The making of Capital Markets Union and actor-centred constructivism

Lucia Quaglia (University of York)[1]
David Howarth (University of Luxembourg)[2]

Paper presented at the EUSA Biennial Conference, Miami, 4-6 May 2017
Panel 1F, 'The New Integrative Modus Operandi - EU Integration in Times of Crisis'

Abstract

This paper examines the 'making' of Capital Markets Union (CMU) through the theoretical lens of 'actor-centred constructivism', by considering the 'policy narratives' that bureaucratic agents have employed to promote the project. It is argued that two main narratives were articulated by the European Commission in order to mobilise the political support necessary to push forward CMU and reduce potential opposition to it. The first narrative — which was instrumental to mobilise political support for CMU in the UK, especially the City of London, and large cross border banks — was to boost the size and internal and external competitiveness of EU capital markets. The second narrative — which was instrumental to mobilise the support of continental countries, including the EU periphery, for CMU — was the provision of (non-bank) funding to the real economy, especially to Small and Medium Enterprises (SMEs) and infrastructural projects. These narratives were instrumental in 'framing' CMU as a positive-sum game, rather than a zero-sum game with potential winners and losers.

Keywords: Capital Markets Union (CMU), financial regulation, financial markets, financial integration, single market

1. Introduction

Shortly after the agreement on most of the elements of Banking Union, the European Union (EU) embarked on a new project, 'Capital Markets Union' (CMU). The stated objectives of CMU were 'to create deeper and more integrated capital markets' in the 28 member states of the EU and to expand the 'non-bank part of Europe's financial system' (Véron 2014). CMU is important economically and politically for two inter-related reasons. First, financial market integration had been a long-standing and rather 'elusive' goal of the European Union (EU)

[1] This paper was written while Lucia Quaglia was a research fellow first at the BIGSSS (University of Bremen) and the Hanse-Wissenschaftskolleg (HWK) and then at the Scuola Normale Superiore (SNS), Florence.

[2] David Howarth would like to the thank the research assistance of Dr. Moritz Liebe.

(see Donnelly 2011; Macartney 2010; Mügge 2010; Quaglia 2010). However, it became more important after the international financial crisis and the sovereign debt crisis in the euro area because these crises provoked a fragmentation of financial markets in the EU, especially in the euro area, largely reversing — on a range of measures — the financial integration that had been achieved over the previous decade (ECB 2012).

Second, the term Capital Markets *Union* was deliberately chosen to indicate that it was complementary to Banking Union and was necessary for the completion of Economic and Monetary Union (EMU). The Five Presidents report 'Towards a genuine Economic and Monetary Union' (2015: 12) explicitly noted that a 'well-functioning' CMU would act as a 'shock absorber', providing a buffer against systemic shocks in the financial sector and reducing 'the amount of risk-sharing that needs to be achieved through financial means (public risk-sharing)'. Basically, CMU would reduce the need for a stabilisation mechanism in the EU, especially in EMU.

This paper investigates the making of CMU by focusing on the crucial stage of agenda-setting (2014-16), when CMU was defined and its priorities set. This definition and priority-setting informed most of the consequent decision-making — that is, the specific EU measures subsequently adopted to establish CMU. Theoretically, our work speaks to the literature on ideas in EU public policy and actor-centred constructivism (most recently, see Carstersen and Schmidt 2016; and Saurugger 2013), arguing that agents can strategically use parallel narratives that target a variety of audiences with a view to promoting a certain policy project. Specifically, the European Commission sought to promote CMU by articulating two narratives, which targeted different audiences, in order to mobilise the political support of the member states, financial industry, and the nonfinancial sector.

The first narrative was boosting the size and the internal and external competitiveness of EU capital markets. It was important to mobilise the support of the British government (aligned largely with the City of London), and the financial industry in a number of EU member states and specifically large cross-border banks. The second narrative was the provision of (non-bank) funding to the real economy, especially to small and medium enterprises (SMEs) and infrastructural projects. It was instrumental in order to mobilise the support of continental countries and notably in the EU periphery. In so doing, CMU was portrayed as a positive sum (win-win) game that benefitted everyone — rather than as a project generating potential winners and losers — reducing potential opposition to it. The Commission's narrative of 'everyone is a winner' sought to blur the potential political economy effects of capital market liberalisation.

The material is organised as follows. Section 2 reviews the literature on ideas in analysing EU public policies and derives hypotheses that are applied to the empirics in the subsequent sections. Section 3 discusses the pivotal role of the Commission in the development of the CMU project. Section 4 examines the political economy of CMU. Since inefficient financial firms and small banks have potentially the most to lose from capital market liberalisation, CMU pits different elements of the financial sector against one another and pits bigger banks with a range of investment banking operations and other specialised financial operators against smaller, more traditional, banks. Section 5 presents the two main narratives articulated by the European Commission in order to mobilise the political support necessary to push forward CMU. These narratives were instrumental to address protectionist reluctance from continental countries and their financial firms by pointing out the (potential) benefits of CMU for SMEs and infrastructure. The concluding section explains why this strategy has been relatively successful so far and identifies the main stumbling blocks on the road to CMU.

2. Ideas and actor-centred constructivism in EU public policies

Over the last thirty years or so, there has been a burgeoning constructivist research agenda in the study of EU public policy (for a comprehensive discussion, see Saurugger 2013). 'Actor-centred constructivism' has been particularly prominent in the field of European political economy[3] as it considers not only ideas, but also agents, interests and power, thus addressing some traditional critiques of constructivism (Saurugger 2013: 897). A variety of ideas-based approaches can be subsumed under the label of actor-centred constructivism: 'policy learning' (Radaelli and Dunlop 2013; Zito and Schout 2009), 'policy frame' (Surel 2000), 'advocacy coalition' (Sabatier 1999), 'discursive institutionalism' (Schmidt 2008), and 'strategic constructivism' (Jabko 2006). A vast array of related concepts has been deployed in order to examine EU public policies, notably: 'policy paradigms' concerning macroeconomic policies (McNamara 1998) and financial regulation (Mügge 2011; Quaglia 2010); 'policy narratives' concerning taxation (Radaelli 1999); 'policy discourses' on banking regulation (Busch 2004) and 'globalisation' (Hay and Rosamond 2002); ideas as 'coalition magnets' (Béland and Cox 2016) and 'glue' of 'professional ecologies' (Seabrooke and Wigan 2016). Recent research has specifically explored the link between 'ideas' and 'power', discussing 'power in, over and through' ideas (Carstensen and Schmidt 2015: 318). Hence, power in ideas concerns the 'taken for granted' assumptions that structure policy making in a certain field, coming close to a hegemonic discourse. Power over ideas concern the power to

[3] For constructivist approaches in international political economy, see Abdelal, Blyth and Parsons (2010).

manipulate ideas as 'weapons' and keep certain ideas off the agenda. Power through ideas is the power of persuasion (Carstensen and Schmidt 2015).

Here, we are particularly interested in a 'strategic' form of actor-centred constructivism, whereby agents do not 'use' ideas as cognitive devices, *à la* Parsons (2002), or as a fourth 'discursive institutionalism', *à la* Schmidt (2008). Rather, ideas are deliberately promoted, kept off the agenda, or strategically used by agents in order to frame (or re-frame) interests, form supporting coalitions, and prevent opposition to certain projects. For example, Jabko (2006) analyses how the European Commission manipulated the idea of the 'market' in various ways in order to build coalitions in favour of the construction of the Single Market. He also highlights the specific 'logics' deployed by the Commission in order promote EMU (Jabko 1999). Radaelli (1999) traces how the 'narrative' of 'harmful tax competition' was purposefully deployed by the Commission in the field of taxation policy, traditionally the realm of the member states.

We derive three main hypotheses from an actor centred constructivism and assess their explanatory power against the empirical record of the agenda-setting stage of CMU. First, given the limited powers of the Commission, which is a supranational bureaucracy with a relatively high level of expertise and relatively low level of perceived legitimacy, the Commission is likely to use ideas as resources in order to elicit and harness the support of the member states and business community for certain policy projects (Jabko 2006, 1999; Radaelli 1999). The Commission is well positioned to do so because it is perceived as a more neutral body — in terms of its preferences as to distributional outcomes — and because it can speak to a diversity of audiences across the EU, less accessible or inaccessible to national governments or sectional interests.

Hypothesis 1: The Commission was functionally well-placed to be a pivotal player in the agenda-setting stage of CMU, acting as an ideational entrepreneur.

This expectation is operationalised in Section 3 by examining the empirical record of the development of CMU and by looking for evidence that the Commission performed a major role as the leading institutional promoter of CMU.

Second, agents (here the Commission) are likely to deploy ideas strategically in order to frame (or reframe) interests if the proposed project is likely to meet some opposition amongst or within the member states and the business community. In turn, this is more likely to happen in the case of economic policies, where there are entrenched interests at stake and clear cut winners and losers. In the construction of CMU, conflicting financial interests are at stake, which reflect the different configuration of national financial sectors and their link to the real economy (see Quaglia et al. 2016). Indeed, the 'battle of the systems' (Story and Walters 1997) had slowed down financial market integration and harmonisation over the previous three decades (see Donnelly 2011; Macartney 2010; Mügge 2010; Quaglia 2010).[4]

Hypothesis 2. Given the widespread perception that CMU is likely to generate winners and losers — or at least benefit specific member states and economic interests more than others — there is greater need to use ideas strategically.

[4] Indeed, over the previous two decades, national governments had repeatedly been keen to agree EU-level regulation that was most advantageous for their national financial systems, which frequently produced deadlock in negotiations (see Donnelly 2011; Macartney 2010; Mügge 2010; Quaglia 2010).

The political economy dimension of this hypothesis is operationalised in Section 4 by carrying out an analysis of the likely financial implications of CMU for the member states and the main parts of their financial industry and real economy.

In order to side-step opposition from potential losers and avoid policy deadlocks, agents can develop policy narratives, which are causal stories relevant to policy-making (Stone 1989) and which are instrumental in mobilising support for a given project by framing it in a certain way. Often one prevailing policy narrative, such as that of 'harmful tax competition' (Radaelli 1999) is deployed for persuasive purposes, or 'broad' ideas, such as solidarity, are used as 'coalition magnets' (Béland and Cox 2016). Less frequently, parallel narratives are used to speak to different audiences and frame a certain policy project as a positive sum game, not as a competitive zero-sum game with winners and losers.

Hypothesis 3. The Commission articulates parallel 'policy narratives' on CMU, with a view to eliciting and broadening support for the project.

This hypothesis is operationalised by examining all the speeches and interviews[5] on CMU made by Commission officials in Member States and to economic interest groups. We do not examine the key CMU-related documents and speeches in Brussels launching them because these — by virtue of their wider audience — contain both policy narratives.

3. The making of CMU

The Commission was the main driver of CMU — it first proposed and promoted it. The idea

[5] This interview material is currently being collected and examined.

of CMU was first mentioned in the Political Guidelines for the next European Commission presented to the European Parliament in July 2014 by the former Luxembourg Prime Minister, Jean-Claude Juncker — then candidate for Commission President (Juncker, 2014; p. 7 & p. 19). The new Commission officially presented the CMU project as fully in line with the 'Investment Plan for Europe' (aka the Juncker plan)[6] of November 2014, which aimed to remove obstacles to investment and provide funding and technical assistance to investment projects. According to the Commission (Juncker 2014, p. 8), CMU would 'improve the financing of the economy … cut the cost of raising capital, notably for SMEs, and help reduce the very high dependence on bank funding. This would also increase the attractiveness of Europe as a place to invest'.[7]

In February 2015, the Commission published the Green Paper 'Building a Capital Markets Union', which was subject to a public consultation (Commission 2015a). At that stage, CMU was a 'mixed bag': a 'long shopping list' of necessary measures to adopt in order to complete the single financial market and boost EU capital markets. In September 2015, the Commission put forward an Action Plan for CMU. The first building block of CMU, namely the first legislative proposal officially put forward by the Commission in September 2015, was a package of two legislative proposals: a 'Securitisation Regulation' that sets out criteria for 'Simple, Transparent and Standardised Securitisations'; and a proposal to amend the Capital Requirements Regulation to make the capital treatment of securitisations for banks and investment firms more risk-sensitive (effectively to lower capital requirements) (Commission 2015X; 2015X).

6 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0903&from=EN

7 http://ec.europa.eu/priorities/sites/beta-political/files/juncker-political-guidelines_en.pdf

Furthermore, the Commission began preparing a proposal for the revision of the Prospectus directive and the Solvency II directive. It opened a consultation on venture capital and social entrepreneurship funds, a consultation on covered bonds in the EU, and a call for evidence on the EU regulatory framework for financial services. After the idea of CMU was aired by the would-be President of the Commission Juncker in July 2014, it was then elaborated and promoted by the newly created Commissioner for 'Financial Stability, Financial Services and Capital Markets Union', the British Conservative peer Jonathan Hill, and his team.

The empirical record suggests that the Commission was the initial promoter of CMU, confirming the first hypothesis outlined in Section 2. Although the Commission informally consulted the main policy stakeholders on their views before officially proposing CMU, there is no evidence that any member state governments or elements of financial industry spurred the Commission into action. For example, the documents issued by the national authorities and industry associations post-dated the Commission's proposals and were mainly a response to what was proposed, as elaborated in the following section. Thus, member state governments and the financial industry subsequently contributed to shaping CMU. National governments did so through the responses to consultation and then Co-decision in the Council. The financial industry did so through the responses to consultation and lobbying activities.

However, it appears that the Commission had considerable room for manoeuvre at the agenda-setting stage to develop what was meant by CMU and its priorities. This was crucial in shaping the subsequent development of the project and the legislative and non-legislative measures adopted. The Commission was keen to promote CMU for its 'intrinsic' merits (as detailed in many Commission's documents), but also as a way to relaunch financial integration in Europe. There was also a political motivation related to the referendum on Brexit, in that CMU was a project that would greatly benefit the City of London and would therefore attract the support of the British authorities (Ringe 2015), as explained in the following section.

4. The political economy of CMU: potential winners and losers

CMU — especially if all its main elements are eventually adopted — will have competitive implications for member states and much of the financial sector. In other words, CMU will generate winners and losers or, at the very least, some players will benefit more than others (for a detailed analysis, see Quaglia *et al*. 2016), partly confirming the second hypotheses about the perceived distributional effects of CMU. The main *potential winners* of CMU were likely to be the most competitive parts of the financial industry, the main transnational players, notably the large universal banks engaged in a range of financial activities including securitisation, insurance companies and the diverse international financial centres in the EU, first and foremost the City of London.

The new measures designed to promote securitisation would likely benefit the main banks that were most heavily engaged in it and had the greatest expertise (Gabor 2015). The proposed revision of the Solvency II Directive, de facto reducing capital requirements for insurers for investments in long term infrastructural projects, would most likely benefit large insurers that were more likely to invest in such projects, especially larger projects. The revision of the Prospectus Directive and future legislative and non-legislative measures designed to harmonise securities market legislation and ease cross border activities would be particularly advantageous for the largest, most competitive financial centres, first and foremost the City of London, that would be able to attract business from the periphery of the EU, but also potentially from Paris and Frankfurt.

It is true that further down the line other potential beneficiaries of CMU could be SMEs, start-ups, and infrastructural projects. However, the causal chain of effects for these potential beneficiaries was longer than for the first set of immediate winners in the financial sector and mostly rested on the (uncertain) assumption that additional funding raised on capital markets would reach SMEs, start-ups and infrastructures. It is revealing that only 20 per cent of the respondents to the Commission's consultation on the Green Paper were companies and SMEs, 5 per cent were NGOs and 1.6 per cent consumer organisations. This suggests that CMU mainly elicited the interest of the financial sector, not actors from the so-called 'real economy'.

Many of the *potential losers* of CMU are less clearly identifiable in large part because many did not express outright opposition to CMU plans. Hence, opponents were less well positioned to forge a coalition against CMU. Potential losers were likely to be domestically focused financial players (banks, stock exchanges, market infrastructure firms), which might lose out from reinvigorated efforts to harmonise national rules and efforts to encourage consolidation, for example, among stock exchanges. In CMU, financial business would likely move towards the most competitive financial centres in the EU, first and foremost London. The Italian government (2015, p. 2) warned that 'capital will tend to flow to those areas and sectors in the EU, where risk-adjusted returns tend to be higher'. Hence, the Italian government warned of the risk of 'magnifying distortions and unlevelled competitive conditions in the Single Market', including the risk of 'hysteresis in the relative competitive position across Member States'. The French Financial Markets Authority (AMF 2015) stated that CMU ‘should not lead to a merger or concentration of markets but rather to the convergence of rules … without harming the healthy competition between financial centres’ (authors’ translation).

As for the financial industry, the French asset management association (AFG 2015) pointed out that ‘the diversity of European financial places will have to be not only preserved but also developed’. The German association of small and medium sized non-bank financial firms, Bundesverband der Wertpapierfirmen (BdV 2015), stressed the importance of ‘a diverse “eco system” of variegated market structures and firms of different size and profile’, arguing that the ‘cost burden resulting directly or indirectly from regulation has reached a level which might threaten the cost effectiveness and in the end the existence of small and mid-sized financial services providers’.

One might expect banks in general to be potential losers from a project designed to promote capital markets, but big European universal banks (most of which responded individually to the Commission’s consultations) were also important players in capital markets. In their responses to the Green Paper consultation, large banks and their national representative associations pointed out that CMU was not an ‘alternative to bank lending, but complementary’ (see, for example, British Bankers Association 2015, French Banking Federation BDB 2015, FBF 2015, BNP Paribas 2015, Société Générale 2015, Lloyds 2015, Intesa 2015, Unicredit 2015). They supported the priority of reviving securitisation, emphasised the need for better regulation, reducing the post crisis regulatory burden, and opposed the directive on bank structural reform (then under negotiation) and the proposed financial transaction tax (BBA 2015, FBF 2015, Italian Banking Association 2015). Most large banks and their representative associations also stressed the importance of promoting open and competitive capital markets in the EU in order to improve their competitiveness at the international level (see, for example, BBA 2015).

Smaller, domestically-focused alternative (notably public law savings and cooperative) banks were far more reticent with regard to the CMU project. The European Association of Cooperative Banks (EACB 2015) aired 'strong concerns regarding the level playing field between capital market oriented companies and non-capital market oriented companies', noting that following the introduction of stricter EU banking regulation 'a portion of the traditional banking business has moved to the unregulated sector …. Harmonisation of rules and regulations applicable to the unregulated sector and banks should be one aspect of enabling fair competition'. For the European Savings Bank Group (ESBG 2015), it was 'essential to use a country-by-country approach when analysing the impact of the upcoming concrete measures [of the CMU project] on all 28 Member States'. The German finance ministry defended its savings and cooperative banks — holding more than half of bank assets in the country — calling for 'a simplified regime for small banks specifically adjusted to the needs of financing exclusively smaller enterprises at regional level' (German Finance Ministry 2015).

5. The Commission's policy narratives on CMU

In the construction of CMU, the Commission used two main policy narratives, which were supposed to mobilise the potential winners and to appease the potential losers, or those benefitting relatively less from CMU. In order to secure political support for the project from a variety of constituencies, the Commission had to speak to and target its message to different audiences, as postulated by the third hypothesis. The Commission articulated a first narrative concerning the boosting of the size, the competitiveness and the openness of EU capital markets. With this narrative, the Commission mainly targeted the UK, the City, large cross border banks and other international financial players. The Commission's second narrative concerned the provision of (non-bank) funding to the real economy, which mainly targeted continental countries and notably countries in the EU periphery, as well as domestically oriented banks and smaller capital markets. Divisions within the Commission on CMU — although they exist(ed) — do not explain the two narratives: it is important to stress that both Commissioner Hill and President Juncker changed their narrative to suit their audience. In many of his CMU speeches on the continent, Hill emphasised the importance of the project to improve the financing of SMEs and infrastructural projects (see below). We do not examine the speeches and interviews undertaken by Lord Hill's successor, Valdis Dombrovskis, on the grounds that the referendum on Brexit may have shifted the Commission's strategic use of narratives on CMU.

A particularly controversial issue was the possibility to establish a single supervisor for EU capital markets, akin to the creation of the Single Supervisory Mechanism in Banking Union. The idea was supported by the Commission President, French and Italian policy-makers (see French Finance Ministry 2015; Italian Finance Ministry 2015) and some stakeholders, principally large banks headquartered in continental member states (see, for example, BNP Paribas 2015; Intesa 2015). It was vehemently opposed by Commissioner Hill, all the UK authorities (see HMT, Bank of England and FCA 2015), the City (BBA 2015; LSE 2015), most large British banks, most non-bank financial operations, as well as most smaller domestically focused savings and cooperative banks and their representative associations (see, for example, Associazione Banche Cooperative 2015). This division reinforced the divergent narratives on CMU. Those in favour of reinforced EU-wide supervision of non-bank financial companies were also those who most emphasised the importance of the CMU project for the improved access to finance for SMEs and infrastructural firms in particular. Those opposed saw the construction of an EU-wide supervisor for non-bank financial companies as a potential hindrance to the reinforced competitiveness of the European financial sector and its liberalisation (see HMT 2015; Bank of England 2015; FCA 2015; BBA 2015; LSE 2015) — even though the harmonisation of EU regulation and supervision could potentially facilitate liberalisation.

The policy narrative of boosting EU capital markets

The first policy narrative articulated by the Commission was to 'create a single market for capital for all 28 Member States', increasing its 'competitiveness' and 'openness', 'fostering stronger connections with global capital markets' (Commission 2015X, p. 5). The Commission claimed to be addressing the problem that capital markets in the EU were 'underdeveloped', 'fragmented' and 'typically organised on national lines' (p. 4). The Commission pointed out, for example, that public equity markets in the US were almost twice the size of those in the EU (as a percentage of GDP). For the Commission, the solution was 'removing barriers to cross-border investment within the EU and fostering stronger connections with global capital markets' (Commission 2015, p. 5). Moreover, the Commission argued that CMU was to be built through better regulation, relying mostly on 'market-led bottom up initiatives', 'resorting to new legislation only when needed' (Commission 2015, p. 5), so as to promote the competitiveness of the EU financial industry.

The second part of this narrative focused on the external dimension of CMU which, the Commission argued, should be 'developed taking into account the wider global context'

(Commission 2015, p. 20). Hence, CMU should increase the 'global competitiveness and attractiveness of European capital markets' (Commission 2015, p. 9). The Commission's Green Paper subject to public consultation contained specific questions on how to improve the global competitiveness of EU's financial markets. The Commission pointed out that over the previous decade, European financial centres had lost ground in global competition. According to a global ranking of the competitiveness of financial centres that considered a variety of factors, including financial sector development and infrastructure, in 2014, London was the only European financial centre included in the top ten. Frankfurt ranked 14th, down from 6th place in 2007, and Paris ranked 37th, down from 11th in 2007 (DB 2015).

Apart from the Commission's initial presentation of the CMU project, its only public pronouncements on the importance of CMU to improving the competitiveness of the European financial sector took place in the UK or in specific financial fora (see Table 1). In Commission media interviews on CMU, competitiveness was emphasised above all in the UK press. On the continent, only a small section of the press — that directed to business specifically such as *Les Echos* in France[8] — emphasised positively the competitiveness objectives of the project in interviews with the Commission. These newspapers also emphasised the SME and infrastructure finance dimension.

Despite the Commission's focus on improving the competitiveness of all EU financial centres, the concern about the EU's global competitiveness was much higher in the UK than in continental Europe — as indicated by the industry and government responses to Commission's consultation. Moreover, there were different views about the EU and the

[8] 'Union des marches de capitaux: profitable, mais pas sans risque', *Les Echos*, 2 September 2015; available at: https://www.lesechos.fr/idees-debats/cercle/cercle-138077-union-des-marches-de-capitaux-profitable-mais-pas-sans-risque-1150031.php

global context. Policy makers in France focused upon the need to increase the influence of the EU in international financial fora (French Finance Ministry 2015). They also pointed out the need to regulate that access to the EU's single market by making use of 'equivalence' and 'reciprocity' clauses in EU financial legislation. UK policy-makers stressed the need for the EU to comply with international standards and to operate so as to reduce divergence between national financial rules (Treasury *et al.* 2015). No Commission official, speaking in an official capacity to a non-finance audience in France, Germany or Italy, vaunted the opportunities that the CMU project created in terms of new opportunities for financial sector operators and the competitiveness of European finance. Outside of the UK then, the first narrative was presented only in the context of conferences involving financial sector representatives and experts.

The policy narrative of the provision of (non-bank) funding to the real economy

The second policy narrative concerned the provision of (non-bank) funding to the real economy, especially to SMEs and infrastructural projects and involved engineering firms. The starting point of the narrative was the low economic growth in the EU in the aftermath of the international financial and sovereign debt crises and the limited amount of (bank intermediated) funding available to the real economy, especially for SMEs and infrastructural projects. On its webpages and in regular communications on CMU, the Commission argued that bank lending in the EU accounted for an excessively large percentage of total funding to the real economy (75-80 per cent), which was the reverse of the US, where banks provided only 20 per cent (Commission 2015X) and exposed large parts of the EU economy to a credit crunch in the aftermath of the international financial crisis. The Commission noted that ‘compared with the US, European SMEs receive five times less funding from capital markets’ (Commission 2015X).

The solution advocated by the Commission was the development of capital markets in the EU, following the example of the US. Moreover, the Commission presented securitisation as necessary to ‘unlocking bank lending’ by diversifying funding sources and freeing up bank lending to the real economy (Commission 2015X). An activist push by the Commission was considered necessary in order to tackle the bad reputation faced by securitisation in the EU which had more than halved following the crisis. In its explanatory document for the draft legislation on securitisation, the Commission (2015d) distinguished between massive losses on securitised products sold by US banks and the very small losses on securitised products in the EU. ‘EU securitisation performed well, with the worst-performing classes defaulting in only 0.2 [per cent] of the cases in comparison to the default rate of 62 [per cent] of the US securities’ (Commission 2015d). The Commission also sought to encourage nonfinancial firms to engage more actively in the securitisation of their own debt in order to raise additional funds. The Commission with the support of the ECB and a number of EU national central banks (including the Bank of England) was committed to establishing a new ‘framework to encourage the take-up of simple, transparent and standardised securitisation’ and to dispel ‘the stigma attached to this asset class’ after the global financial crisis (Hill 2015X). Commissioner Hill stated ‘Our door will remain firmly closed to the highly complex, opaque and risky securitisation instruments that were of course part of the financial crisis’ (*The Telegraph*, 19 February 2015).

While the starting point of the narrative on improving SME finance was uncontroversial, its solution was not. According to some, the structural differences between the EU and US financial systems were too deep seated to be amenable to be addressed through CMU (ESBG 2015). The advisability of emulating the US was also questioned by the French and German Treasury ministers, who in a joint letter pointed out the ‘different economic conditions, legal frameworks and cultural roots’ in the EU, and thus the need ‘to find a specifically European solution … refraining from bluntly reproducing the US financial system’ (this point was reiterated also in their separate responses to consultation) (Schäuble and Sapin 2015).

A number of continental European banks, business associations and public sector bodies argued that SMEs would not be able to take direct advantage of larger, better developed capital markets in the EU (see, *inter alia*, DB 2015; Bundesbank 2015, HMT 2015). For example, the Confederation of German Industry (BDI) argued that ‘financing on capital markets [would] not be a viable alternative for the overwhelming majority of SMEs in the future. Especially the smaller SMEs [would] need to have smooth access to bank loans’ (2015; authors’ translation). Banks, especially domestically oriented banks, in their responses to the Commission’s consultation, pointed out that they were better positioned than capital markets to provide funding to SMEs. The Bundesbank (2015) considered ‘local bias’ was particularly relevant for SMEs and could only to a limited extent be alleviated by CMU. It added that ‘low levels of investment in some Member States are not necessarily caused by a lack of funding opportunities’ but also by ‘low productivity, too little innovation, the absence of profitable investment opportunities’. On the risks created from the over-reliance of member state economies upon bank credit, some economists (e.g. Admati *et al*. 2013) also questioned the argument often used by banks, which postulated the almost automatic link between higher capital requirements and the restriction of credit to the real economy.

In articulating this policy narrative, the Commission was keen not to alienate the support of or to attract the opposition of the banking sector, and thus CMU was presented as ‘complementing the role of banks’ (Hill 2015). Indeed, in a joint letter in July 2015, the French and German Finance ministers pointed out the need ‘to ensure a level playing field between the various capital and bank based financial instruments’ and that ‘banks should be an integral part of consideration in this respect’ (Schäuble and Sapin 2015). To this end, the Commission committed to undertake a review of existing legislation in order to evaluate the cumulative effects of post crisis legislation on banks and other financial players in the EU. In so doing, the Commission also sought to address the calls by the UK, and the bulk of the EU’s financial industry to ‘simplify and streamline’ EU financial legislation. For example, the UK authorities (Treasury, Bank of England and FCA 2015) and almost all the financial industry firms and associations that responded to the consultation made reference to the ‘better regulation’ agenda of the EU.

A systematic review (covering the period June 2014 to December 2016) of the speeches of high ranking Commission officials (including Lord Hill and Jean-Claude Juncker) in Germany and France demonstrates the relative importance attached to emphasising the benefits of CMU (and specifically facilitated securitisation) to SMEs and / or infrastructural firms (see Table 1). In France, three main policy speeches on CMU were given. In these, the impact upon SMEs was consistently headlined. Indeed, one speech took place at a medium-sized French biotech firm Onxeo in October 2015. This was also a joint speech by Commissioner Hill and the then French finance minister, Michel Sapin, on the topic of CMU. No mention was made of the potential benefits to French financial institutions. Indeed, the title of the speech (subsequently placed on the Ministry of Finance web-site) was ‘How to encourage the financing of European companies?’ (authors’ translation) with specific focus to

SMEs (Hill and Sapin 2015). Here the aim was to provide opportunities to SMEs to diversity their financing sources. CMU-focused speeches and interviews in Germany by Lord Hill and Juncker were similarly focused on improved financing opportunities for SMEs and infrastructural projects. Despite the significant impact of the credit crunch in the UK especially on SMEs, Lord Hill's presentation of the CMU project in the UK normally side-lined the SME finance dimension with the partial exception of an April 2015 speech to the Reuters Newsmakers' Event which focused on both dimensions of the project.

Table 1: Commission official speeches centred on Capital Markets Union*

	Only on financial sector opportunities / competitiveness	Principally on financial sector opportunities / competitiveness	Equal focus	Only on SMEs and / or infrastructure funding	Principally on SMEs and / or infrastructure funding
UK	3	1	1 Reuters Newsmakers[9]		
Germany				3 (incl. 1 to CDU/CSU representatives[10])	1
France				2	2
Finance (non-bank)	2 London;	1 Brussels, Pensions[11]; 1 Brussels,	1 Germany (Frankfurt Finance		

[9] 'Speech by Commissioner Jonathan Hill at Reuters Newsmaker's Event: The Capital Markets Union: breaking down the barriers to completing the single market', London, 17 April 2015; http://europa.eu/rapid/press-release_SPEECH-15-4796_en.htm

[10] https://www.cducsu.de/themen/wirtschaft-und-energie-haushalt-und-finanzen/die-rahmenbedingungen-fuer-kleine-und-mittlere-kreditinstitute-staerken

[11] 'Speech by Commissioner Jonathan Hill at the Pensions Europe Conference 2016', Brussels, 23 June 2016; http://europa.eu/rapid/press-release_SPEECH-16-2324_en.htm

		Capital Markets[12] ; 1 New York[13];	Summit)[14]		
Finance (Bank)	1 London[15]; 1 Paris[16]; 1 Copenhagen [17]; Brussels[18]	1 Frankfurt (BDB)[19]			
Small (public) banks				1 Brussels (Coops)[20]; 1 Germany	
SMEs				1 Germany, 1 France	1 'European Business Conference , Bruges.[21]

---

12 'Speech given by Commissioner Jonathan Hill at the 2015 ECMI Annual Conference: Europe's Capital Markets Union: What is the 'long-term- view?; Brussels, 20 October 2015; http://europa.eu/rapid/press-release_SPEECH-15-5870_en.htm.

13 'Speech given by Commissioner Jonathan Hill at Securities Industry and Financial Markets Association (SIFMA): The Role Financial Markets can play in Growth and Jobs'; New York, 27 February 2015; http://europa.eu/rapid/press-release_SPEECH-15-4523_en.htm

14 'Speech given by Commissioner Jonathan Hill at the Frankfurt Finance Summit How to restart growth'; Frankfurt am Main, 17 March 2015; http://europa.eu/rapid/press-release_SPEECH-15-4616_en.htm

15 'Building a stronger single market in capital', Speech to TheCityUK Annual Conference; London, 30 June 2015; Jonathan Hill; http://europa.eu/rapid/press-release_SPEECH-15-5290_en.htm

16 'Keynote speech by Commissioner Jonathan Hill at the Economist's Future of Banking Summit', Paris, 10 March 2016; http://europa.eu/rapid/press-release_SPEECH-16-726_en.htm

17 'Speech by Commissioner Jonathan Hill at the Danish Bankers' Association, Copenhagen', Copenhagen, 4 March 2016; http://europa.eu/rapid/press-release_SPEECH-16-588_en.htm

18 'Speech by Commissioner Jonathan Hill at European Banking Federation, 2015 Annual High Level Conference: A Brave New World for Banks'; Brussels, 17 September 2015; http://europa.eu/rapid/press-release_SPEECH-15-5673_en.htm

19 https://bankenverband.de/was-wir-tun/veranstaltungen/gespraech-in-der-burgstrasse/die-kapitalmarktunion-chance-fur-die-europaische-wirtschaft/

20 Speech by Commissioner Jonathan Hill at the 6th Convention on Cooperative Banks in Europe: A strong and stable banking system at the heart of Europe's recovery'; Brussels, 03 March 2015; http://europa.eu/rapid/press-release_SPEECH-15-4537_en.htm.

21 'Speech by Commissioner Jonathan Hill at the Seventh Bruges European Business Conference "Capital Markets Union"', Brussels, 18 March 2016; http://europa.eu/rapid/press-release_SPEECH-16-921_en.htm

*These speeches exclude those made from Brussels during the launch of a new report on CMU or draft directive (etc.) on an element of the CMU project or any Commission sponsored conference in Brussels. These speeches are made in the member state(s) in question and / or to companies in the sectors in question.

Conclusion

This paper has examined the making of CMU, arguing that the Commission played a pivotal role at the crucial agenda-setting stage of the project: it conceived the idea, defined what was meant by CMU and set the policy priorities, albeit with input from the member states and industry. The Commission strategically deployed ideas about capital markets liberalisation in order mobilise political support for the project and push it forward. The Commission articulated two narratives that were instrumental to speak to a diverse audience, assuaging the concerns of potential losers (or those likely to benefit relatively less) from CMU. In promoting CMU, the Commission had the support of the UK and a small number of like-minded liberal member states, as well as the most outward-oriented or cross border parts of the financial industry, which had most to gain from CMU. In this respect, the negotiating dynamics of CMU are similar to those in the adoption of other liberalisation measures in the Single Market in finance (Mügge 2010).

Theoretically, this research primarily feeds into the ideas-based literature in EU public policy, presenting empirical evidence that supports hypotheses derived from actor-centred constructivism. It should be noted that the evidence provided in this piece does not prove the existence of strategic motives on the part of Commission officials. Furthermore, we are unable to prove whether the Commission's narratives were also, at least in part, cognitive maps for policy-makers (*à la* Parsons 2002) — in other words, actors genuinely believed in them — or served as 'coordinative discourses' amongst supranational and national policy elites (*à la* Schmidt 2008). What we can show however is that the evidence from speeches and interviews given by top Commission officials demonstrates a very strong pattern in the representation of specific features of the CMU project, its objectives and potential benefits. This strong pattern has involved two distinct narratives. The strong pattern also therefore suggests the adoption of a strategy by Commission officials.

The Commission' strategy seems to have worked so far for two reasons. First, there is a concentrated group of potential financial sector winners, whereas potential losers are more dispersed and have not yet forged a coalition to shape CMU-related legislation. Second, the Commission's strategy has worked at the agenda setting stage, when likely winners and losers are less likely to be able to identify themselves. However, this strategy might run into difficulties later on, when the costs and benefits for the various players become clearer. Indeed, the negotiations of specific pieces of CMU legislation are likely to be dominated by intergovernmental dynamics and intense industry lobbying. Hence, further research on these aspects is welcome. Furthermore, Brexit and the departure of the UK, one of the main 'cheerleaders' of CMU and a — if not the — leading ally of the Commission on CMU, is likely to undermine progress in the adoption of project-related legislation. Further research could also examine the impact of Brexit on CMU and, more specifically, on the strategy adopted by the Commission and the narratives that it wields to legitimise the CMU project.

References

Abdelal, R., Blyth, M. and Parsons, C. (2010) *Constructing the International Economy*, Ithaca, NY: Cornell University Press.

Admati, A., DeMarzo, P. M., Hellwig, M. F. and Pfleider, P. (2013) 'Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity is Not Socially Expensive', Max Planck Institute for Research on Collective Goods 2013/23; Rock Center for Corporate Governance at Stanford University Working Paper No. 161; Stanford University Graduate School of Business Research Paper No. 13-7; available at https://www.coll.mpg.de/pdf_dat/2013_23online.pdf

BBA (British Bankers' Association) (2015)

Béland D. & Cox RH (2016) 'Ideas as coalition magnets: coalition building, policy entrepreneurs, and power relations', *Journal of European Public Policy*, 23 (3): 428-445.

BNP Paribas (2015) 'Response to the Commission's Consultation on the Green Paper on CMU'. Available at https://ec.europa.eu/eusurvey/publication/capital-markets-union-2015?language=en. Last accessed: 13 August 2016.

Carstensen, M.B. and Schmidt, V.A. (2015), 'Power through, over and in ideas: conceptualizing ideational power in discursive institutionalism', *Journal of European Public Policy*, 23 (3): 318-337.

Commission (2015a) 'Green Paper: Building a Capital Markets Union', COM(2015) 63 final, 18 February. Available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=COM:2015:63:FIN&from=EN. Last accessed: 8 August 2016.

Commission (2015b) ‘ Action Plan on Building a Capital Markets Union’ , COM(2015) 468 final, 30 September. Available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0468&from=EN. Last accessed: 3 August 2016.

Commission (2015c) ‘Feedback Statement on the Green Paper “Building a Capital Markets Union, 30 September. Available at http://ec.europa.eu/fi nance/consultations/2015/capital-markets-union/docs/summary-of-responses_en.pdf. Last accessed: 12 August 2015.

Commission (2015d) ‘Simpler Securitisation’, 30 September. Available at http://ec.europa.eu/finance/capital-markets-union/docs/simpler-securitisation_en.pdf. Last accessed: 3 August 2016.

Commission (2015e) ‘Proposal for a Regulation on Creating a European Framework for Simple, Transparent and Standardised Securitisation’, 30 September. Available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015PC0472&from=EN. Last accessed: 12 August 2016.

Commission (2015f) ‘Proposal on Prudential Requirements for Credit Institutions and Investment Firms’, 30 September. Available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015

DB (Deutsche Bank) (2015) ‘Capital Markets Union: An Ambitious Goal But Few Quick Wins’, EU Monitor, Global Financial Markets, 2 November (Frankfurt: Deutsche Bank

Research). Available online at: https://Www.Dbresearch.Com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000371611/Capital_Markets_Union%3A_An_Ambitious_Goal,_But_Few_.Pdf. Last accessed: 15 August 2016.

Donnelly, S. (2010), *The Regimes of European Integration*, Oxford: Oxford University Press.

European Association of Cooperative Banks (EACB) (2015)

European Central Bank (ECB) (2012a). Financial Integration Report. April. Frankfurt: ECB.

ESBG (2015a) http://www.savings-banks.com/SiteCollectionDocuments/Financial%20systems%20in%20Europe%20and%20in%20the%20US.FINAL.pdf

ESBG (2015b),

FBF (Fédération Bancaire Française) (2015)

Hay, C. and Rosamond, N. (2002) 'Globalization, European integration and the discursive construction of economic imperatives', *Journal of European Public Policy* 9 (2): 147–67.

Hill, J. (2015) 'For a financial sector that promotes investment', Speech to the City of London Corporation Policy Committee, 15 July 2015, London. Available at http://europa.eu/rapid/press-release_SPEECH-15-5380_en.htm. Last accessed 13 August.

Hill, J. (2015) Speech, September, http://ec.europa.eu/finance/capital-markets-union/docs/20150930-press-conference_en.pdf. Last accessed 13 August.

Hill, J. and Sapin, M. (2015) 'Comment Favoriser le financement des entreprises européennes ?', French Ministry of Finance, Paris, le 12 octobre 2015 ; http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/19848.pdf

Intesa (2015) 'Response to the Commission's Consultation on the Green Paper on CMU'. Available online at: https://ec.europa.eu/eusurvey/publication/capital-markets-union-2015?language=en. Last accessed: 13 August 2016.

Jabko, N. (2006) *Playing the Market: A Political Strategy for Uniting Europe, 1985-2005*, Ithaca: Cornell University press.

Jabko, N. (1999), 'In the Name of the Market: How the European Commission Paved the Way for Monetary Union'. *Journal of European Public Policy*, 6 (3): 475-95.

Juncker, J-C. (2014) 'Political Guidelines for the Next Commission', 15 July. Available at http://www.eesc.europa.eu/resources/docs/jean-claude-juncker-political-guidelines.pdf. Last accessed: 13 August 2016.

Lloyds (2015) 'Response to the Commission's Consultation on the Green Paper on CMU'. Available at https://ec.europa.eu/eusurvey/publication/capital-markets-union-2015?language=en. Last accessed: 13 August 2016.

Macartney, H. (2010), *Variegated Neoliberalism: EU Varieties of Capitalism and International Political Economy,* London: Routledge.

McNamara, K. (1998) *The Currency of Ideas: Monetary Politics in the European Union*, Ithaca: Cornell University Press.

Mügge, D. (2010), *Widen the Market, Narrow the Competition: Banker Interests and the Making of a European Capital Market*, Colchester: ECPR.

Mügge, D. (2012), 'From pragmatism to dogmatism. EU governance, policy paradigms, and financial meltdown', *New Political Economy,* 16 (2): 185-206.

Parsons, C. (2002) 'Showing ideas as causes: the origins of the European Union', International Organization 55(1): 47–84.

Quaglia, L. (2010) *Governing Financial Services in the European Union,* London: Routledge.

Quaglia, L., Howarth, D. and Liebe, M. (2016) 'The Political Economy of Capital Markets Union', in *Journal of Common Market Studies*, 54, s1, pp. 185–203.

Radaelli, C.M. (1999), 'Harmful tax competition in the EU: policy narratives and advocacy coalitions', *Journal of Common Market Studies*, 37 (4): 661–682.

Radaelli, C. and Dunlop, C. (2013) ‘Learning in the European Union: theoretical lenses and meta-theory’, Journal of European Public Policy 20(6),

Ringe W.G. (2015) Capital Markets Union for Europe - A Political Message to the UK, Oxford Legal Studies Research Paper No. 26/2015, March.

Sabatier, P.A. (1998), ‘The advocacy coalition framework: revisions and relevance for Europe’, *Journal of European Public Policy,* 5 (1): 98-130.

Schäuble, W. and Sapin, M. (2015) ‘Letter’. Available at http://www.economie.gouv.fr/files/files/PDF/2015-07-06_letter-about_capital-markets-union_6-july-2015.pdf. Last accessed: 10 August 2016.

Schmidt, V.A. (2008) ‘Discursive institutionalism: the explanatory power of ideas and discourse’, *Annual Review of Political Science* 11: 303–26.

Schmidt, V.A., Radaelli CM (2004), ‘Policy Change and Discourse in Europe: Conceptual and Methodological Issues’, *Journal of Public Policy,* 27 (2): 183-210

Seabrooke, L. and Wigan, D. (2015) ‘Powering ideas through expertise: professionals in global tax battles’, *Journal of European Public Policy,* 23 (3): 357-374.

Société Générale (2015) ‘Response to the Commission’s Consultation on the Green Paper on CMU’. Available at https://ec.europa.eu/eusurvey/publication/capital-markets-union-2015?language=en. Last accessed: 13 August 2016.

Surel, Y. (2000) 'The role of cognitive and normative frames in policy making', *Journal of European Public Policy* 7(4): 495–512.

Turner, Z. (2015) 'Money Matters: a Capital Markets Union Primer: Low-profile Commissioner Quietly Prepares Blockbuster Financial plan', *Politico*, 27 July. Available at http://www.politico.eu/article/moving-money-a-capital-markets-union-primer/. Last accessed: 27 August 2016.

Unicredit (2015) ' Response to the Commission' s Consultation on the Green Paper on CMU'. Available at https://ec.europa.eu/eusurvey/publication/capital-markets-union-2015?language=en. Last accessed: 13 August 2016.

Véron, N. (2014), 'Defining Europe's capital markets union', *Bruegel Policy Contribution*, No. 2014/12.

Zito, A.R. and Schout, A. (2009b) 'Learning Theories Reconsidered: EU Integration Theories and Learning', *Journal of European Public Policy*, 16 (8), 1103-1123.