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Shedding Light on Change: a Discursive Institutionalist Approach to Banking Union

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Shedding Light on Change: a Discursive Institutionalist Approach to Banking Union

Master Thesis

MSc Public Administration - Economics and Governance

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1. Introduction

The global financial crisis and the subsequent euro crisis were, in many regards, a critical juncture for the EU. The crises laid bare the fundamental differences between Member States, not only in economic performance and governance of the crises, but also in the types of ideologies, ideas, norms, and values that underlie how Member States operate. Ideological oppositions which had been able to remain hidden in the formative years of the eurozone suddenly came to the fore. Normative ideas about the appropriateness of supranational crisis solutions and cognitive models concerning underlying economic paradigms created large differences between Member States and impeded agreements on quick crisis responses. Furthermore, these difficulties strained the relationships between Member States, calling into question the extent to which States were willing to trust each other and showcase solidarity in the face of great financial hardships that threatened the fundaments of the eurozone.

Of course, the crises also simply proved to be a critical juncture for the development of new financial institutions and legislation. One of these developments was the creation of 'Banking Union' (BU), referring to the set of institutions designed and (partially) created to stabilise the European banking sector (Council n.d.). The idea was initiated in 2012 as part of the effort to 'complete' Economic and Monetary Union (EMU) and deeper integrate the European banking system. This was necessary since, although Economic and Monetary Union had been established in the Maastricht Treaty, it contained several central weaknesses. Concepts such as the 'financial trilemma' (Schoenmaker 2011) or a 'doom loop' would turn into central concerns in the euro crisis and would come to justify the creation of new institutions that should prevent a future banking crisis. In 2012, the European Council took the first steps towards banking union by proposing a single supervisory mechanism (Council 2012). In subsequent years, this would be supplemented by a proposal for a single institution for banking resolution and a European deposit insurance scheme. In 2014, these three pillars of supervision, resolution, and deposit protection, were officially named 'Banking Union' (Howarth and Quaglia 2016).

The first pillar, supervision, was realised in 2013 by the creation of the Single Supervisory Mechanism (SSM). This institution supervises credit institutions through a two-tier system consisting of the European Central Bank and national supervisory authorities (Council n.d.2). The euro crisis showcased the need for Europeanised supervision due to the increased risk of contagion in the European banking sector, meaning that such matters as a single set of standards and early detection of problems are crucial (Council n.d.2). The second pillar, resolution, was realised in 2014 by the creation of the Single Resolution Mechanism (SRM). Similar to the SSM, the SRM aims at increasing financial stability by dealing with the increased risk of cross-border contagion in case a bank is in trouble (Council n.d.3). It does this by creating a common approach to failing banks. This consists of a Single Resolution Board (SRB), which has the responsibility for failing banks by deciding on their resolution schemes. It also consists of a Single Resolution Fund (SRF), which is a supranational fund used for resolving banks and funded by banks (Council n.d.3). The final pillar of the Banking Union is deposit protection. The

European Deposit Insurance Scheme (EDIS) creates a common system for insurance, which aims to prevent bank runs by giving the assurance to savers that they can access insured cash. This replaces the current national systems which create an unlevel playing field (ESM 2019, Council n.d.). While negotiations for this institution have been on their way since 2015, at the time of writing this institution has not been established.

This thesis aims to investigate the role of ideas in institutional change during the euro crisis. More specifically, it aims to elucidate whether an ideational shift was at the heart of institutional change, by applying discursive institutionalism to Banking Union and its institutions. While there exists a plethora of studies investigating the development of the Banking Union institutions (e.g., Spendzharova 2014; Howarth and Quaglia 2014, Culpepper and Tesche 2021; Glöckler, Lindner and Salines 2017; Dehousse 2016) these explain their development mainly from an interest-based perspective. This outlook relies on the rationalist assumption that Member States' preferences stem solely from national interests and bargaining dynamics, but largely forget about the potential influence of ideas and discourse in shaping institutions. For example, Hall (2014) has shown that disagreement on core principles between policymakers from different Member States shaped negotiations during the euro crisis, and Schmidt (2014) identifies different opposing ideas, frames, and narratives that encased the euro crisis. This is in line with the discursive institutionalist assumption that ideas and discourse are explanatory factors of institutional change. Using such an approach may help in overcoming the limitations that interest-based accounts pose. For example, as shown by Schäfer (2016), these accounts have been unable to explain the policy preferences of Germany or the concessions it made during the negotiations.

Thus, this thesis aims to test the extent to which a change in ideas can be linked to a change in policies. This will be done by using *discursive institutionalism* as a theoretical framework to study 'banking nationalism' and 'economic philosophies' as ideas that influenced the Banking Union institutions, which are taken as cases of institutional change. The following research question is proposed: *How does discursive institutionalism explain the shape of Banking Union as a case of institutional change?* To elaborate on this question, institutional change in this thesis refers to the change of policy institutions. This entails, for example, a shift of financial governance from the national to the European level, or the construction of a European agency to institutionalise banking resolution. The outcome that the thesis seeks to explain is the shape of Banking Union, which is taken to mean the policy institutions the institutional change has led to. Thus, the three institutions of Banking Union are examined in terms of the way they are set up, which sheds light on the type of institutional change that has occurred and what underlying ideas these institutions reflect. For example, the aforementioned shift of financial governance from the national to the European level may signal a decreasing importance of banking nationalism.

1.1 Relevance

The thesis is relevant for several reasons. First, while there exists research on the development of the Banking Union, this relies on theoretical frameworks which stress rationality. This means that countries' preferences are assumed to stem from material interests, which in the case of the Banking Union are often assumed to be such factors as the national formation of the banking sector or a country's debt level. Furthermore, dynamics in international negotiations are deemed important for the institutional outcome. This often relies on an examination of the underlying power relations between Member States and European institutions. While these factors have strong explanatory power and account for many of the developments during the crisis, the realm of ideas and informal institutions is often neglected (Campbell 2002). National histories and cultures, which lead to specific normative and cognitive ideas about what is appropriate or legitimate, often underlie national preference formation. Similarly, negotiation dynamics are often influenced by ideational coalitions and the ability of actors to persuade their opponents (Donnelly 2017).

Furthermore, explicating the ideas and discourses used in the euro crisis and Banking Union negotiations is valuable since these narratives and frames caused deep and lasting cleavages between Member States (Leupold 2016). National public officials often strongly expressed disdain towards other national governments and their actions. For example, the famous claim by Dutch finance minister Jeroen Dijsselbloem that Southern Member States were asking for European financial solidarity after spending all their money on 'booze and women' was rooted in how he conceptualised the root of the crisis (Werner 2017). Thus, investigating the origins of these frames gives important insights into whether the underlying ideas have shifted or whether causes for conflict are still present.

Lastly, the thesis is relevant because Banking Union offers an especially interesting case study. The three pillars offer an opportunity for comparison between mostly similar but still differing cases. The same ideational factors influenced the negotiations for all three institutions, but their effects differed due to the distinctive issues at stake in each institution. On top of this, while two pillars have been established, the European Deposit Insurance Scheme is still under negotiation. This means that understanding the ideational factors behind the establishment of these institutions might give relevant insight into what is stopping Banking Union from being completed and what might be necessary to overcome these problems.

1.2 Outline of the thesis

This thesis will proceed as follows: the thesis begins with a literature review of the existing work on Banking Union and its institutions, and work that considers ideas and discourses that were relevant during the euro crisis. This posits the thesis within the existing literature and allows for a clear view of the gaps in the literature that the thesis aims to fill. Second, the theoretical framework within which the research will take place is set out. This is done by first explaining the core assumptions of discursive institutionalism, demonstrating which concepts will be used to apply the theory, and positing the main expectation that follows from the theory. Subsequently, the research design specifies which methods and data are used, justifies the case selection, and acknowledges the limitations of the study. The fifth chapter will operationalise the two ideational strands that will be used to analyse the importance of ideas and discourse on institutional change: banking nationalism and economic philosophies.

The analysis will start with briefly positioning these ideas into a historical context. The same chapter will also show how these ideas were translated into foreground ideas during the euro crisis, by demonstrating how the underlying ideas influenced the policy options and frames that were present. In the last step, the Single Supervisory Mechanism, the Single Resolution Mechanism, and the European Deposit Insurance Scheme are examined more in-depth. Here an analysis is made of the arguments and frames that were present during the negotiations, as well as the outcome of the negotiations, and which background ideas they represent. It is in this section that the expectation which was constructed in the theoretical framework is tested against the institutional change that occurred.

Finally, the thesis concludes that while banking nationalism and ordoliberalism were the dominant background ideas and thus likely to have informed the shape of the Banking Union institutions, the outcome is more nuanced in reality. Banking nationalism was mostly overcome, showcased by the creation of European institutions which entailed the pooling of power at the European level. However, ordoliberalism still influenced parts of the institutional outcome, mainly by introducing institutional arrangements that address moral hazard. This outcome is explained by the idea that background ideas shifted only when they offered no sufficient solution to the problem that policymakers faced (Campbell 2002).

2. Literature review

This thesis adds to the literature on Banking Union, as well as to the literature on ideas and discourse in the euro crisis. This section of the thesis gives an overview of the existing literature in these two fields and posits the thesis within it. Furthermore, it will show where there is a gap within the existing research and how this thesis contributes to filling it.

2.1 Interest-based explanations of the Banking Union

There exists a large body of work which considers the development of Banking Union (BU) and its institutions from a rationalist perspective. This means that it only considers (supra)national interests and power dynamics within negotiations as an explanatory factor. This is relevant to review not only because it offers insights into the (types of) issues that are considered to be relevant factors, but also because it provides an alternative explanation of the development of BU. Two main strands can be distinguished: explanations that focus on national preferences, and explanations that focus on the influence of supranational institutions.

2.1.1 National preferences

Most literature concerning the development of the institutions relies on a rationalist explanation (e.g., Spendzharova 2014; Howarth and Quaglia 2014, 2016, 2018; Quaglia 2019; Schimmelfennig 2015; Culpepper and Tesche 2021; Quaglia and Spendzharova 2017; Glöckler, Lindner and Salines 2017; Dehousse 2016). These authors argue that material considerations, such as the shape of the banking system or current account positions, explained Member States' preferences for the development of banking policy during the financial crisis. Member States are assumed to have made rational choices in determining their position regarding what institutions they would (not) like to see emerge from the crisis. Another argument that is often stressed is the bargaining process and bargaining dynamics between Member States which led to the specific outcome of institutions (e.g., Skuodis 2017). National preferences are also often used to explain the shape of institutions. For example, Hennessy (2013) explains the choice between soft and hard law in European financial supervision at the hand of national interests and governments' perceptions of their relative influence.

It is useful to delve more deeply into the way these authors explain the formation of national preferences, as well as how these preferences influenced the emergence and shape of the Banking Union institutions. Extensive work on Banking Union has been done by Howarth and Quaglia, who offer explanations based on national preferences. For example, they argue that the European Deposit Insurance Scheme failed to emerge mainly due to Germany's concerns about moral hazard, which stem from the specific configuration of the German banking system (Howarth and Quaglia 2018). Similarly, German concerns regarding moral hazard and the shape of the German banking system are identified as important factors which influenced the shape and development of the Single Resolution Mechanism (Howarth and Quaglia 2014). For the Single Supervisory Mechanism, they argue that the exposure of small banks to foreign banking operations is an explanatory factor for Member States' preferences for the institution (Howarth and Quaglia 2016b).

In their book on the rationale for Banking Union as well as its design, these findings are reinforced. They argue that three main factors determined Member States' policy preferences. First, the national banking system, concerning factors such as the extent of internationalisation, which influenced preferences on, for example, the level of ECB supervision (Howarth and Quaglia 2016a). Second, especially Northern Member States were concerned about moral hazard since these countries were least likely to benefit from Banking Union, and only benefit from its potential for increasing confidence in the euro. Meanwhile, Southern Member States were most likely to support risk pooling due to their generally worse banking positions (Howarth and Quaglia 2016a). Third, the unequal soundness of banking positions between different Member States, the (divided) internal positions of states, the high stakes, and differing alliances on different issues created a negotiation field of unequal bargaining power, which influenced the outcome of the negotiations.

Similarly, national preferences are explained by Culpepper and Tesche (2021) as being influenced by large banks which drove France and Germany to change their position to become more positive towards banking union. Spendzharova (2014) also argues that banks influenced Member States' policy preferences for banking supervision, depending on levels of foreign ownership and domestic bank internationalisation. Schimmelfennig (2015) bases his argument on the idea that Member States were committed to the shared goal of preserving EMU, while their policy preferences are explained by differing preferences for the distribution of adjustment costs. Quaglia and Spenzharova (2017) argue that the different levels of supranationalisation in different areas of banking policies can be explained by the expected benefits and the notion of 'spillover'. While banking resolution on the European level was expected to be beneficial (e.g., due to the negative spillovers from previous incomplete integration and political spillovers from the endorsement of EU-level resolution by large banks), banking structure saw little harmonisation on the European level since there were no similar expected benefits. Quaglia (2019) explains the incomplete nature of Banking Union at the hand of bargaining dynamics: Southern states, which argue most strongly for completing it, have the weakest bargaining position. This assumes that national preferences are based on political economy considerations. Finally, Glöckler, Linder and Salines (2017) use historical institutionalism to analyse why the Single Supervisory Mechanism emerged. They argue that punctuated change occurred because gradual institutional change was not sufficient to deal with the pressure that the crisis created on the doom loop between banks and sovereigns. However, the further analysis on the creation of the SSM is based on an assessment of Member States' policy preferences, determined by financial gains, and their relative bargaining power, similar to other rationalist accounts.

Two papers in this body of literature offer detailed explanations of how national preferences create the specific shape of institutions. Hennessy (2014, 152) argues that "member states' power, perceptions of uncertainty, distributive conflict, as well as the interests of the domestic banking industry" shaped

Member States' preferred choice for hard or soft law in financial supervision policies. Skuodis (2017) identifies four models of banking union frameworks, based on the level of supranational supervision and degree of risk sharing. He analyses the differing national preferences for different models of Banking Union, which led to a 'second best' form "which is likely to be continuously pushed towards the 'full' banking union type preferred by the majority of key EU policy actors" (Skuodis 2017, 111).

2.1.2 Supranational influences

A second but smaller strand in the literature focuses on the European supranational institutions and how these shaped the bargaining process and the institutional outcome of BU (e.g., Nielsen and Smeets 2017; Epstein and Rhodes 2014, 2016; De Rynck 2016). These papers mostly seek to explain the large role of supranational institutions in what is generally seen as an intergovernmental period of governance. These explanations explicitly reject the intergovernmental answer that the papers quoted above provide and instead argue for the importance of supranational elements in decision-making. Both Nielsen and Smeets (2017) and Epstein and Rhodes (2016) use a principal-agent framework to analyse the role of the EU institutions. They argue that EU institutions such as the ECB and the Commission had an active and crucial role in facilitating and steering the reform process in banking policy towards supranational solutions. De Rynck (2016) argues that the ECB had an important role as a political entrepreneur which created opportunities for change and was part of the bargaining process. Finally, Dehousse (2016) explains the move to supranationalisation at the hand of the 'deep mistrust' between Member States resulting from increased polarisation between countries.

2.2 Ideas and discourse in the euro crisis

A second relevant body of work investigates discourse and ideas in the euro crisis. A review of this literature offers insights into the ideas and narratives that were present in the euro crisis, which allows for a better understanding of the ideational clashes that this caused. Furthermore, it allows the discourse and ideas that concerned the BU to be situated in the broader context of the euro crisis.

There is a broad body of literature on the influence of discourse in financial policy. These papers focus on issues like banking nationalism (e.g., Epstein and Rhodes 2016; Grossman and Leblond 2012; Pisani-Ferry 2014). Such papers seek to explain how banking nationalism influenced national institutional arrangements and policies for protecting the domestic banking sector, and how nationalist concerns influenced Member States' responses to the pooling of sovereignty in Banking Union. Another narrative that is often considered is the North-South divide and different varieties of capitalism (e.g., Boitani and Tamborini 2020; Hall 2014; Gambarotto and Solari 2015; Donnelly 2017). These papers analyse how discourses emerged and shaped Member States' responses to different policies and other Member States' actions during the crisis, but also how national discourses influenced Member States' material realities before the onset of the crisis. Furthermore, many of these papers focus on the ideational background of Germany in the financial crisis and how its ordoliberal paradigm shaped its policy preferences, negotiations, and the outcomes of negotiations (e.g., Matthijs 2015; Nedergaard and

Snaith 2015; Schäfer 2016, 2017; Bulmer 2014; Schild 2017). The three main identified strands, ordoliberalism, the North/South divide, and banking nationalism, are discussed below.

2.2.1 German ordoliberalism

Schäfer (2016, 2017) offers a clear discursive institutionalist explanation of the role of ideas in the development of BU: he argues that liberal intergovernmentalism falls short in explaining German policy preference formation and the concessions it made despite its significant bargaining power. He puts the explanatory power on German ordoliberal ideas which were the basis for German policy preferences, and the successful framing of the issue by Southern Member States in their favour which led Germany to be forced to make concessions (Schäfer 2016). Schäfer develops this argument further in his PhD thesis (2017). Here he argues that, as Member States operated in great uncertainty during the crisis, the importance of ideas became more prevalent. Once again, he argues that ordoliberalism "underpinned the choice of policymakers" (Schäfer 2017, 209) and was often put forward in the discourse of German officials and politicians. However, finding that the policy preferences of Southern Member States were formed by material interests rather than worldviews, he introduces the notion of fragmentation of interests. In the case social interests are highly fragmented, governmental policy preferences are determined by the worldview of policymakers. If interests are clearly defined and congruent among a diversity of national actors, these will explain the government's policy preferences (Schäfer 2017). In the second part of his thesis, he argues that negotiations are not only shaped by bargaining power but also by rhetorical action. The outcome of the negotiations did not reflect the preferences of the German government, despite its large bargaining power. Instead, the "agreement on the problem frame [the vicious cycle between banks and sovereigns] implied that proposed solutions had to be suitable to this problem frame in order to be accepted by the audience […]. This essentially undermined the German government's advocacy for structural reforms and automatic bail-in rules" (Schäfer 2017, 214).

Schäfer is not the only scholar discussing Germany. Bulmer (2014), Matthijs (2016), Nedergaard and Snaith (2015), and Schild (2017) similarly point to Germany's ordoliberal ideas as explanatory factors for its preference formation and the outcome of negotiations. Bulmer (2014) argues that despite expectations of a leadership role in the resolution of the crisis, domestic politics held Germany back from taking this position. Ordoliberalism met both the needs of international leadership and domestic constraints, making it more important to Germany than its commitment to European integration. Matthijs (2016) explores the interplay between ideas and interests by presenting the German case as a puzzle, where the German adherence to ordoliberalism further worsened the crisis. He argues, first, that the importance of ideas trumped interests at the beginning of the euro crisis, as policies were implemented that reflected German ideas, but which worsened the crisis. Second, he argues that it was only when a "more flexible variant of ordoliberalism" was adopted that these ideas stopped worsening the crisis (Matthijs 2015, 388). Similarly, Nedergaard and Snaith (2015) argue that ordoliberalism has become institutionalised not only within Germany but also in other Member States and within the design of Economic and Monetary Union (EMU). They further argue that this has led to unintended consequences that became built into EMU. Finally, Schild (2017) touches upon German ordoliberalism when he analyses the causes of the rift between Germany and France in the Banking Union negotiations. He argues that their relationship is influenced by different ideas on, for example, the purpose of BU and conflicts over distribution.

2.2.2 The North/South divide

A second strand of literature points to the North/South divide as an important discourse that shaped negotiations in the euro crisis. Both Hall (2014) and Gambarotto and Solari (2015) investigate the influence of differing varieties of capitalism between Southern and Northern Member States. Where Gambarotto and Solari (2015) focus especially on Southern countries and how their conceptualisation of capitalism led them to have a more difficult position in EMU, Hall (2014) uses the different varieties of capitalism to explain differing responses to the crisis. He argues that responses to the crisis can be explained by examining institutions, interests, and ideas. About ideas, he writes that an overarching vision of an integrated EU is necessary for Member States to "accept short-term risks or sacrifices in order to achieve long-term gains" (Hall 2014, 1235). This was especially problematic during the euro crisis due to the framing of the crisis as a problem of Southern countries and their 'bad' fiscal policy, thus negating the possibility for policy responses based on solidarity. Furthermore, he claims that differing national economic doctrines, in line with the varieties of capitalism, created disagreement on core principles between policymakers from different Member States, which shaped the negotiation process regarding policy responses (Hall 2014). Somewhat similarly, Boitani and Tamborini (2020) investigate the economic and political cleavage between Northern and Southern Member States, something that they point to as a cause for the difficulty of reforming EMU. Finally, Donnelly (2017) analyses the European Deposit Insurance System negotiations and argues that two advocacy coalitions are responsible for the deadlock in negotiations. He argues the advocacy coalitions are based around entrenched ideas, such as ordoliberalism in the German camp and embedded liberalism in the Italian camp. Crucially, he argues that the two differing camps have different understandings of "how EDIS fits into the bigger picture of financial stability, and as a consequence, which institutions had to be developed next and policies carried out" (Donnelly 2017, 220).

2.2.3 Banking nationalism

A third strand of literature concerns banking nationalism, which informed national policy preferences during the crisis and the BU negotiations. In her paper on bank ownership, Epstein (2014) provides a brief but thorough overview of the historical arguments for state control over banks. For example, historically, states have used strategic control over finance to become competitive in the international system, as a safeguard during economic crises, or to remain autonomous if the economic system relies on funding from banks. Such arguments are used to explain why banking nationalism is still prevalent despite the general trend of privatisation and marketisation. In line with this, Deeg (2012) writes about how finance is often seen as central to state sovereignty, which leads to 'liberal economic nationalism'. This refers to the idea of "selective or strategic liberalization that privileges a particular set of domestic economic actors" (Deeg 2012, 3). When it comes to banking, this has led to policies that limit the possibilities of foreign takeovers of banks, such as through their governance structure or the stimulation of domestic banks until they are too big for foreign takeovers. This latter policy is further investigated by Goyer and Valdivielso del Real (2014) who write about French and German banks in order to investigate the protection of domestic bank ownership. An important factor which they point at is the national institutional arrangements that are in place for protecting domestic banks from foreign bids. In the French case, for example, the government is heavily involved in the protection of national banks due to their power of regulatory approval of takeover bids.

Several papers consider specifically the role of banking nationalism in Banking Union. Epstein and Rhodes (2016) explore the entrenched idea that banking regulation, supervision, and resolution should be kept in national hands. They seek to explain the shift from nationalism to supranationalism that the setting up of Banking Union entailed and find two explanatory factors. First, economic liberalisation and internationalisation of banks have increased the costs of nationalism, and second, the Commission and ECB have pushed hard for the creation of Banking Union. Similarly, Grossman and Leblond (2012) argue that banking nationalism stems from the importance that national governments attach to financial regulation. They argue that finance is seen as embedded in domestic traditions and thus as something that is not easily opened for internationalisation. Thus, banking nationalism is seen as an explanation for how the Europeanisation of financial regulation has long been resisted, despite consistent efforts at Europeanisation from the Commission, which has argued that this is needed due to the internationalisation of banking and finance.

Donnelly (2018) argues that while Banking Union is explicitly aimed at the denationalisation of banking supervision and regulation, banking nationalism is still visible in the protection by Member States of national insolvent banks. He also explains this by referring to liberal economic nationalism, which he defines as "the understanding that national governments protect and promote their 'own' national champions within a broader system of open trade and investment" (Donnelly 2018, 161). As an example of this idea, he finds that Member States such as Italy and Portugal have lobbied for room to provide national banks with the resources needed to sustain them.

Méro and Piroska (2016) also look at banking nationalism when they seek to explain why Hungary, Poland and the Czech Republic opted out of joining Banking Union. They point at the relatively high state capacity of these countries in combination with their high preference for banking nationalism as explanatory factors. They argue that banking nationalism refers to a "government policy which promotes national interest in all areas of banking policy" which in the three mentioned countries results in "banking policy that is hostile to foreign banks and international organisations" (Méro and Piroska 2016, 221).

2.3 Identified gaps

As has become clear from the literature review, there is ample literature to be found on the Banking Union institutions. Most of the literature attempting to explain the formation and shape of the Banking Union institutions does this from a rationalist point of view. However, such a framework leaves open the question of what the role of ideas and discourse was in the creation of the institutions. As argued by Schäfer (2016, 963), this work "critically underestimates the impact of ideas on both the domestic preference formation and the intergovernmental negotiations." Several studies (e.g., Blyth 2002, Parsons 2003) have shown that ideas "can be an independent variable by demonstrating that no other structural factors can account for the clear changes (or continuities) in interests, paths, or norms signalled by political actors' expressed ideas and intended actions" (Schmidt 2008, 309).

There also exists ample literature that considers (the different types of) ideas and discourse that were relevant during the euro crisis. These works mostly consider a specific idea or discourse and its influence on the euro crisis. However, with one exception, none of these works have considered Banking Union. The exception is the work by Schäfer (2016, 2017), who offers an excellent explanatory account of the influence of ordoliberalism on German preference formation in the Banking Union negotiations. However, his work showcases only the ideational standpoint of one country, only considers ordoliberalism as a potentially influential idea, and focuses on national preference formation rather than the institutional outcome.

Combining these two gaps in the literature, this research aims to uncover Banking Union as a case of institutional change from the standpoint of ideas and discourse. It does this by focussing on how the ideational dynamics led to a specific outcome in the Banking Union institutions.

3. Theoretical framework

This section sets out discursive institutionalism (DI), the theory that will be used in this thesis as the framework linking ideas and discourse to institutional change. The first section presents the theory by setting out the core assumptions. Then an explanation is given of the core concepts that are used for applying the theory. Finally, the last section formulates the main expectation that the theory provides for the research question.

3.1 Core assumptions

DI is a new institutionalist theory that seeks to link discourse and ideas to institutional change. New institutionalism is a strand of theories which consider institutions, which are defined as the rules and norms that constrain individual behaviour. In this thesis, the institutions under consideration are policy institutions, referring to the policies created by public organisations. Institutional change in discursive institutionalism thus means that existing policies change through changes in ideas and discourse: it uses "ideas and discourse to explain political change (and continuity) in institutional context" (Schmidt 2010, 2). This theory uses concepts such as cognitive paradigms, normative frameworks, and frames to explain how ideas and norms constrain the policy options that policymakers consider appropriate or legitimate, or how policies can be presented in such a way that they are perceived as such (Campbell 2002). Here the focus can be on discourse, but also on the institutional context in which and through which ideas are communicated via discourse (Schmidt 2010).

To explain the framework of DI, it is useful to consider how it distinguishes itself from the three other new institutionalist theories: rational choice institutionalism, historical institutionalism, and sociological institutionalism. Discursive institutionalism differs from them in three main respects (Schmidt 2010). First, as mentioned before, DI assumes that institutional outcomes are driven by ideas and discourses. Although some DI literature leaves open space for the influence of material interests as well as ideas, the fact that DI employs ideas as a means for institutional change makes it stand out from other theories. This is related to the second aspect of DI, which is that it seeks to explain change, rather than focussing on the stability of institutions, whereas other institutionalist theories assume that institutions are mainly static and constraining forces (Schmidt 2008). Finally, a third characteristic is that institutions are not only exogenous but also endogenous to actors. This means that in DI, institutions are given, indicating that they are something that actors operate within, and that they are contingent, in that they are created and changed by those same actors (Schmidt 2008). This is an important differentiation from the other institutionalisms since these all follow a specific logic of action, such as the logic of calculation, the logic of path dependence, or the logic of appropriateness. However, this leads to a conceptualisation of actors who, arguably, have no 'real' agency (Schmidt 2008). DI gives agency to actors by arguing that institutions are the result of creation and maintenance by these actors (Schmidt 2008).

To summarise, DI is based on the idea that institutions change, that this change comes from internal sources rather than exogenous influences, and that these internal sources are discourse and ideas. Consequently, applying DI means considering “the substantive content of ideas and the interactive processes by which ideas are conveyed and exchanged through discourse” (Schmidt 2010, 3). The concept of ‘ideas’ is taken broadly. It can refer to specific policy ideas as well as broad paradigms, and they are evaluated both in terms of interests and usefulness, and norms and values (Schmidt 2010). DI further considers how these ideas are represented in discourse, such as through the use of frames, narratives, or collective memories.

Important to note is that these ideas and discourses are examined within an institutional context. Institutions are not seen as only constraining policymakers in their choices. This is because actors are assumed to be ‘sentient’ or ‘reflexive’, meaning that they are not only pursuing their goals in accordance with their beliefs but also have self-knowledge, which implies that they can think about their thoughts in a self-reflexive manner (Schmidt 2010). Actors have ‘background ideational abilities which explain “how they create and maintain institutions” while ‘foreground discursive abilities’ enable actors “to communicate critically about those institutions, to change (or maintain) them” (Schmidt 2010, 4). This also allows for synthesis with other new institutionalist theories where, for example, historical institutionalism might show how path dependence provides constraints to change and DI explains how these obstacles are overcome (Schmidt 2010).

Discursive institutionalism argues that ideas are influential: it is not (only) interests that explain policy preferences, but also ideas. An important causal mechanism that underlies this is the influence of actors, who take ideas and insert them into the policymaking process. For example, academics and intellectuals may influence a policy debate by appealing to their specialised knowledge, and research institutes or think tanks may influence the prevalence of certain ideas in a government (Campbell 2002). Similarly, ‘epistemic communities’ fulfil this role on the international level, thus arguably constructing a ‘world culture’. However, it should be noted that this is not necessarily a straightforward causal mechanism. For example, when it comes to the influence of epistemic communities on the global level, ideas may “diffuse internationally [but] they are translated into national practice in unique ways that fit with prevailing national political institutions” (Campbell 2002, 31). Another potential criticism of this causal mechanism is that the influence of the specific actors may be more important than the persuasiveness of the ideas themselves, meaning that the explanatory power no longer lies with ideas (Campbell 2002).

A second aspect of the causal mechanisms underlying institutional change is the institutional context. Actors often do not have unfiltered access to institutions to diffuse their ideas: only certain actors may have access to policymakers. Thus, the shape of institutions also influences which types of actors can assert influence with their ideas, and to what extent actors can have an influence (Campbell 2002). For example, governments may have diverging levels of openness when it comes to links to think tanks and universities. Similarly, the success of discourse also depends on the institutional setting. For example, in institutional settings where there is little consultation with stakeholders, communicative discourse may be more important than coordinative discourse, since the developed policy needs to be successfully legitimised in the eyes of the public in order to, for example, retain votes (Schmidt 2008).

A final aspect concerns discourse. This refers to "not only the substantive content of ideas but also the interactive processes by which ideas are conveyed" (Schmidt 2008, 305). Here the influence of discourse lies especially in "pre-existing discursive structures" that often contain cognitive and normative ideas that influence policymakers (Campbell 2002, 32). Thus, the discourse that surrounds a policy issue matters for the policy options that policymakers deem valid, meaning that the potential for policy change also lies in the successful changing of discourse.

3.2 Key concepts and their relations

Discursive institutionalism is a broad framework that is "open to a wide range of ways of analyzing the substantive content of ideas and the interactive processes of discourse in institutional context" (Schmidt 2014, 190). This means that DI can be used in differing ways and there is no set framework for its application.[1] Nonetheless, common denominators in these works can be distinguished: the consideration of (1) the types of ideas that are present and (2) discourse, as the processes through which these ideas are conveyed. In this section, these two characteristics are further elaborated upon in order to form a basis for the application of DI in the thesis.

3.2.1 Types of ideas

Within the discursive institutionalist literature, several types of ideas can be distinguished. A commonplace typology is made on two distinctions: the level or location of ideas, and whether ideas are cognitive or normative. This section explains the typologies constructed by Schmidt (2008) and Campbell (1998, 2002).

Schmidt (2008) argues that ideas can be sorted into three overarching categories. On the first level are *specific policies* proposed by policymakers. Underpinning these policies are the *policy ideas*, which refer to assumptions about how the world operates. These assumptions describe what type of policy actions are relevant or useful for solving specific problems. The third level consists of more general *worldviews* based on underlying and implicit assumptions. This distinction relates to the division made by Campbell (2002) between 'background' and 'foreground' policy ideas. *Foreground ideas* are explicitly articulated and open for debate, similar to the first two levels of ideas that Schmidt (2008) distinguishes. Opposed to this are *background ideas* which, like worldviews, are taken-for-granted assumptions that are generally uncontested and often pervasive. Finally, similar to the idea that the

[1] To exemplify the different ways in which discursive institutionalism can be applied, Hurrelmann et al. (2019) analyse the frames used in parliamentary debates by first conducting an empirical analysis, based on a content and cluster analysis, to identify frames. They then use a regression analysis to determine which factors can explain the use of a specific frame. Papadimitriou, Pegasiou and Zartaloudis (2019) use coding of newspaper quotes to analyse the change in discourse surrounding Greece during the euro crisis. Warren (2020) uses a qualitative discourse analysis on primary and secondary sources such as policy documents and press releases to determine the role of the ECB in the euro crisis negotiations.

different levels of ideas underpin each other (Schmidt 2008), Campbell (1998) argues that background ideas are the underlying ideas upon which foreground ideas are built.

Schmidt (2008) makes a further distinction between cognitive and normative ideas (see *Table 1*). Cognitive ideas are based on logic and rationality and provide clear guidelines or maps for the type of political actions that are deemed sensible when confronted with a specific policy problem. The adoption of policies based on such guidelines is thus justified by appealing to "their interest-based logic and necessity" (Schmidt 2008, 307). These are distinguished by Schmidt from normative ideas, which speak to values, norms, and what is appropriate. Once again, this division is close to the distinction Campbell (1998) makes between programs and paradigms operating on the cognitive level, and frames and public sentiments operating on the normative level (see *Table 2*).

	First level: policies	Second level: programs	Third level: principles
Cognitive	How policies offer solutions to problems.	Which problems should be solved, and which methods are useful	How this relates to scientific norms and practices.
Normative	How policies appeal to the ideals of the public.		How policies and programs fit the principles and norms of public life.

Table 1: typology based on Schmidt (2008)

	Background ideas	Foreground ideas
Cognitive	*Programs*: Offer specific descriptions for policymakers on how to solve specific policy problems.	*Paradigms*: Describe the assumptions that constrain the types of policies that policymakers find useful.
Normative	*Frames*: Describe how policymakers can legitimise their policy solutions to the public.	*Normative framework*: Describe the assumptions that constrain the types of policies that policymakers find legitimate.

Table 2: typology based on Campbell (1998, 2002)

In a later article, Campbell (2002) makes a further distinction between five types of ideas: cognitive paradigms, normative frameworks, world culture, frames, and programmatic ideas. It is useful to describe these in more detail, as they will be used later in the thesis as a foundation of the analysis. The first two types, *cognitive paradigms* and *normative frameworks*, are taken-for-granted assumptions that constrain the policy choices that policymakers consider (Campbell 2002). These ideas are "often left unarticulated as background knowledge" (Schmidt 2008, 208) and thus may be difficult to define or trace in terms of their development over time. However, this is not necessarily the case: they may also be visible to actors. The key characteristic is that these ideas remain unquestioned (Campbell 1998).

More specifically, cognitive paradigms offer an analysis of causal relationships, thus guiding policymakers in what to do (Schmidt 2008) and determining which policies are deemed useful (Campbell 2002). A cognitive paradigm becomes more dominant the more it is institutionalised, not only in formal government but also in universities and think tanks which shape policymakers' worldview (Campbell 1998). The importance of cognitive paradigms becomes visible when considering how they often differ per country and thus account for differing policy responses between different states (see, for example, McNamara 2019). However, paradigms are also open to change over time. For example, a cognitive paradigm may shift when policymakers are faced with problems "for which the current paradigm offers no clear-cut solutions" (Campbell 2002, 23).

In contrast, normative frameworks are assumptions about values and norms, meaning that they constrain policymakers in what they find legitimate (Campbell 2002). Values and norms create expectations about what is acceptable, meaning that policymakers act in accordance with a logic of appropriateness rather than only considering which policies might be effective (Campbell 1998, 2002). What is appropriate depends on what policymakers themselves deem to be 'right' and may override the personal interests of policymakers (Campbell 2002). Similar to cognitive paradigms, normative frameworks may explain differing responses to similar phenomena, such as differing national responses to economic problems (Smith 1992) or policy conflicts between political parties (Schön and Rein 1994). Finally, identity plays an important role in normative frameworks, conceptualised as "the historically constructed ideas that individuals or organizations have about who they are vis-à-vis others" (Campbell 2002, 24). For example, conceptions of national identity may inform which policies are deemed acceptable as these conceptions shape how actors view their interests and what policies they favour (Campbell 2002).

The aforementioned types of ideas are background ideas, meaning that they are pervasive, and their influence is often unconscious. This makes them difficult to change. Opposed to this are foreground ideas, which are discussed openly as part of the policy debate, thus leaving them open for transformation (Campbell 1998). The first type of foreground idea is frames. Framing effects occur when "different but logically equivalent phrases cause individuals to alter their preferences 'irrationally'" (Schmidt 2010, 18-19). Frames are constructed by actors to make policies politically acceptable to the public (Campbell 2002). Usually, the concepts used for framing a policy reflect the values and opinions in the existing normative framework, thereby legitimising them (Campbell 1998). This is often a purposeful strategy by policymakers.

The last type is programmatic ideas. These facilitate policymaking by specifying how specific policy problems should be solved (Campbell 1998). They are more specific than cognitive paradigms and provide technical roadmaps or guidelines on how "already-existing institutions and instruments should be used in specific situations according to the principles of well-established paradigms" (Campbell 2002, 28). This also means that programmatic ideas that fit the existing cognitive paradigm and normative framework are more likely to be attractive to policymakers. Programmatic ideas may be influenced by policies that worked in the past or by the type of policies that are available, where simple or straightforward policies are more likely to be used than complex or vague ideas (Campbell 2002). This is also important in the 'policy struggle', where policies that are easy to frame or build coalitions around are more likely to be adopted, especially when there is uncertainty about the outcomes of different policy programmes.

3.2.2 Discourse

As argued by Schmidt (2008), a typology of ideas is not enough to explain how and why ideas are (not) picked up by policymakers. She therefore introduces the concept of discourse, which refers to both the "ideas represented in the discourse […] and the interactive processes by which ideas are conveyed" (Schmidt 2008, 309). According to Schmidt, discourse can be separated into several components. Closely related to ideas, discourse has an ideational dimension with both a cognitive and a normative function (Schmidt 2002). Thus, discourse functions to explain the logic of a policy (cognitive) but also its appropriateness (normative). However, it differs from ideas in its interactive dimension, where it consists of both a 'coordinative' and a 'communicative' sphere, which explains the interactive processes through which ideas are constructed and represented (Schmidt 2002, 2010).

In the *coordinative sphere*, policies and ideas are constructed among a relatively small group of actors who aim to create a common language and framework for themselves (Schmidt 2002, 2008). This may be conceptualised as, for example, epistemic communities that operate based on "shared cognitive and normative ideas about a common policy enterprise" (Schmidt 2008, 310) or advocacy coalitions consisting of activists that contest common ideas (Schmidt 2010).

These ideas are translated through *communicative* discourse in the political sphere, where a diverse and broad range of actors consider these ideas for public deliberation and legitimation (Schmidt 2010). This may be in different forms. For example, political leaders may communicate policy ideas to the public in a top-down manner, but ideas may also be communicated bottom-up through social movements. This means that the direction of discursive interaction may go both ways and, in fact, may not even necessarily go from one policy sphere to the other. Ideas may remain in the coordinative sphere, either deliberately as debates that are closed to the public, or unintentionally, simply because there is no interest of the public in them (Schmidt 2008). Other ideas may remain in the communicative sphere where discussions remain between the public and never move up to the elites.

Analysing discourse is important because discourse may make an idea more or less successful. For example, discourse influences which policies are most likely to be adopted: existing discursive structures contain normative aspects which determine which types of discourse policymakers respond to best (Campbell 2002). Political actors are boundedly rational, meaning that they form policy preferences based on their pre-existing beliefs. Thus, "if advocates of a particular policy position can saturate the political landscape with metaphors and other discursive short-cuts well enough so that they become part of people's taken-for-granted cognitive schema, then people will tend to prefer their position" (Campbell 2002, 32). Similarly, some discourse may be more successful than others, depending on form and content (Schmidt 2008). For example, discourse must be addressed to the right audience at the right time and must also be both cognitively and normatively convincing (Schmidt 2008). This latter point is related to the notion of persuasion, as discourse can convince other actors of the necessity or appropriateness of a policy (Schmidt 2008). This implies that in negotiations and bargaining ideas and discourse may be employed deliberately by actors as strategic resources (Schäfer 2016). However, this may also lead to 'rhetorical entrapment' where policymakers feel obliged to follow the implications of discourses they have accepted or proposed in the past (Schmidt 2008).

3.2.3 Theoretical expectations

The assumptions formulated in the theoretical framework of discursive institutionalism (DI) lead to an expectation that provides an answer to the research question. The main underlying assumption in the theory is that ideas and discourse influence policy change. More concretely, in this thesis, it is assumed that the ideas and discourse prevalent during the euro crisis and the Banking Union negotiations influenced the institutional shape of Banking Union. Furthermore, as explained in the theoretical framework, DI assumes that foreground ideas, frames (normative) and programmatic ideas (cognitive), are based on the underlying background ideas, the normative framework and the cognitive paradigms. This implies that the potential influence of an idea depends on whether it suits the pre-existing cognitive paradigms and normative framework (Campbell 1998). This means that the frames used by actors will likely closely represent the underlying normative framework, while the programmatic ideas that are adopted in the crisis are shaped by the underlying cognitive paradigm. In this thesis, the dominant normative framework that is identified is 'banking nationalism' while the dominant cognitive paradigm that is identified is 'ordoliberalism'.[2] This leads to the main expectation:

> *Expectation: The policies adopted in Banking Union reflect the underlying normative framework (banking nationalism) and the underlying cognitive paradigm (ordoliberalism).*

The causal mechanism underlying this effect is the influence of actors. Actors, through their normative framework and cognitive paradigm, represent existing ideas. However, they can also bring new ideas to negotiations, as they can think outside the institutions in which they act. The ability of actors to persuade other actors of the need for change, to form coalitions in the coordinative sphere, and to inform the communicative sphere allows for institutional change (Schmidt 2010).

A mediating factor, as argued by Campbell (2002), is the institutional context within which discourse and ideas are brought forward. The influence of ideas does not only depend on their content and the discourse with which they are presented but also on whether the institutional design is open to the actors presenting these ideas. For example, it may be expected that the influence of think tanks and universities

[2] The justification of the choice for these background ideas is given in the section on Research Design.

is less relevant in the context of high-stakes mid-crisis negotiations between the leaders of national governments in the European Council.

4. Research design

This chapter of the thesis specifies the research design that will be used in the thesis. It first explicates the objective of the research, after which a suitable research design, method of analysis, and method of data collection are proposed. It then justifies the case selection. The chapter concludes by reflecting on the limitations of the research.

4.1 Research objective

This thesis has the objective of testing whether discursive institutionalism (DI) can explain the outcome of the Banking Union negotiations leading to the Banking Union institutions. The research aims at uncovering the relationship between ideas and discourse prevalent in the euro crisis and the outcome of the Banking Union negotiations, to test DI's claim that ideas and discourse can lead to institutional change.

It should be noted that it is not the objective of this thesis to explain why the Banking Union institutions were created. The rationale behind the creation of BU has already been discussed in other works[3] and can be mostly accounted for by the euro crisis as an exogenous shock. Furthermore, the thesis also does not attempt to prove that discourse and ideas are the only causal mechanisms that explain the outcome of the negotiations. Previous research has established that the Banking Union negotiations and the institutional outcome were affected considerably by national interests and bargaining dynamics. This thesis starts from the premise that interests are an important explanatory factor but asserts that ideas and discourse as an explanatory factor have been neglected.

4.2 Research design

4.2.1 Comparative designs

This thesis combines a qualitative analysis with a comparative small-N research design to explain the impact of discourse and ideas on the outcomes of the selected cases. Comparative designs are suitable for theory testing and accounting for outcomes of particular cases, which is what this thesis aims to do. Furthermore, the small number of cases that are available (i.e., the three Banking Union institutions) make a small-N comparative research a suitable design.

As argued by Lijphart (1971), comparative designs rely on the same elements as large-N and experimental research: uncovering empirical relationships between some variables while controlling for some other variables. However, while experiments rely on randomisation and control to ensure validity and reliability of the research, and large-N research makes use of the law of large numbers,

[3] For example, the rationale behind the creation of the SSM has been explained by Glöckler, Lindner and Salines (2017) and the development of the SRM has been discussed by Howarth and Quaglia (2014).

these elements are not available for small-N comparisons. Therefore, such a design typically consists of two elements: a comparison and a within-case study (Toshkov 2016).

First is a comparison across a small number of cases, in which a conditioning strategy is used to infer causal mechanisms. In this thesis, the most similar systems design is used. This brings together cases that are as similar as possible in as many characteristics as possible (Sartori 1991). Such a strategy, in which variables other than the main hypothesised explanatory variable are kept constant, aims to isolate the effect of the main explanatory variable by blocking the influence of confounders. Thus, the comparison is used as a way of controlling: it allows for "the establishment of relationships among a few variables while many other variables are controlled" (Lijphart 1971, 687). As will be discussed further below with regards to case selection, the Banking Union institutions are suitable for a comparative design, since these cases contain many important similar characteristics which allow for the blocking of potentially confounding factors. In this way, the use of a comparative case design allows for the drawing of more robust conclusions on the different (types of) ideas that potentially influenced the different (types of) issues at stake in the Banking Union negotiations.

However, comparing a small number of cases also has the potential for problems within the design. For example, it faces problems of measurement error since, by definition, it cannot use the law of large numbers. Errors of measurement are more problematic due to the small number of cases since this means that a single error has a higher potential for damaging the reliability of the research. This is addressed by the second element of comparative designs: within-case analysis. Rather than comparing cases, such an analysis relies on evidence from a single case. In this thesis, this entails the use of case-specific data such as interviews, newspaper articles, or regulations which are analysed to uncover the (underlying) ideas that are (implicitly) expressed. Notably, the case-study aspect of a comparative design cannot function to confirm a generalisation such as a comparison seeks to do (Sartori 1991). Rather, the in-depth analysis allows for the improvement of the research by inferring causal mechanisms or investigating the direction of the hypothesised causality. Perhaps more importantly, it allows for the improvement of the validity and reliability of the research. Thus, this element of the comparative design counterbalances the potential problem that measurement errors pose and strengthens the conclusions from the research.

4.2.2 Further design

The following design and method of analysis are proposed. First, a chapter on operationalisation will explain how the two background ideas, banking nationalism and ordoliberalism, are defined and how they will be identified and studied in the subsequent case studies. This is done by explicating their rationale as well as giving examples of how they function in practice. Then, discursive institutionalism is applied to Banking Union in two steps. In the first section, a brief historical overview is given of how the background ideas have played a role within Economic and Monetary Union. Then, the analysis is deepened by showing how these background ideas were transformed into foreground ideas. This is done by demonstrating how underlying ideas were turned into specific frames and programmatic ideas during the Banking Union negotiations. The second part of the analysis considers specifically the three Banking Union institutions as cases of institutional change. Each institution is considered separately concerning the ideational elements that were relevant during the negotiations. A comparison between the cases allows for a conclusion on the relative importance of the identified background and foreground ideas for the institutional outcome.

Data will come from two main methods. First, (academic) literature is used to substantiate the arguments that are made regarding, for example, the description of the background ideas and the types of disagreements that were important during the Banking Union negotiations. Second, primary and secondary sources are used to show how ideas and discourse function in practice. The data will mainly be collected from two European-oriented news websites, Euractiv and EUobserver, and the international newspapers the Financial Times. Furthermore, data will come from blog posts and columns from academics and public figures. Furthermore, the adopted Regulations for two of the institutions are used to examine which arguments are presented for their establishment. These sources are used to identify the presence of specific ideas. This is done by carefully examining the words that are used by actors and the arguments that they put forward. These are examined against the two background ideas that are identified and explicated later in the thesis. For instance, if a national minister argues for the need of Member States to take responsibility for their national finances, this is seen as identifying an ordoliberal cognitive paradigm. If a national minister argues for the need for solidarity between Member States, this is seen as a sign of the presence of a counternarrative to ordoliberalism. The types of words and arguments that can be used to identify these ideas are discussed in the chapter on operationalisation.

4.3 Case selection

The thesis requires two justifications: the selection of 'banking nationalism' and 'economic philosophies' as the ideational elements under study, and the selection of the Banking Union institutions as cases for the study.

Two background ideas are selected as ideas that influenced Banking Union (BU): banking nationalism and economic philosophies. Both are selected for three reasons. First, they have been identified by the literature as influential ideas during the euro crisis (for example, see Schild (2017), Donnelly (2017), or Epstein and Rhodes (2016)). Second, they both shaped the pre-crisis structure of Economic and Monetary Union, which demonstrates their relevance for Banking Union. And third, their presence has clear implications for the shape of the BU institutions.

Banking nationalism has been crucial in accounting for the set-up of Economic and Monetary Union as being mainly focused on national governance. Furthermore, it has continued to hinder the creation of European banking institutions during the beginning of the euro crisis. Although few papers identify banking nationalism explicitly as a key feature of the euro crisis or focus on it as a sole explanatory factor, the logic of banking nationalism is often implicit in the literature. That is to say, it is assumed that Member States desire to retain control over financial governance. Thus, this background idea is chosen because its presence is often assumed in the literature, it has been present during the formation of EMU and the crisis, and its presence would have visible implications on whether Member States are willing to set up supranational banking institutions.

Similarly, 'economic philosophies' is chosen as a background idea. This should be seen as an umbrella term. First and foremost, it encompasses the idea of 'ordoliberalism', which is identified by the literature as explaining the logic behind EMU and specifically Germany's policy preferences. However, economic philosophies also capture more broadly the influence of neoliberalism and Keynesianism, such as expressed through the 'North/South' divide and the literature on varieties of capitalism. This is a discursive cleavage between the European North and South which has been identified in the literature as an important frame in the euro crisis. Furthermore, debates on economic philosophies have been present since before the construction of EMU. Finally, different economic philosophies have distinguishable implications on the shape of institutions.

On top of this, the two selected cases complement each other. While nationalism is a normative idea, which concerns the level of governance that is deemed to be appropriate, economic philosophies are cognitive ideas[4] that concern economic principles. The use of both a normative and cognitive idea has two benefits: it allows the analysis to show how normative and cognitive ideas are used differently and have different impacts, while also allowing the analysis to show how these ideas reinforce each other.

A second justification concerns the case selection of the institutions of Banking Union (BU). The selected cases are the three pillars of BU: the Single Supervisory Mechanism, the Single Resolution Mechanism, and the European Deposit Insurance Scheme. The choice for these three cases is justified by two main reasons. First, since the research objective is to investigate the influence of discourse and ideas on Banking Union, taking the Banking Union institutions as case studies is straightforward. However, second, this choice can also be defended design-wise. This is because the cases are suitable for a most similar systems design: the selected cases benefit from similar contextual factors which allows for the blocking of many potentially confounding variables. For example, the research benefits from a similarity in the content of the negotiations: all cases concern issues relating to banking, the stability of the euro, questions of moral hazard and solidarity, and divisions between the economic shapes of Member States. At the same time, each institution has its specific function which highlights a different aspect that is being negotiated, which means a comparison can be made for the relative influence of the main explanatory variable. For example, ordoliberal concerns for moral hazard may be more important when it comes to an institution that aims to create a joint fund, while banking nationalism may be more relevant when it comes to an institution that aims to create a supranational supervisor. If these two cases have different outcomes, it may be concluded that something else than ideas has induced institutional change.

[4] The case can be made that economic philosophies are also normative, since they stipulate norms for 'good' economic behaviour. Thus, it may place value on, for example, having sound finances or a liberalised market. However, here it is seen as a cognitive idea, since these philosophies see themselves as being based on a (supposedly) scientific account of how the economy functions.

4.4 Limitations

There are several limitations to the study. These are divided into theoretical limitations and limitations of the design. Concerning the former, as has become clear from the design presented above, this thesis focuses mainly on ideas, while neglecting the role of discourse in its different spheres. This may be a serious limitation to the study, since, as argued by Schmidt (2008), considering only the presence of an idea does not necessarily explain why such an idea is (not) picked up by relevant policymakers. It is the consideration of how ideas are communicated and conveyed which explains why and when they may induce institutional change. However, discourse is not considered in this thesis due to (1) lack of space and (2) because the research focuses on assessing whether ideas matter, rather than trying to gauge the channels through which they matter. While the neglect of considering discourse may thus be justified, it nevertheless poses a limitation to the study.

Similar is the questionable applicability of discursive institutionalism itself. After all, this theory's main explanatory power lies in the idea that institutional change comes from internal sources, namely through discourse and ideas. Arguably, using this theoretical framework is ill-fitting for the case at hand, since the direct cause of institutional change for Banking Union was the exogenous shock presented by the euro crisis which severely impacted the European banking system. Thus, instead of using discursive institutionalism to explain the change itself, this thesis uses DI to research whether discourse and ideas impacted the shape of the change. This may be a limitation, since it is not what the theory is meant to do.

More important is the problematic conception of causal mechanisms in the theory which threatens the causal validity of the study. It may be difficult, or even impossible, to check whether a causal mechanism holds explanatory power. This problem is mentioned by Schäfer (2016) when he writes about the potential influence of ideas rather than interests on Banking Union. He argues that "while there is strong evidence for an impact of ideas" there are "occasional matches between the observable implications of ideas and some material interests" meaning that "it cannot be fully excluded that matching material interests influenced the government to some extent as well [next to ideas]" (Schäfer 2016, 977). Similarly, when the argument is made that, for example, banking nationalism played a less important role in the institutional outcome, this could either be because (1) its counternarrative (ideas of Europeanisation) became more important during the crisis, or (2) material interests rather than ideas explain the outcome. The research design tries to overcome this limitation through its use of within-case analysis, which has the potential to shed light on the causal mechanisms and to rule out reversed causality. Nevertheless, this does not fully negate the problem that explanatory power may not be convincingly allocated.

There are also limitations regarding the research design. As mentioned before, a comparative design with a small number of cases may suffer from measurement error, potentially leading to wrong conclusions. A more important problem may be the internal validity of the findings since the design cannot account for reversed causality, heterogeneous causal effects, or complex causal relationships

(Toshkov 2016). Thus, the theoretical limitation that causal mechanisms may be difficult to uncover is exacerbated by a limitation of the design, meaning that it cannot be reliably concluded that ideas caused a shift in the institutional outcomes without considering that it may be the institutional circumstances that caused a shift in ideas. Similarly, it may be the case that other factors need to be present for ideas to cause institutional change. Such factors may be, for example, the unfolding of specific events such as the sudden worsening of the crisis in specific Member States which created heightened pressure on European governments to act. These issues are partly addressed by complementing the comparison with a within-case analysis, which uncovers the specific circumstances relevant to each case (Toshkov 2016).

Another potential problem with using a most similar systems design is that the cases may not be similar with regard to all potential alternative causal factors (Toshkov 2016). For example, Member States' material interests may be considered an alternative causal explanation. While in all cases these material interests are the same, the relative importance of different material interests may differ across cases. Thus, the governance structure of the national banking system may be more important in one case, while the level of internationalisation of banks may be more important in another. These differences are not controlled for, meaning that the research relies on the assumption that these characteristics are similar enough to not be problematic for the research.

Finally, the external validity of the research, or the extent to which its findings can be transposed to a larger population, may be problematic (Toshkov 2016). This is most clearly the case regarding the specific context within which the cases took place. Negotiations for Banking Union took place during the euro crisis, which generated highly specific circumstances, most importantly an environment of emergency in which decisions had to be made relatively quickly, the stakes were especially high, and the need for institutional change was relatively more evident to the actors involved. This means that the findings of the research may not apply to circumstances in which, for example, there is no crisis.

5. Operationalisation

This section of the thesis operationalises the two background ideas that will be used for analysis in the case studies. First, banking nationalism and economic philosophies are defined, and the assumptions underlying these ideas are explained. Examples are given of arguments that will identify the presence of the ideas, which includes an explanation of their 'counternarrative' or 'opposing idea'.

5.1 Banking nationalism

A relevant idea during the euro crisis was the underlying idea of economic nationalism, which prevented the Europeanisation of financial governance. In this thesis, economic nationalism is defined as the idea that the governance of financial institutions, and especially banks, belongs in the hands of national governments. This is rooted in the ideology of nationalism, meaning "an ideology seeking to establish or promote the unity, identity, and autonomy of a nation or potential nation" (Shulman 2000, 368). Here, the most relevant manifestation of this phenomenon is economic nationalism. The area of finance is seen as a vital national competence, as it influences such areas as "developmental strategies, insulation from external economic shocks, and the execution of monetary policy" (Epstein and Rhodes 2016, 200) and the general stability of the national economy. Thus, governments seek to remain in control over national financial institutions. This means that in the nationalist framework, international authorities such as the European institutions should have as little constraining influence as possible on national actors' economic policy decisions (Johnson and Barnes 2015). One of the ways in which economic nationalism manifests itself is through banking nationalism, which seeks to promote national interests in bank ownership, banking regulation and banking supervision.

Banking nationalism is a normative framework since it argues that the governance of banks is most appropriately placed in national hands. This relates to core values such as the primacy of national sovereignty and the protection of domestic interests. Furthermore, banking nationalism as a normative framework constrains policymakers in their policy options, as they are likely to be expected to protect the interests and sovereignty of national banks. That normative frameworks are background ideas means the presence of banking nationalism is left unarticulated and, at least until the euro crisis, remained unquestioned.

Banking nationalism can be identified through two main channels: national policies aiming to protect or support national institutions, and national opposition against the pooling of governance at a higher level of governance. For the former, a clear manifestation of banking nationalism is banking sector protectionism. This refers to the efforts of national governments to keep national ownership over domestic banks. Banks are often presented as having distinctly national identities, which justifies their protection against foreign takeovers. Thus, "financial regulators strive diligently to prevent foreigners from buying local banks" (Epstein and Rhodes 2016, 208) such as through domestic bank consolidation or implicit subsidies. Accordingly, European banks have often (tried to) stop attempts at takeovers by foreign banks and investors. Similarly, many national regulations de facto protect the national banking system by limiting licences given to foreign banks (Epstein and Rhodes 2016).

The second channel is the opposition against supranationalisation of governance. For this, the development of Economic and Monetary Union (EMU) shows how banking nationalism was present. According to the financial trilemma (Schoenmaker 2011, discussed further below), expansive market integration would require centralised supervision in order to ensure financial stability. However, plans for common supervision and resolution were never introduced into the Maastricht Treaty. After all, this suggested that the introduction of EMU would have fiscal implications, something which especially Germany opposed. Instead, the existing system, based on national oversight and resolution, was allowed to remain in place. This was a "decentralized regulatory process that provided scope for discretion, diversity and home bias in the implementation of rules at the national level" (McPhilemy 2014, 1474). Thus, while there were economic arguments for the introduction of supranational institutions, it was deemed the most appropriate policy to let sovereignty remain in the hands of national governments.

As has already become clear from the arguments presented above, against the narrative of banking nationalism exists a counternarrative that stresses the economic importance of banking regulation at a European level. This relies on two main arguments: the financial trilemma and the costs of protectionism.

The financial trilemma is an important argument for centralised supervision. It refers to the impossibility of a country to have financial stability, international financial integration, and national financial policy (Schoenmaker 2011). Schoenmaker argues that financial stability is a public good and uses a model to assess the systemic effects of bank failure where policy options are to recapitalise or liquidate a bank. Recapitalisation occurs when the social benefits are higher than the costs. In a multi-country setting, this would pose a problem, since "no individual country is ready to finance the recapitalization by itself, as the benefits for each country are smaller than the overall cost" (Schoenmaker 2013, 27). Next, he shows through the application of the Prisoner's Dilemma that, when there is no coordination, countries' dominant strategy is to refuse contribution to bank recapitalisation. The outcome of the game, the liquidation of the ailing bank, is a worse outcome for both players than if they were both to contribute. Crucially, in response to the trilemma, Schoenmaker argues that it can only be solved by two policy options: reversing financial integration, or creating a "European-based system of financial supervision" by moving "powers for financial policies (regulation, supervision and stability) further to the European level" (Schoenmaker 2011, 59).

The second argument in favour of centralised supervision of banking is, similarly, based on financial integration. Financial integration potentially causes problems by increasing the costs of banking sector protectionism (Epstein and Rhodes 2016). Economic liberalisation and the potential for increased integration, such as through the introduction of the euro, had several implications for banking. For example, it took away Member States' possibility to change the value of their currency, thus giving them less means by which to counter loss of competitiveness. This is especially detrimental for banks, since “repeated or long-term recessions take their toll on banks’ balance sheets” (Epstein and Rhodes 2016, 205). On top of this, the introduction of the currency union also allowed for increased international intrabank lending, which raised the chances of contagion.

Another line of argument based on financial integration is that integration could be promoted through centralised supervision. For example, in a Green Paper published in 2005, the European Commission argued that the Europeanisation of supervision would enhance the competitiveness of European financial institutions and would also ensure effective supervision when financial integration increased (Commission 2005). Furthermore, denationalisation would be beneficial because fragmentation would lead to perverse incentives. Similar to the Prisoner’s Dilemma by Schoenmaker, national supervisors were not necessarily concerned with the financial stability of the European system, but rather with their own banking sector’s competitiveness (Bini Smaghi 2013). This not only led to policies that had detrimental effects on the possibility of foreign banks joining the national system but could also lead to regulatory competition and a race to the bottom in banking supervision.

Thus, banking nationalism is a normative framework that can be identified by the sentiment that banking governance is most appropriate in national hands. Elements that identify its presence are arguments that appeal to national sovereignty. It also manifests itself in opposition against policies that would entail loss of national governments’ control over financial institutions, or national policies that aim to keep control over or give support for national institutions. Its counternarrative can be identified through two main arguments: the financial trilemma which stresses the need for denationalisation for reasons of financial stability, and the increased costs of protectionism due to increased financial integration.

5.2 Economic philosophies

A second relevant idea during the euro crisis was the underlying economic philosophies and the way the cause as well as the solution of the crisis were analysed through these different philosophies. When it became clear to the Member States that far-reaching responses to the euro crisis were necessary, a “long-simmering battle over the appropriate economic philosophy and future design of the European Union broke into the open” (Brunnermeier, James and Landau 2016, 2).

The most relevant idea in this respect is ordoliberalism. This is defined here as an economic philosophy based on the ideal of rigorous rules and a state that limits its action to enforcing such rules (Brunnermeier, James and Landau 2016). Under ordoliberalism, the state concerns itself strongly with ensuring that fair competition can take place, but its task is limited to strictly that: it should not itself intervene in the market. This is rooted in the aim of price stability, which especially in Germany has become an important economic pillar due to its historic experience with hyperinflation (Schmidt 2014). Similarly important is the soundness of finances, including strict thresholds for public debt. This is linked to the notion that economic growth cannot be achieved through government spending, but only through structural reforms that ensure competitiveness (Brunnermeier, James and Landau 2016). Related to this is the idea of responsibility. Ordoliberals argue that “Any measure that limits accountability or responsibility by promising some sort of contingent rescue would create destructive incentives that would lead to the accumulation of unfulfillable expectations on behalf of the economic actors and unfulfillable liabilities on the part of the government as the ultimate insurer" (Brunnermeier, James and Landau 2016, 61). This puts central the notion of liability for one's actions. Thus, moral hazard, referring to the idea that actors will increase risk-taking if they do not bear the costs of incurring the risk, becomes a central concern. This means that, for example, bailouts should be discouraged as they set a bad precedent and will lead to moral hazard problems when other actors no longer take seriously the risk of bad credit, since they feel secured by the possibility of a bailout (Brunnermeier, James and Landau 2016).

The discussion of ordoliberalism presented above makes clear that this is a cognitive paradigm. It stipulates the underlying causal mechanisms that govern the economy and informs policymakers of the types of policies that are appropriate to implement. This becomes clearer when it is juxtaposed with its counternarrative, which will be referred to as the 'discretionary framework'.

In the discretionary framework, rules are flexible. This means that they are open to political contestation and adaptation, especially in times of crisis. Furthermore, the state's role is not limited to ensuring fair competition or price stability but also aims to further goals such as social policy or economic growth in accordance with the logic of interventionism. Thus, the framework is characterised by an emphasis on (social) solidarity, where public lending is justified by public relief and broader concerns for well-being (Brunnermeier, James and Landau 2016). The state relies on investment, planning, and nationalisation to manage the economy and encourage economic growth, as well as to ensure political stability. These two points imply that there should be no strict constraint on government borrowing. For example, a bailout is seen as a viable solution to liquidity problems (Brunnermeier, James and Landau 2016). Similar to ordoliberalism, this is thus a cognitive paradigm that stipulates which policies are legitimate to implement.

Thus, two main opposing economic philosophies are deemed relevant cognitive paradigms. Ordoliberalism can be identified by several elements. Ordoliberal arguments are based on the idea that government intervention should be limited. Central elements that will signal the presence of ordoliberal ideas are, therefore, an emphasis on economic competitiveness or the strict need for price stability. In the international sphere, ordoliberal arguments are identified by an emphasis on rule abidance and sound finances, as well as strict responsibility and accountability for one's finances. A clear identifier of this argument is appeals to moral hazard. Examples of policies that signal the presence of ordoliberalism are the wish to tighten fiscal rules, stricter rule enforcement or harsher penalties, and policies that keep actors responsible for their own actions rather than pooling risks and responsibilities. The ordoliberal counternarrative can be identified by arguments that stress the more social and interventionist role of the government. For example, the counternarrative will stress elements such as sharing of responsibility and (international) solidarity. Favouring a bailout, for example, is a policy preference that identifies the presence of this counternarrative.

6. From background to foreground ideas

In this section, the thesis moves from banking nationalism and economic philosophies as background ideas to their more practical implications as foreground ideas. These analyses are preluded with a brief background of Economic and Monetary Union (EMU), the euro crisis and the place of banking nationalism and economic philosophies in them. Doing this allows for a better understanding of the main issues at stake during the development of Banking Union, as well as an insight into how ideas influence institutions.

The main part of this section covers the two background ideas and how they are transformed into programmatic ideas and frames: the policies that are deemed appropriate to introduce, and the way they are framed by actors. First, the influence of banking nationalism as a normative framework is explicated further by looking at the attempts at reform that were made during the crisis. Second, the same analysis will be made regarding economic philosophies and how these influence the analysis of the cause and potential solution of the crisis.

6.1 Banking nationalism

6.1.1 Background

That banking nationalism persisted as a strong background factor becomes clear when looking at the developments in banking supervision over the years. In 1989, when the Second Banking Directive was adopted, three principles of financial services were applied to the European banking sector: mutual recognition, minimum harmonisation, and home country control (McPhilemy 2014). Since its adoption, several changes to this framework have been made. An important first step was the extension of the Lamfalussy Process to banking in 2004. This was rooted in the work of the committee led by Alexandre Lamfalussy, which had led to a new governance structure for financial services. When the Council agreed on the need for more banking supervision on the European level in the context of financial crisis management, they proved to be unwilling to give more power to European institutions. Therefore, it was decided to adopt the Lamfalussy process instead (McPhilemy 2014). In this Process, the Council and EP "only adopt broad policy guidelines, while detailed regulations and rules are decided by expert committees" (Posner and Véron 2010). This also led to the setting up of the Committee of European Banking Supervisors (CEBS) in 2004, consisting of national representatives as well as representatives from the ECB and Commission (McPhilemy 2014).

While this may seem like a step away from banking nationalism, the European system had more power in theory than in practice. A review of the newly introduced system found that the means and extent of supervision still differed greatly along national lines (McPhilemy 2014). Similarly, the CEBS lacked power due to its consensus-based culture, leading to "lowest common denominator solutions and a preference for generalized principles over prescriptive rules" (McPhilemy 2014, 1480). Perhaps more importantly, the fact that members of CEBS were national representatives allowed national, rather than common, interests to prevail when the financial crisis erupted (McPhilemy 2014).

The adoption of the Lamfalussy Process is an example of the extent to which banking nationalism was important in the development of regulation on the European level. Despite attempts at reform towards a more integrated approach to supervision, it remained mainly in national hands up until the outbreak of the euro crisis. The reforms were mostly non-transformational and did not challenge the prevalence of national authorities in supervision and resolution (McPhilemy 2014). Furthermore, efforts at reform were often considered beneficial only in light of national concerns. For example, while France and Germany had "a long track record of pushing tighter European and global financial market regulation," this should be seen "in terms of efforts to promote Paris and Frankfurt as world financial centres and challenge the position of London" (Buckley and Howarth 2010, 122). Underlying the proposals for common regulation were national concerns about competitiveness, rather than ideals of integration. Similarly, many of the debates surrounding these reforms show strong opposition to, for example, a supervisory role for the ECB, which showcases that the willingness towards full integration was limited (McPhilemy 2014).

Moreover, even efforts undertaken by the Commission to Europeanise supervision stressed that the "current institutional set-up should be exploited as far as possible before considering any structural change" (Commission 2005, 8). A report commissioned by the Commission in 1999 to explore a cross-border bank resolution regime argued for voluntary cooperation since it "considered the crisis experiences too diverse to fit any binding EU framework" (Kudrna 2011, 287). Cooperation remained restricted to technical matters. Thus, even the Commission did not call into question whether supervision should remain in national hands. This shows that banking nationalism as a normative framework was deeply embedded and remained unchallenged.

6.1.2 Banking nationalism: attempts at reform

Background ideas can be transformed into foreground ideas, such as when a normative framework limits the types of policy options policymakers deem appropriate. In this regard, banking nationalism as a normative framework is first and foremost relevant when it comes to setting up Banking Union in general. After all, as discussed above, the power of supervision and resolution of banks had been firmly in Member States' hands at the time the euro crisis emerged, meaning that a change of ideas was necessary before national governments would allow for the transfer of (some) power to the supranational level. The depth of the narrative of national responsibility for banks can be showcased mainly by the fact that institutional change was slow to be picked up despite the troubles that many European banks were facing. During the first years of the crisis, the focus of European leaders was mainly on managing the direct effects of the financial crisis, such as by saving those banks that had gotten into trouble after the collapse of Lehman Brothers in the US. When in 2009 the Greek government announced that its level of public debt was higher than previously reported, the focus shifted towards managing the public debt crisis. This meant the focus shifted to the question of how to deal with Greece, including debates over whether the private sector should incur losses, and the establishment of European institutions which could offer financial assistance to ailing Member States (Pisani-Ferry 2014).

During this period only minor steps were taken to address the problem of banking supervision and regulation. The minor steps in changing banking regulation that were taken took place in the existing framework and did not signal any change of programmatic ideas. For example, new principles were codified in the existing framework of voluntary and non-binding agreements, where 'domestic standing groups' were created which consisted of the national supervisory authority, the ministry of finance and the national central bank (Kudrna 2011).

In 2009, a report was delivered by the De Larosière group which argued that the stability of financial institutions should be led by a single authority. The Committee of European Banking Supervisors (CEBS) was converted to the European Banking Authority (EBA) and was turned into an independent EU institute with the power to impose binding decisions on national authorities (Kudrna 2011). However, this large step away from nationalism was still haunted by the ghost of it, as at the insistence of the United Kingdom several clauses were introduced that limited the EBA's power (Kudrna 2011). For example, due to worries about the fiscal implications of the EBA's decisions, a clause was introduced that ensured that EBA's decisions did not "impinge on a Member State's fiscal sovereignty" (Euractiv 2009), and rights of appeal were given to the Ecofin Council and the European Council. Thus, Kudrna (2011, 292) concludes that "the implementation of De Larosière proposals enhanced the credibility of the commitment to multilateral resolution strategies only minimally" and that "the political safeguards practically revert the regime back to the status quo ante." Furthermore, De Larosière refrained from recommending setting up a single EU institution, as he feared they "might have been accused of being unrealistic" (Tait 2009). The hesitance to change showcases that Europeanisation of banking governance was not considered a fully legitimate policy option.

It was only when the crisis spread from Greece to countries like Italy and Spain that European leaders realised that banking was a more pressing problem than they had initially thought. It was only now, when it gradually became clear that banks in a currency union could not remain purely national, that room for change opened. Partly this was due to rather practical issues of the nation-based system that had come to the fore during the crisis. For example, conducting stress tests on banks in the US reassured the public that US banks were (relatively) healthy. However, while similar stress tests were conducted in Europe, "responsibility for them had been left to national supervisors and they were suspected, rightly or wrongly, to have failed to reveal the true extent of the problems" (Pisani-Ferry 2014, 15). Similarly, the national nature of banking governance meant that there was limited planning related to bank resolution and a lack of information exchange between banks (De Rynck 2016). For example, differing definitions of Tier 1 capital meant that banks' positions were unclear or difficult to compare, making both the market and regulators lose confidence (McPhilemy 2014).

A second and more important development was the recognition of the ‘doom loop’. This refers to the vicious cycle that can appear between national governments and banks in times of crisis (Covi and Eydam 2020). If a bank fails, it is the state which acts as the lender of last resort. However, doing this increases the state’s share of debt, which devalues its sovereign bonds. This is problematic for banks, since it is also these large banks that are major lenders to the state. Thus, this triggers a vicious cycle of bailouts from the state and increases indebtedness, leading to higher lending premiums. Not only was a doom loop dangerous for sovereigns, but its enormous potential costs also undermined the stability of the eurozone, and it created external doubts about the strength of the euro.

During the crisis, the doom loop increasingly became worrying for national governments. It became clear that putting the responsibility for banking governance in national hands while the effects of failure would be felt throughout the entire eurozone was no longer suitable. This was especially the case because national authorities had an incentive to encourage their national banks to continue lending to domestic markets or to take on domestic sovereign debt, which reinforced the link between banks and sovereigns (McPhilemy 2014). Not only was it now “a logical method of defence” to create “tools to break that so-called ‘doom loop’,” but “policymakers began to believe that any bank big enough to pose a systemic threat to the euro area should be supervised at that level” (ESM 2019, 207-208).

This included a shift in the framing of the issue. For example, De Rynck (2016) argues that it was Nicolas Véron, a member of the prominent think tank Bruegel, who started the debate for banking union through his articles and public commentary. Similarly, De Rynck argues that public comments from several members of the ECB’s executive board opened the floor for supranational policy solutions. The ECB members argued for “pan-European financing for resolution” and “a special fund for bank resolution […] at the euro area level accompanied by the establishment of a joint supervisory and resolution regime” (De Rynck 2016, 129). This change of mindset was also visible in a speech from then-IMF chief Christine Lagarde. She argued for “more risk sharing across borders in the banking system […], a pan-euro area facility that has the capacity to take direct stakes in banks” and in the long term “unified supervision, a single bank resolution authority with a common backstop, and a single deposit insurance fund” (ESM 2019, 208).

To conclude, banking nationalism showed itself mainly during the onset of the euro crisis, where it limited the types of policies that were deemed appropriate, as supranationalisation of banking governance was not considered by national leaders. This programmatic idea shifted when the crisis worsened. This is reflected by a change of discourse and framing of the crisis, namely focussing more on the practical problems of the national governance structure and the need to address the ‘doom loop’. This shift in programmatic ideas and framing reflects a change away from the underlying normative framework of banking nationalism.

6.2 Economic philosophies

6.2.1 Background

The creation of Economic and Monetary Union with the signing of the Maastricht Treaty shows a dual picture of ordoliberalism and its counternarrative. On the one hand, it institutionalised ordoliberalism as the dominant cognitive paradigm in EMU. On the other hand, it allowed different actors to keep operating within their own cognitive paradigm. EMU was based on the idea of price stability, and concerns such as limiting inflation, sound finances and competitiveness became pillars of the new currency union (Jones 2013). A case in point is the Stability and Growth Pact, which stipulated strict rules for budgetary discipline for members of EMU. Budget deficits were to be firmly limited to 3 per cent of GDP, while government debt was not to exceed 60 per cent. Thus, while the discretionary framework sought to encourage growth, EMU ended up based on the notion of stability, reflecting the ordoliberal preference for sound finances (Dyson and Featherstone 1999). This, in the dominant view, reflects the "victory" for the ordoliberal outlook and the "strict and prudent preferences of the West German financial elite" (Segers and Van Esch 2007, 1090).

At the outset, this description seems to point to a triumph of the ordoliberal economic philosophy. However, crucially, the Treaty did not provide a definite answer to the clash of ideas but rather allowed differences to subsist. While rules and targets were designed to keep Member States in check, they did allow for dissimilar interpretations. For example, the rules regarding sound finances were designed in such a way that the scope of national welfare states was not necessarily constrained. Thus, "the prescriptions it contains are embedded in different national state–market traditions [and] the idea of fiscal responsibility was socially embedded in very different national contexts" (Jones 2013, 149). Similarly, the notion of a 'fiscal deficit' is clearly defined in theory, but more difficult to apply in practice since "measures are relative to the accounting practices that underpin them" (Jones 2013, 157). Thus, the application of the rules set out in EMU depends on a Member State's as well as the EU's cognitive paradigm on how to apply the rules that were created.

A case in point is the well-known compliance crisis induced by France and Germany. In the early 2000s, both countries were at risk of breaking the Stability and Growth Pact and were given warnings by the Commission. However, the rules were not enforced, and punishment was avoided because of an agreement in the Council of Finance Ministers (Fuller 2003). Crucial is the difference in responses to this episode between Germany and France. While German government officials posited a discourse of regret and shame regarding the breaking of the rules and imposed austerity plans (Schmid 2002), France continued to push for additional domestic spending (Fuller 2003). This showcases that the ordoliberal design of EMU did not prevent reinterpretation through other cognitive paradigms and that deciding whether an excessive deficit exists is a political issue (Jones 2013). Rather than a technical agreement, the Stability and Growth Pact exposed itself as a political document which different Member States held in different regards, reflecting their different underlying cognitive paradigms.

6.2.2 Economic philosophies: different analyses of the crisis

The difference between the ordoliberal and the discretion-based cognitive paradigms came to the fore during the euro crisis. The opposing paradigms meant that different actors had different interpretations of the cause of the crisis. This implies that the differing cognitive paradigms also led to differing programmatic ideas: different conceptions of what policies would be appropriate to solve the crisis.

According to the ordoliberal interpretation, the crisis was caused by unsound finances, especially excessive government spending leading to large public sector debt in peripheral countries (Schmidt 2014). In other words, the problem was a lack of fiscal discipline and shortcomings in adherence to the rules of a stable currency union, as epitomised by Greece (Pisani-Ferry 2014). A similar argument was made regarding the loss of competitiveness and inefficiency in some specific countries. As compared to Germany, average unit labour costs rose significantly in several states, reflecting the loss of competitiveness and the need for reform (Moravcsik 2012). Thus, it was argued that Southern countries were to blame since they did not focus on improving competitiveness and diminishing their public spending, leading to imbalances in the currency area.

Adhering to this narrative has implications for which policies Member States find fruitful in solving the crisis. The ordoliberal analysis led to the conclusion that, in the future, strengthening the rules themselves as well as rules regarding compliance would prevent a new crisis (Pisani-Ferry 2014). That this was indeed an important frame becomes clear from the immediate push for the 'Six Pack' of policy initiatives, including the Fiscal Pact, which aimed at improving fiscal governance and stronger insurance that fiscal rules would be implemented, such as through semi-automatic rules in case of violating the deficit rules (Brunnemeier, Jones and Landau 2016; Matthijs 2016). In line with this, the ordoliberal response to the crisis was aimed first and foremost at the countries facing financial issues. They, it was argued, needed to implement a combination of austerity, meaning decreasing public spending, and reform that would make markets more efficient (Matthijs and McNamara 2015). Furthermore, an important implication of ordoliberal programmatic ideas was the impossibility of a bailout. The no-bailout clause, as set down in the Maastricht Treaty, would ensure that Member States were liable for their own finances, rather than being able to rely on other Member States (Brunnemeier, Jones and Landau 2016). Furthermore, a bailout would potentially lead to moral hazard where states with sound finances would have to spend money on periphery states that were unwilling to introduce reform (Matthijs 2016).

These programmatic ideas were pushed most strongly by German actors, including private actors such as economists and think tanks, as well as public officials. For example, an important voice in this narrative was Wolfgang Schäuble, the German finance minister at the time. Not only was he a strong adherent to the ordoliberal cognitive paradigm, but he was also a prominent voice in the debate. For example, when writing about moral hazard, he states: "By suggesting that uncompetitive economic structures can endure [and by] discouraging reform, we would not solve Europe's imbalances but make them permanent" (Schäuble 2012). Similarly, he dismisses the idea of solidarity, arguing that it is an "empty promise" if countries do not ensure there is wealth to back up generous welfare systems: "All of our economies, not just a few, will have to generate this wealth, and they can only do so if they adapt to the rigours of a hyper-competitive world economy" (Schäuble 2012).

The narrative was also supported by several heads of state. This included Dutch Prime Minister Mark Rutte, who argued against more financial aid for Greece in the form of a bailout, and for Greece to take responsibility by leaving the currency union if necessary (Euractiv 2012a). Similarly, the Austrian, Finnish, and Swedish public authorities argued for the need for strict rules rather than flexibility. For example, Swedish Prime Minister Reinfeldt argued that in light of the particularly bad state of the Spanish economy, this showed "the need for even more reforms" and that "This time we need to follow [the rules] and that goes for everyone" (Reuters 2012). The narrative also became popularized among the general public. For example, in popular media, the peripheral countries were often presented as lazy and unwilling to work (Mahony 2012). This led to protests against, for instance, a 'transfer union' which was argued to be likely to turn into a one-way street of fiscal transfers from the northern to the southern Member States (Economist 2010).

Different programmatic ideas emerged from the discretionary cognitive paradigm. Its analysis of the cause of the crisis consists of two aspects. First, it rejects the idea that excessive public spending was the cause of the crisis and argues that, instead, it was excessive private sector debt and insufficient regulation of the global financial markets that caused the crisis (Schmidt 2014). Thus, for example, inadequate regulation led to the banking crisis in Ireland and a housing bubble in Spain (Moravcsik 2012). Second, it argues that the adoption of the ordoliberal model led to high pressures on some countries to "adopt German standards of wage discipline, government spending, and international competitiveness" (Moravcsik 2012, 56). This was an imposition of standards that were often not in line with national cultures, and furthermore, traditional tools for convergence with Germany, such as restrictions on capital flow and changing the exchange rate, were no longer usable in Economic and Monetary Union (Moravcsik 2012). Similarly, Germany adopted excessive wage suppression which led to a large gap in competitiveness between Germany and other Member States which could not be solved through devaluation in the established currency union (Moravcsik 2012).

Adherence to this analysis led to several programmatic ideas. Because moral hazard was not a central concern, fiscal transfers such as through a bailout were considered an appropriate response to countries facing economic problems. In fact, according to the Keynesian logic, fiscal transfers may be necessary "as a stabilising insurance mechanism that insures countries against adverse asymmetric shocks" where the exchange rate could not be used as a stabilising tool (Brunnemeier, Jones and Landau 2016, 100). The influence of this narrative can be seen in, for example, the establishment of the European Financial Stability Mechanism and the European Financial Stability Facility, which provided funding for states in trouble (although under strict conditions of reform – a clear ordoliberal influence). Similarly, the ECB's 'quantitative easing' programme within which it purchased government debt from eurozone members was supported by countries adhering to the discretion-based cognitive paradigm

(Brunnemeier, Jones and Landau 2016). This is related to the policy preference for stimulating the economy rather than imposing austerity. It relied on the Keynesian idea that increases in expenditure are more effective in increasing GDP than tax cuts, since the debt ratio can be improved not only by decreasing debt (through austerity) but also by increasing GDP, meaning that stimulus programmes would be a suitable policy (Brunnemeier, Jones and Landau 2016). A final relevant programmatic idea was for joint liability. An example of such a policy is Eurobonds, government bonds which would be issued by all members of the eurozone so that all states could benefit from cheaper credit.

Several things should be noted about this narrative. First, at the level of national governments, the narrative was pushed mainly by France. For example, French President Hollande argued strongly for the "deepening of the economic and monetary union" which "must allow us to put in place instruments of solidarity [and] debt mutualisation" such as Eurobonds (Euractiv 2012b). However, a crucial point about the way this narrative was presented is that it was often done from a position of opposition. That is to say, rather than explicitly arguing *for* stimulus, public officials argued *against* austerity. For example, while Belgian Prime Minister Di Rupo supported the idea of joint liability and called for boosting growth, he did this mainly by opposing austerity (Schult 2012). This was especially problematic for peripheral countries which often subscribed to Keynesian ideas but were putting them forward from a position of defence. Thus, the message from a Greek public official that "an overdose of austerity is self-defeating" (Pop 2012) was weakened by being expressed in the context of asking for softer bailout terms, thus limiting the possibility of putting forward stimulus-based policy preferences.

Several actors, including non-governmental ones, have argued in this frame. For example, EU official Lazlo Andor argued according to the discretion-based logic that Member States become trapped as they are "unable to adjust to economic shocks through tailor-made monetary policies and devaluation in their exchange rate" (Nielsen 2014). Thus, rather than imposing austerity, an appropriate response would be to introduce fiscal transfers. Similarly, the narrative has been presented quite strongly by academics, economists, and think tanks. For example, Paul Krugman (2012) argued publicly and strongly against austerity measures and for stimulus programmes. Similarly, Joseph Stiglitz (2014) wrote that austerity failed and claimed that its underlying theory was disproven.

To conclude, the clash of economic philosophies showed itself throughout the crisis by creating large opposition between the types of policies that different actors deemed appropriate. An ordoliberal analysis of the crisis led to different policy preferences from those who analysed the crisis at the hand of the counternarrative. Where the former preferred imposing strict rules, decreasing debt and increasing competitiveness, the latter focussed on solidarity such as through fiscal transfers and a possible bailout. Thus, analysis of the programmatic ideas and frames shows a continuing battle of background ideas rather than a clear shift towards either one.

7. Influence on the institutions

This section discusses more concretely how the programmatic ideas and frames stemming from the two identified background ideas took shape in Banking Union (BU). It does this by separately discussing how the elements identified as pinpointing either banking nationalism and ordoliberalism or their counternarratives impacted the three BU pillars. It does this by looking at whether these elements were present in the negotiations for the BU institutions and how they influenced their governance structure. Since there is overlap in the different narratives presented in the paper, it is more practical to present both ideas together in discussing each institution, rather than discussing them separately.

7.1 Single Supervisory Mechanism

In June 2012, the European Council agreed on the necessity to break the vicious cycle between banks and sovereigns, and the first steps towards banking union were made. The Council argued for a single supervisory mechanism and the need for direct recapitalisation of banks through the European Stability Mechanism (ESM) (Council 2012). In line with these proposals, in 2014, the single supervisory body was created as the Single Supervisory Mechanism (SSM), aimed at overseeing systemic European banks. The SSM consists of a two-tier system, in which the largest systemic banks are overseen directly by the ECB, while smaller banks remain under the direct supervision of national authorities and are only indirectly overseen by the ECB (Pisani-Ferry 2014).

The creation of the SSM can itself be seen as a strong indicator of a change in banking nationalism as the dominant normative framework. The SSM awards the ECB extensive supervisory powers, including on-site inspections, and granting or withdrawing banking licences (ECB n.d.). Thus, the creation of the SSM pooled national authority at the supranational level with significantly more intrusive powers (De Rynck 2016). Furthermore, regulation and supervisory policies are now no longer in national hands. They are developed in line with the European banking regulatory framework, harmonised through the single rulebook, and developed by European and other international institutions such as the ECB, the European Banking Authority, and the Basel Committee on Banking Supervision (ECB n.d.). These are policies that accept the pooling of banking governance at a supranational level, thus indicating the presence of the counternarrative to banking nationalism.

The SSM was formally created through a Regulation (OJEU 2013). The argumentation underlying the Regulation shows that the arguments in favour of a common supervisor, presented earlier in the thesis, were used to justify the institutional change. For example, the Regulation addresses the fact that the stability of financial institutions is closely linked to the Member State in which they reside, where “Doubts about the sustainability of public debt, economic growth prospects, and the viability of credit institutions have been creating negative, mutually reinforcing market trends” (OJEU 2013, 63). Similarly, it argues that mere coordination of supervision of financial institutions is not sufficient, meaning that “integration of supervisory responsibilities should therefore be enhanced” (OJEU 2013, 63). Thus, these arguments also signal the presence of the counternarrative to banking nationalism.

Another signpost of the shift in ideas is the arguments that were presented in public media by non-governmental actors. For example, actors in the banking sector argued for the need for the SSM. Willem Buiter from Citigroup argued that ECB supervision was necessary to stop the “capital market ‘balkanizing’ national supervisors, whose actions destroy the monetary transmission mechanism in the euro area” (Keohane 2012). Similarly, news coverage reflects the perceived ideational shift. Financial Times columnist Wolfgang Münchau argued that “The banking union and its various cousins constitute the biggest act of political integration in Europe since the creation of the European Economic Community” since “they are a significant encroachment on national sovereignty on several levels” (Münchau 2012). Similarly, the SSM is argued to require governments “to surrender jealously guarded control over national banks, in the most concerted financial integration project since the creation of the single currency” (Barker 2012). It is of less importance whether the SSM was really this gigantic leap forward towards denationalisation: important is that it was publicly perceived as such. After all, this signals a public move from adherence to banking nationalism towards its counternarrative.

However, while there was a significant transfer of power from the national to the European level, it should be noted that this only seems to be the case to the extent that it was deemed necessary. Thus, as stipulated by the Regulation, only “specific supervisory tasks which are crucial to ensure a coherent and effective implementation of the Union’s policy […] should be conferred on the ECB, while other tasks should remain with national authorities” (OJEU 2013, 65). This shows that the institutional change was only accepted to the extent that it was deemed necessary to ensure financial stability, rather than being a clear normative switch from nationalism to supranationalism. In this line of thought, it makes sense that Matthijs (2016, 383) argues that the increased power of the ECB in supervision was something that Germany opposed but “felt compelled to give into”: denationalisation was necessary and therefore the institutional change was accepted, but this did not necessarily mean that the underlying normative framework changed completely.

The question of moral hazard can be indirectly deduced from the Regulation as well. For example, it explicitly states that the European Stability Mechanism would have the possibility to recapitalise banks directly, but only once the SSM is established. This reflects the concerns voiced most explicitly by Germany. For example, it expressed worries that “legacy losses from previously excessive borrowing would be transferred to European taxpayers” which would de facto entail using “German deposit insurance funds to bail out troubled banks in Spain” (Brunnermeier, James and Landau 2016, 218). This is made more explicit in a joint statement from the German, Dutch and Finnish governments, which argued that “legacy assets should be under the responsibility of national authorities” (Euractiv 2012d). Similarly, some German economists warned against German taxpayers being liable for other Member States’ banks, something which would break with the ordoliberal idea of responsibility for one’s own actions (Euractiv 2014a). Furthermore, recapitalisation was argued to increase the risk of moral hazard since banks would no longer be responsible for their own cost of failure. Linking the power of recapitalisation to the SSM and its independent supervisory power meant that cheating the system, such as by misrepresenting the state of banks, was no longer possible. Thus, this linkage reflects concerns about moral hazard and signals an ordoliberal point of view.

Ordoliberal ideas were also visible from an important point of contention in the SSM negotiations. While most Member States agreed that supervision should be in the hands of the ECB, Germany and Slovakia did not align with this view (Schäfer 2016). Their opposition was based on the idea that a central bank should have only one objective: price stability. Thus, German finance minister Schäuble argued that leaving decision-making power with the ECB "could obscure the ECB's primary monetary policy mandate" and that "A Chinese wall between banking supervision and monetary policy is an absolute necessity" (Euractiv 2012c). It was agreed to de facto limit the ECB's power by limiting their governance to systemic banks and by the introduction of mechanisms for mediation between the European and national supervisors (Euractiv 2012e). Despite this, the outcome of the negotiations did see a significant shift of powers to the ECB, as it took up a central role in supervision, meaning that these ordoliberal concerns were overcome at least to some extent.

To sum up, the SSM shows a dual picture. The negotiations could be characterised on the one hand by the overall agreement that a shift from national to supranational supervision was necessary, thus leaving behind the dominant normative framework. However, provisions in the final Regulation also show that nationalist concerns are still important for Member States, meaning that there has not been a complete shift in the background ideas, but only one big enough to allow for different programmatic ideas to develop. Ordoliberalism, the cognitive paradigm, is even more strongly present in the final Regulation as well as the discourse that surrounded the negotiations. Its presence is signalled by arguments concerning the linkage of the SSM to recapitalisation under the ESM, which showcase concerns for liability and moral hazard. Thus, the SSM shows that the dominant cognitive paradigm was ordoliberalism.

7.2 Single Resolution Mechanism

The second institution that was created was the Single Resolution Mechanism (SRM), as proposed by the Commission in 2013 and put into force in 2014. The SRM consists of the Single Resolution Board (SRB) and a Single Resolution Fund (SRF). The SRB, together with the Council and Commission, applies uniform rules and procedures set out in a Regulation (OJEU 2014). The Board is an independent agency which has as its main tasks the resolution of failing banks as well as managing the Fund. It assesses whether a failing bank will have a negative systemic impact and thus whether it is in the public interest to resolve the bank. This is done with the SRF, which is a mutual fund that is built up over the years, financed by bank levies, reaching a fund consisting of 1 per cent of insured deposits by participating banks.

The creation of the SRM entailed several aspects that signal an ideational shift concerning banking nationalism. First and foremost, the creation of a European institution for resolution would limit Member States' sovereignty by putting the power to resolve banks outside their hands. National resolution authorities no longer have the power to decide on either whether a bank is resolved or in which way this is done, as the power to draw up such plans shifted towards the Board of the SRM. Furthermore, the pooling of resolution funds means that Member States no longer have the decision-making power over the Fund and that the Fund could be used to resolve banks in other Member States. Thus, the creation of the SRM is a policy which accepts the pooling of resolution power at a supranational level, indicating a decreased importance of banking nationalism. As professor of banking Harald Benink argued, if national governments are left in charge of resolution, "they may not be willing or able to do the job" since they are likely to want to protect national banks (Steen and Barber 2012). This reinforces the idea that policies towards common resolution entailed a shift away from banking nationalism.

A similar argument can be made for the power of the Commission to decide whether to resolve a bank. This was an important point of contention during the negotiations. While some Member States wanted to limit the Commission's power by making the Council the final authority, other Member States argued that giving these powers to the Council would be less efficient (Spiegel 2013). The main argument in favour of choosing the Commission, however, is that it is the only authority that can legally claim this power (Spiegel 2013). That this was eventually adopted in the final Regulation indicates that the pooling of sovereignty by empowering the Commission was something initially opposed, but that this hurdle of banking nationalism was overcome in order to set up the institution. Thus, nationalist concerns were deemed less important than setting up the institution.

Similar to the SSM, the SRM signals a shift away from banking nationalism, which is also visible in the way its creation was framed. The creation of the SRM was argued to be difficult as "Countries are reluctant to cede authority to Brussels, and want a laborious system of checks before any decision to shut a bank can be taken" (Euractiv 2014b). Such a frame clearly signals that banking nationalism was deemed to be a significant hurdle towards the creation of the SRM. Similarly, during the negotiations, the issue was referred to as "fraught" and "highly sensitive" (Steen and Barber 2012) as it concerns burden-sharing and responsibility for other Member States' banks. Thus, the frames used in public media show that banking nationalism was an important normative framework that was to a large extent overcome when the SRM was created.

However, there are also hints of banking nationalism in the SRM. Germany was the main opponent to the SRM as it foresaw that the mechanism would entail intrusion on "its fiscal and budgetary sovereignty" (Keohane 2013). It argued for the resolution powers to remain in national hands, where the existing problems would be solved through greater coordination between national authorities (Financial Times 2013). This view later shifted towards the view that resolution decisions should be made by the Council rather than the Commission, which would imply much greater decision-making power for national governments and indicates banking nationalism (Howarth and Quaglia 2014; Spiegel 2013). Although this view was not adopted into the final framework, the Regulation does include a clause allowing the Council to object to the Board's decision by a simple majority on a proposal by the Commission (Howarth and Quaglia 2014). Another point of contention during the negotiations shows the presence of banking nationalism: the role of national governments. Some Member States wished to retain the power to save banks in emergencies, which was opposed by Member States who wanted to adhere to rigid rules (Fox 2013a). Although not adopted in the final Regulation, the wish to be able to support domestic banks is a signal of banking nationalism.

Two other elements of the institutional outcome signal banking nationalism. First, both the SSM and SRM only cover systemic banks, while national authorities are still in charge of small(er) banks. Second, although the Board is in charge of deciding on resolving a bank and drawing up its plan, it is the national authorities which execute these plans (Howarth and Quaglia 2014). Thus, while the creation of the institution reflects a move away from banking nationalism, the institution contains several elements that limit the extent of supranationalisation and retains power on the national level. On top of this, the main points of contention during the negotiation show that arguments signalling banking nationalism were often put forward.

With the creation of the SRM, there were two main issues which show the clash between ordoliberalism and its counternarrative. First is the question of whether the funds for resolution would remain in national hands, or whether a joint European fund should be created. The second is whether a resolution should function according to the logic of a bail-in or a bailout. Concerning the first issue, according to the ordoliberal cognitive paradigm a joint fund increases the risk of moral hazard. If a European fund, rather than Member States' funds, is used to resolve a bank, this creates the risk that national governments are more lenient in regulating and supervising banks (Howarth and Quaglia 2014). Similarly, joint liability would create the risk of moral hazard for banks, where banks with (previously) bad records could rely on the joint fund without taking responsibility for their actions or taking more precautions in the future. Instead, an ordoliberal programmatic idea would prefer Member States and banks to be held responsible for their own actions. Thus, it would be more suitable to create "a network of national funds with no or only very limited cross-national liability, and national vetoes in the SRM decision-making as a safeguard against joint liability" (Schäfer 2017, 970).

The second issue concerns the logic of resolution, which is related to the SRM through the Bank Recovery and Resolution Directive (BRRD). The SRM provides the institutional architecture for applying the BRRD, which provides a framework for banking resolution by stipulating more precisely how losses should be incurred (Commission 2014). This led to a second contentious issue, namely whether resolution should occur through a bail-in or a bailout. While a bailout would mean that public funds would be used to aid a failing bank, a bail-in would shift the costs of banking resolution to private actors by imposing (initial) losses on bondholders and shareholders, rather than relying on taxpayers' money. According to the ordoliberal view, a bail-in is preferred since this ensures that actors take responsibility for their own actions. Furthermore, this taking of responsibility would also reduce moral hazard when it comes to taking risks in investment decisions, thus improving financial stability (Schäfer 2016).

When looking at how these issues were considered during the negotiations, it quickly becomes clear that Germany was the main actor shaping the debate, as most media accounts focus on German opposition against the SRM. This opposition was firmly based on the ordoliberal paradigm. For example, the government's view was that "the responsibility for dealing with legacy assets rests with those who own the liabilities" (Keohane 2013). Similarly, finance minister Schäuble argued that their goal was to "rule out the moral hazard problem with big banks, and interconnected ones" (Wagstyl and Vasagar 2014). Even non-governmental actors voiced concerns regarding the creation of a joint fund. Strong opposition was voiced by a group of German economists who, when the SRM was established, argued that it represented "the first step towards unprecedented German taxpayer liability for banks outside national banking supervision" (Euractiv 2014). This makes explicit the ordoliberal concern about liability for one's own actions.

Interestingly, the institutional outcome regarding these two issues shows a two-fold picture. Opposition to the joint fund was overcome, as a joint fund was established through the SRM Regulation (OJEU 2014). In fact, the Regulation stipulates that without a common fund, the link between sovereigns and the banking sector would not be broken, which is directly in line with the counternarrative to ordoliberalism. Thus, the ordoliberal concern for moral hazard is put second as compared to the issue the institution is supposed to resolve. While the main frames present during the negotiations were characterised by arguments that signal an ordoliberal view, the institutional outcome signals the importance of the counternarrative.

However, the opposition to a bailout was not overcome. The finalised BRRD states that "bank creditors such as shareholders and bondholders must bear losses before any public support can be drawn upon" (ESM 2019, 211). In fact, one of its main objectives is to limit the use of taxpayers' money since they are not responsible for the banks' losses and because it increases the risk of moral hazard (Bodellini 2018). Such an argument reflects the ordoliberal cognitive paradigm, which maintains that bailouts worsened the financial position of several national governments. The adherence to this analysis of the causal effect of the policy leads to the claim that limiting bailouts "has been one of the most important lessons learnt from the global financial crisis" (Bodellini 2018, 366). Thus, the use of bail-ins in the SRM shows that the institutional outcome reflects the ordoliberal concern for moral hazard and liability, as well as showing that an ordoliberal programmatic idea underlies the institution.

Recapitulating the findings, the SRM shows a dual picture, just like the SSM. The frames used during the negotiations as well as some elements in the final Regulation include nationalist concerns, such as the wish to empower the Council rather than the Commission, or the provisions allowing for objection to the SRB's decisions. However, the creation of the institution itself entailed a significant shift of power to the European level, thus signalling that banking nationalism became less important in light of the policy issue being faced. Furthermore, the creation of a common fund is, arguably, also a sign that nationalism became less important since the pooling of funds necessarily entailed the loss of some financial sovereignty. Similarly, the creation of the joint fund shows that ordoliberal concerns regarding moral hazard and liability were overcome to some extent, although the ordoliberal frame was pushed forward strongly during the negotiations. The rules for resolution set out in the Bank Recovery and Resolution Directive show the influence of ordoliberal concerns since they abide by the logic of bail-ins rather than bailouts.

These findings are especially interesting since both the creation of a joint fund and the rules for resolution face similar concerns: moral hazard and liability. The difference in institutional outcomes might be explained by the fact that the joint fund was deemed crucial for the functioning of the SRM, while the choice between bail-ins and bailouts was ‘merely’ an ideational concern. This would mean that only where it was necessary for the functioning of the policy was it possible to shift to programmatic ideas that did not reflect the underlying cognitive paradigm of ordoliberalism. An alternative explanation might be that Member States that strongly adhered to the notion of solidarity when it came to the joint fund might still subscribe to the ordoliberal analysis of the problems that a bailout creates. This reflects the idea that some elements of a background idea may be more firmly embedded or less politically contested than others.

7.3 European Deposit Insurance Scheme

The European Deposit Insurance Scheme (EDIS) is the third pillar of Banking Union. It presents a somewhat different case than the SSM and SRM since negotiations are still ongoing and it is unclear whether the institution will materialise. While analysing the institutional outcome is thus not possible, it is interesting to consider what political issues and considerations underlie the EDIS and how it is influenced by banking nationalism and different economic philosophies.

The EDIS aims to protect private deposits by reimbursing them up to a certain amount in case of a bank failure. Deposit insurance is deemed an important part of Banking Union since it removes the danger of a ‘bank run’ in case the state of health of a bank’s finances is put into question. Currently, deposit guarantees are organised nationally, although there is EU regulation in place. The Deposit Guarantee Schemes Directive, which is currently the main European legislation concerning deposit schemes, was adopted in 2014. It requires a minimum level of insurance for all Member States and is based on the principle that insurance is funded by banks themselves rather than taxpayers (Commission n.d.1).

The logic behind introducing EDIS is that it provides stronger insurance. This is mainly the case because the national character of the insurance programmes means that it might be difficult to deal with shocks if they are sudden, large, and local. Furthermore, that insurance programmes are nationally organised means that the perceived trustworthiness of the insurance programme depends on the national sovereign, therefore potentially reinforcing a doom loop (Commission n.d.2). Thus, Fecht, Thum and Weber (2019) have shown that asymmetries in deposit insurance can lead to fear-driven shifting of deposits between banks, thereby increasing financial instability. A last benefit to EDIS is that there is the potential for centralised decision-making, which decreases problems of coordination in case of a crisis (Carmassi et al. 2020). In the proposal by the Commission that was put forward in 2015, the EDIS would apply to all banks in Banking Union and would intervene, if necessary, in cooperation with national schemes (Commission n.d.2). Contributions to the institutions are set to gradually build up until it will fully finance all insurance protection.

Banking nationalism is likely to play a role during the negotiations. The existing European legislation regarding deposit guarantee schemes (DGS) is based on the harmonization of minimum standards, which allows for the persistence of distinctive national schemes (Howarth and Quaglia 2018). For example, when the Commission proposed to increase the minimum level of protection in 2009, an agreement was reached but there remained large differences between Member States in the implementation of the revision. In 2010, the Commission attempted to push forward a more far-reaching reform, which called for a pan-European scheme. However, this was quickly met with opposition from several Member States, so it was eventually removed from the agenda (Howarth and Quaglia 2018).

In the 2012 Van Rompuy report, aimed at improving Economic and Monetary Union, explicit mention of common deposit insurance was made. Supranationalisation was needed, it argued, because it would "strengthen the credibility of the existing arrangements and serve as an important assurance that eligible deposits of all credit institutions are sufficiently insured" (Van Rompuy 2012, 4). Other actors made similar arguments. For example, the IMF argued that a pan-European deposit insurance scheme was necessary to break the doom loop between banks and sovereigns (IMF 2012) and ECB Vice President, Constâncio argued that it was needed to create a level playing field (Howarth and Quaglia 2018). These arguments are in line with the counternarrative to banking nationalism. However, the revision did not emerge. In fact, "German hostility forced the Commission to drop the EDIS off its agenda in 2012" (Howarth and Quaglia 2018, 194). While other reforms have been adopted, these have not considered a common scheme and only increased the harmonisation of national DGS. EDIS only returned to the policy agenda in 2015, when the idea was endorsed by a report on the future of the euro and the Commission dared to reintroduce it (Howarth and Quaglia 2018). The strong opposition against policies which limit national sovereignty over financial governance is a clear indicator of banking nationalism.

Deposit insurance might increase concerns about moral hazard at two levels. At the national level, there are moral hazard concerns where national governments could "force or nudge domestic banks to grant them preferential credit conditions by using their access to deposit funding" (Bénassy-Quéré et al. 2018, 3). Thus, the EDIS faces similar objections as the SRM from the ordoliberal side, namely that taxpayers would be underwriting other Member States' deposits. More specifically, taxpayers in countries with stable banking systems would be incurring the costs of banks in less stable countries (Howarth and Quaglia 2018). On top of this, the creation of EDIS would entail the pooling of risk, which would decrease national incentives for precaution (Carmassi et al. 2020). There is also potential for moral hazard at the level of banks. After all, if there is insurance which is backed by an insurer, banks have less incentive to decrease risk-taking behaviour, because they do not themselves bear the costs of failure. This is reinforced by the fact that depositors have less incentive to monitor the decisions of banks because they know their deposits are insured. They will be less inclined to opt for the safest bank or to seek higher interest rates in case of risk, thereby weakening market discipline (Allen, Carletti and Leonello 2011; Carmassi et al. 2020).

These arguments, which indicate the presence of an ordoliberal cognitive paradigm, have been expressed by several national governments. For example, several Member States warned of the uneven distribution of costs and the risk that there would be de facto debt mutualisation. German finance minister Schäuble argued that there is a moral hazard problem in that the safety net that the institution provides will lessen countries' incentives to make banks act responsibly. Thus, he argued that "As soon as you share risk, the decisiveness to reduce risk is lessened" (Brunsden 2015).

Notably, in 2019 Olaf Scholz, who had by then taken over the role of German finance minister, argued explicitly for the need for a common deposit insurance scheme to enhance the functionality of the national schemes (Scholz 2019). On one hand, this points to a significant ideational shift, since the creation of the EDIS would go directly against the ordoliberal paradigm, which is especially influential in Germany. On the other hand, the caveats that Scholz added to his words showcase the remaining dominance of the ordoliberal paradigm. Scholz added that a three-tier system would have to be created, in which national responsibility remained central and the European fund would only be used in a second step. This suggestion is in line with calls that have been made to introduce a levelled system in which the first part of the insurance loss is incurred by a national part of the EDIS, while common funds are only used for systemic banks or in times of crisis (e.g. Bénassy-Quéré et al. 2018). Such a proposal would make EDIS more politically feasible since it decreases the extent of cross-border solidarity that is needed (Schoenmaker 2018). This suggests that a different institutional set-up which includes more stringent proposals to curb moral hazard may be necessary to make EDIS acceptable for Member States.

The counternarrative was stressed by countries such as Italy and Spain, which argued that EDIS was a central pillar for completing Banking Union. Donnelly (2017) argues that especially Italy pushed hard for mutualisation to create a more robust backstop to the national deposit insurance system. Having many weak domestic banks, Italy was especially preoccupied with protecting depositors in case its policy of saving national banks failed. EDIS is viewed "as part of a larger toolkit that channels state aid to depositors ex-post rather than controlling risks ex ante" which "runs against the spirit and sometimes the rules of the BRRD, and indicates that the Italian Government is far from accepting German demands on EDIS" (Donnelly 2017, 215). In other words, the Italian view signals the presence of the counternarrative to ordoliberalism, signalled by arguments relying on state intervention to encourage economic stability and consumer protection as a social policy.

To conclude, the EDIS shows that background ideas stop the emergence of EDIS by making the policy seem inappropriate and illegitimate. First, that banking nationalism is likely to be a hurdle in coming to an agreement becomes clear from the fact that several Member States have strongly opposed the attempts at reform started by the Commission, and that only policies that increase harmonisation of national schemes have been adopted. A more important hurdle might be ordoliberalism, as several strong arguments regarding moral hazard and the need to decrease risk have been put forward. The German position is exemplary in this regard: even the acquiescence of finance minister Scholz that constructing the EDIS was an important step forward was paired with conditions for the shape of the scheme that would emphasise limiting moral hazard and ensuring national responsibility.

7.4 Outcome of the negotiations

The outcomes of the negotiations show that while both banking nationalism and ordoliberalism were pervasive background ideas that problematised the Banking Union negotiations, institutional change emerged nonetheless. The creation of common institutions for banking supervision and resolution is a clear sign that the paradigm of nationalism was let go at least to some extent. Similarly, the creation of a common fund in the SRM shows that ordoliberal concerns for moral hazard and liability were overcome. The programmatic ideas that emerged do not completely reflect the dominant background ideas, meaning that a shift took place. However, it would be wrong to conclude that Banking Union showcases far-reaching paradigm changes or a complete overhaul of the normative framework. BU is a case of institutional change, but one that incorporates pre-existing frames and ideas. Nationalist concerns are still visible in the Regulations underlying the institutions and ordoliberalism seems to still be quite pervasive. After all, it was only with the linking of the recapitalisation of banks to the SSM that enough safeguards were deemed to be in place to prevent moral hazard. Similarly, the preference for bail-in rules for banking resolution rather than relying on bailouts reflects this concern for moral hazard.

The analysis of the institutional outcome allows for an assessment of the expectation posited in the theoretical framework of the paper. To recap, the main expectation asserted that, based on the assumption that ideas and discourse influence institutional change:

> *The policies adopted in Banking Union reflect the underlying normative framework (banking nationalism) and the underlying cognitive paradigm (ordoliberalism).*

The analysis shows that the expectation is not fulfilled. Policies adopted in Banking Union show that banking nationalism as a normative framework became less relevant as the crisis response called for European solutions. This is most clearly visible in the creation of two supranational institutions for banking governance. Similarly, policies adopted in Banking Union only partly reflect ordoliberalism as the dominant cognitive paradigm. The creation of a joint fund is the clearest example where ordoliberal concerns were dismissed. However, the paradigm remained relevant to a certain extent, as showcased most clearly by the failure of the EDIS to emerge.

Thus, against the posited expectation, the adopted policies illustrate an ideational change in banking governance. However, this does not mean that these findings clash completely with discursive institutionalism as a theoretical framework. An explanation can be given at the hand of Campbell (2002) who argues that background ideas can shift when they offer no solution to the problems that policymakers face. The way this works can be showcased by Dobbin (1993), who makes a similar argument in his research on shifts in industrial policy in the 1930s. He explains the shift in policies at the hand of a cultural framework. This is based on the idea that culture provides "shared understandings about fundamental causal processes"[5] which, crucially, are "subject to falsification and revision" (Dobbin 1993, 45). He argues that, as the economy collapsed, existing paradigms were falsified and revised so that a new cognitive paradigm was adopted, and radically new policies were able to emerge.

The parallel for Banking Union is easy to draw. The euro crisis provided a critical moment of falsification of the previously accepted norms of governance in the eurozone. The notion that a shared currency could exist in a system based on national banking supervision and resolution, and without system-wide solidarity-based safety systems in place, collapsed. Several policy problems emerged from the existing framework of banking nationalism: for supervision and resolution, this was the lack of coordinated responses, trustworthiness, or information-sharing in banks. Perhaps more important was the emergence of the 'doom loop' as a threat to the architecture of the eurozone. Programmatic ideas based on the normative framework of banking nationalism and national responses could offer no solution to these problems, meaning that a shift of the framework was possible, if not necessary.

Similarly, the cognitive paradigm of ordoliberalism came under threat when it became clear that an adequate policy response necessarily included some notions of solidarity and sharing of responsibilities. Most clear is the case of banking resolution: resolution based on national funds would decrease moral hazard but would not solve the issue of a doom loop or the damaging effects of local shocks. Thus, the paradigm of ordoliberalism shifted towards a more solidarity-based framework in places where it was necessary to solve the underlying policy issues.

However, the case of ordoliberalism also shows the limits of paradigm change. As argued by Hay (2001, 213), "Paradigms become entrenched both culturally and institutionally. They are difficult to transcend and, arguably, their traces and attendant legacies can never be totally erased." There are clear ordoliberal legacies in Banking Union. The cognitive paradigm did not shift where this was not necessary: resolution based on bail-ins was institutionalised since there was no underlying problem that would mean that only a shift away from such an ordoliberal solution would prove beneficial. Similarly, the linking of the power of recapitalisation by the ESM to the creation of the SSM showcases pervasive concerns for moral hazard. This means that the crisis did not threaten (sufficiently) the paradigm of ordoliberalism to force it to shift radically towards a new paradigm. Furthermore, the contrast between the differing roles of ordoliberal concerns when it comes to a joint fund as compared to bail-ins shows how institutional change might rely on (perceived) necessity in order to be possible. Only when forced by circumstances did the underlying background idea change, and only to the extent that it was necessary.

[5] Comparable to the notion of 'cognitive paradigms' as presented by Campbell (2002).

This explanation might also clarify the failure of EDIS to emerge. Similar to the other institutions, according to an ordoliberal analysis, the institution creates apprehensions about moral hazard and liability. At the same time, however, while the other institutions were more likely to emerge because banking nationalism was no longer a suitable paradigm with which to address the policy problem, the case for denationalisation is less strong for deposit insurance (Gros 2015). This means that the crisis was probably not enough of an emergency to force a shift in paradigms when it comes to deposit insurance, and there was no argument based on denationalisation that could override these concerns. These hurdles might be exacerbated by the fact that negotiations for EDIS occurred late in the crisis, as compared to the SSM and SRM. By this time, market conditions had already improved. Thus, writing in 2014, the chief investment officer at Allianz, Andreas Utermann, warned that this increased "the risk of complacency setting in among policy makers in member states" and that the momentum for change might already have passed (Utermann 2014). In other words, now that institutional change was no longer necessitated by the crisis, the dominant background ideas prevailed.

A final point to make is that the influence of actors seems a plausible causal mechanism. Many different types of actors have voiced their opinions on the questions regarding Banking Union that were under negotiation. Although this thesis has not attempted to analyse the relative strength and influence of actors and their ideas, the references to actors' statements have made clear how actors present their ideas and potentially influence debates. Several illustrations of this conclusion can be given. For example, De Rynck (2016) has argued that the emergence of Banking Union was aided by membership changes of the ECB, which allowed for new ideas to emerge within the institution and for the ECB to publicly support the creation of BU. Another example is the change of national leadership which allowed for changes in advocacy coalitions and thus potential changes of ideas. The replacement of French President Sarkozy, who had been more geared towards Merkel, with Hollande would allow for the emergence of a coalition that was in favour of addressing banking as a policy problem (ESM 2019).

8. Conclusion

This thesis has investigated the role of ideas in institutional change in order to complement the literature on Banking Union and ideas in the euro crisis. It has done this by applying discursive institutionalism to Banking Union by looking at the influence of banking nationalism and economic philosophies on its institutions. The thesis started with a literature review, a specification of the theoretical framework and the research design. It then provided a further explanation of the two background ideas and specified how they are operationalised further in the thesis. The thesis then provided some background information on how banking nationalism and economic philosophies are two ideas that were long prevalent in Economic and Monetary Union and have characterised, to a large extent, its set-up. It showed how, during the euro crisis, these background ideas were translated into foreground ideas. This meant that they limited the range of policies that were deemed legitimate and appropriate. Finally, the thesis moved to a comparison of the three institutions. This deeper dive into the negotiations and the institutional outcome regarding the SSM, SRM, and EDIS has shown that, to a certain extent, these background ideas have shifted. Banking nationalism has become significantly less important, which has allowed for the emergence of European institutions that regulate banking. Moral hazard concerns, indicating the presence of ordoliberalism, have been more present in the institutional outcome but were overcome when this was deemed necessary for the policy issue to be sufficiently addressed. However, this does not seem to indicate a complete ideational overhaul, since the same ordoliberal arguments are still used to oppose the creation of the EDIS.

This means that the analysis has partly refuted the expectation that the policies adopted in Banking Union reflect the underlying normative framework (banking nationalism) and the underlying cognitive paradigm (ordoliberalism). While these background ideas persist, the specific problems policymakers faced during the euro crisis meant that a window for change opened. The failure of the existing background ideas to offer adequate solutions to these policy problems meant that new foreground ideas could emerge, leading to institutional change. Thus, in answer to the research question, *How does discursive institutionalism explain the shape of Banking Union as a case of institutional change?*, institutional change is explained by the failure of previous paradigms to provide adequate responses to the euro crisis. This explains the emergence of institutions that largely rejected banking nationalism and took steps away from ordoliberalism. In contrast, where previous paradigms did not fail, discursive institutionalism explains the shape of the institutions by referring to the influence of the dominant background ideas.

What does it mean for discursive institutionalism as a theory that the posited expectation was not fulfilled? Most importantly, it does not mean that discursive institutionalism as a theory fails. After all, as argued by Galtung (1967), a common fallacy is to reject general hypotheses if one deviant case is found. Theories aim at uncovering probabilistic rather than universal generalisations, meaning that "deviant cases weaken a probabilistic hypothesis, but they can only invalidate it if they turn up in sufficient numbers to make the hypothesized relationship disappear altogether" (Lijphart 197, 686). Thus, rejecting the hypothesis in this thesis does not mean that DI as a theory is not successfully applicable to many other cases.

Nevertheless, the failure of the expectation might mean that further specifications may be necessary for the theory to apply in some cases, such as the one covered in this thesis. One such adaptation that might be incurred from this thesis is that an additional condition needs to be fulfilled for change to occur: the failure of the existing paradigm. A failure of the existing paradigms was necessary for other programmatic ideas to be able to emerge. Where existing paradigms did not fail, they were able to persist. Such an adaptation allows for the main claim of discursive institutionalism to remain, namely that ideas matter for institutional change. However, it also allows for more complexity in the causal mechanisms between ideas and change.

This consideration leads to two caveats that must be given. The first concerns the problematic consideration of causal mechanisms. A serious problem in the thesis is the causal validity, as causal mechanisms are hard, if not impossible, to determine. While the analysis has shown that ideas and discourse matter, causal patterns are not necessarily clear. Did the specific policy problems lead to a shift of paradigms, thus allowing for institutional change? Or was it Member States' material interests in upholding the eurozone that led to a change in policies? As argued by Schäfer (2016), this question cannot be decisively answered. However, perhaps this is not necessary: after all, discursive institutionalism itself argues that existing structures influence actors' ideas, while at the same time allowing the same actors' ideas to influence the existing structures. Thus, while national governments' ideational positions were likely influenced by their material interests, the structure of Member States' material interests and their perception of what their material interests are, is influenced by their ideational background.

Second is the issue of external validity. The research has tried to limit the potential influence of confounding factors by taking three cases that are similar in many characteristics, but it might be exactly those contextual factors that pose a threat to external validity. If these contextual factors matter for the conclusions made from these cases, the findings in this thesis cannot be generalised to a broader population of cases of institutional change. For example, the fact that all three cases took place within the context of the euro crisis means that the findings of the research cannot simply be generalised to cases where there is no crisis that threatens existing ideas.

These problems of validity as well as the failure of the main expectation in this thesis leave ample room for future research. Concerning external validity, a fruitful area of research would be to consider whether the findings of this thesis are generalisable to cases of institutional change where the context was not characterised by a crisis. Other future research might delve deeper into the problem of causal mechanisms in discursive institutionalism by considering in depth the discourse of actors involved in institutional change. The use of interviews or discourse analysis in research that employs process tracing might provide new insights into the complex causal structure between ideas and change. On top of this, further research might investigate the finding that ordoliberal concerns did not triumph when it came to the joint fund of the SRM, but did triumph when it came to adherence to the bail-in. This calls into question what specific conditions are necessary for a change of paradigms to occur, an issue which this thesis has not decisively answered but only provided suggestions for. Finally, while the thesis has tried to shed light on the ongoing negotiations surrounding the European Deposit Insurance Scheme, further in-depth research should be done to draw further conclusions on how best to proceed towards European deposit insurance.

To conclude, this thesis has confirmed the discursive institutionalist claim that ideas matter. While the role of material interests in shaping institutional change is accepted, the thesis has added to the literature by showing how the presence of underlying ideas played a role in the Banking Union negotiations. This is especially important in moments of crisis, when windows open for ideas to change and for radically new policies to emerge. Although the extent to which Banking Union will be successful in preventing a future European banking crisis remains to be seen, it is important to acknowledge that significant steps forward have already been made.

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