such clause confirms again that the decision-making power of the EC might be restricted by applying subsidiarity principle, which allows member states as well as other actors to employ their lobbying strategies Lukes.

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[120] See Article 5-1 of the Treaty on European Union.

[121] As pointed out in the interview, the representatives of small banks mostly take the defensive position, when the new regulation comes out. It is not only that these institutions are cautious that the new rules distract their business, but they are also concerned that the regulations are tailor-made for the big institutions. For this reason, the proportionality principle is used in the positions of interest representation (Interview ESBG I).

[122] See Article 3 of the Treaty on the Functioning of the European Union (TFEU).

The aim of the principle of proportionality is to ensure that “the policy approach and its intensity match the identified problem/objective” (European Commission 2017c, p.30). In other words, proportionality refers to “balancing the costs and benefits of regulation: if regulation is disproportionate in relation to its objectives, the cost-benefit calculation is likely to be worsened” (EBA 2015, p.15). While assessing the conformity of Commission’s initiatives and measures to the principle of proportionality, the staff of the Commission should reflect on such aspects as the scope of the initiative (Union vs member states competencies), the form of Union action (choice of instrument); unjustified financial or administrative costs induced by the initiation; scope for national decision; justification for the choice of instrument—regulation, (framework) directive, or alternative regulatory methods; and special circumstances in individual member states (European Commission 2017c, p.30).

Being affected by the considerable intensification of bank regulation since the financial crisis, the stakeholders of the financial industry take stock of how regulation has developed with a focus on the issues of proportionality and complexity (EBA 2015, p.12). In this way, the principle of proportionality is applied as a lobbying strategy by the financial industry interest groups (Interview ESBG III), which allows them to exercise their preference-shaping power by articulating their preferences and interests and brining in their ideas about new regulations. In 2015, the Banking Stakeholder Group (BSG)[123] of the European Banking Authority (EBA) published a report titled “Proportionality in Banking Regulation”, which appealed EU supervisors and policymakers to better apply this principle in order to find a balance between costs and benefits of EU financial regulation (EBA 2015).[124] In the report, the BSG recognized the need for a major reform and strengthening of the regulatory regime aimed to lower the probability of bank failures and minimize the social costs of the failures. However, it pointed out that the principle of proportionality had not been applied to the greatest extent, as far as some pieces of regulation had been more a political choice rather than an issue of proportionality. This demonstrates that the small financial groups can also be successful in shaping the agenda while

[123] The BSG is appointed by the Board of Bank Supervisors and consists of 30 members, who represent a range of stakeholders: credit and investment institutions, employees, consumers, users of financial services, academics and SMEs. The EBA consults the BSG on actions regarding regulatory technical standards and their implementation, and also consultation papers, guidelines and recommendations made by the EBA. Also, the group may make contributions to the EBA on any issue related to the work of the authority (EBA 2015, p.6). The third term of the BSG started on 18 April 2016. The BSG members have a two-and-a-half-year mandate (EBA 2017a, p.90).

[124] ESBG representative emphasizes that proportionality concept allows the small banks to phase out the transitional agreement or obtain more time to adapt an instrument, which has existed for many years (Interview ESBG III).

utilizing the right discursive strategies to communicate their ideas and preferences. For this reason, the BSG maintained that:

> in the interests of effective and efficient bank regulation, the Principle of Proportionality has to be recognised and applied at every step of the legislative and regulatory process so that existing and new legislation and regulations are applied to banks and financial institutions in a proportionate way. The overall administrative resources and cost of new regulation—such as supervisory costs and new IT systems—have a substantial impact on all banking institutions, and an even more severe impact depending on criteria such as the size and complexity of institutions and their business models. As a result, disproportionate regulation could inhibit small banks from providing finance to the real economy to support innovation and growth (EBA 2015, p.7).

To contribute to the matter of proportionality, the BSG conceptualized its dimensions as ‘five pillars of proportionality’ (objectives, the totality of regulation, excess complexity, differentiations, and materiality) and developed an analytical framework for analysing these pillars. The two latter pillars of differentiations and materiality reflect in particular the interests of the small financial institutions. For instance, a differentiation dimension connotes that the scope of regulation used for certain groups of banks should reflect their profile including business models, size, risk profiles and systemic significance. It is emphasized that as regulators have to deal with a wide heterogeneity of banks, there is a danger that instead of a differentiated approach they might choose a ‘one-size-fits-all’ approach. This, in its turn, might cause unintended consequences in form of heavy cots of regulation for small banks, which pose less risk to the financial system (ibid., pp.27–28). In this sense, the banks with a more complicated structure plead for a differentiated approach in regulation (Interview EAPB).

In line with the paper, the concept of materiality is framed as “the requirement that particular regulation should only be directed and applied to those institutions which are relevant to the issue being addressed by a proposed regulation” (ibid., p.29). Following such a definition, a regulation designed for systemically significant banking institutions should not unintentionally be applied to other institutions, which do not fall under the classification of systemically significant banks. Whilst differentiation is seen as an approach to design rules, which can be applied by the smaller, simpler and less systemically significant banks more easily, the concept of materiality is regarded as a special case of differentiation, with a possibility of rule waivers. A waiver is envisioned to be applied if an institution is only marginally exposed to the risks, which should be controlled by the rule. Overall, such a broader take on the principle of proportionality offers additional powerful guidance to improve the effectiveness of new regulations without leading to excess complexity (EBA 2015, pp.27–29).

5.2. Setting the Course for the Banking Union: Towards a Genuine Economic and Monetary Union

Crisis management steps did not come to a halt with coordination measures of safeguarding financial stability, bolstering confidence and protecting consumers in the financial sector across EU member states. Further objectives of the European System of Financial Supervision (ESFS) also aimed at establishing a common supervisory culture and promoting a single European financial market (European Parliament 2017a, p.1). For the EC, the supervision steps of setting the ESFS and European Systemic Risk Boar (ESRB) were not sufficient, thus the narrative of worsening of the crisis was used to push forward the agenda of a single financial market. Therefore, the outset of the banking union can be summarized in the following storyline:

> … but then the crisis got worse and worse and then they [policymakers] said pure coordination […] is not strong enough: we need something more specific in the euro area, where we have the same currency. […] They realized that basically, there was a lot of fragmentation along the national boarders, so everyone tried to protect their own assets and so on. And this […] does not work when you are within the system with the same currency (Interview FISMA).

Furthermore, FISMA representative confirmed that the idea for the banking union was developed by the Commission in comparatively very fast time from June till September 2012, after the heads of state and government agreed on the declaration. Thus, the EC had already elaborated a general approach for the project that was discussed at the Council meeting in December 2012. More precisely, the EC unveiled its goal to tap into the growth potential of the Economic and Monetary Union (EMU) in its communication: “Action for Stability, Growth and Jobs” on 30 May 2012 (European Commission 2012b). With this communication, the Commission started to articulate its inspiration towards deepening the EMU in the form of architecting a banking union.

> Showing our clear determination to go further, demonstrating the political commitment of member states to the euro will be part of restoring confidence in the euro area and our ability to overcome current difficulties. This will require a wide-ranging process that will take account of legal issues. It must include a political process to give democratic legitimacy and accountability to further integration moves. Mapping out the main building blocks could include, among other, moving towards a banking union including an integrated financial supervision and a single deposit guarantee scheme (European Commission 2012c, p.5).

In a week, on 6 June 2012, the EC published a proposal for a directive of the European Parliament and of the Council to establish a framework for recovery and resolution of credit institutions and investment firms (European Commission 2012e).[125] As the next step, the EU heads of state and government committed towards the first pillar of the banking union in the Euro Area Summit statement on 29 June 2012, which was seen as the key decision to break through. As noted by one of the interviewees, the EC was not the main player in this process. Apart from the member states, the big role had been played by the ECB and IMF as well (Interview Bruegel). However, a memo of EC dated on 22 June 2012, confirms that this concept was promoted by the former Commission President Jose Barroso at the informal European Council meeting on 23 May 2012. Since then, it became the key issue in political debates and the main priority of the Euro Area Summit agenda (European Commission 2012d, p.1).

The term banking union did not appear in the Euro Area Summit statement yet, though the declaration pledged "to break the vicious circle between banks and sovereigns". The member states of the eurozone requested the Council to examine urgently the Commission's proposal for a single supervisory mechanism by the end of 2012 (Council of the European Union 2012, p.1). As discussed by Pisani-Ferry et al. (2012), the concept of the European banking union was approved by European leaders as a part of the euro crisis management agenda (ibid., p.3). For the EC, it marked a starting point for a creation of the banking union, when the heads of state agreed on this new initiative that would lead to completing the EMU, and allowed to apply centrally the EU-wide rules for banks in the euro area (European Commission 2015f). A strong focus on completion of EMU while setting an agenda for the banking union characterizes institutional change through layering. For EC's officials the banking union seems to be an integral layer for strengthening the Single Market agenda and for improving existing rules within the financial regulatory domain. The EC's success in setting the course for the banking union in around six months depicts how the EC has been able to exercise its agenda-setting power in the EU decision-making process by using the crisis in its discursive strategy .By agreeing to the EC's agenda and ideas on EMU's future, the member states strengthened the Commission's position at the European plane. Alongside promulgating the goal to set up the single supervisory mechanism, the heads of state and government expressed their will to take action to cope with tensions in the financial market, restore confidence and bolster growth. For this reason,

[125] A proposed directive was built on the background of the Commission plan for the Union's framework for crisis management in the financial sector, G20-Leaders' recommendations for the Financial Stability Board (FSB), European Parliament's report on measures for cross-border crisis management in the banking sector, the Council's (ECOFIN) recommendations for a Union framework for crisis prevention, management and resolution, and on the Commissions' communication from the end of May 2012 (Council of the European Union 2010; European Commission 2010a, 2012b; European Parliament 2010; G20 2009).

the Council agreed on a programme "Compact for Growth and Jobs" to better handle the structural reform and targeted investment, which should bring Europe on the road of smart, sustainable and inclusive growth. Apart from this, Herman Van Rompuy, president of the European Council, delivered the report "Towards a Genuine Economic and Monetary Union",[126] which confirmed the Council's commitment to safeguard the EMU and create a solid foundation for its further development (European Council 2012, p.1).

In the report, the future of the EMU is envisioned to be built on "four essential building blocks"—(i) an integrated financial framework; (ii) an amalgamated budgetary framework, (iii) an inclusive economic policy framework, and (iv) strengthened democratic legitimacy and accountability. Thus, the president of the European Council, the president of the Commission, the president of the Eurogroup and the president of the ECB were welcomed to formulate "a specific and time-bound road map for the achievement of a genuine Economic and Monetary Union" (ibid., p.3). The primary goal of the road map was to offer detailed propositions on how to sustain the Single Market in financial services taking into an account the Euro Area Summit statement and Commission's aspiration to attain the green light for its proposals under Article 127. In his statement at the press conference following the European Council on 28–29 June 2012, José Manuel Durão Barroso, the former president of the EC commented on the agreement of the European Council in a very positive light:

> So, it is extremely important to understand what we have just agreed, because it was possible to agree on a single financial supervisory mechanism for the euro area. That will be a proposal of the Commission—we are proposing the ECB to take that responsibility. At the same time there will be a consideration for the whole European Union, the current 27 member states, the full respect of the integrity of the Single Market and in the conclusions of the European Council: 'The European Council welcomed the statement of the Euro Area Summit of 29 June 2012'. So, very good progress. It is not yet the end of road, but very important steps were taken today and yesterday (Barroso 2012, p.3).

Such important steps of that time envisioned the examinations of the treaties, further regularly consultations with the member states and the European parliament, an interim report, which was scheduled for October 2012, and a final report was expected by the end of the year [2012] (European Council 2012, p.3).

[126] In addition to the president of the European Council, the report has been prepared in cooperation with the presidents of the Commission, Eurogroup and ECB (European Council 2012).

On 12 September 2012, the EC launched its "Roadmap towards a Banking Union", spelling out its vision for a banking union and its role in the Single Market agenda and pushing for further incremental institutional change of single market institutional design:

> The Single Market for financial services is based on common rules which ensure that banks and other financial institutions which under the Treaty enjoy rights of free establishment and free provision of services are subject to equivalent rules and proper supervision across the EU. […] The Single Market and the banking union are thus mutually reinforcing processes. Work to strengthen the Single Market must continue across all existing areas covered by Commission proposals. Moreover, in three areas of specific relevance to the banking union, this work should be accelerated and agreement between the co-legislators on the relevant proposals reached before the end of 2012 (European Commission 2012c, p.4).

This exerpt from "The Roadmap towards a Banking Union" manifests repeatedly how strongly the Commission is exercising its agenda-setting and preference-shaping faces of power by prescribing strict deadlines for legislators, when the decisions should be made, and by clearly articulating the institutional design of the banking union and its relation within the Single Market agenda.

The political developments of that time were reflected in the policy papers of the most influential think tanks based in Brussels. The academics from the CEPS pleaded that a crisis of an individual bank could be prevented by the so-called 'fair weather' arrangements. This, in its turn, could be reached by creating a stable and well-functioning internal market in banking built on the pillars of EU-wide deposit insurance, crisis resolution procedures and supervision (Carmassi, Di Noia and Micossi 2012, p.1). In the Bruegel policy paper *What kind of European Banking Union?*, Pisani-Ferry et al. (2012) discussed extensively a possible design of the banking union and the steps to move forward to the new institutional design. They singled out seven key areas that needed to be addressed by the decision makers in setting up a new institutional design: countries and banks that would fall under the new regulation; institutions responsible for supervision and resolution; the scope of the deposit insurance system; type of fiscal backing; governance framework; and political institutions. All these discussions can be taken to conclude that the key actors as well as many academics believed that they should promote the completion of the European project in order to secure stability of the financial system.

Three banking union pillars—SSM, SRM and EDIS (see Figure 5.1)—reside on the so-called Single Rulebook (EBA 2017b; Interview FISMA). The framework has been developed to deliver a single set of harmonized prudential rules for the institutions within the EU financial sector. Interestingly, the term choice for the Single Rulebook, which was coined by the

European Council in 2009, resembles the aspiration of the Commission to finalize the Single Market in financial services. The framework is seen as a tool to foster a uniform application of Basel III regulations to remove loopholes in existing regulation and to foster a better operation of the Single Market. The main argument for the creation of the single European banking rules is based on the position of EU regulators that the previous directives gave a room for *manouvre* and interpretation for national actors, which in their view caused significant divergences, distorted competition, and hindered the firms to conduct their business across the Single Market (EBA 2017b). Thus, the European officials proposed to use a Single Rulebook as the tool, which in their words can overcome these deficiencies and lay the foundations for "a more resilient, more transparent, and more efficient European banking sector" (Liikanen et al. 2012, p.71). Such a turning point to a more centralized approach in the European financial regulation leads to limiting the preference-shaping power of national actors, as far as the new rules leave them less room for interpretation and therefore minimal possibilities to articulate their interests and preferences.

Figure 5.1 Key elements of the banking union

Source: European Commission (2012a).

The key parts of this body of rules and regulations are composed of comprehensive compendium of Level 1[127] text including:

- the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV);[128]

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[127] See Chapter One—The Lamfalussy Process.

[128] As far the EC represents the European Union at the G20, the FSB, is committed to implement the principles agreed at the international level, e.g., the Basel requirements or International Organization of Securities Commissions (IOSCO) requirements for security market (Interview FISMA). Germane to the CRD IV package are the international standards for the banking sector, namely, Basel III: a global regulatory framework for more resilient banks and banking systems (BSBS 2011). In this sense, the European framework for capital requirements is the

- Bank Recovery and Resolution Directive (BRRD);
- Deposit Guarantee Schemes Directive (DGSD);
- corresponding technical standards developed by the European Banking Authority (EBA) and adopted by the EC(i.e., regulatory technical standards (RTS) and implementing technical standards (ITS);
- the EBA guidelines and recommendations (European Commission 2012c).

A vow to a complete Single Market in financial services has been a substantial part of Commission's politics in the financial crisis management. Such a commitment can be reflected by Commissions' design for an above-mentioned new institutional setting—a banking union, and an endeavour for a new substance-based reform of a Single Market, a Capital Markets Union (CMU).[129] Wolfgang Schäuble, the former German Federal Minister of Finance, presented the banking union as "the most impressive architectural change" in Europe, which can complete the creation of a Single Market for financial services by restoring its coherence and homogeneity and become 'a key to recovery' out of eurozone crisis by setting two elements: "a supranational supervisor for the region's largest banks, and unified rules and efficient mechanisms governing the resolution of troubled financial institutions" (Schäuble 2013). Thus, the project is seen as the future vehicle to deal with the crisis:

> The banking union is thus on course to becoming a pillar of the EU. Ideally, it should prevent or at least considerably mitigate the impact of future banking crises not just for the next few years but for decades to come. However, it emphatically is not and cannot be a mechanism to redistribute the burden of yesterday's crisis among its participants. Whatever legacy issues come to light now will have to be tackled nationally (ibid.).

This statement confirms that the European idea for completion of the Single Market by setting the first two pillars of the banking union won the support of the German government. However, when the EC was successful in setting an agenda for a centralized approach in the financial regulation, the German ministry used its preference-shaping power in articulating their vision on how these pillars should be designed.

Resuming her third term as a German Chancellor, Angela Merkel addressed the *Bundestag* with her speech on EU reform ahead of a two-day EU summit on 19/20 December 2013 in Brussels. Apart from calling for reforms of the EU Treaties, she pointed out that Germany

translation and implementation of the international standards of Basel III, which, as seen by banking industry representatives, creates additional complexity in regulation (Interviews EAPS, ESBG I, II).

[129] On 30 September 2015, the EC launched the Capital markets union (CMU) Action Plan with the aim to create a true Single Market for capital across the member states of the EU. This initiative reflected the goals of the Juncker Commission to increase job, growth and investment rates across the EU. Thus, the CMU was founded in order to expand and diversify the funding sources for long-term financing of companies and projects (European Commission 2015c). See the discussion on the CMU in the last subchapter.

supported an intelligent regulation of the financial markets, in particular in the banking sector. In addition to the establishment of SSM, Mrs Merkel encouraged the creation of the single resolution mechanism for winding up banks, which was negotiated by the finance ministers in Brussels (Merkel 2013). The chancellor's decisions was criticized by the Left party, whose representative, Sahra Wagenknecht, called for more banking regulation and not a banking union (*Bundestag* 2013).

The banking union is often discussed as whole; however, it is composed of three distinct pillars (Interview FISMA). For this reason, in the following subchapters, I will elucidate on the storyline of the banking union: the process of establishing the SSM and SRM. The discussion on the third pillar of the banking union is presented in the next chapter.

5.3. Single Supervisory Mechanism

The "Roadmap towards a Banking Union" offered concrete legislative proposals to the European Parliament and the Council (European Commission 2012c). The first legislative proposal delivered a framework for a single supervisory mechanism built on the idea of transferring "specific, key supervisory tasks for banks in the euro area member states" from the national to the European level (European Commission 2012c, p.7). The second proposal dealt with the revision of the EBA regulation on this subject (ibid., p.4). Ultimately, the new institutional reform was envisioned to restore financial stability within the euro area.[130] The new system of banking supervision anticipated that the ECB would be granted with the responsibilities for this mechanism including national supervisory authorities under the ECB oversight. This proposal marked the drastic change in the power distribution between the supranational and national level, i.e., the first face of power—the decision-making in banking supervision.[131] Even though the proposal promised to "make use of the local and specific know-how of national supervisors" and to "remain aware of all national and local conditions relevant for financial stability", the new approach cut the power of national supervisors (ibid., p.7).

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[130] For the member states, which are not part of the euro area, the Commission offered an additional mechanism in case there was a will to be part of the single supervisory mechanism (European Commission 2012c, p.7).

[131] A representative of CEPS emphasized that the crisis of the Spanish savings banks sector had been the catalyst for the banking union and a shift from national to supranational supervisory practices. He anticipated this shift as 'a big step forward' in the supervision of 19 eurozone countries (Interview CEPS). A representative of ESBG pointed out that an unstable situation in Greece, Spain and France and a fear for the future prospects of the euro created a favourable climate to pursue with the banking union project. She confirmed that the direction for further harmonization was favoured by the big banks, in particular, French and Spanish (Interview ESBG III).

The transfer of power from the national level to the ECB brought discussions on two roles of the ECB—as a guardian of monetary policy and as a supervisor. Without a question from the Commissions' point of view, the ECB is a better supervisor in comparison to the national supervisors. To a certain degree, the ECB fulfils Commissions' objective to provide a centralized European supervision, as far as the ECB is entitled to take decisions across the eurozone. As stated by the Commission, national supervisors, even in case they managed their tasks appropriately, were perceived negatively because of different approaches and an unlevel playing field. With regard to the banking sector, the Commission characterized it as "very interrelated, very integrated and as globally acting" (Interview FISMA). In this sense, in the language of the Commission, the banking sector did not fit with the "little national supervisors", who were only engaged in the supervision at the national level (ibid.). Such a language of EC illustrates the discursive strategy of this institution in setting an agenda and shaping preferences for financial regulation. A repeated use of this language leads to an articulatory practice, which forms the social relations in the financial regulatory domain (Laclau and Mouffe 1985).In this way, the supranational experts and bureaucrats questioned the role of national supervisory authorities blaming them for delivering improper supervision. The European supervisors, equipped with political commitment, promised a different way of monitoring big banks, who faced the crisis. This new mode of supervision empowered the supranational institutions and promised better results for the whole stability of the financial system. Thus, the national supervisory authorities lost their decision-making power and supervisory tasks. In the Commission's perception, the financial industry and most of the member states were quite in favour of the first pillar of the banking union despite caution and critique at the outset of the single supervisory mechanism (Interview FISMA).

As discussed in subchapter 3.4.2, epistemic communities play a significant role in knowledge construction and shaping the social reality by delivering their interpretations, meanings and ideas and by disseminating them to the public (Adler 1997, pp.343–344). CEPS and Bruegel, two leading think tanks based in Brussels, belong to the epistemic community that permanently offer their ideas and interpretations of European political system and power relations. With regard to the development on the Single Market, they also contribute to how the European project and the architecture of financial regulation are perceived by other actors.

In his CEPS essay, Ruding (2012) discussed three most detrimental and disputable decisions on European bank supervision: the scope of the supervision in terms of banks, with the EU and allocation of the supervisory role to a certain institution. The first point of controversy tackled the question of whether the new supervisory institution should supervise 'all' banks under the banking union or should it be targeted at the oversight of large cross-border or 'systemic' banks (Ruding 2012, p.2). With regard to my case study of German savings banks, it is interesting to trace back how the single supervisory mechanism was envisaged for different banking groups across the euro area:

> Under the single supervisory mechanism, the ECB will become responsible for supervising all banks within the banking union, to which it will apply the single rulebook applicable across the Single Market. Recent experience has shown that difficulties, even in relatively small banks, can have significant negative impacts on the financial stability of member states. Therefore, from the first day, the ECB will be empowered to take over the supervision of any bank in the euro area if it so decides, in particular if the bank is receiving public support. For all other banks, ECB supervision will be phased in automatically: on 1 July 2013 for the most significant European systemically important banks, and on 1 January 2014 for all other banks. Therefore, by 1 January 2014 all banks in the euro area will come under European supervision (European Commission 2012c, p.7).

An objection to the all-encompassing option had been mainly articulated by Germany preferring a different mode of supervision, which would allow the national supervision of its network of local and regional banks. In this way, German government as well as small banks were using their preference-shaping power in order to influence the institutional design and regulation framework of the first pillar of the banking union. Furthermore, the criticism for an all-embracing supervisor was dictated by the impossibility to handle completely the supervision of all banks in the euro area, as far as the personnel of a single supervisor would lack local expertise in a range of different countries. However, in this debate, Ruding (2012) favoured the EC's proposal for a European supervision to all banks including big and small (ibid., pp.2–3). Similarly, Pisani-Ferry et al. (2012) advocated broad coverage and a 'complete' banking union enclosing the whole banking sector. To support their argument, they distinguished between centralization of authority and operational centralization. The latter would allow the European supervisor to delegate supervisory operations to national or sub-national entities. The all-encompassing supervision, they argued, could have been only reached by a political consensus (ibid., p.11).

Such a proposal for an all-inclusive oversight for the banking sector was not possible to reach due to the opposition from small banks. Still, as articulated by the interviewee, due to the strong political will, it was not possible for the cooperative and savings banks to avoid the new regulations (Interview DSGV Brussels).[132] The savings banks had only won the concession that they are classified as less significant institutions (LSI)[133] to be supervised by the Federal Financial Supervisory Authority (BaFin) and the *Bundesbank*, and not directly by the ECB (*Deutsche Bundesbank* 2016b, p.51).[134] In this respect, this concession was seen as "the great success" of the savings and cooperative banks and the Permanent Representation of Germans in the EU, whereby some actors managed to reach a threshold of 30 billion euros as a balance sheet total for small financial institutions (Interview DSGV Brussels).

While the non-significant banks are supervised by the national competent authorities, the significant banks are under direct supervision of the ECB[135] (see Fig. 5.2). The ECB supervisory teams, who undertake their supervisory tasks, consist of the ECB staff and representatives of the national supervisory authorities (Interviews FISMA, ESBG I; Deutsche Bundesbank 2014). As of 1 January 2017, three savings banks were listed as significant supervised entities falling under ECB supervision[136]—the Hamburger Sparkasse AG and the Sparkasse Mittelholstein AG, which belong to HASPA Finanzholding and the Frankfurter Sparkasse, a subsidiary of Landesbank Hessen-Thüringen Girozentrale (ECB 2017b, see also Appendix II). Such distribution of supervisory tasks between the ECB and the national supervisory authorities also demonstrates a strong change of power relations within the financial regulation. The supervisory role of BaFin and the Bundesbank had been reduced to being a small supervisor for small banks. This reflects the first face of power by Lukes—decision-making; these two German institutions once powerful lost their 'domination' and 'power over' the significant financial institutions, whereas the ECB gained this power over significant financial institutions within

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[132] The representative of EAPB, too, emphasized that the creation of banking union has been a highly political process. Therefore, some development banks have not been able to reach exemption from new regulatory measures (Interview EAPB).

[133] The ECB developed two categories of banks in Europe: significant institutions and less significant institutions (LSIs). "A less significant institution (LSI) is any bank that is supervised by national competent authorities (NCAs)" (Deutsche Bundesbank 2016a). However, the ECB can intervene in the supervision process any time and rank the financial institution as too risky. One of my interview partners believes that savings banks will be under the framework of ECB supervision in the future (Interview ESBG III).

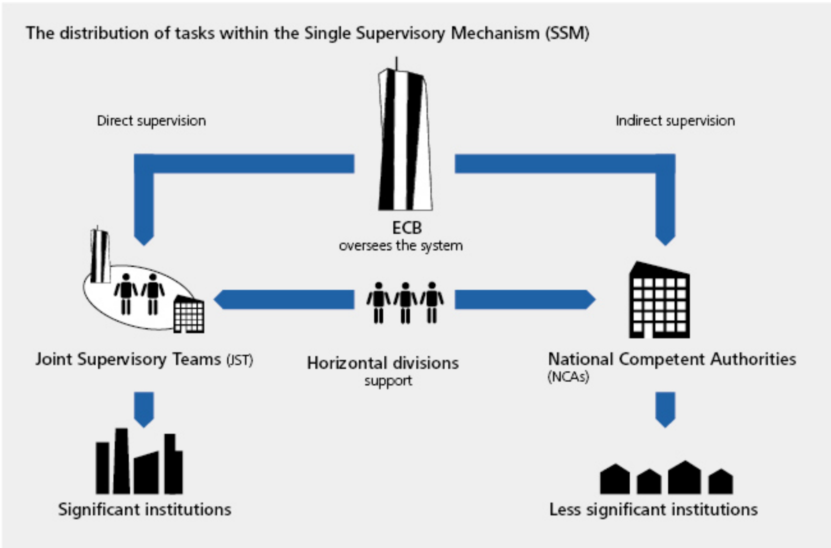
[134] For some EU actors, even such a concession to be supervised by the national authorities is perceived critically (Interview Bruegel).

[135] For this reason, many representatives of big banks opened their offices in Frankfurt to be able to conduct their lobbying activities on spot (Interview Finance Watch II).

[136] With a shift from national to supranational supervision, significant banks have to adapt to a communication with a European supervisor located in Frankfurt (Interview CEPS). Moreover, European interest representatives experience the difference of lobbying the ECB located in Frankfurt and the other European institutions in Brussels (Interview ESBG III). In this sense, the German banking sector has an advantage due to such geographical proximity.

the whole eurozone. This had also strengthened ECB's role in the decision-making process at the European level.

Figure 5.2 The distribution of tasks within the Single Supervisory Mechanism (SSM)



Source: Deutsche Bundesbank (2014).

Exploring the ways in which the creation of banking union was framed and justified and the discursive strategies used by different actors, my attention was addressed to the question whether this new project would force some European banks to change their business model. On the one side, the Commission postulated that the variety of all the business models, be it cooperative, private or public, should be preserved. This should allow the banks, their subsidiaries and branches to function according to their ownership and organizational structure (Interview FISMA). On the other side, the endeavour to create a new institutional setting was perceived with caution by the banking industry, particularly by the banks with a different organizational form as in comparison to the majority of the sector.

Another stumbling stone in the debates on the European supervision touched the question of which member states are to be covered by the umbrella of banking union (Pisani-Ferry et al. 2012; Ruding 2012). Under the proposal to set up a banking supervision for the eurozone countries with an option for the other 10 non-euro EU members to join or not, there had been concerns that some countries could opt out and endanger the whole proposal for the banking union. Also, non-participation in the banking union envisaged occurrence of legal and political complications with regard to voting power and the influence of non-euro countries (Ruding 2012, p.4). As long as non-euro area EU member states cannot be part of the Governing Council of the ECB, there is a limited incentive to join the mechanism (Detzer and Herr 2014, p.159). The banking union for the EU27, on the other side, was perceived as a project that could safeguard financial integration within the European Single Market and avoid the cases, when the national prudential authorities could limit cross-border activities of foreign banks (Pisani-Ferry et al. 2012, p.7). The final 'SSM Regulation'[137] defined 'participating member state' as one with the euro currency or without the euro but which cooperates closely with the ECB according to the regulation (Council of the European Union 2013, Article 2-1, Article 7).

Moreover, the separation of monetary and supervisory tasks with the ECB became a controversial point in discussions on the SSM under the ECB (Interview ASBA). Epstein and Rhodes (2016b) pointed out that the impetus to establish a special supervisory board to separate ECB's monetary policy task from bank supervision was driven by Germany worrying about the independence of the ECB (ibid., p.424). The German government was worried that the ECB, which had already had a strong say in decision-making in the monetary policy of the eurozone states, would become more powerful due to the shift of a decision-making in banking supervision from the national level to the European level. Angela Merkel was under pressure from the Bundesbank on the ECB's supervisory role in the banking union (Fox 2012). The interviewee from the Finance Watch recalled the negotiations on the SSM as follows:

> There was the whole battle about the article. The Commission proposed an article on Treaty to build the banking union—the SSM, and Germany was questioning this article. They were questioning the Treaty base for this, for the establishment. There was a lot of, I remember, legal opinions that were flying back and forth between Council, between member states, between Commission proving that the Treaty base is actually the right Treaty base to do. So, you already see, that from the Commission, from the political point of view, the banking union is necessary for the completion of the EMU (Interview Finance Watch II).

This demonstrates how the German state and small banking groups were exercising their preference-shaping power. These actors used the legal base of the EU's treaty as their discursive strategy to argue against the establishment of the SSM in a way proposed by the Commission. For the latter, it had been one of the biggest issues in the discussion round on "how to separate monetary function from the supervisory function" along this institution-building process (Interview FISMA). Despite criticisms, the Commission evaluated the development of supervisory task under the ECB positively:

> I think we have achieved the best result we could achieve under the given Treaty, because the Treaty foresees that the Governing Council is the decision-making body in the ECB.

[137] The Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions.

> So, this we couldn't change, because there we need a Treaty change. And so, what we have are the Chinese walls, as much as possible. They [SSM officers] have to have their own stuff, their own organization, their own diaries and their own meetings. They have their own Board of Supervisors, where they prepare the decisions. And then, we have this reverse mechanism with the Governing Council, where they basically have 10 days to object, but if they don't object, then the decision by the Supervisory Board is adopted. But we couldn't neglect the Governing Council, it was simply legally not possible. And there, I mean, we are currently undertaking a review of the SSM, but it is one year in action and it is, maybe, also early days to already say, whether this works or doesn't work at all. I mean, of course it is not absolutely ideal, but this was the situation, which we had (Interview FISMA).

The Article 25 "Separation from monetary policy function" of the "SSM Regulation" clearly defines how the ECB should ensure separation between monetary policy and supervisory tasks:

> The ECB shall carry out the tasks conferred on it by this Regulation without prejudice to and separately from its tasks relating to monetary policy and any other tasks. The tasks conferred on the ECB by this Regulation shall neither interfere with, nor be determined by, its tasks relating to monetary policy. The tasks conferred on the ECB by this Regulation shall moreover not interfere with its tasks in relation to the ESRB or any other tasks. The ECB shall report to the European Parliament and to the Council as to how it has complied with this provision. The tasks conferred by this Regulation on the ECB shall not alter the ongoing monitoring of the solvency of its monetary policy counterparties.
>
> The staff involved in carrying out the tasks conferred on the ECB by this Regulation shall be organizationally separated from, and subject to, separate reporting lines from the staff involved in carrying out other tasks conferred on the ECB (Council of the European Union 2013, Article 25-2).

To comply with the requirements of the Council of the European Union, the ECB adopted the decision on the implementation of separation between the monetary policy and supervisory functions of the ECB.[138] In this decision, the ECB also adopted that the functioning of the Governing Council should be completely differentiated concerning its monetary and supervisory duties, including strict separation of meetings and agendas (ECB 2014b, pp.4–5). Discussing this issue, Verón (2015) emphasizes that the balance between the supervisory and monetary policy functions of the ECB will emerge gradually (ibid., p.47).

Detzer and Herr (2014) present a German perspective on the banking union, mainly reflecting on the debates, but also concerns and positions of the Bundesbank, the Council of Economic Experts, the Ministry of Finance, and various banking groups on the establishment of the SSM and SRM. Regarding the SSM framework, the main concern of most actors was its legal validity based on Article 127, as far as only specific tasks can be conferred to the ECB. Similarly

[138] Decision of the ECB of 17 September 2014 on the implementation of separation between the monetary policy and supervision functions of the European Central Bank (ECB/2014/39).

concerns about ECB's institutional framework in discussions at the European level, most commentators in Germany criticized the granting of banking supervision to the Governing Council of ECB (Detzer and Herr 2014, pp.158–159). Discussing the institutional provisions for the SSM, Deutsche Bundesbank (2013) pointed out that by integrating supervisory powers to the central bank, the latter might be inclined to provide liquidity in case the supervised bank faces difficulties. For the officials of the Deutsche Bundesbank, such an action would be in conflict with the price stability objective. For this reason, as mentioned above by the representative from FISMA, the metaphor of Chinese walls had been constantly used by the Commission as a discursive strategy to demonstrate that the ECB staff responsible for supervisory tasks cannot fulfil monetary policy functions and should be organized separately (Deutsche Bundesbank 2013, p.21). This articulatory practice with an emphasis on the 'Chinese walls' had been also used by other actors supporting such an institutional design of the first pillar of the banking union (Interview EBF). To solve the above-mentioned issues, there were proposals to reconsider the institutional structure of the ECB by granting a decision-making power to the Supervisory Board, or even by setting a separate entity outside of the ECB structure (Detzer and Herr 2014, p.159).

Not surprisingly, one of the more debatable issues in Germany was the question of what type of banks should fall under the supervision of the ECB and what under the oversight of national supervisors. Epstein and Rhodes (2014) emphasize that Germany could not shape or restrict the banking union agenda considerably because of its own internal divisions. In general, one can single out two camps that articulated their interests and preferences through distinct discursive strategies on the SSM. In the discussions, one group advocated an all-encompassing direct ECB supervision, which could secure the creation of uniform supervisory standards, prevent regulatory arbitrage and lead to a level-playing field. Such a course for further Europeanization of supervision was advocated by the association of private bank, the association of foreign banks and the Council of Economic Experts.[139] The other group, which included savings and cooperative banks, preferred a direct supervision for systemically relevant institutions and the supervision from the national authorities for less relevant institutions. This camp emphasized on the better knowledge of the specifics of the national banking systems by the

[139] The banking union idea with the European supervision also found its support with the French banks, which wanted to get rid of tough national supervisors (Interview ESBG I). Overall, as discussed by Epstein and Rhodes (2014), the large banks being engaged in cross-border operations favour centralized European regulation and supervision.

national supervisors that can better fit the oversight of local smaller banks.[140]

The Bundesbank also supported the latter camp, though it considered the threshold of 30 billion euros for the less-significant institutions as too low. The threshold that Germany and its allies requested was around 50 billion euros (Epstein and Rhodes 2014, p.18). The Ministry of Finance stayed along the argument for the national supervision of these institutions. For the German savings, cooperative and public banks, the European supervision was not seen as appropriate to small, locally active and systemically inconsequential banks. These banks pleaded for a higher threshold (50–70 billion euros) and argued that the supervisory requirements developed for a large, systemically relevant bank might overburden a small bank. Furthermore, they claimed that "an undifferentiated supervisory regime may endanger the heterogeneity and diversity of the European banking systems" (Detzer and Herr 2014, pp.160–161).

To argue further in favour of the banking union, it can be observed that it would counter fragmentation in the banking sector along national lines. The representative of the EC highlighted that national supervisors protected their jurisdiction leading to more fragmentation in the industry. Thus, the Commission presented the Single Rulebook as 'the bridging element' to deal with the fragmentation between eurozone and non-eurozone countries, which need to apply the same rules. From the Commission's point of view, such a regulatory setting was then considered as one of the major factors for the future convergence and a level-playing field. Even though the Commission representative admitted that there were plenty of different players who interpreted the rules in various manners, the Commission had strived for less unlevel playing field between the ins and outs and invited the non-eurozone countries to join the banking union (Interview FISMA).

This argumentation line had been embraced and reproduced in a wistful manner by the official narrative (Juncker 2014; Juncker et al. 2015). It had also been promoted in the position papers of policymakers (European Commission 2015f; 2016a) and lobbyists (EBF 2015), who pick up such a discursive strategy of the Commission and contribute to strengthening of Commission's agenda-setting and preference-shaping powers. Furthermore, the narrative had been

[140] The DGSV representative highlighted that the association had not been lobbying against the banking union or common supervisory mechanism. However, they pleaded for its imposition for the large cross-border financial institutions (DSGV Berlin). The ESBG representative pointed out that savings banks had to be part of the game in order to be able to influence the policymaking process (Interview ESBG III). The representative of UEAPME confirmed that savings banks were fighting to keep at least the national oversight because of the fear to be squeezed by the big commercial banks (Interview UEPME). The straight-forward position for proportionality found an agreement at the ESBG (Interview ESBG I, III).

reproduced in the workings papers and in the discussions by the scientists and among their epistemic communities (Gros 2015; Pisani-Ferry et al. 2012). On the contrary, the representatives of DSGV had seen this promulgated idea of fragmentation critically and argued that it was a false statement, as far as the banking system dominated my large banks did not secure stability of financial system (Interview DSGV Brussels).

On October 2014, the ECB published its "Aggregate Report on the Comprehensive Assessment", which was marked as "a major milestone towards the operational start of the Single Supervisory Mechanism (SSM)" (ECB 2014a, p.1). This comprehensive assessment was a large-scale exercise aimed to lay down the foundation for enacting banking supervision by the ECB in November 2014. Thus, the rationale for the assessment was to deliver an evaluation of banks' balance sheets and their solvency before the SSM assumed its supervisory responsibilities and duties. Moreover, the exercise sought to promote banks' provision of credit to the European economy by securing solvency measures if needed (ibid., p.13). Finance Watch representative positively evaluated this tool, as far as it allowed to assess and better understand the state of the banking sector. The SSM was seen as an improvement in comparison to the supervision of the banking sector at the national level (Interview Finance Watch II).

The comprehensive assessment included two parts: the asset quality review (AQR) and the stress test. Run by the ECB and national competent authorities (NCAs), the AQR aimed to evaluate the accuracy of the carrying value of banks' assets as of 31 December 2013. The Capital Requirements Regulation and Directive (CRR/CRD IV) were used as the foundation for the review; thus, the banks were obliged to have a minimum Common Equity Tier 1 (CET1) ration of 8 per cent. The second component was designed to test the resilience of banks' solvency based on two hypothetical scenarios[141] and information derived from the AQR. The stress test was run by participating banks, the ECB, the NCAs, together with the EBA, which developed the methodology in cooperation with the ECB and the European Systemic Risk Board (ESRB).

Since 2014, the Supervisory Review and Evaluation Process (SREP) had been used to embed the outcomes of the comprehensive assessment (ibid., p.16). The SREP had been established

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141 In the first baseline scenario, the banks were requested to keep a minimum CET1 ratio of 8 per cent and in the second adverse scenario, a minimum CET1 ratio was lowered to 5.5 per cent. Carrying out this exercise, the ECB emphasized its level-playing field approach between the banks (ECB 2014a, pp.2–3). As an outcome, the ECB identified the need for aggregate adjustments of €48 billion to participating banks' asset and capital shortfalls for 25 banks with an amount of €25 billion. Overall, the assessment included 130 banks with total assets of €22.0 trillion covering 81.6 per cent of the total banking assets in the SSM (ibid., p.2).

as the core activity of supervisors to assess and measure the risks for each bank. The supervisors examined the standing of the banks in regard to the capital requirements and risk management and requested the banks to apply certain measures if needed. Similar to the comprehensive assessment, a level-playing field was guaranteed, which means the same yardstick was used to supervise all banks. To conduct a comprehensive health check of a bank, the Joint Supervisory Teams, supervisors from the ECB and the national supervisors scrutinized a bank's risk profile focusing on four aspects: business model, governance and risks management, risk to capital, and risk to liquidity and capital. The first SREP decisions, which still followed the national approached, were published at the beginning of 2015 and added to the results of the comprehensive assessment. The next SREP decisions were grounded on the common approach for the euro area with the motive to bring forward a level-playing field in the European banking landscape (European Commission 2014b).

The European Commission has been successful in exercising its agenda-setting and preference-shaping powers. By following its discursive strategies, which crystalized into articulatory practices within the financial regulatory domain, it was able to broaden its decision-making power at the European level. The European system of banking supervision was established by shifting the major supervisory tasks to the ECB and by leaving the national supervisory authorities with a minor task of supervising the less-significant institutions. With this major step, the European officials has managed to design the first pillar of the EU banking union and move forward to architecting its second pillar—the SRM.

5.4. Single Resolution Mechanism

Discussing the outline of the banking union, Castañeda, Mayes and Wood (2016) anticipate the banking union as a label used to a set of three key measures by the EU with regard to the global financial crisis and new banking regulation within the international framework (G20/Financial Stability Board, Basel Committee for Banking Supervision). These three main actions are: (i) increased harmonization and the implementation of the Basel III rules for capital adequacy, (ii) establishment of the SSM and (iii) formation of a regime for resolving all the banks in trouble at a minimum cost and without a taxpayer-financed bail out, notwithstanding their complexity and degree of difficulty. Such a regime is based on the Bank Recovery and Resolution Directive (BRRD) and on the SRM (Castañeda, Mayes and Wood 2016, pp.2–3).

The proposals for the new resolution regime were addressed at the global level by the Financial Stability Board (FSB) (Deutsche Bank 2014). In October 2011, the FSB outlined the Key

Attributes of Effective Resolution Regimes (KA), which were supported by the G20. In 2012, the heads of state or government delivered a statement with the aim to strengthen the EMU by establishing the banking union with its three pillars (Deutsche Bank 2014, pp.32–33). The issue was also negotiated in the European Council meeting on 19/20 December 2013. In its conclusions, the European Council welcomed the agreement on the DGS, BRRD, and the general approach and agreements negotiated on the SRM. The latter mechanism was seen as "a crucial step towards the completion of the Banking Union" (European Council 2013, p.16).

The BRRD[142] of May 2014 put in place a new regime, which laid down the rules and procedures with regard to the recovery and resolution of the financial institutions of all member states of the EU (Castañeda, Mayes and Wood 2016; Council of the European Union 2014b). Also, the other complimentary pieces of EU harmonizing legislations such as the Capital Requirements Regulation (CRR) and fourth Capital Requirements Directive (CRD IV) of June 2013 and the Deposit Guarantee Scheme Directive (DGSD) of April 2014, established a harmonized resolution regime for banks of all the member states of the EU including national resolution authorities and national resolution funds (Verón 2015, p.10). These legal acts are based on Article 114 of the Treaty on the Functioning of the European Union (TFEU).

By establishing the new resolution tools in the BRRD, the policymakers defined a set of objectives, which shall guide the resolution authorities while applying the resolution tools and exercising the resolution powers. The resolution mechanism is primarily targeted at (i) securing the interrupted functioning of financial institution; (ii) warding off an adverse effect on the financial system by avoiding contagion, and by preserving market discipline; (iii) safeguarding public funds by reducing dependence on the public financial support; (iv) protecting depositors and investors; and (v) securing clients funds and assets. Furthermore, the resolution authority shall aim for cost minimization and avert the destruction of the financial system (Council of the European Union 2014b, Article 31).

According to the Directive, "each member state shall designate one or, exceptionally, more resolution authorities that are empowered to apply the resolution tools and exercise the resolution powers" (ibid., Article 3-1). Along this line, the member states are obliged to settle one or

[142] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and the Council.

more financial arrangements for the effective implementation of the resolution tools and powers by resolution authorities (Council of the European Union 2014b, Article 100-1). By 31 December 2024, they shall guarantee that financial resources for the financial arrangements amount at least 1 per cent of the covered deposits of all financial institutions within their territory. In addition, the member states may introduce higher target levels (ibid., Article 102-1. From 1 January 2015, the BRR Directive was implemented into national laws and regulations (Council of the European Union 2014a, p.9).

The next step towards the regime of resolving banks in financial difficulties was the SRM Regulation of July 2014,[143] which also used Article 114 of the TFEU as its foundation. As indicated in the extended title of the legislation, the regulation's aim is to establish uniform rules and procedure for the resolution of credit institutions and certain investment firms in the framework of a SRM and a Single Resolution Fund (SRF). The latter is also seen as the key financial element of the banking union (Gros and Belke 2015, p.47). The SRM Regulation sets the legal framework for the Single Resolution Board (SRB) as "a Union agency with a specific structure corresponding to its tasks", which shall be led by the Chair (Council of the European Union 2014d, Article 42/1/ 2). The SRM Regulation outlines a set of resolution tools, which the resolution authority has at its disposal—the sale of business tool, the bridge institution tool, the asset separation tool and the bail-in tool.[144] Lindo and Hanula-Bobbitt (2013) point out that the aim of the first three tools is to allocate the deposits to a safe entity, to a certain form of a 'good bank', whereas the aim of bail-in tool kit is to remove the losses from taxpayers and allocate them to creditors.

Furthermore, the SRM Regulation defined that the SRM shall be supported by the SRF (Council of the European Union 2014d, Article 1). The details of financing arrangements of the Fund were signed in the Agreement on the Transfer and Mutualization of Contributions to the Single Resolution Fund (SRF Intergovernmental Agreement or IGA) on 21 May 2014

[143] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a SRM and a SRF and amending Regulation (EU) No 1093/2010.

[144] According to the regulation, "the sale of business tool" denotes "the mechanism for effecting a transfer by a resolution authority of instruments of ownership issued by an institution under resolution, or assets, rights or liabilities of an institution under resolution, to a purchaser that is not a bridge institution". If a transfer is done to a bridge institution, the tool is called a "bridge institution tool"; if to an asset management vehicle—"asset separation tool". "Bail-in tool" implies "the mechanism for effecting the exercise of the write-down and conversion powers in relation to liabilities of an institution under resolution" (Council of the European Union 2014d, Article 3).

(Castañeda, Mayes and Wood 2016; European Parliament and Council of the European Union 2014; Verón 2015, p.10). As of 1 January 2016, the SRM entered into force as foreseen; thus, the provisions for the establishment of the SRF became applicable under the SRM Regulation (Council of the European Union 2014a, p.9).

The SRM Regulation follows the identical resolution objectives as outlined in the BRRD. The only difference is the definition of resolution authorities, which are responsible for the future resolution procedures. In the framework of BRRD, the resolution authority in each country are the responsible legal bodies. Within the SRM framework, the Board, the Council, the Commission, and, when relevant, the national resolution authorities, are obliged to consider the resolutions objectives. These various actors are empowered to apply the resolution tools in accordance to their duties (Council of the European Union 2014d, Article 14). As outlined in the SRF Intergovernmental Agreement, both the BRR Directive and the SRM Regulation formulate the general criteria to regulate the fixing and calculation of *ex ante* and *ex post* contributions of corresponding institutions to provide financial resources to the Fund, and oblige the member states to levy the contributions at the national level (Council of the European Union 2014a, p.7).

As outlined by the SRB, the SRF or the 'The Fund' is a key element of the SRM, which is responsible for resolution of credit institutions and certain investment companies within 19 countries of the eurozone. In 2017, the Fund enclosed 3,512 institutions under its scope; the amount of *ex-ante* contributions collected at the end of June 2017 reached €6.6 billion (SRB 2017a). The main function of the Fund is "to establish a uniform administrative practice in the financing of resolution within the SRM and ensure that resolution decisions are taken effectively and quickly enhancing the financial stability in the banking union" (SRB 2016a, p.2). By signing the SRM International Agreement, the member states under the SRM are required to transfer the *ex-ante* contributions collected at the national level to the SRF according to the BRR Directive and SRM regulation (Council of the European Union 2014a, Article 1, p.19). The SRM Regulation defines that the *ex-ante* contributions are the individual contributions of each institution and some investment firms of the eurozone (SRB 2016a, p.3).

After consulting the ECB or the national competent authority and in cooperation with the national resolution authorities (NRAs), the SRB is responsible for calculation of the individual *ex-ante* contributions on an annual basis.[145] It is also in charge of giving guidance to the NRAs (SRB 2016a, p.5). Besides, the SRB shall secure that the contribution do not exceed the target level of 12.5 percent (Council of the European Union 2014d, Article 70). Furthermore, after consulting the NRA or upon proposal by a national resolution authority, the SRB can, on its own initiative, defer an institution's payment of extraordinary *ex-post* contributions, in case the available financial means are not enough to bear the cost of losses or other expenses caused by applying the Fund for resolution measures (Council of the European Union 2014d, Article 71). The NRAs fulfil an intermediary role between the Fund and financial institution: they are responsible for the collection of contributions from the institutions and for transferring them to the Fund; besides, they are the primary contact point for institutions regarding any concerns and questions (SRB 2016a, pp.3–5).

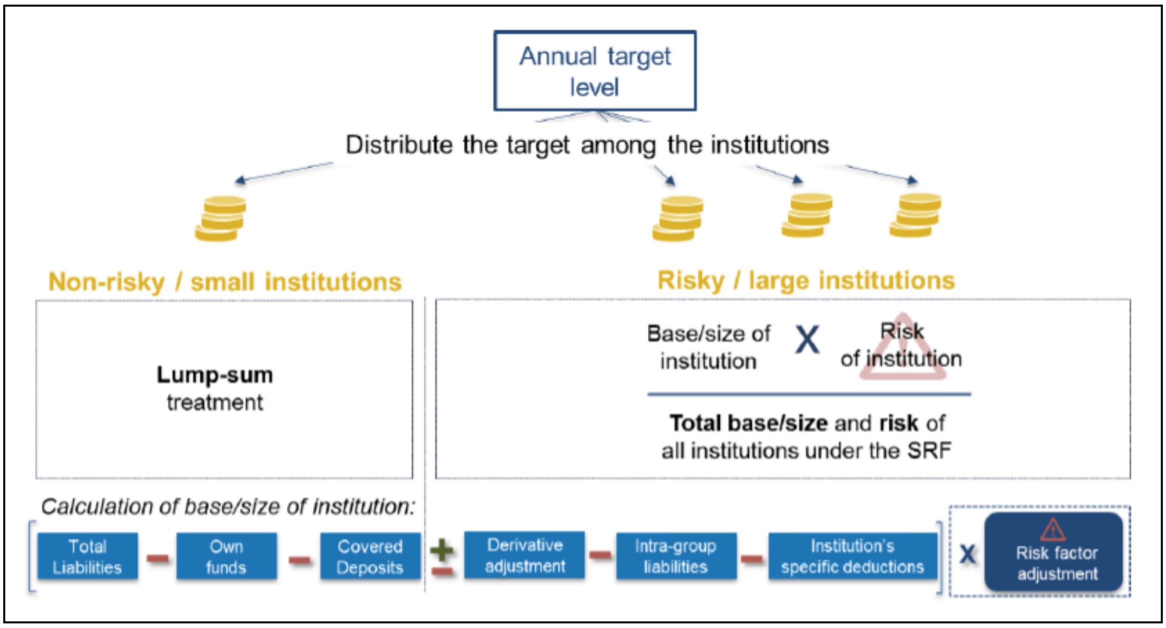
The calculation of *ex-ante* contributions is regulated by the methodology, outlined in the Commission Delegated Regulation (EU) 2015/63[146] and SRM Regulation (SRB 2016a, p.6). Figure 5.3 depicts that by calculating *ex-ante* contributions, the SRM distributes the target among institutions and applies different methods to non-risky/small institutions and risky/large institutions. Default methodology for credit institutions, risky small credit institutions and risky mortgage institutions[147] are outlined specifically in Articles 4–9, Article 10-8 and Article 11 (2) of the above-mentioned delegated act. This piece of legislation puts a strong emphasis on the way the resolution authority shall assess the risk profile of institutions based on the four risk pillars: (a) risk exposure; (b) stability and variety of sources of funding; (c) importance of an institution to the stability of the financial system or economy; (d) additional risk indicators to be determined by the resolution authority (Article 6). Furthermore, the adopted legislation contours how the resolution authority shall assess the risk profile of every institution (Article 7), apply the risk indicators in specific cases, when a waiver is granted to the institution (Article 8) and implement the risk adjustment to the basic annual contribution (Article 9) (European Commission 2015d).

[145] The Federal Agency for Financial Market Stabilization (Bundesanstalt für Finanzmarktstabilisierung, FMSA) fulfils the role of the national resolution authority in Germany.

[146] Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to *ex ante* contributions to resolution financing arrangements.

[147] According to SRB, these institutions were 20 percent of biggest contributors who paid 96 per cent of the total 2017 *ex-ante* contributions. Furthermore, the 20 largest contributing banking groups paid 65 per cent of the total 2017 *ex-ante* contributions (SRB 2017a).

Figure 5.3 Calculation of ex-ante contributions to the SRF



Source: SRB (2016a, p.6).

In the discussions on the establishment of SRM and creation of SRF, the positions of the different banking groups were divided. As in case of setting SSM, there were two camps that exercised their preference-shaping power by articulating their interests and preferences through their distinct discursive strategies. In this way, these two banking groups were either lobbying for or were against the SRM. In general, the savings and cooperative banks were against a European resolution fund by claiming that the small regionally anchored institutions would have to compensate for the potential resolution of systemically important banks,[148] and making a strong emphasis on their system of institutional insurance.[149] On the contrary, the private banks pursued a different line of argument: they did not support that the saving and cooperative banks should be exempted from the SRF. They argued that first, savings and cooperative banks can cause systemic risk based on "their very similar business models, their close interconnectedness via institutional protection schemes and their ownership structure, as well as their uniform market presence",[150] and second, that the aim of institutional protection schemes (IPS)

[148] For more details, see the joint declaration of Associations of Cooperative Banks and Association of Savings Banks (BVR and DSGV 2014). This position is also shared by the representatives of building societies (Interview EFBS). A representative of ESBG pointed out that it had been difficult to find a joint position on SRB within the ESBG, as far as the members had a different take on it (Interview ESBG I).

[149] The arguments are stated in a joint position paper of Association of cooperative banks, Association of savings banks and Federal Association of Public banks as a response to the proposal for a regulation setting out the requirements for the SRM regulation (DSGV, BVR and VÖB 2013).

[150] This argument is also supported by the representative of Bruegel (Interview Bruegel).

and deposit guarantee schemes is not to cope with a systemic crisis (Bankenverband 2013, p.4). The Council of Economic Experts had a similar take on the issue pointing out that the small cooperative and savings banks should contribute to the Fund according to a consolidated balance sheet[151] (Detzer and Herr 2014, p.164).

Concerning the calculation of contributions to the SRF, different actors favoured various scenarios: savings and cooperative banks preferred to take into an account the riskiness of an institution, the Council of Economic Experts suggested to refer to the size of the respective institution, the private banks proposed a cap on the contributions, and the Ministry of Finance advocated a removal of the caps, which were used for the collection of the German bank levy (ibid., pp.164–165).[152] Regarding my focus on the German savings banks, it is necessary to depict the methodology for calculating of contributions from non-risky/small institutions. In accordance with the Article 10 (1)–(6), the *ex-ante* contributions of small credit institutions and small investment firms are calculated as a lump sum. Financial institutions are regarded as non-risky and small, if their total assets are less than €1 billion.[153] For example, the lowest lump-sum of €1,000 as annual contribution for each contribution period is set for the institutions whose total liabilities, less own funds and covered deposits, are equal to or less than €50 million, and whose total assets are less than €1 billion (Article 10-1); the highest contribution for the small institution equals €50,000 whose total liabilities, less own funds and covered deposits are above €250 million but equal to or less than €300 million, and whose total assets are also less than €1 billion (Article 10-6)[154] (European Commission 2015d). In case, institutions' total assets are equal to, or less than, €3 billion, they fall under the category of middle size (SRB 2017a) and shall contribute a lump sum of €50,000 for the first €3 billion of total liabilities, less own funds and covered deposits regulated by additional Council Implementing Regulation[155] (Article 8-5) (Council of the European Union 2015).

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[151] See Annual Economic Report 2013/14 of the Federal Statistical Office (SVR 2013).

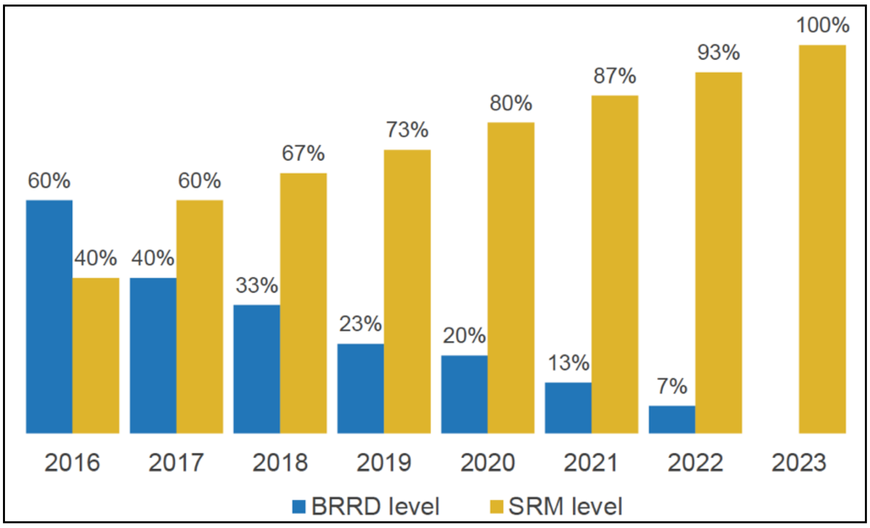
[152] Discussing the negotiations on the SRF, Ferber (2016) emphasizes Franco-German conflict of interest. To explain the distinct features of these countries, he uses 'varieties of capitalism' literature.

[153] As demonstrated in Figure 5.3, the amount of *ex-ante* contribution is calculated with respect to the size of the bank's balance sheet less own funds and deposits covered by national deposit insurance schemes (SRB 2016a, p.6).

[154] In line with SRB report, 53 per cent institutions paid a lump sum amount falling under the category of small institutions, whereas medium size institutions made 26 per cent institutions under SRF (SRB 2017a).

[155] Council Implementation Regulation (EU) 2015/81 of 19 December 2014 specifying uniform conditions of application of Regulation (EU) No 806/2014 of the European Parliament and of the Council with regard to *ex-ante* contributions to the SRF.

Figure 5.4 Transitional period: calculation method



Source: SRB (2016a, p.11).

Apart from regulating the procedure of transferring the contributions to the Fund, the IGA also contours the rules for arrangement and functioning of compartments, which shall be organized for allocating contributions raised by the participating member states. The IGA outlines that the contributions shall be raised to different compartments of each signing party respectively. These compartments will be progressively mutualized and stop their existence at the end of the transition period as defined in Article 68 of the SRM Regulation and Article 102 of the BRR Directive (see Figure 5.4) (Council of the European Union 2014, Article 1, pp.19–20). Thus, it is expected that by 1 January 2024, the financial means of the SRF will be equivalent to at least 1 per cent of the amount of covered deposits of all credit institutions of the member states under the SRM mechanism (SRB 2016a, p.8). As reported by the SRB, 60 per cent of the amount collected in the SRF is mutualized in 2017 in line with the IGA (SRB 2017a).

Both the SRM and SRF entail word ‘single’ in their naming, however, if compared to the SSM, which is completely responsible for licensing all the banks in the euro area, share their power in decision making and resolution processes with national arrangements (Posen and Verón 2014; Verón 2015). Castañeda, Mayes and Wood (2016) also acknowledge that the SSM as well as SRM are incomplete concerning the scope of the mechanisms. Both legal arrangements are obligatory to the countries of the euro area and are open to the other countries of the EU. Concerning the question of joining the banking union by the countries outside the euro, Hüttl and Schoenmaker (2016) argue that the key rationale for the banking union in the long run is connected to cross-border banking in the Single Market and not only to the single currency.

Thus, the non-eurozone countries are encouraged to join this new institution as it is envisioned as a stable arrangement to manage financial stability and to offer an integrated approach towards supervision and resolution. Still, the authors emphasize that being outside the banking union arrangements allows banks to preserve sovereignty over their banking systems (Hüttl and Schoenmaker 2016, p.3). This confirms that the creation of the banking union is rooted deeply in the idea of the Single Market, which, however, does not allow the banks to remain independent under their national financial regulatory framework.

In addition, another controversial point, which is addressed by the EU legislation, is the issue of too-big-to-fail (TBTF) financial institutions.[156] In its study, Finance Watch (2014) spells out that such legislation packages as CRD IV/CRR, BRRD, SRM, Structural Reform of Banks and SSM have been designed to tackle this question. It is worth to note how the first two pillars are perceived in their ability to play the originally envisaged role. Some scholars consider the SRM as a necessary complementary mechanism and a set of rules to ensure the proper resolution of failing institutions, as far as the ordinary insolvency procedures are regarded to be not sufficient to deal with the banking crises (Erdélyi 2016, p.187). Yet, others argue that the SRF has also its limits to cope with the breakdown of the biggest banks if the banks' excessive size, complexity and interconnectedness have not been addressed. They argue that "the danger is therefore that Europe creates a paper tiger—an SRM that delays reform of the banks because it appears capable of handling bank failure, but which in a crisis actually cannot" (Finance Watch 2014, p.7).

As pointed in the interviews, the ground for the banking union—banking structural reform[157]—is too fragile to allow the banking union to function well (Interview Finance Watch I, see Figure 5.5). Moreover, the large banks are viewed as "too-big-to-be-resolved" and "too big to actually go through the mechanism of supervisor" (Interview Finance Watch II). Furthermore, large banks with considerable losses are still seen as big trouble makers for their national governments (Gros and Belke 2015, p.45). But specifically, these banks are strongly opposing the separation of banks. Furthermore, they have used the establishment of banking union to ward off the debate on the separation of banking activities. Thus, for the representative of the public interest association, the momentum "for more regulation for the large banks" has been lost.

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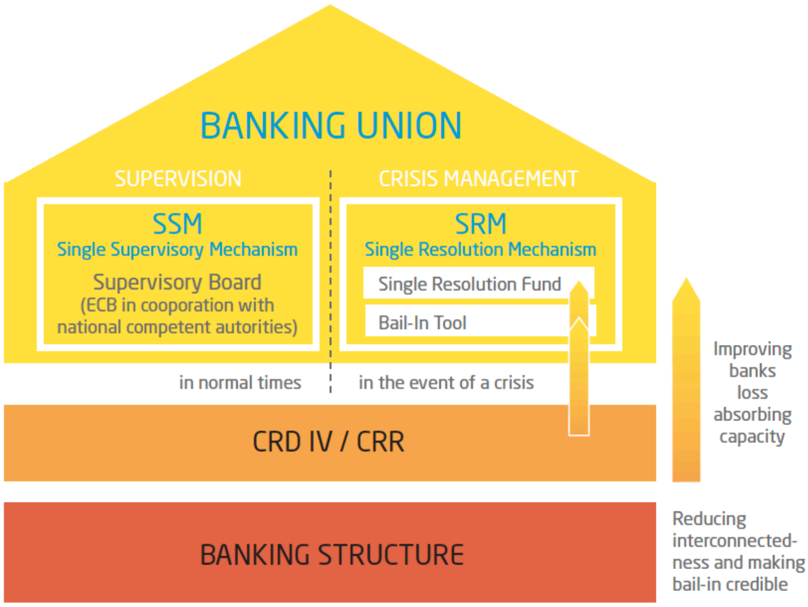
[156] The large banks are also labelled as too-important-to-fail and too-interconnected-to-fail (Finance Watch 2014, p.3). For more on the need for a banking reform and interconnectedness of banks, see Przewoska (2014a), Przewoska (2014b) and Lindo and Hanula-Bobbitt (2013).

[157] For the discussion on the banking structural reform, see subchapter 5.5.

What the association observes is the liberalization agenda of Commission targeted at softening and decreasing of the regulation for the big players (Interview Finance Watch I). This exemplifies how large banks had been successful in exercising their preference-shaping power. With their discursive strategy they managed to redirect attention from the banking structural reform to the arrangement of the first pillars of the banking union, which left no room for the ideas on reforming banking structure.

Figure 5.5 SSM and SRM in operation



Source: Finance Watch (2014, p.10).

Finance Watch's position on the developments of European financial regulation is also shared by the representatives of the small banks. One of my interviewees is skeptical whether, in the end, the European resolution mechanism can function if there is a financial crisis on the same scale as in 2008 (Interview Frankfurter Sparkasse). Taking into account the scale of rescue packages pumped to the banks from the states, the SRM with its 55 billion euros is seen as not sufficient. In this regard, the SRM has limits to stabilize the whole financial sector. Also, it would not have been enough to save the Lehman Brothers Holding Inc., which collapsed in 2008. As pointed out in the interviews, "one big failure or two big failures and the whole mechanism is down" (Interviews Finance Watch I, ESBG I, II, III).[158]

The idea behind the SRM is that the states are no longer responsible to provide funds for the failing banks and shall let them go burst. However, the representative from a savings bank is

[158] See also the discussion in Hellwig (2014).

not convinced that the European states will let their big banks go bankrupt (e.g., that the French state lets Société General or BNP Paribas bust or the German government lets the Deutsche Bank disappear) (Interview Frankfurter Sparkasse). ESBG representative points out that the state would be obliged to step in if there is "a big monster in any member state" that is failing. In addition, she emphasizes that it is not completely possible to ensure a mechanism that would disconnect the member state and banks (Interview ESBG III). However, as pointed out in another interview, there is a psychological aspect related to such a phenomenon as a crisis: there is a need for such kind of a fund as the SRF in order to calm the markets (Interview ASBA).

It is worth highlighting how the EC evaluates an impact of such new rules as the Single Rulebook, CRR/CRD IV, SSM and SRM on the banking industry. The representative of the Commission recognized that the industry had to face with the bulk of Commission's proposals, however, the quantity of measures was seen as justified in the context of financial crisis:

> it was a huge quantity of measures, which were taken in a very short term, very short time and they [the banks] had to adapt to this. But there was also some kind of necessity to do so. I mean, as we have seen and also as the stress test by the EBA has shown and so on. Then a lot of banks were dramatically undercapitalized during and after, even after the crisis as well. And so something needed to be done and, I mean, this does not exclude that some things could be done better (Interview FISMA).

Apparently, this realization of the impact of the new financial services policies on the financial industry motivated the Commission to launch a consultation "Call for evidence: EU regulatory framework for financial services"[159] from 30 September 2015 to 31 January 2016. This exercise was used as a tool to collect feedback and empirical data on "the benefits and unintended effects of the financial legislation adopted in response to the financial crisis" (European Commission 2015b). Furthermore, the Commission aimed to evaluate the efficiency, consistency and coherence of the developed regulatory framework for the financial industry. For this reason, all interested stakeholders were invited to share their experiences with the new regime, indicate its deficiencies: overlaps, loopholes, scope and scale, and reveal the overall impact of the regulations (Interview FISMA). This case of consultation reflects that Commission's personnel is constantly assessing the situation and reacting accordingly, by exercising its agenda-setting

[159] For more details on the findings from the consultation, see Commission Communication on the call for evidence: EU regulatory framework for financial services (European Commission 2016b). Finance Watch representatives have been cautious about this call, which might push for less regulation of banks (Interviews Finance Watch I, II).

power.[160] Being affected by the new regulation measures, the financial industry stakeholders might use the consultation practices of the Commission as a way to challenge the reforms by delivering their positions. This consultation is an additional lobbying tool for the banking industry, which allows the industry representatives to influence institutional change by exercising their preference-shaping power. Thus, the representatives of the banking industry welcomed this initiative, which offered a possibility to reflect the impact of the regulation on their respective banks (Interview DGSV Brussels) and created further a room for maneuvering possible changes of regulation.

5.5. The Reflection on the EU Institutional Design under Construction

Bank Structural Reform

In addition to the afore-mentioned regulatory projects, which reshaped the European regulatory landscape, the EC offered another legislative package—Bank Structural Reform (BSR). On 29 January 2014, the Commission proposed a new regulation aimed to bring to a halt the practices of proprietary trading of the largest and most complex banks as well as "to separate certain risky trading activities from their deposit-taking business if these activities compromise financial stability" (European Commission 2014b, p.27; 2017h). In the European context, the first step in the process of structural reform of the banking sector was the initiation of the High-level Expert Group (HLEG) led by Erkki Liikanen with a mandate to evaluate the demand for structural reform of EU banking sector (see Chapter One). The expert group was established with the ambition to create "a safe, stable and efficient banking system" tailored to the requirements of citizens, the EU economy and the Internal Market (European Commission 2014b, p.5).

In October 2012, the "Liikanen Report" affirmed that the regulatory reforms of that time did not touch upon the fundamental problems in the EU banking sector. This was because the reforms did not entirely examine motives for excessive risk-taking, complexity, interconnectedness and intra-group subsides. For this reason, the High-level Expert Group (HLEG) declared that reforming the structure of banks was needed to complement the banking reforms discussed and designed at that time. In addition, it urged for "the mandatory separation of proprietary trading and other high-risk trading activities into a separate legal entity within the banking

[160] In this process, however, the Commission relies on expert groups and stakeholder consultations. In this respect, the consultation process is dominated by the financial industry and mostly by the large ones, so they are able to influence the outcome of regulation (Interview Finance Watch I).

group" (European Commission 2014b, p.6). However, such a separation was anticipated merely for banks, in case the activities targeted to be separated reached a significant share of the bank's business (ibid., pp.5–6).

The idea for structural reform of the banking sector was also promoted in the initiatives of the EU member states and the US: the French Loi de séparation et de régulation des activités bancaires, the German Trennbankengesetz, the report of the Independent Commission on Banking and the Vickers reforms in the UK, and the Volcker Rule in the United States (European Parliament 2013). In the US, the Volker Rule refers to Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), which postulates that "a banking entity shall not—(A) engage in proprietary trading; or (B) acquire or retain any equity, partnership, or other ownership interest in or sponsor a hedge fund or a private equity fund", unless otherwise provided (US Congress 2010, Sec. 619).

The UK government established the Independent Commission on Banking (ICB) chaired by John Vickers, which elaborated recommendations on reforms of how to improve stability and competition in the UK banking (ICB 2011). The "Final Report" of the ICB sought to address structural reforms proposal—particularly forms of separation between retail banking and wholesale/investment banking. As the practical recommendation, the commission proposed a retail ring-fencing of UK banks, not total separation, as the best policy approach in structural reform options. The target of such a policy was to isolate retail activities, which are key to the economy and to a banks' customers into separate subsidiaries. Such activities as taking of deposits from and provision of overdrafts to ordinary individuals and SMEs were foreseen to be part of the ring-fence (ibid., pp.10–11).

Also, in Germany, the Financial Ministry addressed the problem of bank structural reform with the aim to make the financial system more resilient to the crisis. On 6 February 2013, the German government approved the draft legal acts, which included provisions on protection against risks and on planning the reorganization and winding up of banks and financial groups. One of the elements of the bill included provisions, which called for a separation of risky activities of the banks from their deposit-taking activities (Federal Ministry of Finance 2013, p.1). Based on the findings and recommendations of the "Liikanen Report", the aim of the draft bill was to provide the protection of retail banking against risks emerging from speculative business. In addition, the bill implemented a bilateral agreement with France to advance the national legislation in Europe for separating banking activities. In Germany, this separation should work as follows: in case the defined thresholds were overshot, deposit-taking credit institutions and groups would not be permitted to both deposit-related activities and proprietary trading; rather, they would be obliged to split these activities and set a legally, economically and organizationally separate firm that would need a new license in accordance with the Germany's Banking Act (Federal Ministry of Finance 2013, p.2; European Commission 2013, p.3).

French Government did not lag behind in developing new measures to reform the legal framework after the financial crisis and strengthen the regulation of banking players. The law on separation and regulation of banking activities was promulgated on 26 July 2013 and followed three objectives: (i) fight against the excess of finance; (ii) prevent banking crises and effectively carry out their resolution; (iii) better protect consumers, borrowers and insured (Ministry of Economy and Finance 2017). In order to protect banks in case of a problem, some banks need to transfer their proprietary trading activities to a separate subsidiary or legal entity (European Commission 2013, p.3). The law on separation of speculative operations from the banks' core activities empowered the supervisory authorities to effectively control banks' financial market operations. The supervisory authorities may suspend or prohibit risky activities and the marketing of toxic products. To deal with future financial crisis, the law provides the basis for the creation of The Prudential Supervisory and Resolution Authority (l'Autorité de contrôle prudentiel et de résolution, ACPR). Apart from the governance of banks, this authority would be responsible to request changes in the activities or the structure of banking groups if needed. Besides, the High Council for Financial Stability (le Haut conseil de la stabilité financière) was designed in order to identify the potential systemic risks and speculative bubbles in the market. Such measures were especially aimed to cope with the 'too-big-to-fail' banks, which no longer should receive implicit guarantees from the state (Ministry of Economy and Finance 2017). In addition, at the same time, the structural reforms were considered in Belgium and the Netherlands (European Commission 2013, p.3).

The issue was also discussed in the committees of the Organization for Economic Cooperation and Development (OECD). In 2009, in the aftermath of the financial crisis, the OECD published a paper "The Elephant in the Room: The Need to Deal with What Banks Do" focusing on the structure of large financial conglomerates and their involvement in the crisis and how the banks become 'too-big-to-fail' (Blundell-Wignall, Wehinger and Slovik 2009). The authors state that to cope with the 'too-big-to-fail' problem involves engagement with a range of related issues: (i) size of banks and banks concentration; (ii) competition among banks to satisfy consumer needs at reasonable costs; (iii) separation in the structure of financial firms to improve the effect of contagion and counterparty risk; and (iv) need for a credible resolution regime (Blundell-Wignall, Wehinger and Slovik 2009, p.14).

In 2012, the OECD published another report "Implicit Guarantees for Bank Debt: Where Do We Stand?" readdressing the question of a TBTF bank that "may be too big or too interconnected or too important for other reasons to be allowed to fail" (Schich and Lindh 2012, p.12).[161] The report demonstrated that there were differences in the scope of implicit guarantees depending on the banking sector and bank. It emphasized that implicit guarantees were higher if the bank's standalone creditworthiness was lower, its sovereign creditworthiness was higher, and the bank's size was relatively bigger in its national context. Moreover, it recognized that even tough implicit guarantees decreased in comparison to their flourishing since the beginning of the financial crisis, they still persisted. Hence, the OECD's committee on Financial Markets acknowledged that there was a need for policymakers to understand more thoroughly the reasons for the persistence of implicit guarantees (ibid., pp.14–15).

On 16 May 2013, the ECpublished a consultation paper "Reforming the Structure of the EU Banking Sector" with a focus on the structural separation recommendation of the Liikanen High-Level Expert Group (HLEG) (European Commission 2013). As well as the OECD report, the Commission touched upon the problem of large and complex EU banking groups, which were perceived as "too big, too important, too complex, and too interconnected to fail" (ibid., p.2). The motivation for an EU-wide approach to bank regulation and international coordination had been driven by the crisis outcomes as well as by the increasing interconnectedness of economies and complexity of international operations of numerous banks. In addition, as mentioned above, the EU member states and third countries became the forerunner to start the process of developing bank structural reforms (European Commission 2013, p.2). The Commission's consultation paper proposed in detail a spectrum of structural reform options addressing such points as: (i) which banks should be subject to separation; (ii) the scope of activities to be separated; (iii) the strength of separation (ibid., pp.3–9).[162] Importantly, the consultation paper highlighted that any regulatory action on bank structural reform would exempt by far the majority of local and regional banks that contribute to the development of local economy and concentrate on customer-oriented borrowing (ibid., p.1). Thus, the small savings banks

[161] The definition of too-big-to-fail also covers such descriptions as too-interconnected-to-fail (TITF), too-complex-to-fail (TCTF), and too-systemically-important-to-fail (TSITF) (European Commission 2014b, p.5).

[162] See the consultation paper with an overview of separation options.

would be exempted from the structural reform of the EU banking sector according to such a regulation framework if adopted in future.

On these grounds, on 3 July 2013, the European Parliament (EP) passed with a large majority its own initiative report entitled "Reforming the Structure of the EU banking sector" (European Commission 2014b; European Parliament 2013). The EP welcomed the outcomes and recommendations on banking reform from the Liikanen HLEG and the Commission's Consultation on Structural Reform of the EU Banking Sector of 16 May 2013. However, with regard to the national initiatives for structural reform, it emphasized the need for "an EU framework to preserve and prevent the fragmentation of the EU's Single Market, while respecting the diversity of national banking models" (European Parliament 2013, p.6). Based on the aspirations of other institutions, the EP articulated that the key objective of the whole banking structure reform "must be to deliver a safe, stable, effective and efficient banking system that operates in a competitive market economy and serves the needs of the real economy, and of customers and consumers through the economic cycle" (ibid., p.7). Furthermore, in the EP's language, the structural reform was regarded as a tool to foster economic growth by supplying credit to the economy, make the banking system more resilient against future financial turbulences, rebuild trust and confidence in banks, eliminate risks to public finances and bring a change in banking culture (ibid.). For this reason, the EP called the Commission to advance structural reforms of the EU banking sector taking into account the above-mentioned report.

As an outcome of this long process of considering structural reform of banks, on 29 January 2014, the EC delivered a proposal for a regulation on structural measures to strengthen the European banking system and tackle the TBTF problem of the big banks. The importance of establishing a banking structural reform was highlighted in two general objectives: (i) reducing the risk of systemic instability decreasing the risks of banks becoming or wanting to become TBTF, TCTF and TITF; (ii) reducing Single Market fragmentation. Such general objectives were envisioned to be realized via operative objectives, first, by cutting the size of implicit public subsidies, and second, by limiting excessive trading activities of TBTF banks and expanding lending to non-financial customers as a per centage of total assets (European Commission 2014b, p.26).

In this context, the Council reached an agreement with the Parliament on structural measures to improve the resilience of EU credit institutions on 19 June 2015. However, there is no further outcome on the negotiations, as far as the issue was put on hold with the Parliament's

Committee on Economic and Monetary Affairs (ECON) after the rejection of the draft report in the parliament in late May 2015. The point of controversy was an issue whether an additional capital injection can free the banks from the mandatory structural separation. The main proposals for amendments of the draft report reveal that the parliament followed a less stringent approach as compared to the Commission's proposal. The parliament justified such a move by pointing out that the respective banking model or a particular size of institution is less connected to the problem of systemic risk. Therefore, the EP adhered to a risk-based approach with a focus on risk exposure rather than on structures or activities. As the "legislative train schedule" on the banking structure reform on the website of the EP informs, there was some informal compromise among politicians in October 2015, however, it was not brought into official discussions. The 2015 Banking Union Annual Report addressed the need for a banking structural reform (European Parliament 2015). Still, the request from Commission Vice-President Valdis Dombrovskis to the rapporteur dated back to September 2016 to carry on with the negations did not bring any results because the issue remains controversial and difficult to resolve among major parliamentary groups (European Parliament 2017b). Finance Watch representative emphasized that without the reform of structural banks, the first two pillars of the banking union only seem to work for the small and medium banks but are not sufficient to deal with the 'to-big-to-fail' banks (Interview Finance Watch I).

Capital Markets Union: The Next Step in Completing the Financial Union

As mentioned in the previous subchapter, in addition to the construction of the banking union, on 30 September 2015, the EC released its Capital Markets Union Action Plan initiating a new project with the aim "to build a true Single Market for capital across the 28 EU member states" (European Commission 2015c).[163] The Capital Markets Union (CMU) had been presented as an element of the Juncker Commission priority to improve three key macroeconomic indicators across the EU: jobs, growth and investment. The Commission representative confirmed that this had been the vision and "the main objective of this Commission and of Commissioner

[163] The CMU initiative is a prolongation of the Commission's roadmap to meet the long-term financing needs of the European economy, which was set by the former Internal Market and Services Commissioner Michel Barnier on 27 March 2014. With the change of the Commission, the project has been rebranded into the CMU in order to a certain extent to mirror the banking union project (Interview ESBG I). For more, see http://europa.eu/rapid/press-release_IP-14-320_en.htm.

[Juncker] in particular" (Interview FISMA).[164] Thus, the CMU became a key pillar of the Investment Plan with the aim to deal with investment shortages by raising and diversifying financial sources. On 12 March 2018, the Commission presented a new package of proposals to increase the cross-border market for investment funds, bolster the EU market for covered bonds as a source of long-term finance and provide greater certainty for investors. To fulfil this goal, the Commission planned to set up all building blocks of the CMU by mid-2019 (European Commission 2018).

To proceed with the CMU, the Commission adopted a narrative underlining the need for the alternative sources of finance, which can complement financing from the banking sector. These additional channels of funding, which, due to the historical development, were more prevalent in many different parts of the world, are capital markets, venture capital, crowdfunding and the asset management industry.[165] Through them, the Commission promised the financial industry, particularly SMEs and start-ups, a different and additional way to access funds (European Commission 2015c). Thus, the idea of a common CMU can be summarized as follows:

> …the focus [of the CMU] is not on the single supervisor for capital market, it is more to enhance a lot of the current regulation, which is already in place in order to make our capital market single rulebook more streamlined and in order to enhance funding through capital markets. … in Europe, […] our main funding source are banks, whereas in the US, [they] are capital markets. It's basically really the reverse and it is not to undermine bank funding, but to complement it. We saw, during the crisis, with all these liquidity problems, … people had really problems to get funding, notably the SMEs, who needed some funding to go on. Therefore, this idea to strengthen capital markets [emerged]. Therefore, there is this proposal for high quality securitization and a proposal … to facilitate at least medium-sized undertakings to tab capital markets as well and get funding (Interview FISMA).

Moreover, the construction of the CMU was presented as the key to financial stability. Interestingly that through the highly twisted narrative of financial stability, the Commission pushed its agenda for constructing the CMU with the aim to complete the EMU. Apart from exercising its agenda-setting power, the institution's officials used the CMU to pursue their preferences and interests on how capitals markets should be organized at the European level. Likewise, in the context of financial stability discourse, the Commission pleaded for a relaunch of high-quality securitization in the markets (European Commission 2015c). Based on the rhetoric and

[164] The CMU project falls under the jurisdiction of DG FISMA, section Dir C Financial markets, which deals with such topics as CMU, financial markets and infrastructure, securities markets and asset management (See Appendix III).

[165] An additional driver for the CMU has been the Commission's fear to lose companies in the phase of venture capital investment that leave Europe for US and Asian markets (Interview UEAPME).

language used by Commissions' argumentation, one might conclude that the CMU also targets to provide new funding sources for small companies. In reality, however, it is too ambitious to realize. Thus, a reference to the small firms can be considered as an instrument to make a project more attractive for the industry. On the other hand, the Commission targets the companies with 50 to 100 employees, which potentially, if well-established and with a vision for the future, can enter the financial markets and use all possible financial instruments like covered bonds and private placements. In such a manner, the securitization is justified for the sake of broadening the scope and the variety of funding alternatives (Interview FISMA). The representative of public interest association emphasized that the CMU was a project aimed to restart securitization, which went in line with the interests of large banks and supported their business. It was seen as "a big present to the big banks" (Interview Finance Watch I).

While comparing the development of the CMU with the banking union, the Commission presented the former as a more substance-based project covering all the 28member states of the EU. On the contrary, the banking union was designed as an institutional reform primarily for the eurozone member states. As discussed before, the banking union remains open for the states, who are willing to be part of the project. Despite these fundamental differences, in the language of the EC, both projects are similar as far as they should contribute to the strengthening of the Single Market in their corresponding sphere (Interview FISMA). The scope of these two projects is immense, thus not surprisingly, the banks seem to be overwhelmed with all the new initiatives of the Commission. After the successful approval of legislative proposals in Brussels, the banking industry faces challenges to understand and interpret the new acts, as well as to implement them into the national level after a successful enforcement.

Change of Power Relations at the Institutional Level

The above-discussed restructuring of EU institutional design, induced by the crisis management measures and the appointment of Jean-Claude Juncker as the president of the Commission, illustrates the change of power at the supranational level. This can potentially cause tensions because of overlapping tasks, struggle for resources or leadership, especially in the time of crisis. Indeed, the European political landscape for the banking industry was broadened by adding new institutions (DG FISMA and SSM) and agencies (EBA and SRB). Certainly, there is a clear division of tasks among these new institutions and agencies. However, it is also challenging to trace the communication between them (Interview EAPB). For this reason, this subchapter aims to illustrate different roles of these new institutions and agencies before moving to the discussion on the third pillar of the banking union.

The EBA, set up in 2011, is the key agency responsible for organizing a single regulatory and supervisory framework for the European banking sector. Furthermore, its goal is "to create an efficient, transparent and stable single market in EU banking products" (EBA, 2021).[166] The EBA, which is part of the ESAs, has its main focus as the coordinator and *regulator* responsible for preparing the technical standards, which are approved by the Commission. For example, it creates the Single Rulebook and together with the SSM conducts the stress test to evaluate the sector (Interviews Finance Watch II, ESBG II). Notwithstanding the fact that the EBA is also a crisis management authority, there is a skepticism about its role as a crisis management organization (Interview Bruegel). The ECB's second role has been tailored to become a single *supervisor* in the eurozone (Interview FISMA). In this regard, the ECB has the power to interfere in the politics of a bank, in its model, it can force it to have capital add-ons (Interview ESBG II). Furthermore, the ECB is also seen as the central institution of banking union because of its new supervisory role (Interview Bruegel). Besides, the ECB is empowered to start the process of resolution within the SRM (Finance Watch 2014). The SRB's technical mandate has been tailor-made to ensure the exercise of the *resolution* powers in the situation, when a bank failure occurs (SRB 2017; Interviews FISMA, ESBG II).

It is important to note that the reform of financial regulatory system was perceived with caution by the German banks. They called for a clear division of tasks by various supervisory and regulatory authorities at the national, eurozone and EU levels. Particularly, the Bundesbank, the German banks and the Ministry of Finance insisted that the supervision tasks should strictly belong to the competence of the ECB, whereas the arrangement of regulatory standards to the EBA. Furthermore, the actors from the national level pleaded for a clear separation of tasks between the national supervisors and the supervisors within the SSM in order to avoid a double or triple monitoring (Detzer and Herr 2014, p.162).

The Commission, apart from initiating new legislations and being the *guardian* of the Treaties, received a new role in regard to the resolution mechanism. Due to the results of the Meroni Doctrine, the SRB, as an agency, was not able to become an independent European resolution authority and take discretionary decisions. Thus, the Commission could win the official decision-making power (Interviews FISMA, Finance Watch II; Erdélyi 2016, p.188). In this

[166] For more information, see https://europa.eu/european-union/about-eu/agencies/eba_en.

manner, the Commission is also involved in the upstream work before the decision of resolution, can propose the objection to the resolution scheme and is the only institution that can use state aid to stabilize the crisis situation (Interviews Finance Watch II, ESBG I). Thus, by setting the SRB, the EC has proved to be powerful within three dimensions of power: decision-making, agenda-setting and preference-shaping.

Concerning the distribution of power among these institutions, it can be distinguished that the SSM and the Commission became the most empowered. As discussed by the representative from the Commission, the SSM is recognized to be "a very strong player", as far as it can request a bank to add capital according to capital requirements (Interview FISMA). The SRB is also regarded as a very strong agency in case a bank has to go through the resolution procedure. In this regard, the SRB is responsible for carrying out all the preparatory and substantial part of work. Yet, the Commission accepts that it is true that the ultimate decision for the resolution belongs to its mandate (Interview FISMA).[167]

More specifically, the resolution scheme enters into force if the Commission endorses it; if there is an objection to it from the side of the Commission, the SRB needs to modify it (SRB 2016b, p.16). In addition to the EC, which is involved in this process, the Council of the European Union has a decision-making power to let the resolution scheme enter into force (Detzer and Herr 2014; Interview ESBG I; SRB 2016b). The EC can suggest to the Council of the European Union that it opposes the scheme based on the lack of public interest or it can request a material adjustment to the SRF use. If the first scenario occurs, the bank faces the process of winding up according to the national law. If the adjustments are approved by the Council of the European Union, the scheme enters into force. The Council of the European can also reject the Commission's proposal, so the scheme comes into effect in its original form (SRB 2016b, p.16).[168]

All these examples can be taken to conclude that in spite of prescribed division of task between the new institutions and agencies, the EC received the most leverage in the political arena as it has the final say to the outcomes from the other agencies. Furthermore, it has the agenda-setting power to bring on the table the issues. This power is limited to the other actors. However, the

[167] See a detailed process of resolving failing banks in Appendix IV.

[168] See Appendix IV.

last word in the legislative procedure belongs to the member states in the European Council (Interview ESBG II).

The narrative for the banking union proclaims that the close link between public sector finance and the banking sector has to be dismantled. It is spelled out that this new institution can secure more transparent, unified and safer banking system (European Commission 2015f, p.2). The idea of the banking union has been conceivably presented as the best solutions and sufficient mechanism to cope with financial instability (Erdélyi 2016, p.225; Huertas 2016, p.23) or as "the only practical way to avert an unravelling of the euro area's monetary union" (Verón 2015, p.49). However, the measures set in the SSM and SRM do not seem to be constructed to face the systemic crisis or the scale of the crisis, which engulfed the global financial system in 2008. More likely, the combination of bail-in measures, higher capital requirements and resolution fund might be sufficient to overcome a regional crisis (Interview CEPS). In the end, this stance is also shared by the EC:

> [L]et's be clear, the banking union is not construed for a big, big crisis: it's for the normal run of the cycle, no, with ups and downs and so on. And then when you have one or a few banks, who are in trouble, then you have the fund. But of course, if the whole European banking landscape would be shaking and so on, then it would certainly be not enough, but it is not made for that. […] The balance sheet of the Deutsche Bank is more than 150 billion, and I mean, in the fund we have 50 billion. And this was already difficult to get all the 19 member states to agree on that. So, I mean if we really would have to have a fund in order to resolve a major major crisis, where […] five globally systemic banks would be under resolution, then we would need much much more and…but this is once in a hundred years, you know, event[169] (Interview FISMA).

It should also be noted that the construction of the banking union is often represented as the remedy to restore trust in the European banking industry (Interview Bruegel). By addressing this question in the Commission, the emphasis is made on the success to prevent bank runs and keep the banks open. The narrative, thus, insists that in general, excluding the case of Greece, the Commission "managed to keep the trust in the system" in the time of the financial crisis (Interview FISMA). This is an intriguing representation from the supranational perspective, as far as the issue of trust is discussed differently from the civil society side. For example, in his introductory speech at the Finance Watch conference *Confidence, ethics, and incentives in the financial sector*, Christophe Nijdam, the former Secretary General of Finance Watch, pointed out that public trust is an essential part for the financial system, which serves the needs of

[169] Another interviewee is also skeptical whether the SRB can solve the problem in case a big-scale systemic crisis occurs. Based on the structure of SRB decision-making, it seems to be illusionary to make the timely decisions and not to risk the taxpayer's money (Interview Finance Watch II).

economy and society. Trust is also seen as a prerequisite for the EC's agenda to sustain jobs and growth in the long run encompassing the financial sector or beyond it. Relying on the data of a Gallup survey in 2013, he emphasized on the collapse of trust in the EU financial sector and financial institutions (Nijdam 2015, p.2). Interestingly, in one of the interviews, a representative of banking association confirmed that personally she does not trust the [financial] system as a client (Interview ESBG III).

From the point of view of the EC, establishing the banking union was "a huge step forward" in the crisis management agenda to foster deeper financial integration and provide stability. However, a detailed analysis of the case reveals that financial crisis was instrumentalized for the purpose to strengthen the discourse on completion of the EMU. According to the concept of technolization of discourse of Fairclough, the EC, its experts, consultants and researchers from the think tanks play a significant role in developing a highly complicated mode of language policy, which intervenes the discourse practices. The EC's discursive strategies have proved to be rewarding and led to strengthening its institutional practices and culture. Working on the development of the banking union, the Commission's 'technologists of discourse' has managed to create a narrative that the creation of new institutions would lead to financial stability.

During the course of my field trip, the attention was not only confined to the question of how the EC influenced the development of the European Single Market and how the role of this institution has developed over time, but also how it has been portrayed and perceived by the other actors. The EC is seen as the main driver of the banking union idea by many actors involved in the process (Interviews ASBA, DSGV Brussels, EAPB, EFBS, ESBG). It was able to secure the support of the president of the Euro group, the president of the ECB, and even the social democratic president of the European Parliament (see the "Five Presidents' Report" 2015). Being a strong actor within the European arena and while exercising its agenda-setting power, the Commission allies closely with the ECB to steer the debate on financial regulation in its favour. It keeps consultation with the financial industry rather short, thereby limiting the possibilities for industry feedback (Interview ESBG).

Time factor was mentioned by the banking associations. Comparing the policy process of the banking union to the usual legislative process, some of my interviewees pointed out the very fast speed for the policy process in setting the first two pillars of the banking union (Interviews EAPB, DSGV Brussels, ESBG I, III). The banking industry representatives expected initiatives from the Commission, however, they did not foresee their realization in such a fast tempo. So, the associations had not had much time for extensive lobbying. Another interviewee also noted that the Commission had made such proposals years before the crisis. Yet, in her words, “the member states did not see the necessity” for such initiatives, thus, they failed in the political debates. However, the financial crisis and sovereign debt crisis opened the “momentum to pull the project through, also against the resistance of some member states” (Interview DSGV Brussels, own translation).

Interestingly, one of the interview partners used a metaphor of “an extremely big construction site to work on” to describe the creation of the banking union (Interview ESBG III). As pointed out by another interview partner, at great speed, the EC turned from “a sleeping authority” and “a slow authority construct” into an institution fostering institutional change and institution building. This process, however, caused a bureaucratization wave (Interview EAPB). Whether these new institutions and agencies can preserve the economy from the next crisis is an open concern, because no one can predict the nature of the future crisis (Interviews EAPB, Bruegel). The banking union has been supported by a bigger camp of the large banks that favoured a shift of regulation from the national to the European level (Interview EBF). Also, Finance Watch’s representatives welcomed the banking union, which might stop regulatory forbearance and regulatory capture. However, in their opinion, the project does not address the right problems, which are the size of banks, interconnectedness of the banking system, and separation of deposit taking and investment (Interview Finance Watch II). The creation of the banking union has become a vivid example of institutional change by layering, which is based on EC’s Single Market agenda. The financial and European crises have led to such a political and economic setting, which allowed various actors to participate in constructing and designing the European project by shaping their preferences on the specificities of financial regulation. As far as the EC has remained key in setting-agenda for the direction of the regulations, the representatives of the financial industry and other actors has used the room for manouver to exercise their preference-shaping power to influence the outcomes of political process.

Thus, by the end of 2015, the Commission was proud that it achieved its goals to put the first two pillars of the banking union on their feet and expected to move forward with the third one relying on the “Five Presidents’ Report”. The supranational institution is satisfied with the outcomes of crisis management as in a given timeframe, it managed to reach numerous agreements among the 28 member states sitting around at the negotiation table. Finance Watch representative underlined that in a way, the Commission had dealt intensively with two aspects brought out of the crisis: “poor regulation and poor supervision”. In this regard, the banking union was designed to respond to these challenges by strengthening supervision and by trying to reinforce the regulation. These achievements shall assist European institutions in anticipating and dealing with the crisis (Interview Finance Watch I). The interview partner from the Commission revealed that having reached that far, the Commission had prepared an “outline for even more ambitions future steps over the next ten years”, which the member states, the financial industry and the consumers would experience in further political discussions (Interview FISMA). Once again this confirms that the Commission plays the first fiddle while bringing its ideas and preferences for new agendas and regulations, while setting the course for an institutional change of the European project and exercising its powers at the European level.

Chapter Six: The Struggle Over the Third Pillar of the Banking Union: Savings Banks Resisting the European Governance

In the previous chapter, I have discussed how the first two pillars of the banking union—the SSM and the SRM have been negotiated and construed. In this chapter, the Commission's endeavour to establish EDIS, the third pillar of the banking union, which is seen as the "umbrella theme of completing the banking union" (Interview Bruegel) will be explained. Furthermore, how this specific pillar puts pressure on the German savings banks and their model will be explored. Along this line, I will focus on the lobbying activities of the German savings banks and their strategies to confront the initiative articulated by the EC. In particular, I will look at the conflict of the savings banks model and the Single Market project.

6.1. The Third Pillar of the Banking Union under Construction

Since 2015, the EC has faced the following challenges with the setting of the banking union. First, the finalization of the banking union pillars is tied to the implementation of the Single Rulebook with its main elements. For example, by the end of 2015, the Bank Recovery and Resolution Directive (BRRD) and Deposit Guarantee Schemes (DGS) Directive had not been put into effect by all member states. Also, the intergovernmental agreement, which sets the criteria of how the Single Resolution Fund (SRF) should be organized and mutualized over eight years, had not been ratified by all member states on November 2015. The intergovernmental agreement was only ratified by 20 countries (including all 19members of the banking union) as of 30 November 2016 (European Parliament 2018). So, it had been substantially the question of implementation of legislation, which hindered the progress of banking union construction. Second, the next challenge is related to laying the ground for the third pillar—a common EDIS, which had been outlined in the "Five Presidents' Report" (Interview FISMA).

The origin of DGSs can be traced back to the outset of EU. After the adoption of the resolution to create a Single Market within the EU, the European Council ratified the Directive on deposit guarantee schemes in 1994 (Gerhardt and Lannoo 2011). Based on the objectives of the Treaty, the Directive encouraged promotion of harmonious development of credit institutions' activities by securing the right of establishment and the freedom to provide services while enhancing "the stability of the banking system and protection for savers" (European Council 1994, L 135/5). In accordance with legislation, each member state was obliged to establish and officially recognize one or more deposit-guarantee schemes (Article 3), which should guarantee the coverage of up to ECU[170] 20,000 of the total deposits of each depositor (Article 7) (European Council 1994).

Gerhardt and Lannoo (2011) point out that the Directive on DGS in 1994 was aimed at the integration of retail banking by delivering minimum standards for deposit protection, thus keeping the harmonization level low. They argue that a wide range of DGS did not turn out to be crisis-resilient because of "wide variations in coverage level, deposit/depositor eligibility, legal statute (private or public), governance, payout procedures and funding mechanisms" (ibid., p.2). As a number of European deposit insurers failed to manage the crisis situation, the EC proposed to alter the 1994 Directive inducing a more harmonization approach.[171] The topic of DGSs was discussed by the group of experts in the "Larosière Report" (see subchapter 5.1). The group of experts argued that the main flaw in the EU banking regulatory framework was the organization of DGSs in the member states at that time. They welcomed the Commission's proposal as it induced all member states to use the same level of DGS protection for each depositor. The argumentation for a change of DGS mechanism was summarized as follows:

> The EU cannot indeed continue to rely on the principle of a minimum coverage level, which can be topped-up at national level. This principle presents two major flaws: first, in a situation where a national banking sector is perceived as becoming fragile, there is the risk that deposits would be moved to the countries with the most protective regime (thus weakening banks in the first country even further); second, it would mean that in the same member state the customers of a local bank and those using the services of a third country branch could enjoy different coverage levels. As the crisis has shown, this cannot be reconciled with the notion of a well-functioning Single Market (de Larosière et al. 2009, p.34).

In light of this logic, the group of experts envisioned that the DGSs should be organized in schemes pre-funded by the financial industry and would be used to protect depositors from losses. However, they warned that in case of failure of large and cross-border institutions, such mechanisms might not deliver sufficient coverage, thus, topping-up by the state would be required. Interestingly, "the idea of a pooled EU fund, composed of the national deposit guarantee funds" was disregarded at that time, as far as the experts were alert to political and practical problems such a setting could cause (de Larosière et al. 2009, p.34). For this reason, they

[170] European Currency Unit.

[171] The Commission proposed to improve the DGS regime by strengthening harmonization and improving the protection of depositors. See Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes with regard to the coverage level and the payout delay (Council of the European Union 2009).

recommended that "Deposit Guarantee Schemes (DGS) in the EU should be harmonized and preferably be pre-funded by the private sector (in exceptional cases topped up by the State) and provide high, equal protection to all bank customers throughout the EU" (de Larosière et al. 2009, p.36).

In July 2010, the EC published a new proposal to recast the DGS Directive. The key parts of proposal were built around such topics as: (i) simplification and harmonization of DGSs coverage and payout procedure; (ii) arrangement of timeline for payment and information access; (iii) financing of DGSs; and (iv) mutual borrowing between DGSs. The proposal defined that in case of a bank failure the depositors should be reimbursed up to €100,000 by a DGS within seven calendar days. Under these arrangements, the Commission expected to minimize the intervention of social welfare systems. The Commission emphasized that the Directive is all-encompassing for the banks without any exemptions to avoid participation in a DGS. The point of controversy was around the question of whether mutual guarantee schemes of credit institution should be covered by the Directive. The proposal recognized that such mutual guarantee schemes could ensure liquidity and solvency of credit institution, however, it did not offer the way these schemes could co-exist with DGSs (European Commission 2010b, pp.3–6).

Gerhardt and Lannoo (2011, p.2) criticized the proposal for not providing a systemic change of deposit insurance. For them, the Commission's proposal was not seen sufficient to cope with issues invoked by the crisis, as it kept the diversity of national systems. They emphasized that even though this diversity was preserved, the UK, France and Germany were concerned about the legal basis and content of the proposal and lobbied for lowering the harmonization requirements and watering down the Commission's text proposal. With that in mind, they spelled out three models for adapting the DGSs ranging from the cooperation/network approach to full harmonization (a single fund). The first option reflected the Commissions' idea of a strengthened network of national DGS; the second proposed the establishment of a 28th regime by keeping national schemes and creating a complimentary pan-European deposit insurance, and the third option aimed to set a new single pan-European fund by substituting existing DGS and securing deposits of all credit institutions. In the end, they opted for full harmonization—the construction of a single European deposit insurance scheme—as "the only efficient, reliable and sustainable solution" (ibid., pp.11–12). In other words, they were advocating pushing for a deeper harmonization to uphold an integrated financial market. In a similar way, Allen et al. (2011) argued that a European deposit insurance fund would address a lack of credibility caused by deposit insurance arrangements for cross-border banks in their home countries. The authors believed that a new arrangement would be able to resolve cross-border banks at the European level.

Already in 2012, there were discussions to set a kind of communization of deposits insurance. For example, some Members of the European Parliament (MEPs) put an effort into intensifying the debate.[172] However, the discussions on the third pillar of the banking union encountered most of the resistance at the very outset. This can be explained by the nature of the Single Rulebook. On the one hand, the policymakers strive to establish a set of unified regulatory requirements for 28 member states. On the other hand, they recognize the need for flexibility of the new regulatory framework. It means that the rules need to be organized in such a manner that gives national policymakers a certain degree of national flexibility in applying the directives delivered from the EU level. Yet, the member states' institutions and economies are at the different stage of development, thus, the Single Rulebook collides with the legislations, which evolved in various contexts over time (EBA 2017b).

The existence of small banks with their own deposit insurance—Institutional Protection Scheme (IPS) explicates why the establishment of EDIS is put on hold. Discussing the case for euro deposit insurance scheme, Gros and Schoenmaker (2012) bring the example of the US two-tier banking or dual banking system, which differentiates between banks chartered at the state or federal level.[173] Following such a model, the authors only support the idea that groups of smaller banks, who have developed their own mutual guarantee system (e.g., savings or mutual banks) should not be directly supervised by the ECB; but instead, fall under the direct supervision of national supervisors, who possess a better local knowledge of their day-to-day activities. Still, a large group of small savings bank with a similar business model is anticipated as dangerous for systemic stability. Furthermore, the researchers do not believe that the existing patchwork of national schemes could contribute to the stability of the financial system. Thus,

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[172] For example, one of the interview partners mentioned a Portuguese MEP Elisa Ferreira, who had been continuously emphasizing on the need to complete the creation of the banking union (Interview DSGV Brussels).

[173] "The 'dual banking system' refers to the parallel state and federal banking systems that co-exist in the United States. The federal system is based on a federal bank charter, powers are defined under federal law, operation under federal standards and oversight by a federal supervisor. The state system is characterized by state chartering, bank powers established under state law, and operation under state standards, including oversight by state supervisors" (OCC 2003, p.1).

See more on the challenges to the dual banking system with the focus on the funding of bank supervision in Blair and Kushmeider (2006).

they pledge for a common, prefunded, deposit insurance and resolution system (Gros and Schoenmaker 2012).

Similar argumentation is followed by Gerhardt and Lannoo (2011) in their disscussions of policy options for reforming deposit protection schemes in the EU. The reason behind the difficulty to full harmonization of deposit guarantee schemes is seen in the opposition of some member states and national interest groups to the Commission's proposal to amend the EU Directive on deposit guarantee schemes. Following the supranational logic, they disregard objections from national governments and interest groups that stronger harmonization of deposit insurance is in conflict with the subsidiarity principle. On the contrary, they contend that "DGS of a different nature cannot co-exist in a Single Market and European action to address deposit insurance challenges is more effective than action taken at national or local level" (ibid., p.13). Thus, they plead to move from a network approach of national DGS to the creation of one single deposit insurance fund applicable to all EU-licensed credit institutions in order to protect depositors across the borders.

This policy brief from the European Credit Research Institute (ECRI), which is founded by a consortium of European banking and financial institutions and managed by the CEPS,[174] demonstrates how close the ideas postulated by the EC go in line with the policy recommendations of Brussels-based research think tanks and institutes. As discussed in previous chapters, this institute belongs to the epistemic community that contributes to the construction of knowledge and social reality, in this case about "the structure, evolution and regulation of consumer financial services markets in Europe" (ECRI 2021). As indicated in one of the interviews, any financial institution can contribute towards publishing a policy paper that would support its institution's position, certain ideas and preferences. In such a way, the financial industry is constantly engaged in shaping the financial regulation according to their interests and preferences (Interview EFBS).

Already in 2012, Gros and Schoenmaker (2012) have argued that the SSM would not be functioning well without a simultaneous introduction of EDIS and Resolution Agency. In their policy paper, the researchers call for a need to set a new institution—a European Deposit Insurance and Resolution Authority (EDIRA), which would precede the fiscal backstop in the governance framework of banking union (ibid., p.2). Nevertheless, they point out that deposit insurance and resolution are generally separate functions. The idea for the initial EDIRA was inspired by

[174] For more information on this research institute, see http://www.ecri.eu/about-us.

the US example. In the US, the *Dodd-Frank Act* grants resolution powers for big banks to the Federal Deposit Insurance Corporation (FDIC). Moreover, this institution has already had powers for smaller banks. In the same way, the Deposit Insurance Corporation of Japan is assigned with resolution powers (Gros and Schoenmaker 2012, p.4).[175] This is another vivid example of how the think tanks being part of an epistemic community are involved in the conceptualization of new institutions' design by learning from the experiences from outside of the EU.

The final recast of Directive 94/19/EC on DGSs was only adopted into the new Directive in 2014.[176] This Directive laid down rules and procedures on how to establish and secure the functioning of DGSs. According to the text of Directive, the Commission's proposal of 2010 was approved, stating that "member states shall ensure that the coverage level for the aggregate deposits of each depositor is € 100,000 in the event of deposits being unavailable" (Council of the European Union 2014b, Article 6-1). The system of national deposit guarantee schemes (DGS) outlined in the Directive 2014/49/EU laid the foundation for the EDIS proposal (European Commission 2017g). Furthermore, it recognized the functioning of IPS as DGSs in accordance to the criteria outlined in Article 113-7 of Regulation (EU) No 575/2013.[177]

The IPS is defined as "a contractual or statutory liability arrangement which protects those institutions and in particular ensures their liquidity and solvency to avoid bankruptcy where necessary" (Council of the European Union 2013b, L 176/75). The corresponding competent authorities can give permission to IPS, if it has sufficient funds to support banks; possesses uniform systems to monitor and classify risk, enabling risk assessment of an individual institution and the IPS as a whole; manages its own risk review and publishes numerous types of reports with regard to the IPS, which are monitored by the corresponding authorities. Besides, the legislation sets the rules on how to end the IPS and how to calculate own funds between the members of the IPS. One of the most important criteria for the IPS presumes "a broad membership of credit institutions of a predominantly homogeneous business profile" (ibid., L 176/76).

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[175] Similar design of bundling the deposit insurance and resolution functions are presented in Allen et al. (2011) and Gerhardt and Lannoo (2011).

[176] Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast).

[177] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

In political discussions, savings and cooperative banks have been strongly against the centralization of deposit guarantee system and the Commission's proposal on EDIS (Detzer and Herr 2014; Interviews DSGV Berlin, DSGV Brussels, ESBG II; Semenyshyn 2017). As underlined in one of the interviews, the EDIS has been seen as not compatible with the IPS. The IPS is aimed to prevent an insolvency of an institution by restructuring, merging the institutions or applying other available tools; the EDIS, on the contrary, is envisioned as "a pure compensation scheme" (Interview DSGV Berlin).[178] Specific to the German context is the organization of savings banks and cooperative banks into the above-mentioned IPS, which are not easy to integrate into the European system (Detzer and Herr 2014, p.165). At the national level, savings and cooperative banks have been able to win support of the Ministry of Finance, which also preferred the course for a further harmonization of the already established national schemes. Taking into an account the interests of these banking groups, during the negotiations, the Ministry of Finance too, was against a European deposit insurance scheme. In 2014, Wolfgang Schäuble, the former Federal Minister of Finance, emphasized that there was a need to promote the understanding that German financial sector had its own structure. For this reason, the Ministry once again committed for the preservation of the IPS of savings and cooperative banks, which turned out to be successful (Schäuble 2014).

The debate on the third pillar of the banking union was renewed on 24 November 2015, when the ECpublished its proposals for the EDIS[179] with the objective to safeguard bank deposits of eurozone banks (European Commission 2015f). The topic, which had been marginalized in the political discourse in Brussels, appeared in the discussions following the launch of the Capital Markets Union (CMU) Action Plan earlier in September of the same year. As in the case of the first two pillars, the time factor played a significant role. In an interview in November 2015, a representative from the banking industry recalled the discussions as follows:

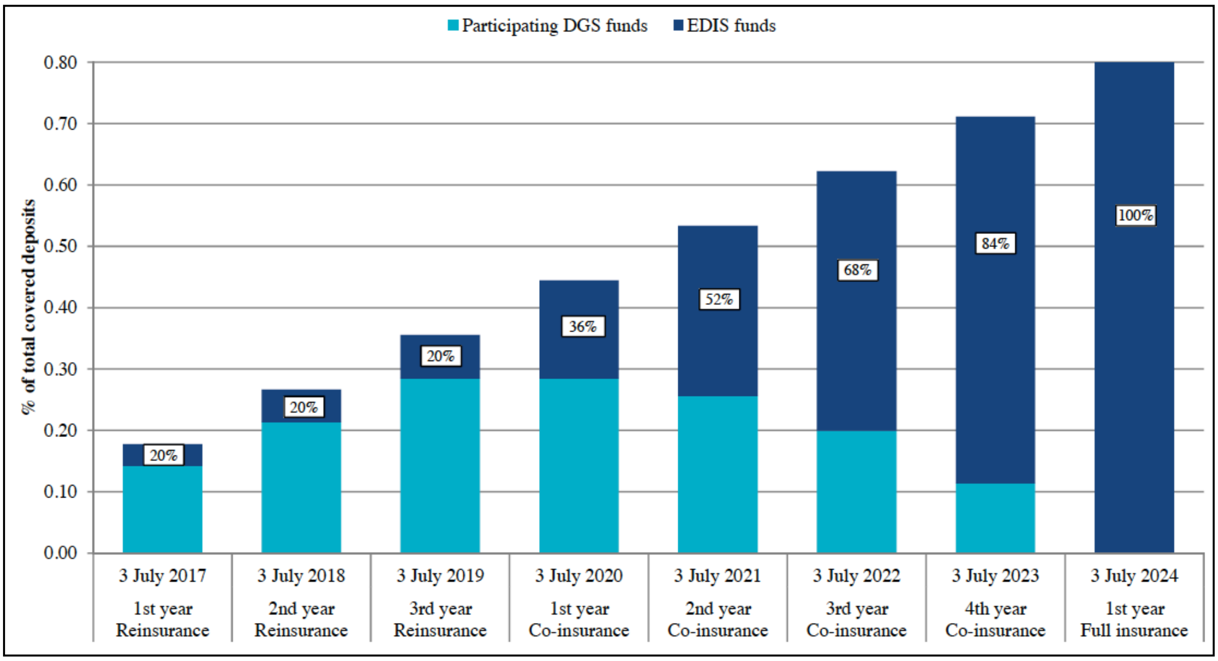
> Suddenly, they came up with the idea that they have to finish the third pillar and honestly, if you would have told me six months ago, I would have said, "You are mistaken, it is not true, because it is pretty clear that they will postpone the third pillar" […]. Anyway, we had long negotiation days and then, in the banking union, they incorporated the third pillar and they came up with the proposal. I mean, it was just one month, one month and

[178] While the small banks in Germany oppose the EDIS proposal because of high level of trust in their national system, the banks from the Southern European countries stick to the European perspective because of the limited capacity of the national funds (Interview ESBG II).

[179] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme.

a half ago, and suddenly, they have a legislative proposal they would put on the table. It is amazing, it's amazing the way it works and this is about politics (Interview ESBG III).

Figure 6.1 Evolution of EDIS funds compared to the funds of a participating DGS (in case MS/DGS[180] chooses to compensate)



Source: European Commission (2015g).

The legislative proposal considers the establishment of EDIS in three successive stages: a re-insurance scheme for participating national DGSs in the first period of three years, a co-insurance scheme for participating national DGSs in the second period of four years, and full insurance for participating national DGSs in the steady state (see Appendix VI and Figure 6.1).[181] Gros (2015) describes the Commission's proposal for EDIS as an innovative and courageous one. It is regarded as courageous because it is at issue in some member states including Germany, and innovative because of an idea to set-up EDIS in three stages. Similar to the deadline for SRF, the last stage of EDIS should be reached in 2024. Furthermore, the Commission proposes that the SRB should be in charge of administering both the SRF and the Deposit Insurance Fund (DIF) and investing their funds in line with the SRM Regulation and delegated acts (European Commission 2015h, p.15). The SRB would monitor national DGSs and release funds only where clearly defined conditions are met (ECB 2017a). Despite that fact that the resolution and deposit insurance mechanisms can be seen as highly interlinked tools to handle

[180] Member state.

[181] The representative of banking association complained that there is a lack of clarity on these mechanisms proposed by the Commission (Interview ESBG III).

failing banks, which can be merged into one institution, Gros (2015) argues that a decision-making structure of EDIS should be separate and independent of the SRM, as far as the EDIS fulfils primarily a macroeconomic function.

Not surprisingly, the member states with well-developed IPS and distinct banking systems disputed against the new framework of EDIS and pledged for the exemptions. As of 2015, the representatives of savings banks complained that the proposal for EDIS did not have an opening clause for an exemption for cooperative and savings banks, which they had hoped after Juncker's statement that they would not be affected by the initiative.[182] On the contrary, with the new proposal, the small banks observed that their interests were not taken into an account by the Commission (Interview DSGV Brussels). The expert from the EC admitted lucidly the institution's position towards the opposition against the EDIS, pointing out the need for harmonization and convergence across the eurozone.

> … the last word has not yet been spoken in a way. But on the other hand, it would also be a bit strange you know. The purpose of this EDIS is to have the same protection for depositors across the EU. So, I mean, whether you have a deposit in Cyprus or Germany or Spain, it should all be protected to the same extent. […] In each member state, there are different systems, therefore, you don't get the harmonization, you don't get convergent protection across the eurozone if you make exemption for each of them. […] It is very controversial particularly from one member state [Germany], I would say. There are a few other member states who are also a bit critical, but there are also a lot of member states, who very much welcome this kind of development (Interview FISMA).

The discussion on EDIS, thus, continued to be a very controversial issue. Bringing it back into agenda, the Commission tried to push the completion of the banking union according to its timetable, which is outlined in the "Roadmap Towards a Complete EMU" of the "Five Presidents' Report".[183] Along the first stage of the roadmap, from 1 July 2015 till 30 June 2017, the Commission envisioned to finalize the banking union by:

- setting up a bridge financing mechanism for the Single Resolution Fund (SRF);
- implementing concrete steps towards the common backstop to the SRF;
- agreeing on a common deposit insurance scheme (EDIS);

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[182] This statement was delivered in the debate entitled "Euro, Russian, Refugees—The Future of the European Union" on 8 October 2015 held in Passau, Germany. The full interview can be found in http://ec.europa.eu/avservices/video/player.cfm?ref=I109691. For the reflection in the German media, see more in http://www.spiegel.de/wirtschaft/soziales/eu-einlagensicherung-ausnahme-fuer-sparkassen-und-volksbanken-a-1060675.html.

[183] One of the interviewees emphasized that the end goal of EMU architects is "an own budgetary mechanism to absorb shocks—that is own budget, an own financial ministry for the harmonization of social, economic and labor politics" (Interview ASBA).

- improving the effectiveness of the instrument for direct bank recapitalization in the European Stability Mechanism (ESM) (Juncker et al. 2015, p.20).

Still, negotiations on a common deposit insurance scheme remained a point of controversy and encountered a new impasse. The representatives of the German banking associations complained that the banks across Europe did not fulfill the harmonization of national deposit guarantee schemes (DGS) according to the schedule (Interview DSGV Brussels, participant observation). By putting forward a proposal for the regulation to establish an EDIS in November 2015, the EC did not expect a quick agreement by the end of 2015 (Interview FISMA). To a certain extent, such position of the Commission, which is built upon previous experiences of setting the first two pillars of the banking union and pushing the agenda on other matters, is understandable. The representative of FISMA acknowledged that the negotiations on EDIS were of high priority and noted that "normally if there is some political push for something, it always helps to get things done a bit quicker" (ibid.). The Commission is, however, the political actor that exercises its power to push forward the banking union agenda and the actor that contributes the most to the design of the new regulations.

The year 2016 was relatively silent with regard to moving forward with the EDIS proposal. The EC published a discussion paper "Effects Analysis (EA) on the European Deposit Insurance Scheme (EDIS)", analysing the effects of three options for establishing a deposit insurance within the banking union: (i) a mandatory reinsurance model based on different levels of distribution of resources between national DGSs and the European reinsurer; (ii) a mandatory lending model, which obliges participating DGSs to supply up to 0.5 per cent of covered deposits as a coverage for liquidity shortfall; and (iii) a fully mutualized fund arranged under the EDIS proposal, which shall replace national DGS in providing full liquidity and absorbing any loss (European Commission 2016d). As clearly stated by the Commission, the last option for a fully mutualized fund is anticipated as the best EU solution. The Commission derives its position on the basis of stressed scenarios for 99.8 per cent of the EU's bank assets, which concludes that "under all three options, pooling risk delivers in every circumstance a significantly stronger deposit guarantee system than a system of purely national schemes with voluntary lending. The expected shortfall of a single scheme is lower than that of multiple national schemes" (ibid., p.3).

A renewed impetus to the negotiations on EDIS and a common fiscal backstop for SRM Commission was given in the Commission communication on 11 October 2017, which called for the completion of all parts of the banking union by 2018. Together with the CMU, the completion of banking union is regarded to be beneficial to European citizens and business as well as for the entire Single Market. Deeper financial integration of EMU is believed to lead to a more stable and resilient financial system. For this reason, the Commission urges the European Parliament and the Council to proceed with the EDIS and suggests introducing it more gradually if compared to the proposal of November 2015. The transition to EDIS is anticipated in two phases: a more limited reinsurance phase and coinsurance phase. In the first phase, EDIS would be responsible for supplying liquidity coverage to national DGSs, thus, the losses would be covered at the national level; in the second phase, EDIS would progressively cover the losses (European Commission 2017d).

Following the Commission's communication, the prominent researchers of well-established European think tanks offer their solutions to the institutional arrangements of the eurozone. Even before the Commission has renewed its attempt to bring the issue into political discussions, Gros (2017) calls for a reconsideration of finalizing the banking union in a book chapter "Try again to complete the Banking Union!". He ascribes the problem as entirely political because of Germany's and Italy's concerns about mutualization of risk via deposit insurance and sovereign debt holdings. He claims that in regard to systemic shocks, the national DGS could cope with individual bank failure, while a common European fund would be capable to cope with larger shocks without overwhelming national resources. In CEPS policy insight "A Blueprint for Completing the Banking Union" (2017), Micossi echoes the Commission's urge to complete the banking union, as far as the EDIS is considered as a suitable agreement to decrease legacy risks in banks' balance sheets and to deliver greater risk-sharing and a fiscal backstop for both the Resolution and the EDIS Funds. Verón (2017) brings an additional aspect into the discussion. He proposes that in addition to EDIS, the European Union should introduce a Sovereign Concentration Charges Regulation (SCCR) as regulatory disincentive against highly concentrated sovereign exposures of euro area banks.

6.2. The Creation of the Banking Union: Renewal of Pressure on German Savings Banks from the EU[184]

Since the launch of the banking union project, the German savings banks have opposed its imposition on small banks. Yet, the savings and cooperative banks feel most threatened by the EC's proposal for a European Deposit Insurance Scheme (EDIS). On the contrary, the

[184] Parts of this subchapter are used in Semenyshyn (2017).

association of private banks (EBF) supports the creation of a fully completed banking union with its third pillar, a Euro-wide Deposit Insurance Scheme (EDIS), and emphasizes that the EDIS should not grant any exceptions for specific banks as defined by their membership in a particular group of the banking sector (EBF 2015; Interview CEPS).

The EBF' lobbying strategy is different in comparison to the strategies of the smaller banks. The large banks consider how they can use Commission's initiatives to improve the interests of their members:

> They are taking the new initiative and are shaping it to the way that they want it for them to be.[185] Because a banking union was really good for them, so then they were going with the flow of the Commission and were building a credibility and goodwill with the Commission […]. And it's very often in Brussels that the Commission is looking for supporters from the business, from the NGOs (Interview Finance Watch II).

Thus, in case of banking union, the alliance of the Commission and association of private banks is viewed as being very strong (Interview Finance Watch II). While the association of private banks supports the Commission's projects (EBF 2015), the small banking sector, including savings and cooperative banks, opposes a uniform EDIS because it wants to maintain its IPS, which has been in place for decades. The reason is that the new policy proposal from the EU level might weaken and consequently abolish the IPS of the smalls banks, which is part of their identity as local regional banks.

The IPS of savings banks functions in the following way: if a member institute in the group is facing economic difficulties, it can get support from the corresponding guarantee fund, thus securing the solvency and liquidity of the institute. The fund might consider such measures as increasing equity capital, providing guarantees and fulfilling third-party claims. The guarantee funds of IPS are interrelated with each other; therefore, they can provide supra-regional and system-wide compensation. In the first case, for example, if a guarantee fund of the regional savings banks association cannot supply enough means, all eleven guarantee funds will share their resources. The regional building societies, the Landesbanken, and giro centres have their own independent funds that can also be tapped in case one of the other funds is depleted. Such IPS is primarily based on prevention, which involves structured risk monitoring aimed at identifying potential risks and applying prevention measures. For this reason, the legally prescribed

[185] See more on the role of the big banks in the creation of the banking union in Corporate Europe Observatory (2014a) and Zhang (2014).

deposit protection of up to €100,000 is a fallback solution that can be used in case the savings bank IPS fails (DSGV 2016a).

The Association for Cooperative Banks (BVR) as well as the Association for Savings Banks in Germany (DSGV) emphatically reject any form of common liability for deposits in the EU or the euro area and claim that the abolition of IPS would cause irreparable damage to the decentralized structures of the German banking market. The cooperative and savings banks fear a double burden of additional costs, as they will need to pay the contributions to their own IPS as well as provide funds to the European Deposit Insurance Fund (DIF) under the EDIS (BVR and DSGV 2015b; 2016). In addition, they will need to replenish the DIF if funds have been used up for compensation and resolution. The small banks are convinced that their own IPS is well-functioning and thus secures the stability of the banks. Considering their resources, size and risk-averseness, a two-layer protection system would be too costly for them and impair their competitiveness. Forced to comply with the EDIS, a savings bank might have to give up its own well-established protection system, which offers prevention measures and secures safeguard funds for restructuring a savings bank in need. A policy brief from the CEPS acknowledges the importance of IPS and thus sees no grounds for abolishing them, as the system has proven to work well so far (Gros 2013, p.3).

The savings banks aim to protect conservative banking model with a business model oriented towards the real economy and local cycles.[186] For this reason, the savings banks envision a two-level regulation model as in the case of the US[187] that might benefit not only savings and cooperative banks, but also banks with similar structures in other countries (Interviews DSGV Brussels, DSGV Berlin). In the US, only the largest banks are obliged to conform to Basel regulation, while the community banks are exempted. Following their lobbying strategy, it is not that savings banks want to have a lower requirement for the core capital, but what they wish primarily is a decrease in administrative burden. With a two-level model, savings banks see an optimal solution to fulfill the subsidiary principle, implement the proportionality principle and encompass the complexity of different business models and risks (Interview DSGV Berlin). However, even though the small banks strive to provide access to finance and stability

[186] As confirmed by Finance Watch, the traditional banking models are seen "as the most reliable through the crisis and the most fit to accompany the recovery" after the crisis rather than the other banks (Interview Finance Watch I).

[187] The two-tiered approach to banking in the US sets a light version of Basel III for the savings and community banks under 10 billion dollars balance sheet totals (Interview DSGV Berlin).

to the market, they are going through the M&A process, causing low profitability, increasing costs and digitalization (Interview ASBA).

Deeg and Donnelly (2016) argue that the choices of the states and banks prior to the crisis determined the impact of the banking union on alternative banks, emphasizing that German savings banks preserved their original mission and institutions. Still, this strong position can fade away once the banking union is established. This is because the banking union neglect their interests and does not acknowledge their contribution to financial stability. By treating all the banks in the same way, the banking union in its current state threatens the business model of the savings banks. The reforms impact centralized and decentralized banking models differently. Therefore, the European policymaking in the financial and banking sector has a transformative effect on the German banking system. Due to such a Europeanization of financial regulation, different banking groups respond actively to EU governance. Savings banks struggle in order to keep their special model viable in the new regulatory environment.

In sum, this policy design impacts the preferences of the small banking groups, which might force them to leave the system that proved to be effective during the financial crisis. Such a convergence of banking regulation and mutualization of liability risk among banks at the cost of existing deposit guarantee schemes might actually undermine the financial stability of the banking system.

6.3. Strategies of German Savings Banks Group in the Process of the Construction of the Banking Union

6.3.1. Lobbying at the EU Level

Since German savings banks were less dependent on EU regulations beforehand, they have focused on lobbying within their national channels. However, with the increased influence of EU regulation on national banking systems, they have to mobilize and enter the European lobbying channels. In this way, Brussels is a political space that provides opportunities for different actors to bring their interests to the forefront and influence the political debate. At the same time, these actors follow their own discursive strategies based on divergent political interests and preferences, which might lead to limiting these opportunities. As reflected by one of my interviewees, Brussels is a “unique cosmos” (Interview Frankfurter Sparkasse), where ideas and paradigms guide the actions of the actors. Equipped with their ideas, the savings banks representatives exercise their preference-shaping power in order to influence the development of financial regulation in their favour.

Perception of Savings Banks in Europe

There are some reasons why the model of the German savings banks has not been able to win strong support in the financial reform debates. First, the German savings banks belong to the Savings Banks Finance Group,[188] which has a decentralized and heterogeneous structure.[189] A saving bank and a Landesbank in the group share a common perspective but might pursue different interests in banking policy or regulatory law due to the size, mission and specificities of a business model or involvement in the international financial markets.[190] In this light, it is a challenging task for the savings banks to communicate their identity, their legal status and relationship principle with no competition clause[191] or their relationship to the Landesbanken. In this sense, the Savings Bank Finance Group is perceived as a corporate group, which possesses many franchises and pursues a common business policy (Interview Frankfurter Sparkasse). Moreover, the group is seen as "mutually dependent for systemic risk purposes" and as "too-big-to-fail" (Interview Bruegel). Also, savings banks IPS mechanism is regarded as a characteristic of a group (Interview ESBG III). Thus, European financial policymakers find it difficult to understand on behalf of which banking model the German Savings Banks Finance Group actually speaks (Interviews ESBG III, Frankfurter Sparkasse).

The representatives of DSGV emphasize that savings banks are very much diversified by doing its own business in a specific area independent of each other and by choosing its own direction for the conduct of business. They also point out that savings banks are independent institutions,

[188] It is the task of DSGV's Department Savings Banks Politics and Banking Supervision (Sparkassenpolitik und Bankenaufsicht) to represent the interests of Savings Banks Finance Group (including Landesbanken) at the national, European and international levels; to communicate its position to the politicians and supervisors; to provide the overall strategic orientation; and to develop common public relations. In addition, the DSGV supports savings banks in product development, in the areas of technical know-hows and in marketing (Interview DSGV Berlin).

[189] In addition, savings banks opponents use their public ownership structure to demonstrate a lack of transparency in the sector (Interview ESBG III, see Chapter Two on this issue).

[190] For example, the Frankfurter Sparkasse is a subsidiary of the Landesbank Hessen-Thüringen. In this case, the bank falls under the category of systemically important financial institution (SIFI) and is subject to European directives (Interview Frankfurter Sparkasse).

Recalling the discussions about Basel implementation to the banks in 2003–2004, UEAPME representative underlines that the savings banks pleaded for their inclusion under Basel. In this way, they did not want to belong to the "small second-class banks", but wanted "to play with the big players". In that case, savings banks were also supported by Landesbanken (Interview UEAPME).

[191] There is no limitation for competition among the Austrian savings banks (Interview ASBA).

which carry the responsibility for their institutions, their businesses and risk management on their own. Furthermore, the DSGV officials recognize that some services as liquidity management are centralized, yet, the managing board of each savings bank still has the decision-making powers. In this sense, they argue that "the German Savings Banks Finance Group is an association, but not a concern with a classical parent/subsidiary relationship", where the capital can flow from one to another (Interviews DSGV Brussels, DSGV Berlin). A representative of Finance Watch supports such argumentation. She posits that in case of a problem in a savings bank, there is no systemic impact, as the problem remains regional. Moreover, there are other banking structures that provide financial services. It is unlikely that all savings banks are down at the same time. On the contrary, such a situation is more likely with the big private banks, which are very much interconnected and, therefore, exposed to the same global risks (Interview Finance Watch I). To communicate these arguments within the European arena remains a challenging task for the DSGV officials (Interviews DSGV Brussels, DSGV Berlin).

Second, some Landesbanken in the group lost severely in the crisis and have gone through the winding-down (WestLB) or restructuring (HSH Nordbank) processes, which were approved by the EC. Savings banks have partial ownership of Landesbanken;[192] therefore, they can exercise oversight over the Landesbanken. The Landesbanken, where the savings banks did not use this right to the fullest, ended in the crisis as in the example of the WestLB. Still, as in the case of Helaba, the performance of the Landesbanken proved to be more prudent when savings banks had a greater say in their governance structure (Polikhronidi and Scherrer 2017). After the financial crisis, the Helaba did not have to confront large problems, as far as it invested less in the critical financial products and conducted a conservative credit policy. Overall, being affected by the negative images of Landesbanken, the savings banks have to articulate a 'credible' position about their relationship and liability with the Landesbanken. Otherwise, they will keep facing critique from Brussels (Interview Frankfurter Sparkasse).

This point regarding the relationship of the savings banks and Landesbanken is recognized by one of my interviews:

[192] Ownership relationship between savings banks and Landesbanken varies in each federal state. Historically, the savings banks founded the Landesbanken for processing payment transactions. Later, the Landesbanken started to conduct business and refinance independently from the savings banks. After the World War II, the states also became part of the ownership structure. In Hessen, the savings banks own 85 per cent of Helaba; in Bavaria, the savings banks are out after the crisis of LB-Bayern; in Baden-Wüttenberg, one third belongs to the city Stuttgart, one third to the state, and only a minor part to the savings banks (Interview Frankfurter Sparkasse).

> All those who look from the outside say: 'Yes, one cannot think of the savings banks without Landesbanken'. And then, there are two banks, which have been more or less destroyed. One has destroyed itself—Berlin is actually no longer there; the WestLB is destroyed; the HSH has been just destroyed; Bayern and Baden-Wüttenberg have been for a long time under collateral of the EU. […] Actually, it is an enormous problem if to think of the whole complex and not only of the savings banks. And from my point of view, it is a bit of a problem of savings banks officials. Depending on what they want, they turn it around and say: 'We are the savings banks and we do not have anything to do with the Landesbanken'.[193] In case someone comes and says: 'We destroy them', then they cry out and say: 'Ah, it costs us money, because we are the owners' (Interview Frankfurter Sparkasse, own translation).

Such an ambivalent argumentation line from the savings banks strengthens the criticism from the opponents' side and hinders their lobbying activities in Brussels. From the point of view of European actors, savings banks often forget about Landesbanken in their lobbying activities (Interview UEAPME). In this regard, the DSGV representative recognized that the savings banks suffered because of Landesbanken failure in the crisis. For this reason, he highlighted that the savings banks "will think carefully about how they continue to work together with the Landesbanken in the future". In addition, he acknowledged the usefulness of regulations for the Landesbanken (Interview DSGV Brussels). The aim of savings banks has been to refocus the Landesbanken to cooperate within the DSGV and support savings banks and medium-sized lending business. However, this has a been long-term process, in which interests of savings banks have not been achieved to the fullest yet because of the involvement of the federal states (DSGV Berlin).

Third, the German savings banks have lost many of their European allies such as Belgium, France, Italy and Spain, where savings banks have been restructured, privatized or completely eliminated (Ayadi et al., 2009; Butzbach, 2007; Interview Finance Watch I; Ordóñez, 2011;, see Chapter Two). The difficulty to communicate the success of the savings banks to the European level is also confirmed by the representatives of the savings bank and its association. They are hesitant whether the crisis has been useful to the savings banks. It has been also challenging to mediate to the European level the meaning of the German three-pillar banking system with its high market shares of small banks like savings and cooperatives banks. Such a model has become completely unusual to the other European countries. In most cases, there is a relatively strong market dominance of a few big banks and the small banks do not play a big role (Interviews Frankfurter Sparkasse, DSGV Berlin, Finance Watch I). For example, in

[193] A representative from UEAPME comments that in this case, savings banks strive to demonstrate an image of 'good guys' (Interview UEAPME).

France, this a group of five biggest banks: BNP Paribas, Credit Agricole Group, Société Générale, Groupe BPCE, and Credit Mutuel; in the UK, four banks: HSBC Holdings, Barclays PLC, Royal Bank of Scotland, and Lloyds Banking Group (Statista 2018, see Appendix VII).

The governments of these countries follow the narratives of these big banking groups and also defend their national champions (Interview Finance Watch I). Germany and Austria remain the only countries in the EU with a significant per centage of LSIs (Interview DSGV Berlin). Thus, the power game is not so much in favour of small German savings banks (Interview Finance Watch I). In the meanwhile, more than 300 small cooperative banks (credito cooperativo) will be restructured into three large banking groups (Panetta 2018). The lack of allies of the same nature and model makes it harder for savings banks to establish strong coalitions.[194] Thus, the interests of a small bank are marginalized in the agenda-setting and decision-making phase of European financial market politics.

Savings Banks' Allies among Interest Representation Groups

Savings banks are aware that it is impossible to lobby against the banking union project as a whole (Interviews ASBA, ESBG and DSGV Brussels) as far as the European politicians put a strong value "to include all" under the new regulations, as in the case of SSM and SRM (Interview DSGV Brussels). As pointed out by one of the interviewees, "usually it is not much use to be against something in Brussels" (Interview EFBS). After losing their traditional allies, the small banks have to adapt strategically to the new environment and establish new alliances. This has been crucial in case of the initiative for common deposit insurance. The DSGV officials emphasize that the topic has been "extremely important" for the savings banks (Interview DSGV Brussels). The overlap between the positions of savings and cooperative banks allows them to build stronger alliances at the European level, even though the two groups are competitors at the national level (Interviews ASBA, DSGV Brussels, ESBG I). In frame of my field trip to Brussels, I had a chance to be a participant of the Parliamentary Evening organized by the National Association of German Cooperative Banks (BVR) and the German Savings Bank Association (DSGV). The focus of the event was to communicate the position of these two associations in regard to the EDIS at the European level. The former president of the DSGV—Georg Fahrenschon and the former president of the BVR—Uwe Fröhlich stated that their

[194] In the same manner, the building societies face difficulties to find coalition partner, as far as the building societies in the UK, Spain, Italy either disappeared or changed into universal financial institutions (Interview EFBS).

associations oppose all forms of communalization of deposit insurance (BVR 2015). In their joint statement, they delivered:

> The National Association of German Cooperative Banks and the German Savings Banks Association are not willing to use funds that have been accumulated over many years to safeguard their own depositors' assets in order to provide deposit protection in other countries, nor are they willing to assume liability for foreign deposit guarantee schemes within the scope of a re-insurance system. We appeal to Members of the European Parliament and of the German Bundestag to ensure that institutional protection systems operating under the current Deposit Guarantee Schemes Directive are in no way impaired (BVR and DSGV 2015a, p.2).

As pointed out by one of my interviewees, there has been an exception to subordinate the IPS to the banking union under certain conditions. This possibility has been used by the cooperative banks, which do not need to change much in their structure due to the existence of the central fund. Also, the cooperative banks have more chances to win the exemptions within new structures in the future after merging of the DZ and WGZ banks.[195] Savings banks, on the contrary, have a more complicated structure, which is not centralized around the DSGV, but which is dispersed among the regional associations. Also, politically, the decision-making is at the state level, but not at the federal level. A savings bank representative pointed out that there had been a lack of political will "to really adjust the Landesbanken landscape" (Interview Frankfurter Sparkasse). Thus, there was a need for change and modification of the savings banks structures, which turned out to be difficult and hindering. In this complicated process, the savings banks got involved in a dispute with the Bundesbank, which always supports the savings banks, as well as the BaFin (ibid.).

With their lobbying the small savings banks aim to articulate their national specificities, which are to be taken into consideration by the European officials in the harmonization process. The main message of ASBA and DSGV with regard to the third pillar of the banking union is follows:

> The German and the Austrian savings banks have built their own safeguard mechanism. If there is a problem with a savings bank, then immediately the other [savings banks] bear liability for this savings bank. The systems are national, which do not go abroad; and the risks arise only regional at the country level, for which a liability can be used in a way that a customer does not notice anything (Interview ASBA).

[195] The WGZ Bank was merged with the DZ Bank into DZ Bank. Die Initiativbank. The legal procedure took place in 2016. The integration process was scheduled for late 2018 (EACB 2016). To win the exemptions in the way the cooperative banks do, the savings banks would need to reduce the number of Landesbanken to one or two (Interview Frankfurter Sparkasse).

In addition, the Association of the German Savings Banks (DSGV) works closely with the European Savings Banks and Retail Banking Group (ESBG)[196] and tries to bring their positions into the discussion through the European platform.[197] However, the case of EDIS is seen as "specific" for the savings banks (Interviews DSGV Brussels, ASBA). An interviewee from the DSGV points out that "actually, the members of ESBG are predominantly for the communized deposit insurance", which leads to the conflict of interests.[198] Therefore, the DSGV has to conduct its representation of interest on its own. With regard to EDIS, there has been 'a clear statement' from the Austrian Savings Banks Association (ASBA),[199] which goes in line with the German savings banks. Also, the German Banking Industry Committee (die Deutsche Kreditwirtschaft, DK) supports the savings banks against the common deposit insurance scheme at the European level, which makes them 'a strong group'. Interestingly, by trying to ally with other national banking associations, for example, the savings banks initially could find support by the French banks. However, after the pressure from the French government, the association could not find a common position with the French Banking Federation (Fédération bancaire française, FBF) (Interview DSGV Brussels).

The European Banking Industry Committee (EBIC)[200] is another European platform for the representatives of the banking industry to bring to the forefront their views and find a common position (Interviews ESBG II, III). However, it is more difficult to find a general position for the entire banking industry taking into an account each single structure. A common position of EBIC has a more general and political character, is less technical, substantial and clear, which

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[196] In addition to the membership of small and retail banks, ESBG represents the interests of some significant institutions, which merged into the large retail banks (e.g. BPCE, Lloyds Banking Group) (Interview ESBG III).

[197] From the point of view of other actors, the national associations of member states are not the key players in the European politics, however, the role of the DSGV is seen as "extremely important". Also, due to the fact that the DSGV dominates the ESBG, it can use the European association to bring DSGV's interests into the debate (Interview Bruegel). However, based on the diverse membership and the need to accommodate the interests of different members, the common position is mostly weaker than from a single association (Interview Finance Watch II).

[198] It is also confirmed that with regard to EDIS, the interests of members are very diverse and tensions among members are extremely strong. There are some members, who favour the ideas of EDIS, while the others completely oppose to it. Thus, ESBG is not able to provide a substantial position on the initiative (Interviews ESBG II, III). However, if the interests are united, it brings more weight to the Commission than from the national banking association (ESBG I, II). For example, DSGV does not need to be flexible while lobbying on its own, however, if it is open for a compromise, its voice is stronger if united with other members of ESBG (Interview ESBG II).

[199] The ASBA banks bundles together with DSGV to find support by the Permanent Representation of German to the EU or with the CECA by the Permanent Representation of Spain to the EU (Interview ASBA).

[200] For more, see http://ebic.org/.

leaves a space for interpretation for diverse banking associations (Interview ESBG II). If there is a specific problem of a certain banking group, then each group follows its own lobby strategies to articulate its distinct ideas, preferences and interest (Interviews ASBA, ESBG II). In case of a banking union, each pillar has its own measures. Thus, building coalitions within the EBIC has been possible only in specific parts of the whole project.[201]

Another partner of savings banks is the European Association for SMEs (UEAPME), which had previously supported the public banks in fighting against the pressure from the DG Competition to remove state guarantees for public banks.[202] The UEAPME representative acknowledged that throughout the whole financial crisis all banking groups looked for coalitions emphasizing on the banks' role in financing the SMEs. However, the association for SMEs is more concerned about keeping the model of cooperative and savings banks, as far as they contribute more to growth rather than solely concentrate on higher profits and returns. On the contrary, large banks are less familiar with local decision-making and mostly do not engage in financing the risk of smaller enterprises. For this reason, the representative of SMEs pointed out that there is a need for credit unions and small cooperatives outside the current system. He regretted that there was no more independent local banking sector in Spain (Interview UEAPME). This resembles that UEAPME follows the discursive strategy of small banks and supports the existence of their model in the EU. UNI Finance, the Global Union for all finance and insurance workers, also supports the savings banks in the fundamental questions. However, a representative from the savings bank criticized it for not really positioning against the CMU (Interview Frankfurter Sparkasse). It is the key for the savings and cooperative banks to ally with the other actors, as far as their voices are more heard by European politicians, if bundled together with others (Interview DSGV Brussels). Along these lines, the small savings and cooperative banks can increase the influence of their preference-shaping power if they manage to convince other actors not only in their countries, but also in Brussels and ally with them. In the following subchapter, I reflect on how the savings banks exercise their lobbying practices at the European level and how they perceive the European institutions and their powers.

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[201] For example, there is more cooperation between DSGV and Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB) than between DSGV and European Association for Public Banks (EAPB). This can be explained by the fact that development banks follow a different business model. For example, in most cases they do not conduct deposit business and therefore have different conditions with regard to deposit insurance schemes (Interview EAPB).

[202] In this regard, DG Competition also monitors the development banks, which have guarantees. The Commission has to approve the establishment of the new development bank in Europe (Interview EAPB).

Lobbying the European Institutions

The EC is the key actor in transforming the European project and architecting the rules for the financial industry. In this regard, the Commission is shaped by the thinking of centralization and strengthening of the European Single Market. Furthermore, the Commission is also seen as an institution that strives to keep and increase its power, capacities and influence (Interview DSGV Berlin). This supranational institution is seen as an apparatus that should not be underestimated. While conducting my interviews, it was important to receive a feedback from various actors about Commission strategy with the banking union initiative. Many interviewees explained that it was a logical step for the Commission to proceed with deposit insurance after the resolution or restructuring procedure was approved. With regard to EDIS, the Commissioner Juncker was seen as the key actor bringing the topic forward in the political debates (Interviews Frankfurter Sparkasse, DSGV Brussels). The representatives from the banking industry underlined that he reorganized the power within the Commission and strengthened its top management (Interviews Frankfurter Sparkasse, ESBG III). Juncker was characterized as a bank lobbyist that followed the strategy of "regulation reverse" favouring the interests of banking industry (Interview Frankfurter Sparkasse).

The representatives of the banking industry complained about the "extremely short-time plan" for the proposal regulation in 2015, which squeezed the stakeholder consultations, public consultation and exchange with the member states (Interviews DSGV Brussels, DSGV Berlin). Commenting on such "extreme short time" and "extreme vehemence", the advisors from the banking industry criticized the Juncker Commission for not adhering to the principles of better regulation prescribed in the regulations. Such a discursive strategy turned out to bring fruits in lobbying activities of small banks, as EDIS was put on hold. Still, in the case of EDIS, the EC was seen as the key actor to exercise its agenda-setting power (ibid.). As pointed out by one of the interviewees, "the EC is dreaming of European Deposit Insurance Scheme; it is the goal, which the Commission wants to reach" (Interview DSGV Berlin). And, the end goal is to transfer decision-making power in the realm of DGS from the national level to the European level.

Concerning the influence of the European agencies, the ESAs (EBA, ESMA, and EIOPA) are seen to have relatively much influence in the interpretation of the laws, thus in exercising a preference-shaping power while developing regulations and implementing technical standards for the EU financial system. Possessing this power, these agencies are of great importance to the lobbyist.[203] In addition, there is less attention to what is happening behind the scenes because of the quantity of guidelines and regulations in many specific topics published every day (Interview Frankfurter Sparkasse). The representatives of banking associations complain that in order to keep abreast of new regulations and consultations, one needs a large apparatus of workers to focus on different themes (Interviews Frankfurter Sparkasse, EFBS, ESBG III). This task is fulfilled more intensively by the banking associations, which are able to engage more intensively in this process depending on the available financial resources. Being a trainee of the ESBG, I supported advisors who were working individually on topics such as bank regulation, market regulation, digitalization, social dialogue or taxation.

Also, the ECB plays an important role in changing the regulatory landscape for the financial sector. An interviewee from the savings banks noted that by setting a more centralized and uniform regulations, it becomes more difficult for the savings banks to explain the peculiarities of each single institute. The uniform supervisory standards are reasonable from the European perspective. The savings banks expect significant effects on their sector due to such a 'one-size-fits-all' approach. In comparison to the EBA, which offers consultations and is under the parliamentary control, the ECB with the new SRM is perceived as being not transparent. A savings banks representative complained that there is no such control mechanism for the ECB (Interview Frankfurter Sparkasse). Similarly, the representative of DSGV Berlin emphasized that apart from operative execution of its supervision roles, the ECB also strives to shape the fundamentals of banking supervision regulation, thus, to win positions with the preference-shaping dimension of power. However, it is the task of EBA to develop concrete procedures and guidelines for the banking sector. For these reasons, there are these conflicts between institutions and agencies to define their clear areas of responsibility, powers and governance (Interview DSGV Berlin). Certainly, by having both supervisory and monetary roles, the ECB has acquired 'great power' if to consider a decision-making power according Lukes. In addition, it is believed to have an influence, i.e., 'power over' on the EC. For example, one of the interviewees emphasizes the increase of ECB's power in the case of "Five Presidents' Report", as far as the report has been inspired and initiated by the President of ECB—Mario Draghi (Interview EFBS). As follows, the EC is not the single institution to exercise successfully its

[203] For example, one of my interviewees mentions that in case of Markets in Financial Instruments Directive II (MiFID II) regulation, the European Banking Authority (EBA), with its interpretation, moved far beyond what was agreed politically at the level of the Commission (Interview Frankfurter Sparkasse).

agenda-setting power, it is also the ECB that increases its power within all three dimensions of power.

The DSGV official also emphasized the 'strong position' of ECB in regard to monetary policy. On the side of supervisory power, however, he noted that the institution is trying to assume more and more power by defining the standards and by setting the rules of the game for the banking industry (Interview DSGV Brussels). After setting the SSM, the ECB changed the supervision practices in the direction of quantitative orientation, which differs in nature from the supervision dialogue of the BaFin. The bank representatives complained that this centralized supranational institution proceeds in a "very mechanical" and "quantitative" manner with the aim to establish homogeneous market structures (Interview DSGV Berlin). In general, the position of supranational institutions, in particular of ECB, is characterized as "very powerful". Furthermore, the banking industry representatives experience the transfer of power to the newly created institutions (Interview DSGV Brussels).

Still, the BaFin has remained the contact partner for most of the cooperative and savings banks, as far as the ECB focuses primarily on the supervision of 120 systemically important financial institutions. In the Savings Bank Finance Group, six Landesbanken, the DekaBank and Hamburger Sparkasse (Haspa) are under direct supervision of SSM; the other two Landesbanken and the other savings banks are still supervised by the BaFin (Interview DSGV Brussels).[204] The national supervisor still defines 'how' it audits the small institutes. However, the European supervisor sets the guidelines 'how much' of auditing shall be done (Interview Frankfurter Sparkasse). As pointed out by ESBG representative, since the ECB establishes a supervisory culture for significant institutions and theoretically has "the last say" for less significant institutions, it might copy its approach towards significant institutions to less significant institutions (Interview ESBG II). In addition, the SSM can always intervene in the supervision of a certain bank (Interview DSGV Brussels). Therefore, the BaFin is losing its functions and the room for maneuver in this process and turns into an executive organ subordinate to the SSM (Interviews Frankfurter Sparkasse, DSGV Berlin, EFBS).

With regard to the role of the European Parliament, its power has been presented as diminishing (Interviews Frankfurter Sparkasse, ESBG III). What distinguishes the Commission from the parliament is not only the agenda-setting and decision-making role, but also the limiting

[204] Similarly, the Austrian savings banks have remained under the auspices of national supervisor; the Erste Gruppe falls under the European supervisors (Interview ASBA).

capacity of the European parliamentarians to cover comprehensively the array of topics discussed. For example, banking regulation is only one of the many themes covered in the meetings of the Committee on Economic and Monetary Affairs (ECON). In one of the interviews, German Members of the European Parliament (MEPs) were described as very organized and efficient, who split their mandates wisely to be able to influence the rapporteur, the shadow rapporteur[205] or the other relevant actors (Interview ESBG III). In regard to transparency in the lobby process in the Parliament, the ASBA representative mentioned Sven Giegold, who publishes his meetings with the lobbyist.

With regard to interest representation in the European parliament, German savings banks find relatively high support from the German parliamentarians who are in the ECON. These parliamentarians are described as “very competent” and “influential” having worked in the parliament for a long time (Interviews Frankfurter Sparkasse, Finance Watch II, ESBG I).[206] Also, a representative of ASBA noted that even being small in size, the small banks have great influence in the parliament due to their strategy to concentrate on one or three most important issues (Interview ASBA).[207] For example, the German parliamentarians are familiar and supportive for the buildings societies and their Bauspar [building-saving] system (Interview EFBS). The savings banks have a good contact and are supported by the German members of the Progressive Alliance of Socialists and Democrats (S&D) and the European’s People Party (EPP), and comparatively less by the members of the Green Party.

In general, it is more difficult for the small banks to bring their voices to the European Parliament due to diverse positions of member states and their parliamentarians. Reflecting on the experience of savings banks, the DSGV representative pointed out that some Members of the European Parliament (MEPs) obviously represent the interests of their corresponding country, while others work by focusing on specific themes. In this way, they are more inclined towards

[205] ‘A rapporteur is responsible for a certain topic on behalf of a committee in the European Parliament. Each political group may then have a shadow rapporteur to negotiate the topic with the rapporteur’, http://en.eu-abc.com/word/2145 (Accessed on October 19, 2018).

[206] It is rather typical that an institution from a certain country gets support from the MEPs or financial minister from the same country (Interviews ESBG I, II). For this reason, many banks have their own representations in Brussels (Interview ESBG II). However, in order to gain weight in lobbying activities, ESBG tries to involve the institutions of the corresponding nationality (e.g., permanent representations) while negotiating with the MEPs (Interviews ESBG I, III). In addition, political philosophy of the party also matters in bringing forward the ideas in interest representation praxis (Interview ESBG II).

[207] Such an approach is also used by the representatives of development banks or ESBG, who concentrate on the technical questions trying to lobby for a differentiated approach in regulation (Interviews EAPB, ESBG III).

the European subsidiary principle or diversity. The MEPs are most likely to be reached with arguments (Interview DSGV Berlin).[208] In this respect, the representative of the ASBA highlighted that European German-speaking parliamentarians hold back offensively the savings banks model. In contrast, he pointed out a close alliance of British Permanent Representation with the economic actors, whose interests are represented in the ECON meetings (Interview ASBA).

It is a similar situation in the European Council, where the financial ministers from each EU member state need to find a compromise on controversial issues (Interview Frankfurter Sparkasse).[209] While the savings banks find strong support from its own financial minister with regard to EDIS, it is most difficult to find coalition partners in the Economic and Financial Affairs Council (ECOFIN), as far as financial ministers of each member state follow the interests of their own countries (Interviews Finance Watch II, DSGV Berlin).[210] However, what Germany might use to stop the debates on EDIS is a blocking minority. For example, this tool was applied in the negotiations on DGS Directive in 2010. One of the interviewees recalls the negotiations in the Council as trading-off:

> Europe was really under a lot of pressure after the crisis. So, Germany had their winning hand, because they were the only country with a stable situation […] I remember Schäuble was the one that had the final saying and countries were scared of saying something before Germany spoke, because they didn't want to go with the position that could be against the German vision […]. But there was also this alliance between France and Germany, the sort of Franco-German alliance, which also make the position of negotiating of those two countries strong (Interview Finance Watch II).

Even though German savings banks have not experienced the credit crunch, they are not able to present their model as an alternative in the financial world (Interview Finance Watch II). On the contrary, they are placed in the same row as large private banks and have to take the defensive position of lobbying against the pressure from the regulatory burden, thus "defending their success against a challenging environment" (DSGV 2014, p.3). As coined by a savings bank representative, "it will be difficult with the deposit insurance scheme, because, when, in the end, there is a deposit insurance scheme, in which one has to pay fully, then there is no

[208] As of 2015, the savings banks expected to be supported by such countries as Austria, Finland, and Netherlands (Interview DSGV Brussels).

[209] As pointed out in one of the interviews, interest representation associations cannot neglect the European Council, as far as it is very strong (Interview ESBG III).

[210] For example, with regard to the banking union, the savings banks could not find support from Malta (Interview DGSV Berlin).

more reason to maintain the structure of the savings banks" (Interview Frankfurter Sparkasse). Apart from the impact on the liability principle of savings banks, this entails also the threat for the relationship banking principle. In such a scenario, when savings banks do not bear liability to each other, they are no longer closely connected to the association and are more inclined to get involved in risky business (Interview Frankfurter Sparkasse). If the third pillar of the banking union is set according to the EC's design, this would mean that small savings and cooperative banks failed in winning positions through their preference-shaping powers.

Overall, savings banks' interest representation is regarded as being "very strong" (Interviews ESBG I, Finance Watch II). Yet, another interviewee pointed out that the small banks are 'always' in the defensive position at the European level (Interview EFBS). Despite this fact, the Finance Watch representative emphasized that the small banks should be more proactive in bringing their issues to the agenda (Finance Watch II), thus more proactive in exercising their agenda-setting and preference-shaping power.

6.3.2. Looking for the Allies at the National Level

At the national level, savings banks are better positioned to lobby for their interests. At home, where their model is rooted, there are more favourable opportunities to lobby the national government and to develop strong alliances. Since German savings banks are located in almost every municipality where they have strong ties to local government, they can effectively lobby the national government from bottom-up. Inasmuch as savings banks are still present in other European countries, they can equally try to influence the national governments and financial ministers (Interviews ASBA and EFBS), thus strengthening their voice within the Council of Europe. This channel gives national associations of saving banks a complementary entry point for influence that is missing for the European associations, as "the Council members look at their respective stakeholders, including interest groups, in member states' states" (Coen and Richardson 2009, p.10). However, this channel is also seen as the most difficult to influence (Interview EFBS).

As mentioned in the previous section, savings banks cooperate in their interest representation activities with cooperative banks. Also in Germany, these two associations provide common statements to the German government. One of the interviewees from a savings bank pointed out that he had experienced less collaboration with the cooperative banks. However, he remarked that "in order to maintain the structures [of the small banks], there is a need to do more together than it has been done in the past" (Interview Frankfurter Sparkasse).

The debate over the banking union has gained visibility at the national level and German savings banks have actually been able to win a broader coalition of support. In the case of EDIS, the German Banking Industry Committee (die Deutsche Kreditwirtschaft, DK), which collectively represents the interests of the German financial industry, supports the demands of the small and cooperative banks and criticizes the new European initiative (DK 2016). These small banks have also managed to win support from representatives within the German business community—the Association of German Chambers of Commerce and Industry (der Deutsche Industrie- und Handelskammertag, DIHK) and the German Confederation of Skilled Crafts (der Zentralverband des Deutschen Handwerks, ZDH)—as well as from the financial services department of the German trade union ver.di (DWN 2016; ver.di 2016). However, the Federation of German Industries (der Bundesverband der Deutschen Industrie, BDI), the association dominated by large corporations, supports the establishment of a common deposit insurance scheme as a part of the banking union and emphasizes its relevance for the industry and real economy (BDI 2016).

In turn, the government coalition of two German parties, CDU/CSU and SPD, supports the national IPS and has been arguing against the EDIS as far as savings and cooperative banks have been very active in convincing the parliamentarians of the *Bundestag*.[211] Normally, the success of lobbying depends on themes, however, in the case of EDIS, small banks have been heard across all political groups (Interview EFBS). The parliamentarians criticize the "Five Presidents' Report", and claim that "harmonization of bank risks through a common EDIS brings no trust in security of savings deposits in Europe and do not contribute to the stability of banks" (Bundestag 2015). The German politicians argue on the grounds of the subsidiary principle,[212] which allows member states to claim that the EU Commission exceeds its competencies with the offered provisions, and emphasizes that the member states can better regulate the issue (Bundestag 2016). The representatives of savings banks and savings banks association also confirmed a relatively big support from the German government with regard to the EDIS and banking union, which to a certain extent, affects the position of German parliamentarians in the European parliament (Interviews Frankfurter Sparkasse, DGSV Brussels). This support

[211] A representative of CEPS regards that German political parties follow such a position because of a fear for more Europe and because they are protecting the fragmented banking system (Interview CEPS).

[212] The representatives of savings banks complained that with regard to the first two pillars, the principle of subsidiarity was not kept sufficiently. According to this principle, they argued for the exemption from the SSM and SRM, which was not successful (Interview DSGV Berlin).

in the German parliament did not allow the German financial minister to agree to the EDIS proposal in Brussels (Interview EFBS).

Their efforts and lobby strategies seem to bear some fruit. The EC plans to amend the Capital Requirements Regulation and Directive as well as the Bank Recovery and Resolution Directive in favour of banks with a simple business model. The Greens member of the European Parliament, Sven Giegold, interprets this as the EC's departure from the 'one-size-fits-all' approach (Giegold 2016; Interview ESBG III).[213] However, the EC continues to pursue the completion of the banking union and an agreement on a common EDIS (European Commission 2016a). As a representative of ESBG pointed out, there are less prospects for the small banks to be excluded from the EDIS because it will not be excepted by the other banking associations. He envisioned that they might be successful in postponing the legislative process, but not in stopping it (Interview ESBG II). However, the Commission does not seem to accommodate the national specificities; thus, it is difficult to advance the third pillar (Interview Finance Watch II). As follows, the small banks face difficulties while articulating their preferences and interests at the European level.

Reflecting on the lobbying of savings banks, the DSGV representatives highlighted that through their interest representation, they are able to communicate their arguments and fears. In the process of Europeanization, their key message in Brussels is "not against the European project", but "against excessive centralization". They recognize that it is often difficult to bring forward their arguments among the diversity of actors at the European arena. Yet, through lobby, they try to communicate the system-stabilizing role of savings banks and that their model has future and raison d'etre in the EU and under SSM in the same way as the large banks. In this sense, they rely on the "power of word" and "the pervasive power of their arguments" and confirm that savings banks are heard at the European level and are able "to transpose concerns, specificities and positions" (Interviews DSGV Berlin, EFBS). However, the articulatory practices and discursive strategies of saving banks show that by exercising their preference-shaping power they mostly have to protect their model at the European level.

6.4. Compatibility of Savings Bank Model to the EU Project

Savings Banks Model as an Alternative in Europe

[213] Confirmed by Interview ESBG III.

In general, what is putting the savings banks into a defensive position is the Single Market envisioned to support the interests of the big banks. In this light, the harmonization in the banking sector has been driven from England to provide equal regulatory framework. This harmonization has opened up markets for the large British banks in Europe. In this way, British lobbyists could easily handle their issues at the DG MARKT or DG FISMA due to similar vision of European Single Market. On the contrary, savings banks with their specific structure and practices view the new European initiatives cautiously and critically. As they have certain characteristics which are rare at the European landscape, they repeatedly have to defend their positions and draw attention to their special features. For example, the MEPs from England, who are mostly familiar with major listed banks, are skeptical about such a model of IPS (Interview ASBA).

As pointed out by the savings bank representative, in the phase directly after the crisis, the savings banks could strongly benefit, because they were seen as "a safe harbour" (Interview Frankfurter Sparkasse).[214] When I asked him whether the model of the small savings banks can offer an alternative at the European level or whether the savings banks are destined to take a defensive position at the EU level, he replied:

> Well, I cannot assess the developments in the individual European countries. In some way, I know the discussion from England, where they have the whole areas where they cannot find any banks, where they are glad if they still have ATMs, and where, then, the ideas to found a cooperative or a savings bank have once again been given new impetus and also have found new supporters. Whether thereby one can break the power of the big banks, I do not think so. Therefore, from this viewpoint, I do believe that *the destiny of savings and also cooperative banks is certainly a permanent defensive*, unless someone would be found to fundamentally forbid the big banks. This would perhaps affect one or another Landesbank, so then the savings banks would perhaps be also against it (Interview Frankfurter Sparkasse).

Ethical banks are another example of financial institutions that try to offer an alternative model into the financial industry. However, despite their success, they have market shares below 1 per cent (Interview Frankfurter Sparkasse). Also, the representative of the DSGV stated that the existence of small regional associations and of more small banks would have a positive effect for Europe. In this sense, it is important for the savings banks that the EU member states reconsider to develop such a banking structure in their countries. For this purpose, German

[214] In a similar manner, the development banks could win the positions in the time of the financial crisis. These banks also have regional ties and mostly engage in the projects of their region. While being "the financial vehicle for the implementation of public projects", the developments banks are integrated in the *Investment Plan for Europe*, the so-called Juncker's Plan. This exemplifies that the development banks work in a specific segment and follow a more political agenda (Interview EAPB).

Savings Banks Finance Group set the Foundation for International Cooperation (Stiftung für die internationale Kooperation) to deal with such issues. Yet, it is a challenging task to set a wide network of small credit institutes with the old identity and practices. Despite the interest in the savings banks model from some British politicians and even from the Commissioner Lord Hill,[215] the examples of France, Spain, Great Britain demonstrate that it is very difficult to come back to the old structures, as the banks are out of these markets.[216]

Public ownership of German savings banks is another reason why those interested in the savings banks do not consider following their model. From the point of view of DSGV, the 'too-big-to-fail' problem can be solved by 'deliberately' establishing the small institutes and securing their survival and not by merging the small banks with the bigger institutes as in the case of Italian cooperative banks. Consequently, the savings banks see their model not as "an outdated", but rather as "a very valuable and important structure in the banking market, which ought to be possibly spread" and which can offer a balance to the big banks. The representative of savings banks sees it critically whether the window of opportunity for them is still open (Interviews DSGV Brussels, DSGV Berlin). From the point of view of ESBG representative, savings banks will face more challenges with regard to their size, capacity to comply to the new rules, to the way they conduct their business and to how they adapt to the digitalization (Interview ESBG III).

Anyway, there is a need for the alternative banks (savings, cooperative, public, ethical banks and credit unions) to set a platform for preserving a diversity of banking models throughout Europe and for promoting alternative discourse on banking. In this case, the small banks might ally with the trade unions. This is needed because the current state of banking regulation coming from the ECB and Commission does not foster diversity, but rather encourages the 'too-big-to-fail' banking model', which led to the crisis (Interview EFBS). The DSGV representative highlighted that the politicians, on the one hand, criticize the 'too-big-to-fail' institutions,

[215] Another interviewee confirmed that before the crisis, the Commission and especially its unit for market regulation has been inspired by a more French approach, which favoured the model of centralized, big banks and fostered merger processes in banking. The mergers are seen as being driven politically, but also in the quest for bigger profits and bonuses. The Lord Hill represents a British approach, which follows a different model (Interview UEAPME). An interviewee from ESBG underlined that because of regulatory pressure, savings banks have no choice, but to become bigger in the future (Interview ESBG III).

[216] Also, in other countries, savings banks departed from their old structures and became systemic: in Sweden, the former savings banks sector turned into Swedbank; in Denmark, savings banks merged into Danske Bank; and in the Netherlands, savings and cooperative banks merged into Rabobank. Some interviewees believe that the regional principle of savings banks helped to keep the savings banks structure in Germany (Interviews UEAPME, Finance Watch II).

but on the other hand, they also stimulate it by favouring the cross-border financial institutions and companies (DSGV Berlin). The EC is not only inspired by the Single Market idea, but it follows the underlying idea that “each company can be bought”. In this light, this idea collides with the ownership structure of savings banks. In the words of Finance Watch representative, “there is definitely a need to raise up the voice of these alternatives, because else they would wade away” (Interview Finance Watch I). Finance Watch pleads for the diversification of banking sector and talks about the role of small banks in Brussels. In addition, this advocacy group encourages the banks to lobby for this diversity (Interview Finance Watch II). As stated in Chapter Three, ideas play the key role in structuring the world and specific world view shapes people’s thinking about the world. Along these lines, the EC’s Single Market idea and a neoliberal idea of privatization of the public sector structures how the European project and its actors are perceived at the European level. Such ideas contribute to a stronger preference-shaping power of the EC, if compared to ideas articulated by small banking groups or critical NGOs.

As mentioned before in the previous chapters, the savings banks and Landesbanken have experienced a privatization pressure from the side of the DG Competition, which seems to come to a halt with the financial crisis (Interviews UEAPME, Frankfurter Sparkasse). In this regard, I have been interested in how the issue of privatization of public banks is perceived from different actors. The representative of a savings bank remarks:

> I do believe that it [the debate about privatization] comes back again.[217] But, I think, it will not be made so ideologically. I, therefore, believe that we do not get such a neoliberal motivated debate under the motto ‘public ownership is stupid’. More likely, we do not get it in such a form again (Interview Frankfurter Sparkasse).

Furthermore, the savings bank’s representative emphasized that think tanks, which belong to the epistemic community in Brussels, are powerful in transmitting certain ideas to the political debate and might bring the issue of privatization into the discussion at the EU level. Commenting on the question of privatization of savings banks, the representative of the Brussels-based think-tank Bruegel, pointed out that “the question of whether the public nature of savings banks gives them a competitive advantage or creates a competitive distortion” will not disappear from debates (Interview Bruegel). The researcher from CEPS, on the contrary, did not see any pressure for savings and cooperative banks; he acknowledged the value of different business

[217] For example, this question is brought up in the *Spiegel* interview with Stefan Ermisch, Chairman of the Board of the HSH Nordbank due to the privatization this bank—the first privatization of Landesbank. This is seen as a political signal for a reorganization in the banking sector (Bartz and Hesse 2018).

models if they manage their business without state guarantees or special protection (Interview CEPS).

However, there is always a suspect that the privatization question is at the working level of the Commission. From the point of view of savings banks, only because of their success, this question has not been in the air in political debates. Yet, the savings banks are convinced that in the next years, there will be a new initiative from the European level targeted at their privatization[218] (Interview DSGV Berlin). A representative of UEAPME pointed out that privatization question was "a politically totally wrong message at the moment", which, however, could be back into the political debates (Interview UEAPME). In this way, the savings banks see its role in reversing the consolidation trend and in advertising, fighting for the preservation of savings banks model (Interview DSGV Berlin).

Savings Banks and Capital Market Project (CMU)

By bringing the example of the Capital Market Union (CMU), my interviewee underlined that with this particular initiative the EU opens up the branch of business financing, which cannot be served by savings and cooperative banks. On the contrary, such an initiative favours big banks, which have the capacity to develop the necessary know-how. In this way, big banks get a chance to take away part of the business of savings and cooperative banks. Also, the classical business model erodes and suffers, when the intermediation function is shifted to the other new institution such as crowd funding that sooner or later will be regulated as well (Interview Frankfurter Sparkasse). As estimated by one of the interviewees, 80 per cent of economy in Europe is financed through banks and the rest 20 per cent through capital markets, while it is the other way around in the USA (Interview ASBA). In this sense, a CMU initiative aims to transform a 'bank-based' financial system into a 'market-based' one.

The Commission is criticized for the lack of political will to secure a safe securitization and for its further attempts to support a securitization with the CMU (Interviews EFBS, Frankfurter Sparkasse). What is more needed is a restriction to sell structured products to a private customer, which are not clear to both consultants and customers. Commenting on the state of regulation, the savings banks representative summed up that "in case there is a crisis as of 2008, the current state of regulation will not help. For this reason, I do not think that the banking system has become safer. It is probably a little bit more decoupled from the national decision-

[218] Also confirmed by the EFBS.

making" (Interview Frankfurter Sparkasse). In his observation, the system has become more bureaucratic and the new European institutions will certainly not be capable to solve the next crisis. However, he assumes that with the given power and rules, these institutions will probably help the whole Europe to avoid the second crisis. In case one of the savings banks faces the crisis, the IPS mechanism allows to regulate this problem internally within the network of savings banks before it might spread to Europe; however, if there is a crisis affecting all institutes within Europe, saving them with the funds (SRF) is compared "to fighting the oil fires with water pistoles" (ibid.).

Interestingly, there are different views on the CMU project among the savings banks officials and representatives. The savings banks support a common political position that views the CMU "as a complement and not as an alternative, as an additional financial instrument, but not as an alternative to bank landing" (Interview ASBA).[219] A representative from a savings bank argued that with regard to the CMU, there is no heading: "we destroy the small savings and cooperative banks", however, he believed that in fact, CMU "will lead to dismantling the business model" (Interview Frankfurter Sparkasse). Concerning savings banks strategy for lobbying activities, he finds it difficult to understand why the DSGV joins a coalition with the Association of German Banks (BdB) in order to issue a joint statement from the side of the German banking industry. In his opinion, the project's strategic direction is false.[220] He speculated that it might be the tactic of the savings banks association,[221] which had been different in case of the EDIS and banking union. In this respect, the position of the savings banks is seen as

[219] Similarly, the representative of UEAPME also sees a chance for the small banks to get another type of regulation within the CMU in order "to make life of the small local banks easier" (Interview UEAMPE). Also, ESBG members do not see the danger or threat in CMU (Interview ESBG II). On the contrary, the Finance Watch representative does not see the opportunities and benefits for the small banks within the CMU, which is rather initiated to benefit the big banks through the securitization process. For this reason, the big banks ally with the Commission (Interviews Finance Watch I, II). With regard to the CMU, the message of ESBG has been "defending the traditional financing of the economy—the traditional banking financial model" (Interview ESBG I).

[220] The representatives of building societies argued against the CMU too. They emphasized that the project endangers the classical financial model of banks. They criticized the politically intended zero interest rate policy, which encourages consumers to move from safe savings into risky equity investment (Interview EFBS). See the official position at https://www.bausparkassen.de/fileadmin/user_upload/english/Capital_Markets_Union.pdf.

[221] Indeed, as confirmed by my interviews, the DSGV officials do not see the CMU in a negative sense or as a challenge or an attack, but as a complementary to the bank-supported financing. They support the Commission in a sense that the project can offer new markets or new liquidity of the companies in some member states. However, they emphasized that CMU shall not be preferred to the traditional lending, which can offer long-term relationship with the companies and accompany them in the whole business cycle (Interviews DSGV Brussels, DSGV Berlin).

‘determined and very strong’ against the private banks (Interview Frankfurter Sparkasse) and remains the most important issue (Interview DGSV Brussels).

Savings Banks’ Reflections on EU Crisis Management

Comparing the banking union with the CMU, a savings bank representative underlined that the banking union ‘costs money’, but it does not threaten the existence of the savings banks (Interview Frankfurter Sparkasse). Also, the DSGV and ASBA receive complains from the savings banks about the increasing additional costs need for implementing the new measures developed at the European level (Interviews DSGV, ASBA). Besides, the banks criticize the low interest rate environment, which leads to smaller profit margins (Interviews FISMA, ASBA, DSGV Brussels). In the long term, the combination of small profits and increased costs might affect negatively the small banks. This problem relates closely to the regulation costs ignited by the creation of SSM and SSR, which require banks’ contribution. Mainly, the banks complain that due to the low interest rates, they have difficulties to earn sufficient funds to cover the supervision costs requested from the supranational institutions. From the perspective of the Commission, this low interest-rate environment is caused by external factors (Interview FISMA). From the point of view of savings banks and building societies, too little account is taken with regard to their conservative business model, which aims to support SMEs and small customers (Interviews DSGV Brussels, EFBS). The representative of DSGV pointed out that

> it would be disastrous, if because of the question of costs these banks [savings banks] disappear from the market. I see the trend in a different way. Well, I do believe that there will be probably changes of the business model, but rather by the large cross-border banks, which, again, will get in high-risk business, because they can earn more there. In this respect, it is not possible for the savings banks and it does not make any sense to move in this direction (Interview DSGV Brussels).

Savings banks see critically the application of the proportionality principle by the European officials. The representative of UEAPME, too, recognized that small banks are less concerned with the content of regulation that they fulfill, but more with the implementation, which requires costs. In this regard, he brought forward the principle of proportionality that shall help small banks manage the regulatory burden (Interview UEAPME). Also, the advisor from the Finance Watch emphasized that the proportionality issue has not been resolved yet (Interview Finance Watch I). Reflecting on this, another Finance Watch representative mentioned that

> Commission, as a technocratic body, is not really looking at differences in the system. They tend to take the biggest banks, which are represented by the EBF and then make all

the measures for them. So, the proportionality principle is being lost somewhere on the way of creating regulation (Interview Finance Watch II).

While reflecting on the EU crisis management in general, the representatives of DSGV summed up that “in the end, the savings banks cannot be satisfied with the EU politics” (Interview DGSV Brussels). They believed that in the middle run, savings banks will face negative consequences of over proportional costs without having significant benefits. They argued that success of savings banks in the crisis has been built not on the regulation, but on their position of trust. The European regulation is a translation of international rules from Basel Committee to the European level. Developed for the listed stock corporations, these rules fit more a ‘market-based’ financial system present in France or England, which is different in comparison to a ‘bank-based’ one present in Germany or Austria. The first model is shaped by the Anglo-Saxon world view, which focuses more on short-term business relationships compared to the long-term one of the Continental Europe.[222] In this light, inspired by the Anglo-Saxon world view from the IMF and Basel, the European institutions tend to generalize and simplify the rules neglecting the specificities of business models in Europe and orient towards the big banks, which can keep up with the CMU. For this reason, the task for the small banks is to offer “a good balance” between them and the bigger ones to support business activities (ibid.). Still, the development of the new financial regulation indicates that the Anglo-Saxon ideas prevail in the political debates at the European level, as far as the alliance of the EC and big banks is more successful in articulating and pushing for their ideas, preferences and interests, which are informed by the Anglo-Saxon thinking.

In general, what the small banks also struggle with is the impact of new guidelines and regulations on their business model (Interview Frankfurter Sparkasse). This process is not only challenging because of a conflict of different world views, but also because of the quantity of new practices the actors have to adapt (Interviews EAPB, ASBA). The representatives of small banks underlined that the financial system has not become more transparent with the quantity and complexity of new regulations (Interview EFBS).[223] Such complexity of regulation

[222] See more discussions on the types of financial system in Hardie and Howarth (2009), Scherf (2012), Dixon (2012).

[223] The Finance Watch representative pointed out, however, that complexity of financial regulation was also driven by the large banks who asked for many exemptions in order to circumvent the regulations and proceed with their way of doing business. Thus, the regulation in banking is seen “in the hand or influenced by the very big ones” who are able to push it to their benefits. Furthermore, in comparison to the small banks, the big ones have financial resources to deal with the complexity of regulation by paying complaint and legal departments. In addition, they use the arguments of the small institutions calling for the simplification of regulation (Interview Finance Watch I).

requires an involvement of more financial and human resources in order to comply to the new rules. In addition, the ever-increasing load of rules does not make the banking system look more transparent to a regular customer and citizen (Interviews CEPS, Finance Watch II). This also applies to the development of new agencies and institutions, which need time to further develop, set and refine procedures and work out instructions. In this respect, the small banks complain about constant changes in requirements from the European institutions, which impedes the smooth functioning of their institutions and bear additional costs (Interview ASBA). The savings banks fulfill the new regulations such as core capital, liquidity, leverage ratio, however, they complain about enormous administrative burden especially in reporting system (Interview DSGV Berlin).

One of the other challenges for the banking sector is the changing role of the banks in the digitalization processes.[224] Due to the technological process, many functions of traditional banking might be shifted to other structures. This might endanger the existence of the small banks from the long-term perspective, as far as the whole banking sector will need to adapt to the technical developments and changes in the future (Interview ESBG II). Besides, from the point of view of a savings bank representative, these changes are combined with the changes in society, namely, the distribution of wealth. In this sense, he criticized the neoliberal-inspired position of cooperative and savings banks in the political and economic debates, where they are supporting tax reduction and pleading for less state activity. At the same time, the change in income and wealth have a negative impact on savings banks more than cooperatives banks. There is an increase of customers having no money left for savings at the end of the month, which could be used for buying a house or securing a pension scheme. In such a situation, the market shares of small banks will shrink, as far as they cannot keep up with the richer customers. The bank representative commented that “it is quite a challenge for the business model of the savings banks”. However, in his opinion, the bank associations view it differently and “find it normal that a large part of their customers become poorer” (Interview Frankfurter Sparkasse).

As stated in the introduction of this thesis, the process of financial market integration with the aim of finalizing the EMU has been essential for the EC and one of the priorities of its Commissioner Juncker. In light of this, this last chapter investigated two key issues: (i) the development of negotiations on the third pillar of the banking union—the EDIS; (ii) the role of

[224] Finance Watch representative pointed out that there is also an opportunity for the small banks with the digitalization as far as the banks are consumer-oriented and can take the lead in this area (Interview Finance Watch II).

savings banks in this process. Examining savings banks lobbying activities, I have illustrated how they fight for the existence of their model. By looking at how savings banks are perceived by other actors and how they reflect on their activities themselves, I have found that it is rather a challenging task for the savings banks to offer an alternative within the European space. To a certain extent, they are able to win some concessions or manage to postpone the imposition of some regulation by building coalitions with other banking groups or by relying on their interest representation at European institutions. However, as far as the model of savings banks is marginalized within the European space, they have to take the defensive position of lobbying against the pressure from the regulatory burden.

Conclusions: Defensive Position of German Savings Banks against the European Single Market Agenda

European financial architecture has been rapidly changing since the outburst of the global financial crisis in 2008. On one hand, it sparked academic discussions about EU integration and the future of the EU project, on the other, it urged the EU member states and policymakers to deal with the consequences of the crisis. The eurozone crisis has also left its imprint on the European regulatory landscape. Since 2012, the European Commission (EC) has resumed its single financial market agenda and proposed the creation of the banking union, which has been the most contested during the crisis management process.

This dissertation connects the two topics by analysing the European financial market integration, with a focus on the banking union and its implications on the German savings banks. To attain this goal, I have researched the development of the European project and its role during the 2008 economics crisis, analysed the construction of the European banking union, and examined the German savings banks' struggle over banking regulations. In this dissertation, I have made an attempt to answer the following questions: how are savings banks responding to the new challenges of the supranational financial regulatory policymaking processes, and what position are they taking against the banking union project in the political struggles within the EU and why. Employing theories on structure and agency, institutional change, power relations and the role of ideas, I have sought to provide a deeper understanding of the emergence of the banking union at the European level and its meaning for savings banks at the national level.

The empirical part of this dissertation intensively describes the political struggles over the new EU regulations from the EC side and how the Commission is restructuring the EU project. It presents the power capacity of the Commission in setting the new institutional reforms by arguing that it would restore financial stability within the euro area. In analysing the speeches and official statements of the Commission, I capture the power of Commission to articulate and enforce concrete political projects. The meanings put on these projects are vital to the continuity of the Single Market project. In the case of the banking union project, the position of the Commission is informed by the EC's "Roadmap towards a Complete Economic and Monetary Union", outlined in the "Five Presidents' Report" (Juncker et al. 2015). Completion of the banking union with its three pillars—Single Supervisory Mechanism (SSM), Single Resolution Mechanism (SRM) and European Deposit Insurance Scheme (EDIS)—is one of the three tasks envisioned for a well-functioning financial union. The other two goals are the launch of the Capital Markets Union (CMU) and reinforcement of the European Systemic Risk Board (ESRB).

I frequently and extensively focused on the issue of structure and agency in my theoretical chapter. In the second stage of the Commission's roadmap, the authors set the goal towards completing the EMU architecture (Juncker et al. 2015). In terms of such a rhetoric, the five presidents can be regarded as the architects of the EMU. As discussed in Chapter Three, I referred to a picture of a labyrinth, used to express the interplay of structure and agency. Translated into my case study, the labyrinth (i.e. the structure) resembles the EU structure and the EMU architecture with their institutional settings. The labyrinth's architects and builders (i.e., the agency) are actors involved in the transformation of EU's institutional design. While presenting the construction process of the banking union, I tried to grasp the power dynamics, articulatory practices, ideas and the discursive strategies of the different actors involved.

The involvement of the key supranational actor, the EC, in setting the European project poses an interesting puzzle: The Single Market was transformed into the neoliberal project, which left out the possibility for the alternative project to develop and its alternative ideas to come to the forefront. Such gradual exposure of the supranational institution to the neoliberal principles started with the setting of the EMU in the Treaty of Maastricht and continued through the Lamfalussy Process in 2001 (see Chapter One). The EC became an advocate of the neoliberal postulates of structural adjustment, liberalization, deregulation, and privatization. Interestingly, the 2008 financial crisis led to the suspension of the financial liberalization agenda, which was continued in 2012. This puzzle partly led me to examine the strategies of this key European player that led the construction of the European project. Such examination has been possible while delivering the historical development of Single Market in the EU with an emphasis on the banking union. The interviews that were conducted for this very research corroborate the argument of the role of the EC's role in this process.

The fact that the Commission has the power to initiate new financial regulatory decisions shows that this institution is able to pursue its own course of a regulatory agenda, given the neoliberal constraints of the European project (see Chapter One). Based on empirical research, I was able to observe how the EC managed to build a coalition with large banks and think tanks (Bruegel and CEPS) towards integrated financial supervisory, resolution and deposit insurance models. With the new institutional reform, the EC aimed to restore financial stability within the euro area. This argument was used by the Commission and its coalition in the political discourse to justify further projects including the Capital Markets Union (CMU). The whole process of establishing the first two pillars of the banking union, the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM), demonstrate the strength of the Commission to move forward with the European crisis management strategies. However, the institutional reform does not change the nature of the European neoliberal project. As pointed out by the Finance Watch representative

> The system itself has not changed, what we have changed is the way we oversee it, […] but it doesn't change its very nature, it doesn't change the risks that are embedded, it doesn't change the threat and risks for the economy (Interview Finance Watch I).

Thus, the Commission with its network of policy advisors and coalition partners, which includes financial interest representatives, plays a key role in permanently designing new policy proposals. In its turn, these proposals transform the European financial architecture when adopted. However, this transformation is induced by a high degree of complexity and technicality established through the discursive practices of European institutions, its networks and the financial industry. These actors articulate their interests, ideas, and preferences over political projects using a highly complicated language, which consequently leads to technologization of discourse. In this light, the construction of the Single Market creates a new hegemony restricting the other actors in following the developments of the regulatory framework for the financial industry. In sum, the Commission has been very successful in exercising its agenda-setting and preference-shaping faces of power with regard to setting the first two pillars of the banking union, which has led to shifting the decision-making power from the national to the European level.

Starting from 2012, European policymakers' efforts to complete a Single Market in financial services have faced resistance from the small banks. The banking union initiative has been the most contested during the process of crisis management, as it marginalizes an alternative savings bank model oriented towards the regions and constrains the protection and promotion of alternative banks (Deeg and Donnelly 2016). The banking union forced the savings banks to employ defensive strategies in order to protect their business model, even though they were minimally exposed to the threats of the international financial crisis and were able to restore consumer confidence in the performance of financial markets (DSGV 2010). Nevertheless, finding allies to support their own model and wining a position as an alternative banking type on the EU level has been a challenging task for savings banks.

The main puzzle of the research presented in this dissertation has been the question of why the traditional model of public savings banks is becoming marginalized in the EU financial regulations, even though it has proven to be stable. The identity of the savings bank model, which is perceived differently in the national and European context, sheds light in this regard. While it is still strong in Germany by securing support from the German banking industry, it loses its discursive power at the European level. Ultimately, the lack of understanding of the savings bank model, which is able to protect savings banks via the Institutional Protection Scheme, makes them policy-takers rather than policymakers in the European financial domain. The project remains an uncomfortable compromise, not only because of German opposition to the mutual support for the banks throughout the eurozone, but also because it ignores the complexity of the banking systems in each member state and their role in national economies. Thus, savings banks are pleading for fragmented oversight regulation and preservation of their own protective system.

One can conclude that due to strong political will from European institutions and lack of coalition partners within the European arena, the fight of the small public banks is almost lost at the EU level. They will face future pressure from the Commission to privatize their institutions, notwithstanding the fact that the system of local and regional saving banks contributes towards maintaining the social market economy (Smith 2001, p.28). With the adoption of EDIS, their own joint liability system is in danger. Even in a successful case, it might be abandoned in the end. In this regard, one can claim that the fight of the small public banks was lost at the EU level. This argument is confirmed by one of my interviewees who states that "they [the savings banks] win most of their battles, but they don't win all battles; they didn't win that one [in rejecting the banking union]" (Interview Bruegel).

One can think of a crisis situation as a window of opportunity to seek for the alternative ways of transforming the EU project and governing the financial markets and banking sector. Indeed, as underlined by a representative from the Finance Watch, there is a need to create a public space for debates, where savings banks might get involved, raise their arguments, and demonstrate a possible alternative banking model. However, savings banks seem to have lost these opportunities for positioning their alternative banking model at the EU level, as far as the EC has offered its remedy to cope with deficiencies in the banking sector. It has become the main architect in reinforcing the European financial architecture, leaving limited space for alternative models. Savings banks could not win an alternative banking position because the idea of a public savings bank has been delegitimized at the EU. So what could savings banks possibly win is time. Even though the Commission wanted to move forward rather quickly with the EDIS proposal, the third pillar of the banking union remains unfinished. However, it can be claimed that savings banks will witness further pressure and heated debates revolving around the third pillar of the banking union.

In this dissertation, I also made an effort to analyse how savings banks built their coalitions in order to face pressure from the European level. Furthermore, one can examine relevant intellectual and political discourses by employing discourse theories for political analysis. The development of the European project can be also studied by analysing the identities of the various actors. For example, their influence over new policies involving their identities and their role in cultivating the hegemony of European neoliberal project.

This dissertation sheds light on the capacity of the EC to reinforce its single financial market agenda in the construction of the banking union. Due to constraints, it only intensively explores the struggle of savings banks over the banking union's three pillars. In addition, the CMU puts pressure on the savings banks. Since it is a relatively new project of the Commission, it was only possible to cover it partially in this dissertation. How the project will reshape the design of European financial architecture is a possible subject which warrants further research. In addition, Britain's exit from the EU—Brexit—that came into effect on 31 January 2021 will might reshape the course of the financial integration, as well as have a possible impact on the alternative banking sector.

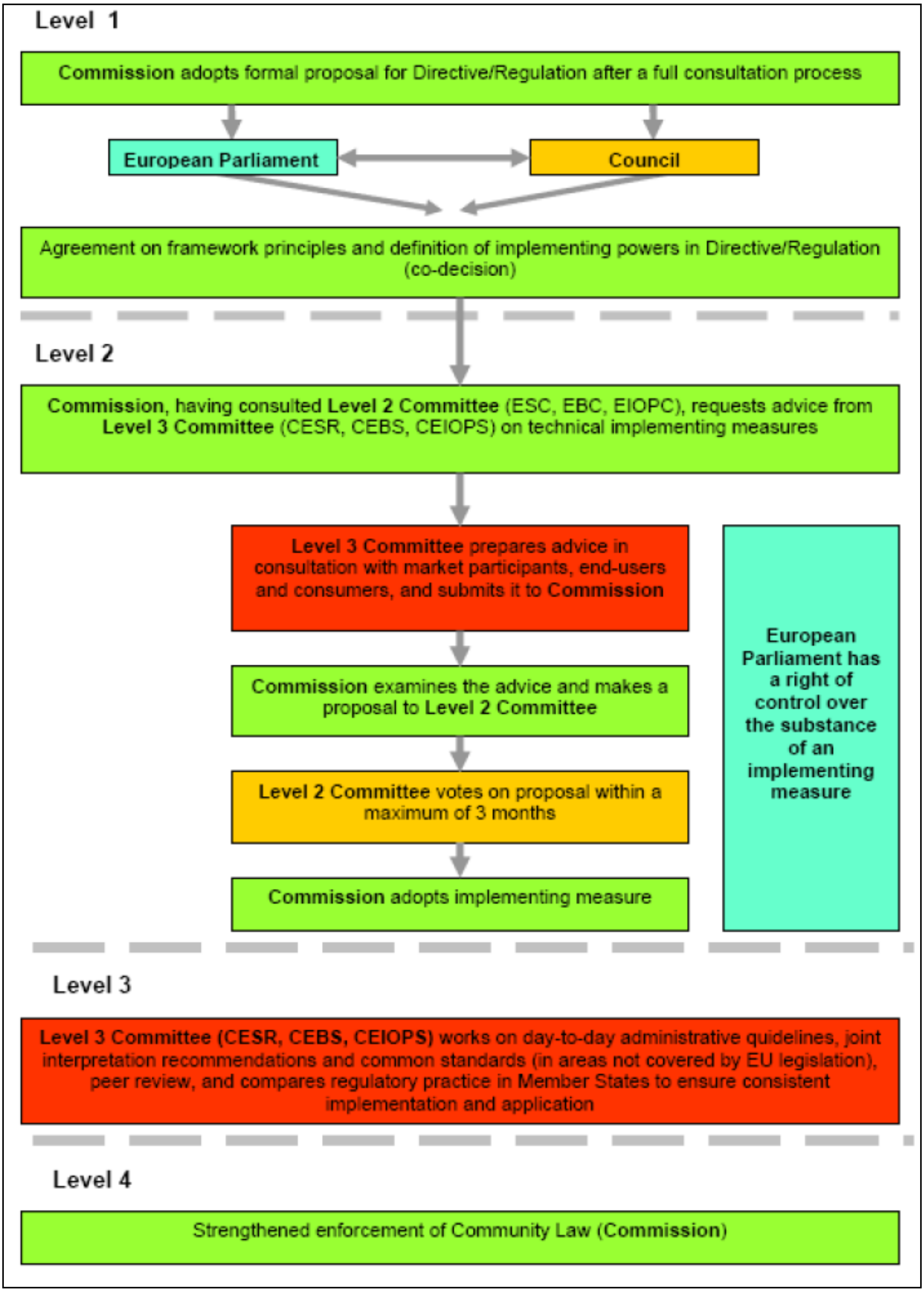
List of Interviews

Number	Institution	Date	Place
I	Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungen, BaFin)	3 February 2011	Bonn
II	Kasseler Bank	22 February 2011	Kassel
III	Professor Dr Mechthild Schrooten	1 March 2011	Berlin
IV	Kasseler Sparkasse	3 March 2011	Kassel
V	Bruegel[225]	16 October 2015	Brussels
VI	European Association of Public Banks (EAPB)	23 October 2015	Brussels
VII	Finance Watch	26 October 2015	Brussels
VIII	European Banking Federation (EBF)	28 October 2015	Brussels
IX	Finance Watch	30 October 2015	Brussels
X	Austrian Savings Banks Association (ASBA)	30 October 2015	Brussels
XI	Centre for European Policy Studies (CEPS)	03 November 2015	Brussels
XII	European Savings and Retail Banking Group (ESBG)	05 November 2015	Brussels
XIII	European Commission, Directorate-General Financial Stability, Financial Services and Capital Markets Union (DG FISMA)	17 November 2015	Brussels
XIV	European Association of Craft, Small and Medium-sized Enterprises (UEAPME)	18 November 2015	Brussels
XV	European Savings and Retail Banking Group (ESBG)	20 November 2015	Brussels
XVI	European Savings and Retail Banking Group (ESBG)	20 November 2015	Brussels
XVII	Deutscher Sparkassen- und Giroverband (DSGV)	30 November 2015	Brussels
XVIII	Frankfurter Sparkasse	08 December 2015	Frankfurt
XIX	Association of Private Bausparkassen (Verband der Privaten Bausparkassen e.V. (VDPB)/European Federation of Building Societies (EFBS)	11 December 2015	Berlin
XX	Deutscher Sparkassen- und Giroverband (DSGV)	11 April 2016	Berlin

[225] Phone Interview.

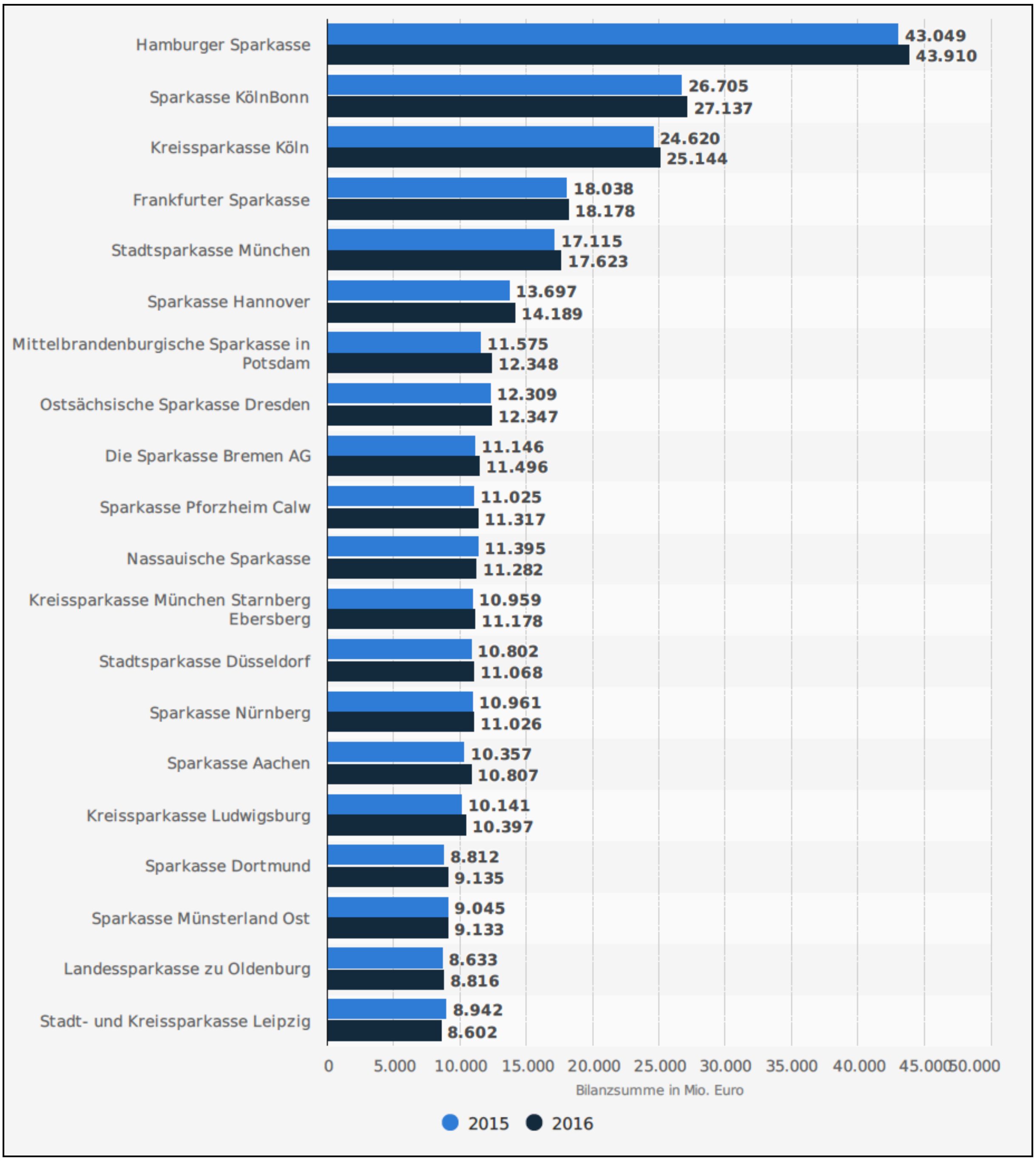
Appendices

Appendix I: The Four-level Regulatory Approach under the Lamfalussy Process



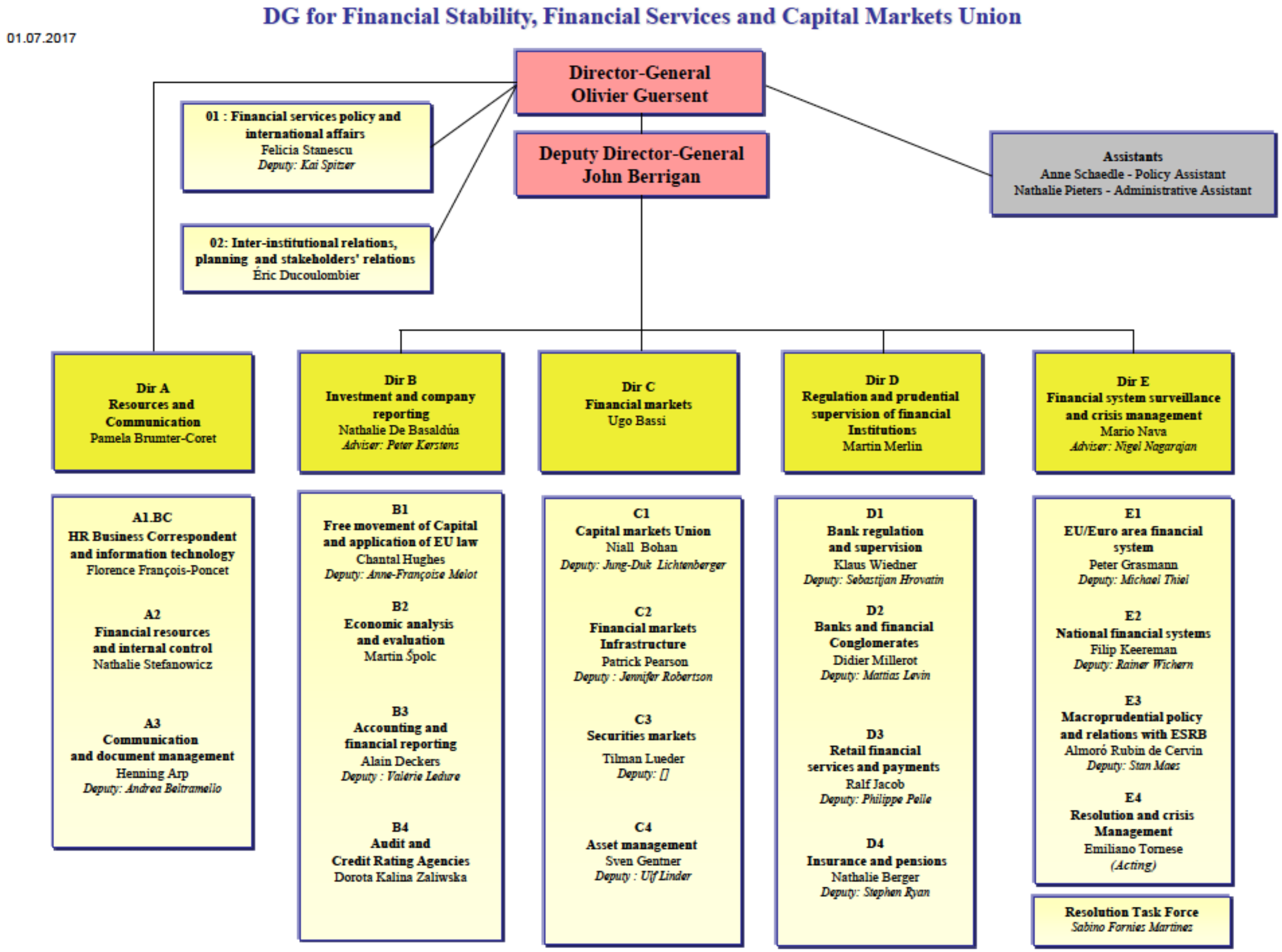
Source: European Commission (2007, p.14).

Appendix II: Ranking of the Biggest Savings Banks in Germany According to the Total Assets in 2015 und 2016 (in million Euro)



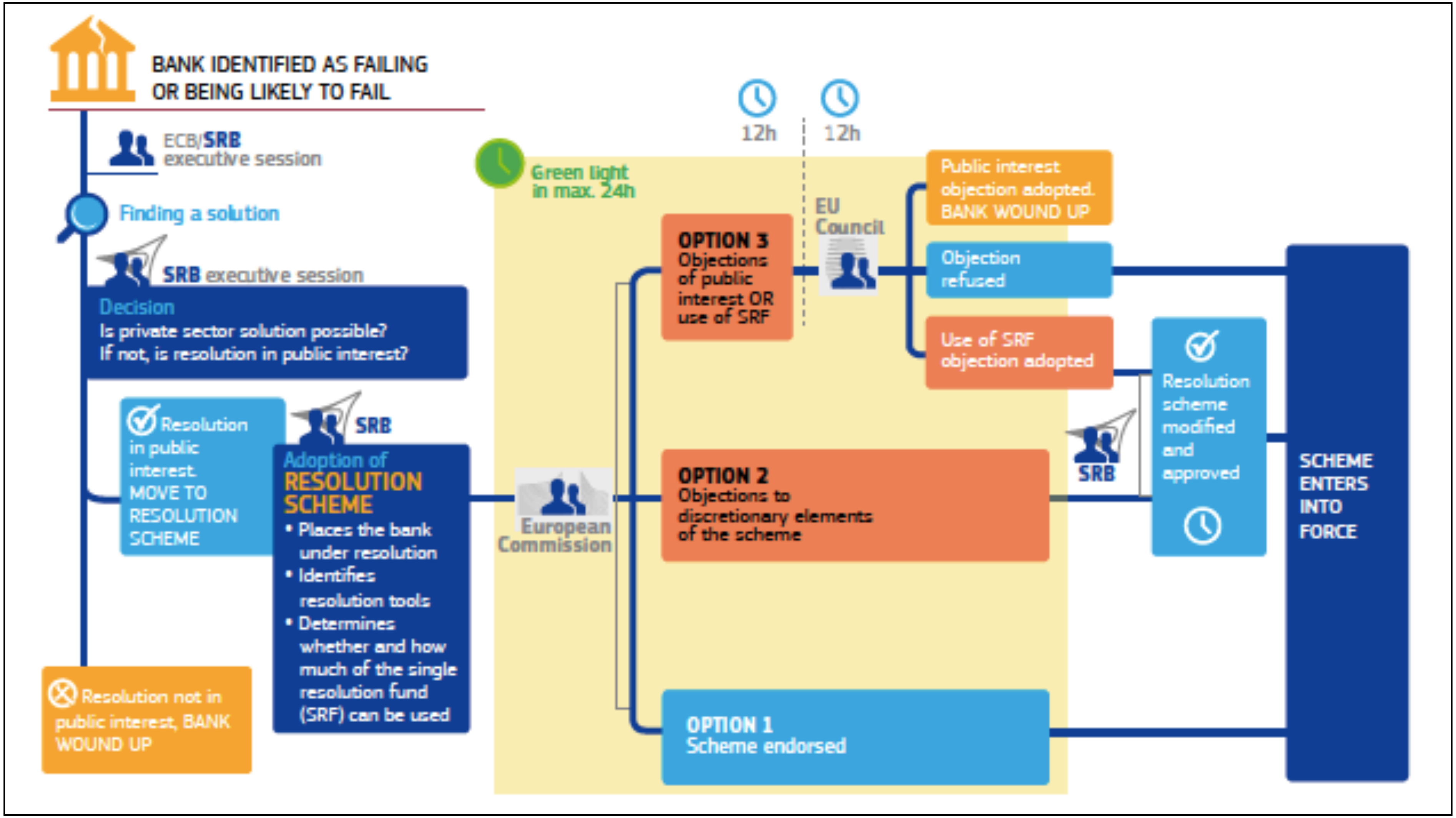
Source: Statista (2017b).

Appendix III: DG for Financial Stability, Financial Services and Capital Markets Union



Source: European Commission (2017).

Appendix IV: Resolving Failing Banks



Source: SRB (2016b, p.16).

Appendix V: ESBG Members' Key Figures, End of 2016

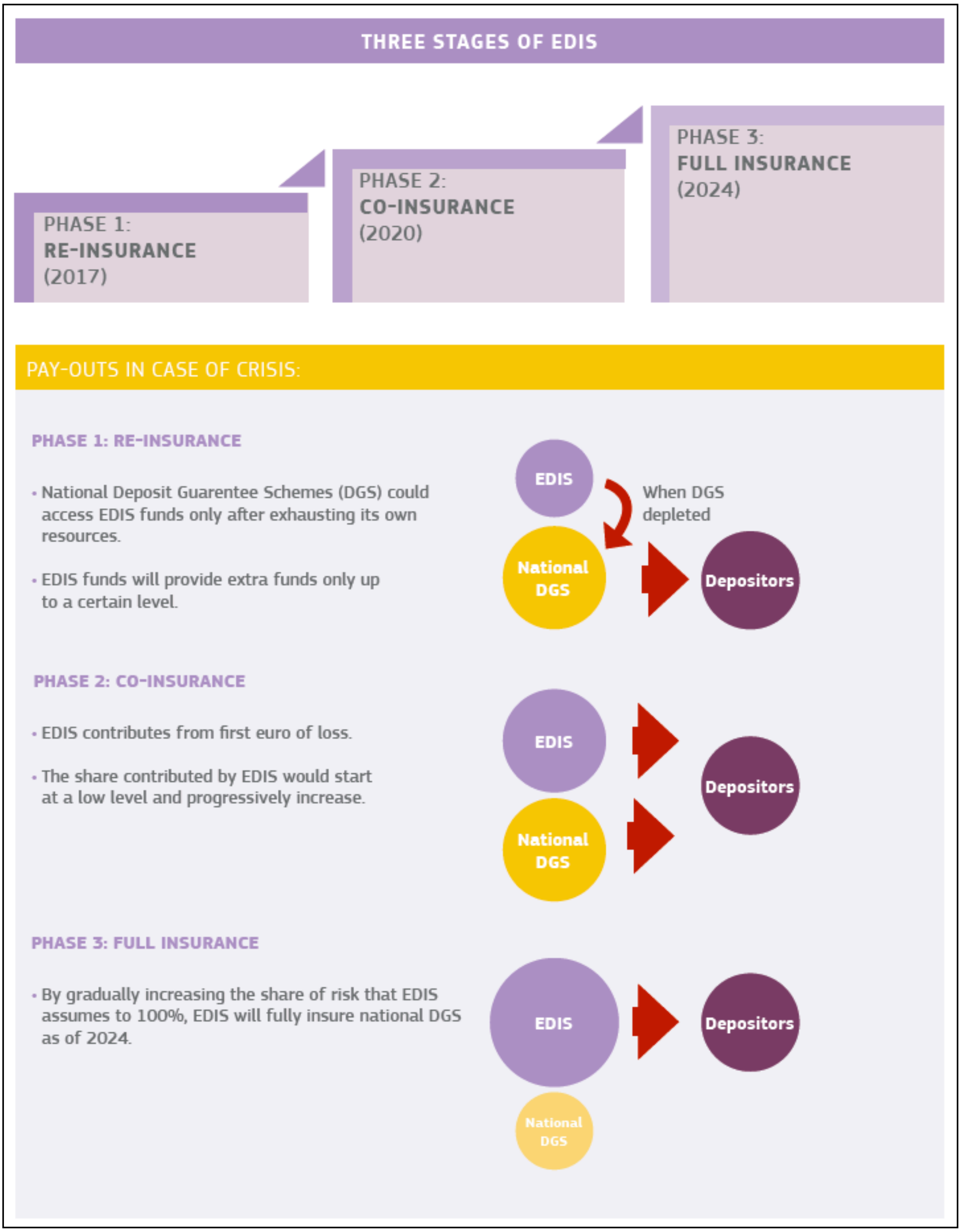
		Data at the end of 2016 accounting year							
		Assets	Loans	Non-bank loans	Deposits	Non-bank deposits	Outlets	Employees	Customers
		EUR millions							
Albania	Banka Kombetare Tregtare	2 861	1 293	956	2 491	2 228	93	1 311	774 879
Austria	Österreichischer Sparkassenverband	147 730	102 780	74 780	79 020	67 970	963	12 158	3 462 463
Belgium	Belgian Association of Savings and Retail Banks	106 361	72 922	67 605	92 491	85 566	3 021	3 394	5 551 334
Czech Republic	Ceska Sporitelna AS	39 455	22 188	21 362	33 337	29 109	561	10 371	4 707 094
Denmark	Lokale Pengeinstitutter	12 799	7 920	7 026	10 483	10 272	194	2 610	n.a
Finland	Savings Banks Union Coop	10 424	6 964	6 943	6 349	6 122	148	1 270	470 703
France	Banque Populaire Caisse d'Epargne	1 235 240	763 562	666 898	618 970	531 778	8 000	108 000	31 200
France	Fédération Nationale des Caisses d'Epargne	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Germany	Deutscher Sparkassen- und Giroverband	2 118 765	1 469 809	1 204 587	1 582 582	1 211 164	18 530	321 600	50 000 000
Hungary	OTP Bank Nyrt.	36 419	19 646	18 475	29 258	27 507	1 302	32 335	3 461 141
Iceland	Samband Islenskra Sparisjóda	365	294	237	320	311	21	119	n.a
Italy	Associazione di Fondazioni e di Casse di Risparmio SpA	162 401	112 917	n.a	126 826	n.a	3 519	28 797	10 000 000
Luxembourg	Banque et Caisse d'Epargne de l'Etat	43 467	23 921	19 816	32 858	28 116	71	1 800	596 857
Malta	Bank of Valletta Group	10 723	6 100	4 002	9 431	9 181	46	1 573	300 653
Netherlands (the)	De Volksbank	61 561	51 125	48 593	48 874	47 428	723	3 354	3 012 000
Norway	Sparebankforeningen i Norge	138 272	112 636	105 989	88 580	85 343	n.a	39 264	n.a
Portugal	Caixa Geral de Depósitos	102 398	66 085	62 869	75 480	69 680	1 211	15 452	4 269 152
Portugal	Montepio	21 346	14 420	13 861	14 744	12 468	366	3 806	1 515 163
Romania	Bancpost	2 509	1 513	1 272	2 022	1 856	148	2 200	n.a
Slovakia	Slovenska Sporitelna AS	14 825	10 340	10 250	11 662	11 384	287	4 232	2 321 345
Spain	Cecabank	800 136	508 670	508 670	514 865	514 865	12 891	74 742	15 711 536
Spain	Caixabank	347 927	207 080	200 338	223 512	187 167	5 027	32 403	13 769 482
Sweden	Swedbank	224 891	160 173	157 351	90 277	82 779	389	14 061	8 000 000
Sweden	Sparbankernas Riksförbund	37 030	29 302	27 510	29 674	29 314	240	3 197	1 929 403
United Kingdom	Lloyds Banking Group	954 652	566 002	534 598	504 114	484 988	2 940	91 000	30 000 000
Total	25	6 284 630	4 130 582	3 563 650	4 004 708	3 349 429	55 664	776 646	146 114 923

Data 2015	Data 2014	Data 2013 and before	n.a: not available

Note: Caixabank is part of CECA, hence figures of Caixabank are not added in the total

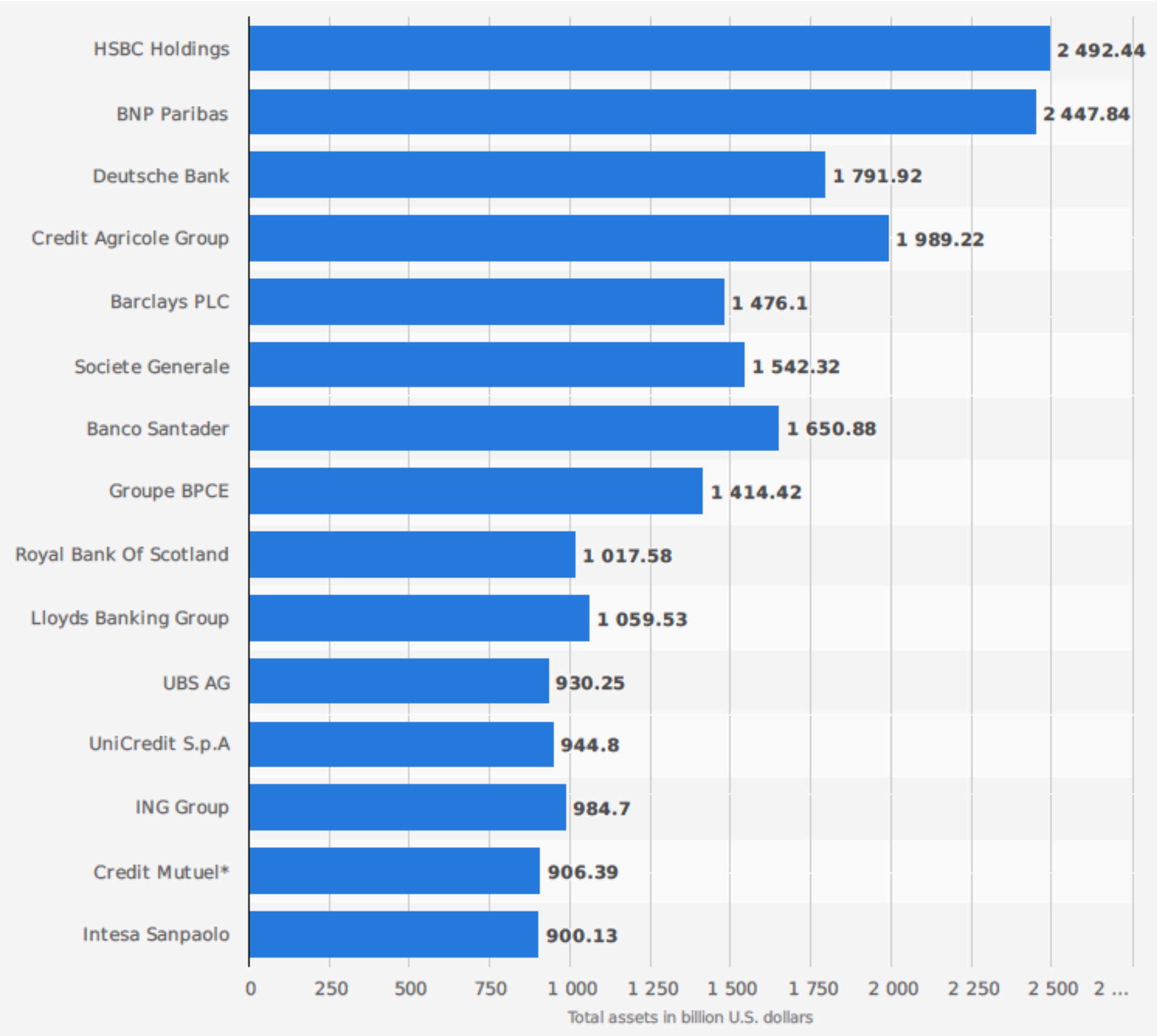
Source: ESBG (2018).

Appendix VI: Three Stages of EDIS



Source: European Commission (2015a, p.2).

Appendix VII: Leading Banks in Europe as of June 2017, by Total Assets (in billion US dollars)



Source: Statista (2018).

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