# The European Commission’s Love Affair with Financial Capital: The Revival of Securitisation in the European Union

*A critical political economy analysis of the decision of the European Commission to revive the securitisation market in the European Union as part of the Capital Markets Union*

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Master Specialisation: International Political Economy

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Date submitted: 1 July 2018

# Abstract

This thesis seeks to explain the decision of the European Commission to relaunch the securitisation market in the European Union. Securitisation has been at the center of the recent global financial crisis and has been declared a major cause by various global institutions, among which the European Commission itself. Despite the vast condemnation of securitisation, the European Commission proposed to revive securitisation as part of Capital Market Union (CMU). A critical political economy perspective is applied to find an answer to the Commission’s puzzling decision. Using Social Structure of Accumulation (SSA) theory, it is shown that the circulation of financial capital defines the current prevailing pattern of capital accumulation and that it is a core interest of social forces emanating from the financial circuit to find new outlets and profit opportunities. Securitisation provides such an outlet. Insights from Gramsci are used to understand the agency derived from this mode of accumulation and to uncover why and how the decision by the European Commission to reintroduce securitisation in the European Union came about.

Table of Contents

[List of abbreviations 4](#_Toc518333101)

[Introduction 5](#_Toc518333102)

[Chapter 1: Theoretical discussion 14](#_Toc518333103)

[1.1 Traditional theories of European Integration 15](#_Toc518333104)

[1.2 Situating CMU in the broader capitalist context 19](#_Toc518333105)

[1.3 Filling the agency gap of SSA theory with Gramsci 25](#_Toc518333106)

[1.4 Culmination of the theories 27](#_Toc518333107)

[Chapter 2: Epistemology, methodology and operationalisation 29](#_Toc518333108)

[2.1 Critical realist epistemology 29](#_Toc518333109)

[2.2 Methodology 31](#_Toc518333110)

[2.3 Operationalisation 33](#_Toc518333111)

[Chapter 3: Empirical Analysis 36](#_Toc518333112)

[3.1 “The crack cocaine of the financial services industry” 36](#_Toc518333113)

[3.2 A characterisation of the European Commission 41](#_Toc518333114)

[3.3 Financialisation 43](#_Toc518333115)

[3.4 The Neoliberal SSA 45](#_Toc518333116)

[3.5 Financial sector interest taken care of 48](#_Toc518333117)

[3.5.1 STS framework or PCS? 48](#_Toc518333118)

[3.5.2 “Securitisation?”, “Yes please!” 50](#_Toc518333119)

[3.5.3 Making changes 52](#_Toc518333120)

[3.5.4 What about other interests? 53](#_Toc518333121)

[3.5.5 Illustrating the alliances 55](#_Toc518333122)

[Chapter 4: Conclusion 58](#_Toc518333123)

[References 61](#_Toc518333124)

# List of abbreviations

ABS - Asset-backed Securities

AFME - Association for Financial Markets in Europe

AMIC - Asset Management and Investors Council

CDO - Collateralised Debt Obligation

CEO - Chief Executive Officer

CMU - Capital Markets Union

DBI - Bundesverband der Deutschen industrie

DG - Directorates-General

ECSC - European Coal and Steel Community

EEC - European Economic Community

EFR - European Financial Services Roundtable

MBS - Mortgage-backed Securities

NGO - Non-Governmental Organisation

PCS - Prime Collateralised Securities

SPV - Special Purpose Vehicle

SSA - Social Structure of Accumulation

STS - Simple, Transparent, Standardised

# Introduction

The Global Financial Crisis has had a great impact on economies and societies all over the world. In September 2007 the world economy collapsed resulting in the largest recession with unprecedented levels of unemployment since the Second World War. Governments of the Western industrialised world decided to bailout many financial institutions and banks to avoid a complete and total meltdown of the world economy (Congleton, 2009; Mishkin, 2011; Davidoff and Zaring, 2009). One of the reasons why the crisis had grown to such immense proportions was argued to be the sub-prime mortgages of the US that were repackaged and sold to global financial markets, or what is also termed securitisation (OECD, 2015; Hellwig, 2009; Acharya and Richardson, 2009). Securitisation allow banks to immediately liquidise assets by selling loans to outside investors. Where initially, the bank would have to wait out until the loan has matured to regain the principal, securitisation allows the bank, at once, to move the maturity of the loan to the present. Securitisation thereby creates space on banks’ balance sheet so that they can issue new loans, which then also can be sold off immediately.

In addition to being a profitable undertaking for banks, securitisation has long been praised for its ability to disperse risk throughout the entire financial system rather than concentrating risks at banks. However, risk did not get dispersed throughout the financial sector but instead concentrated within the banking system. This happened because of some inherent flaws of securitisation. First of all, because securitisation is highly profitable and granted the bank the opportunity to immediately sell loans on their balance sheet, the banks had an incentive to sell as much loans as possible. Secondly, the loans that were securitized were not truly removed from the balance sheet of the banks because they were stored on the balance sheets of special purpose vehicles owned by the bank (Acharya, Schnabl and Suarez, 2013). These inherent flaws became apparent after the pool of creditworthy lenders was exhausted. Banks started to lend to sub-optimal lenders to keep making more profit while the risk kept piling up in the banking sector. Consequently, securitisation caused an enormous increase in systemic risk in the financial system (Keys *et al*, 2010; Demyanyk & van Hemert, 2009). Securitisation delivered the exact opposite to what it was supposed to and made the financial sector weaker with every securitisation transaction (Uhde and Michalak, 2010; Hänsel and Krahnen, 2007; Franke and Krahnen, 2007; Lockwood et al., 1996).

Both during the enfolding of the crisis and after it had fully materialized, academics, institutions and governments recognized the pitfalls of securitisation (Adrian and Shin, 2010; Brunnermeier, 2009; Gabor and Ban, 2016; Gorton and Metrick, 2012). The G20, in 2008 on a summit on Financial Markets and the World Economy, blamed the actions of the financial sector as the root cause of the Global Financial Crisis. The G20 especially pointed at the behavior of the financial sector in relation to securitisation. Weak underwriting standards, unsound risk management practices and the increasing complexity and opaqueness combined with excessive leverage created vulnerabilities in the system, according to a joint statement by the G20 countries (G20, 2008, p.1). The OECD went even further and explicitly stated that the outsourcing of term-transformation that is associated with securitisation was the decisive factor that made the crisis so devastating (OECD 2015, p.54). The European Commission, in turn, also acknowledged the dangers and pitfalls of securitisation in a communication to the Council and the European Parliament. The European Commission stressed that due to the complex and opaque nature of securities it is difficult to monitor and regulate securitisation. The Commission acknowledged that securitisation leads to excessive leverage build-up and not to the proclaimed risk diversification (Regulation (EU) 2015/2365, 2015, p2).

Despite the inherent flaws to securitisation and the fact that it was at the heart of the most disruptive post-war economic crisis, and despite that securitisation is condemned by the G20, the OECD and the European Commission itself, the European Commission, in 2015, proposed to revive the securitisation market in Europe as part of the Capital Markets Union (CMU) (European Commission, 2015a). CMU is a plan aimed at kickstarting economic growth after a period stagnation and mediocre growth. The Commission sees securitisation as the ideal tool to achieve this goal and the greater objective of supporting job creation and sustainable economic growth particularly through increasing the access to funding for SMEs (European Commission, 2015a, p.2).

The proposed goals of CMU are, however, hardly unifiable with the plan to revive securitisation, not only because of the disruptive consequences of securitisation in the past but also because the questionable relation between securitisation, economic growth and SME funding. Firstly, the causal relationship between securitisation and more lending to SMEs is highly controversial. Data from the European Securitization Forum show that securitisation is mainly used to securitise mortgages, not to securitise SME loans (Engelen and Glasmacher, 2018, p.5). In addition, because of their risky nature, SME loans are not suitable for securitisation. Securitisation can only be successfully executed if the future cash flow can be reasonably predicted as is the case with mortgages, and this is the exact characteristic that SME loans are missing. SME loans are tailored products for specific needs of businesses and have all sorts of maturities and riskiness. Secondly, the causal relation between securitisation and real economy growth in general is at least as doubtful. Various academic studies have found negative relationships between securitisation and economic growth (Bertay *et al*, 2017; Cecchetti and Kharroubi, 2015). In addition, the increased credit supply as a result of securitisation is mostly used by banks to issue new mortgages, because they are easily securitised, not to finance the real economy (Engelen and Glasmacher, 2018, p.5). Surprisingly, the European Commission itself does also not believe that securitisation is going to help the goal of achieving better access to finance for SMEs and real economic growth. In an infamous speech the then Commissioner Hill for financial stability, financial services and Capital Markets Union, also the main proponent behind CMU and the revival of securitisation said the following

I agree with you that this is not and must not be explained as solely a set of measures that will benefit small- and medium-sized enterprises. (…) I think the fact that within the European debate there feels to be an emphasis on, that is because they are seen as being such an important part of the economy and people want to rally around ideas that will enable them to be strengthened (Hill, 2015, p12-13).

This discussion forms a puzzle because it is unlikely that securitisation is going to help achieve the goals set out by the Commission and in addition securitisation is the very financial instrument that was at the heart of the Global Financial crisis that caused mayhem in European economies. It is this puzzle this thesis aims to solve. The question at the heart of this enquiry will therefore be: Why did the European Commission only seven years after the devastating Global Financial Crisis seek to revive the securitisation market as part of the CMU while it first clearly condemned the practice?

In the first three years since the proposal to initiate the CMU several studies have been published on the matter. A part of the literature has focused on the general economic and financial implications of the CMU (Alexander, 2015; Erturk, 2015; Véron and Wolff, 2016, Schumacher and Paul, 2017). Among these scholars, there is a strong pro-CMU stance and consensus on the need for CMU. This branch of literature is based on mainstream economic principles, that is neoclassical economics. Besides the mainstream economic literature, CMU has also been covered by literature that used a functionalist logic to understand why CMU was proposed by the Commission (Quaglia, Howarth and Liebe, 2016; Acharya and Steffen, 2016; Friedrich and Thiemann, 2017; Hübner, 2016). These authors see the CMU either as a logical response on improving the Banking Union or as the next logical step in the process of European Integration. Lastly, a recent branch of political economy literature has emerged that particularly deals with CMU and is called ‘governing through markets’ (Epstein and Rhodes, 2018; Braun and Hübner, 2018; Mertens and Thiemann, 2018; Gabor and Vestergaard, 2018; Engelen and Glasmacher, 2018). The ‘governing through market’ tries to explain why CMU originated by arguing that CMU is a mean to affect policy areas that are outside the institutional reach of the European Commission.

The mainstream economic literature all identify the same problem, namely the overdependence of European firms on bank funding. In the United States, firms are not dependent on banks to gather funding but instead attract most of their funding from capital markets. Growth in the US has been more convincing in the aftermath of the Global Financial Crisis than in Europe and Europe’s dependence on bank funding is hence argued to be the reason. CMU is designed to overcome this dependence on bank funding in Europe by reducing barriers between savers and investors to allocate capital more efficiently to there where it is needed and to ultimately aid the EU’s economy growth potential and growth sustainability. It is therefore, that most of the mainstream analyses argue in favor of CMU with each a different caveat, that is, a critical note on CMU that needs solving. The problems identified with CMU tend to be based on a neoclassical economics way of thinking in terms of market efficiencies. Alexander (2015) points at potentially destabilizing effects of CMU as it undermines some of the newly introduced regulations under the Banking Union. Ertük (2015) is afraid that the European Commission in the USA used the wrong blueprint and that CMU will lead to more short-termism and shareholder-capitalism. Véron and Wolff (2017) criticizes the implementation timeline of the European Commission and are afraid that by implementing CMU too hastily, it will not have the desired benefits. Finally, Schumacher and Paul (2017) warn the European Commission that only when the circumstances are ideal, that is, all the actors respond in the way the European Commission expects, will CMU have the desired effects. Because these papers are written from a mainstream economic perspective they have implicit normative assumptions about how markets function, how individuals behave and how preferences come about. Consequently, the problems they signal with CMU originate from this normative position. It is, therefore not surprising that all these papers welcome the CMU as their analytical scope is limited from the beginning.

The functionalist literatures all share the same approach to CMU, that is the implementation of CMU is a ‘natural’ and thus logic extension of the European Union. The CMU is conceptualized as a necessary and logical response on the problems of the European Economies. Quaglia, Howarth and Liebe (2016) note that CMU was proposed by the European Commission first and foremost to complement the earlier implemented Banking Union and to complete the Economic and Monetary Union. Acharya and Steffen (2016) identify a problem in the highly fragmented Government bond markets which causes a further fragmentation in bond and equity markets. Therefore, CMU is the logical next step to unify capital markets across Europe. That the other authors in this branch also follow a functionalist logic can be best illustrated with quotes. Friedrich and Thiemann (2017) write ‘common capital markets require not only common rules, but also common supervision’. Hübner (2016) writes “the European CMU project can only be understood when taking seriously the constraints prescribed in the institutional structure of the EMU.”. Both thus argue that there are problems in the current institutional arrangements and that CMU can tackle these problems.

The political economy literature on CMU situates the Commission’s push for a Capital Markets Union in the context of governing through markets (Epstein and Rhodes, 2018; Braun and Hübner, 2018; Mertens and Thiemann, 2018; Gabor and Vestergaard, 2018; Engelen and Glasmacher, 2018). The central premise of governing through markets is that that the CMU is not an end in and of itself but rather a means to affect policy areas that are outside the institutional reach of the European institutions. The current governance structure of the European Monetary Union limits the capacity of national governments and the European Commission to provide macroeconomic stability. National governments have implemented fiscal austerity, which no longer enables them to affect macroeconomic outcomes, and the European Commission lacks the mandate and the tools to do the same on the European level. Therefore, Braun and Hübner (2018) argue that the CMU is an attempt of European policymakers to solve this problem. They try to give the markets the tools, by creating one European capital market and by reviving securitisation, to provide the macroeconomic stability and to affect macroeconomic outcomes that the European policymakers themselves cannot provide.

The largest shortcoming of the economic and functionalist literature on CMU is that they do not question the CMU but accept the need for a CMU from the outset. The economics literature accepts CMU because of overdependence on bank financing, the functionalist literature because it is a solution to problems in the institutional design of the EU. Another weak aspect of the economics literature on CMU, which is common for economics literature in general but unacceptable for studies into a political economic project such as the CMU, is the complete lack of politics. There is no analysis why some actors are pushing hard for the implementation and no elaboration on what CMU can mean for, for example, the financial industry. The functionalist literature does this to some extent. Quaglia, Howarth and Liebe (2016) analyze actor behavior in the coming about of CMU but do not embed this agency analysis in further theorization. They do not offer a theoretically guided explanation why certain actors behaved the way they did. Moreover, the economics dimension is in most functionalist articles either completely or almost completely neglected. In contrast, the governing through markets studies do address some of the problems of the previously discussed literature but nonetheless have one large shortcoming: governing through markets is not a theory but more a loose conceptualisation than a coherent theoretical framework. In addition, the governing through markets approach claims to be critical. However, it is only empirically critical, not theoretically critical. This especially holds true for the paper by Engelen and Glasmacher (2018). Their research is aimed at explaining why securitisation is being revived, they put the revival of securitisation in the larger perspective stages of capitalism and financialisation, but their research lacks a theory that understands the role of finance within capitalism.

The overarching problem of the existing literature is that it misses out to acknowledge that capitalism is historically contingent and is characterized by different accumulation patterns throughout time and space. Economists tend to disregard a historically contingent view on capitalism, but as will be shown here, it is crucial for understanding the CMU. The implementation of CMU and securitisation, as outlined above, is not primarily aimed at the goals set out by the Commission, which is why it is important to understand the politics that has led to the CMU and securitisation against the backdrop of capitalist developments of the last decades, particularly given growing importance of finance in the economy in the last decades.

It is therefore that in this thesis a critical political economy perspective is applied. Critical political economy (CPE) within the larger field of EU Studies combines the political and the economic in the process of European integration (Van Apeldoorn and Horn, 2018, p.6). It does not perceive the economic and the political as separate realms that externally influence each other, rather as internally related realms (Wood, 1982). Critical political economy is aimed at uncovering the social power relations by which the political and the economic and power and production are connected (Van Apeldoorn and Horn, 2018, p.6). At the heart of CPE is to analyze how political agents are conditioned by particular social and economic structures and to how these structures are reproduced and transformed by political processes (Van Apeldoorn and Horn, 2018, p.6). This is where the scientific relevance of this thesis lies. It will solve the problems of the economic and functionalist literature by not echoing the lines of the Commission and by approaching the topic with a critical lens that seeks to be embed the Commission’s endorsement of securitization into the broader whole. Regarding the societal relevance of this thesis it is important to realize that finance is not something that only concerns the financial world. Finance impinges on every person’s everyday life through mortgages, credit cards, car loans, pensions, insurances and so on. The role of financial markets within capitalism is crucial to understand why the Global Financial Crisis happened in 2008, and it is equally crucial now to understand why political decisions are being made to revive the very same financial instrument that was at the heart of the financial catastrophe of only ten years ago, while bearing the potential to trigger yet another crisis.

The CPE approach in this thesis is based on a critical realist ontology, which perceives social reality as constituted by complex power relations that are derived from the constant interplay between structure and agency, while these power relations are revealed both in ideational and material dimensions (Wigger and Horn, 2016, p.38). Critical social science rejects the existence of a social reality that consists of regularities and recurring patterns that can be revealed by direct observation. Knowledge gathering does not occur through empiricism or by deriving and testing hypotheses that perceive theories, at least in principle, as abstract truths, but rather through a constant going back and forth between theory and empirics. Related to this, is that in critical social science the notion of scientific neutrality is rejected. It is impossible for a researcher to distance him- or herself completely from the subject of enquiry. The researcher will always affect the outcome, and therefore the claim of being neutral cannot be made.

The critical theories that will be deployed in this thesis are Social Structures of Accumulation (SSA) theory and the Gramscian understanding of agency. In a nutshell: SSA theory originated to explain the capitalist tendency of alternating between long periods of rapid growth and long periods of stagnation. The social structures of accumulation are all the institutions that are related to the accumulation process. Every alternating period of growth is characterized by a new SSA, that is a new set of institutions that guide the accumulation process, which implies that each stage of capitalism is characterized by different accumulation processes. Every new SSA at first reveals rapid economic growth. From this new or ascending mode of capital accumulation social forces emanate that may acquire a dominant position over others. Eventually, however, every accumulation period is pervaded by contradictions. The process exhaust itself and the SSA becomes its own hinderance. However, while SSA theory offers important conceptual tools to account for accumulation patterns and concomitant institutional setting, it lacks the theoretical gear for making sense of political agency. Following from this, it cannot explain what happens after an SSA has become its own hindrance and economic growth is stagnating. This is where Gramsci’s understanding of political agency will used to understand the attempts by state institutions to either maintain an incumbent SSA or to facilitate the establishment of a new one.

Empirically, several sources are used to gather evidence. The current SSA is delineated using the extensive literature that exist on Neoliberalism, both from SSA scholars and scholars in general that have written about Neoliberalism. Evidence on agency is collected by an extensive document analysis and a process tracing analysis using several grey documents, among which the responses of various financial sector, business and societal actors on the Green Paper published by the European Commission and position papers of various actors on CMU. Process tracing is particularly used to uncover the origins and actor constellations in support of policy proposals from the Commission and to discover what ensuing changes have been made in response to contesting forces.

The structure of the thesis is as follows. In the next chapter, the explanatory limits of mainstream theories of European integration are being discussed, followed by the critical theory of Social Structures of Accumulation (SSA) and Gramsci’s understanding of agency. In the second chapter, a more thorough discussion follows of the ontology of critical theory joined by a discussion of epistemology and the operationalisation of key concepts in both SSA theory and Gramsci’s agency. The chapter thereafter will contain the empirical analysis where an answer to the explanandum is formulated. In the last chapter the research question will be answered and a deliberation on issues related to this thesis and further considerations are offered.

# Chapter 1: Theoretical discussion

The proposal of the Commission to launch CMU is a further step in the European integration process, and as such, mainstream European integration theories focussing on explaining integration could provide insights. Two major theories that have characterized the field of European integration are neofunctionalism (Haas, 1958; Lindberg, 1963) and liberal intergovernmentalism (Moravcsik, 1993). Neofunctionalism was one of the earliest theories of regional integration and has often been the starting point for European integration studies (Niemann and Schmitter, 2009, p.45). The theory emerged as a response on the establishment of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC). The theory was at it prime during the 1960 but shortly after lost its credibility after real world events (such as the infamous empty chair crisis) started to contradict the theory. Neofunctionalist in the 1960 and 70s made attempts to update their theory without much success which led Haas, to founding father of the theory, to denounce the theory obsolete. Nonetheless, the theory made a significant comeback a decade later after a renewed spirit in the process of European Integration. Ever since its comeback, it has had a central role in the theories of European Integration.

Liberal Intergovernmentalism gained attention ever since it first emerged and is sometimes labelled as the baseline theory in the study of regional integration (Moravcsik and Schimmelfennig, 2009, p.67). Moravcsik (1995) himself calls the theory “… the indispensable and fundamental point of departure for any general explanation of regional integration”. Liberal intergovernmentalism borrows from the intergovernmentalism theory by Hoffman (1965) which offered critique on the then prevailing neofunctionalist ideas. However, intergovernmentalism had the same problems as neofunctionalism, the theory no longer proved able to make sense of real world events. Faced with this challenge, Moravcsik took it upon himself to update the theory of intergovernmentalism. In 1993 Moravcsik launched the update version of intergovernmentalism with more focus on domestic interest rather than national and christened it liberal intergovernmentalism.

In this chapter, the specifics of both mainstream theories will be discussed and criticized. Thereafter, an alternative critical theoretical approach will be presented. As will be argued, to understand why the CMU emerged and why securitisation is being revived, it must be put in the larger perspective of financialisation and neoliberalism. The theory of Social Structures of Accumulation and the Gramscian understanding of political agency theory will prove to be suitable for this application.

## 1.1 Traditional theories of European Integration

Neofunctionalism and Liberal intergovernmentalism belong to the rationalist paradigm of European integration studies. The main purpose of theories in the rationalist paradigm is to identify patterns of regularity in the social world to predict future events (Buch-Hansen, 2008, p.27). Rationalist theories often have the form of a set of causal claims that govern the social world. As a result, they narrow down the complex social world to a simplified model that can be empirically tested. With this epistemology, comes an ontology of ‘methodological individualism’. This ontology prescribes that the elementary unit of social life is the individual human action (Elster, 1989, p.13). Before it is elaborated why this ontology is problematic, a general account of both theories follows.

Neofunctionalism finds its intellectual roots in functionalist and federalist theories (Haas, 1958; Lindberg, 1963). At the core of the theory is the claim that integration is a continuous, self-propelling process towards a federal end goal (Van Apeldoorn *et al.,* 2003, p.21). In this core, its intellectual roots shine through in the (federalist) goal and (functionalist) mechanisms. The preferred end state of the theory, a federal structure, is not based on a specific social purpose but instead is justified by the fact that neofunctionalists see rational-bureaucratic technocracy as a desirable social driving force (Van Apeldoorn *et al,* 2003, p.21). The self-propelling process of integration is set in motion by spillover effects. Three types of spillover can be distinguished: functional spillover, political spillover and cultivated spillover. Functional spillover refers to the functional mechanism where common policy in one sector generates the need for integration in others (Haas, 1958, p.297). Central in political spillover is a refocus from the national to the regional. Through European workgroups and committees, government officials become more interrelated and interdependent (Niemann and Schmitter, 2009, p.49). This will incentivize interest groups and government officials to move their focus from the national to the regional. Once this process has gained considerable progress, the supranational institutions will take over the agenda setting function of the integration process. From that point onwards, the supranational organisations will lead the nation states rather than vice versa. This last process is called cultivated spillover (Niemann and Schmitter, p.50).

Neofunctionalism rejects the notion of a unitary state pursuing its interest and therefore does not see states as the sole actors in integration. Instead, integration comes about by various, diverse and changing interest groups who are not restricted to the domestic realm (Niemann and Schmitter, 2009, p.47). The interest groups are very much bound up with functionalist logic (Van Apeldoorn *et al,* 2003, p.21). Interest groups develop preferences and goals to reach the predetermined end goal: a federal Europe. They do not formulate their preferences autonomously but with the aim to adapt to the inevitable result of supranationalism. Interest groups are thus seen as merely instrumental to the integration process (Van Apeldoorn *et al,* 2003, p.21). That this view is too narrow is apparent. Societal actors and national governments can have very conflicting interest and ideologies potentially leading to various strategies for European integration (Van Apeldoorn *et al,* 2003, p.22). In addition, no attention is paid to power differences between various societal actors and national governments. Some interest groups have undeniably more power than others and therefore also more influence on the process of European integration (Van Apeldoorn *et al,* 2003, p.22).

Liberal intergovernmentalism (LI) is a merger between liberal domestic theory of preference formation and an intergovernmentalist theory of interstate bargaining (Moravcsik, 1993). The inclusion of liberal domestic theory makes it possible to open the black box of the unitary state with the aim to explain variation in substantive and institutional outcomes (Van Apeldoorn *et al*, 2003, p.24). The integration process occurs in three stages which makes liberal intergovernmentalism a theoretical framework rather than a narrow theory that can explain a single political outcome (Moravcsik and Schimmelfennig, 2009, p.68). In the first stage, states formulate their preferences. Preferences come about through competition between various domestic interest groups and societal actors (Moravcsik and Schimmelfennig, 2009, p.68). In the second stage, bargaining takes place. The preferences of states rarely convergence and it is therefore that negotiation is necessary to achieve cooperation. On which terms cooperation comes about depends on the relative bargaining position of states. Generally, the bargaining position of a state is determined by the potential gains of cooperation. States that have relatively little to gain from cooperation can coerce others by threatening with non-cooperation and thereby forcing the states that stand to gain a great deal to make concessions (Moravcsik and Schimmelfennig, 2009, p.71). Once preferences have been formulated and bargaining has finished, cooperation materializes through institutions. Institutions are a necessary condition for durable cooperation amongst states (Moravcsik and Schimmelfennig, 2009, p.72). These are also the institutions that end up guiding the agency of the agents involved. The application and operationalisation of LI is issue specific. Preference formulation, bargaining and constructing of institutions all depend on the subject and can vary accordingly. Bargaining positions are, just like preferences, therefore also not fixed. Where on the one subject a state can have a strong position, it can have a weak position on the other.

What sets LI apart from Neofunctionalism is that it includes a theorization of preference formation. Where in Neofunctionalism preference formation is very much set in stone as it is assumed that all actors want the same end goal, in LI preferences can vary depending on the topic. As a result, the outcomes of the European integration process are therefore not fixed. A state determines its preference by aggregating all domestic preference in one coherent position. Nonetheless, liberal intergovernmentalism does not contain a true notion of agency, just as much as neofunctionalism does not. This weakness is inherent to belonging to the rationalist paradigm. In the rationalist paradigm the individual is a rational human being that acts in a predictable fashion and is always seeking to maximize its utility. It also implies that the individual is always aware of the context in which it operates and that it fully understands the consequences of its actions (Buch-Hansen, 2008, p.27). There is, therefore, no variation among individuals; they all act in the same way when confronted with a similar situation. According to realist, this conception of the individual is merely a heuristic device, not a realist representation of the individual and it agency (Keohane, 1984, p.70). Nonetheless, this conception of the individual in rationalist theories is problematic because this distinction is only made in discourse, not in the actual application and interpretation of the theories. Consequently, the assumptions about the individual and agency translate into a social ontology that affects the content of rationalist theory (Buch-Hansen, 2008, p.28).

It is because of this conception of agency that theories belonging to the rationalist paradigm are structuralist perspectives with a structural bias. It is already known how an agent is going to behave given the context as he is a utility maximizing, perfectly predictable, computing individual (Hindess, 1984, p.270). In other words, there is no variation among individual agents operating in the same context. What naturally flows from this is that to understand the behaviour of the individual it is not necessary to look at the actual agent but only at the context (Buch-Hansen, 2008, p.28). Therefore, neofunctionalism and liberal intergovernmentalism, are not concerned with actual agency but with structures that determine the behaviour of individuals.

Moravcsik argues that this problem with agency is not an urgent one in Liberal Intergovernmentalism as a structural theory of preference formation is employed (Moravcsik, 1999, p.377). This implies that structures such as trade flows, competitiveness and inflation rates predict what the economic preferences of individuals and governments are (Moravcsik, 1999, p.377). Because preferences are derived from economic structures, changes in these structures are what determines changes in preferences. Why this remains problematic is that changes in these structures are not theorized in Liberal Intergovernmentalism at all (Buch-Hansen, 2008, p.30). Agency is not included in the theory, and preferences derived from structures that should replace agency are also not included. Consequently, the theory of Liberal intergovernmentalism is severely flawed. In addition, the conception of society and state-society relations in Liberal Intergovernmentalism are rather limited. The actors involved in preference formation are all assumed to be perfectly rational and to be capable of voicing their preference, that is, not to be hindered by any power differences between actors. In other words, the theory has a very clinical view of domestic politics and completely ignores structural power relations (Van Apeldoorn *et al,* 2003, p.25). The conception of the theory of state-society relations is reduced to a market place where societal arrangements are the result of exchange of choices (Van Apeldoorn *et al,* 2003, p.25).

Besides the fact that the liberal intergovernmentalism and neofunctionalism are limited in their conceptualisation of agency they also have a clear normative aspect to them. Economic and political integration are a priori idealized as the ‘rational’ (Cafruny and Ryner, 2009, p.221). Since both theories assume rationality, it naturally follows that states will always seek to expand integration. Therefore, these theories are aimed at spelling out the conditions under which a politics of rationality could emerge that will aid the integration process. Instead of questioning the validity of integration, they take the desirability of integration for granted (Cafruny and Ryner, 2009, p.223).

Critical theory on the other hand, does not contain these weaknesses. There is no paradigm in critical theory that has a preconception about how individuals ought to behave. Critical theory begins from the realisation that to make sense of the social world an understanding of the social underpinnings of society is necessary. This underpinning of society remains hidden for the mainstream theories. Social power, both in its material and ideological dimensions, derived from the social groups that underpin state power should be at the center of interest. At the same time, critical theory acknowledges that this underpinning of social reality is constantly changing due to the interplay between agency and structure. One such structure is of particular importance and that is capitalism. Capitalism is not a neutral and rigid system that does not change over time and exists in isolation. Capitalism is historically contingent and comes with particular power relations in society. These power relations are in capitalism, by definition, asymmetrical and thus affect the course of European integration. To overcome all these weaknesses and to understand the broader whole in which the CMU takes place a critical political economy approach is necessary.

## 1.2 Situating CMU in the broader capitalist context

European integration from a critical political economy perspective does not see European Integration in isolation but as part of the dynamics of global capitalism (Van Apeldoorn and Horn, 2018, p.5). European integration takes place in a global capitalist context that both affects and shapes integration in both form and content. The form of the integration refers to how integration takes place, that is in what institutional context. The content of European integration are the substantive policy outcomes of the integration process. What is at the centre of attention for critical political economy in European integration is what social inequalities and conflict emanate from the specific form and content of the integration process (Van Apeldoorn and Horn, 2018, p.5). Critical political economy has a great contribution to make in understanding the contradictions that have characterized European economic and financial integration and how these contradictions hinder the firm resolution of the problems facing Europe (Van Apeldoorn and Horn, 2018, p.5). The theories that will be applied to the case of CMU are Social Structures of Accumulation (SSA) and Gramsci’s understanding of agency. First SSA theory will be delineated followed by an account of Gramsci.

Social structures of accumulation (SSA) theory emerged around the 1970s in the backdrop of a crisis of global capitalism. The name SSA refers to the social structure of accumulation (SSA) which are all the institutions that govern and support the process of capital accumulation. The theory originated in the United States as a response to conventional equilibrium economics and conventional Marxism and is built on institutional insights emerging in economics. Mainstream economics proved unable to explain why capitalist economies experience crises of unusual depth and length like the crisis of the 1970s and Marxism could only explain the severe crisis on the condition that it would be followed by a socialist revolution. SSA theory is an alternative approach to explain both the long periods of growth and the vast periods of stagnation by relating long periods of growth and retraction to fundamental changes in the institutional environment (McDonough *et al*, 2010, p.1). SSA theory does so by using a stage analysis of the evolution of capitalist systems (Kotz, 2017, p.5). The post war expansion of the economy was the result of the implementation of Keynesianism. The great stagflation of the 1970 marked the end of Keynesianism and the post war SSA. The predominant mode of production was no longer able to produce sustained and durable economic growth. Stagnation had become the status quo and Keynesian tools, such as fiscal expansion, proved incapable of bringing the economy back to a path of growth and expansion. This marked the end of this SSA and this particular stage of capitalism.

The fact that Keynesianism, after being successful for decades, suddenly failed is accounted for in the theory. Every SSA will eventually become its own nemesis. At first the SSA will secure profit-making and long-run expectations. Higher profits and a stable future increase investment levels and this in turns makes the economy expand. An expanding economy will have a positive impact on the SSA which will be reinforced and further entrenched in the political economy. Eventually, this process stops functioning and rather than aiding growth the SSA will become a hinderance to growth. Every SSA will have its unique reasons why it stops working but universal reasons are intensified class struggle, increasing competition and natural tendencies of capitalism (McDonough, 2010 *et al*, p.3). Once this has happened, economic stagnation will be the status quo. Increasing conflict between classes with different interest and different power makes creating a new SSA a tentative process. Many proposals for new institutions will be presented and rejected until one set of institutions wins and forms a new SSA.

Central concepts of several Marxists theories are present in SSA theory (Kotz *et al.*, 1994, p.3). The most important shared feature is that both theories see capitalism as an inherently unstable system. Other similarities are the interdependence of the economic, political and ideological aspects, the idea that the development of a system tends to undermine that system in the long run and the exercise of class power and struggle as key determinants of economic, social and political outcomes (Kotz *et al.*, 1994, p.3). However, SSA distinguishes itself from Marxism in one crucial aspects, and that is that in SSA theory the inevitable tendency for capitalism to be superseded by a socialist society is absent. In addition, in traditional Marxist theories, one single mechanistic cause is responsible for revolution (Kotz *et al.*, 2009, p.3.). In SSA theory, the focus is on explaining the continuous renewal of capitalist accumulation and various reasons can cause stages of capitalism to supersede each other. Despite this crucial difference between Marxist theory and SSA theory, Kotz (2017, p.4) argues that “the insights of SSA theory ultimately depend on its connections to key principles of Marxist theory.” Similar to Keynesianism, SSA theory also sees the investment decision in a capitalist system as inherently unstable due to changing expectations and changing macroeconomic circumstances (McDonough *et al,* 2010, p.2). Both theories argue that capitalism is prone to self-reinforcing periods of stagnation of which the economy cannot escape without external help. This Keynesianism relationship between investment decisions and the regulatory environment is fundamental to SSA theory. Yet, SSA also differs from Keynesianism. Keynesian theory mainly focuses on demand problems and thus also tends to see solutions at the demand side of the economy. SSA rejects this narrow perspective, and instead considers institutions on both the demand and supply side of the economy in its analysis. One other influence from traditional economics that has clear showings in SSA theory is institutionalism. Institutionalism regard the specific design and features of an economy to differ across time and place (Kotz *et al.*, 1994, p.3). They study the historical evolution of economic systems and thus assume economic specifications to be historically contingent. SSA theory includes both these insights but differs with respect to the application. Where institutionalists are very modest in what they believe their theory can explain, SSA theory has a much greater openness to broader explanations about economic development.

In accordance with Keynesianism and Marxism, SSA theory sees many problems with capitalism but argues that they can be neutralized by composing a right set of institutions that solve class conflict and creates long-run stability for investment decisions (McDonough *et al,* 2010, p.2). This set of institutions is the social structure of accumulation. For SSA to be a meaningful concept it is necessary to define its boundaries. Without well-defined boundaries the concept could mean anything and could encompass the whole set of institutions, norms and values that guide society. The outer boundary of SSA is therefore defined as all social structures involved in the accumulation process (Gordon *et al.,* 1994, p.15). This outer boundary is, in practice hard to define as there are institutions in society that indirectly impinge on the accumulation process but are not directly related to it. Therefore, judgement is necessary to define its exact specifics. The inner boundary is necessary to separate the accumulation process itself from the environment in which it takes place (Gordon *et al.*, 1994, p.15). It thus separates the actual profit-making process from the institutional context in which that process takes place.

SSA theory follows traditional Marxist theory to describe the accumulation process (Gordon *et al*, 1994, p.14). The accumulation process can be disaggregated into three stages. In the first stage capitalist that want to make a profit need to invest. Capital is being invested in machinery, raw material, labour power, building and any other commodity needed for production to take place. In the second step the actual production takes place. Crucially in this stage is the organisation of the labour process which has the task to transform inputs into outputs. In the last step, capitalist transform the output into money. The products, produced by the labour force, are sold on the market and capitalist reconvert their property back into capital. This process is continuous, and the reconverted capital will be used to invest in more commodities and inputs to produce even more output. The system ensuring money and credit is one institutions that is important for every step in the accumulation process. Money is necessary to make the exchange and credit for the time between investment and return (Gordon *et al,* 1994, p.14). The extent of state involvement is also an institution that affects all three stages. States can affect the profitability of investment by granting subsidies, issuing taxes and by affecting the cost of labour. Finally, the structure of class struggle determines the accumulation process in each stage (Gordon *et al.*, 1994, p.14). Zooming in, the supply of inputs depends on labour laws and supply, natural resource supply and intermediate goods supply (Gordon *et al.,* 1994, p.14). The institutions governing the second stage are mostly in the hands of the capitalist themselves such as the management structure and the organisation of the labour process (Gordon *et al.,* 1994, p.14). For the final stage, the reconverting stage, the structure of final demand is crucial, if no customers exist, the accumulation process fails. Other institutions active in this stage are the structure of competition, that is, monopoly or competition, and the structure of distribution networks (Gordon *et al,* 1994, p.14).

The institutions that make up an SSA are not merely a selection of independent institutions but form a unified structure. When an SSA collapses it is not a failure of one institutions but a failure of the structure (Lippit, 2010, p.54). This implies a structural integrity of any SSA. Kotz (1994, p.65-67) argues that this integrity is achieved by a core of institutions that form the basis of the SSA and on which other institutions are subsequently built. McDonough (1994, p.76-77) argues it is not a set of institutions that forms the basis, instead a single institution or exogenous event can serve as the unifying principle. Problematic with the former approach is that it only can account for the structural integrity between core and peripheral institutions but not for the integrity of the set of institutions that form the core (Lippit, 2010, p.55). The latter approach by McDonough can account for this since the focus is not on a core of institutions but on a single one. However, this approach is too simplified and ignores the interplay between institutions and the fact that institutions are not completely independent entities. It is therefore that Lippit (2010, p.56) validates the claim of structural integrity as follows, “There is an ongoing process of institutional formation and institutional change that is brought about by the interaction among (1) the internal contradictions of any specified institutions, (2) the other institutions that coexist with it, (3) exogenous events, and (4) the full range of social processes”. All of these elements mutually determine on another”. Institutions, thus, never operate in a vacuum nor are they independent of each other.

The alternating period between the failure of the old institutional structure and success of a new institutional structure is labelled a long swing or long wave. The first word of this label implies that SSAs are in place a long time before they are replaced with a successor. Empirically, the last three SSAs (Pre-29’-crisis, Keynesianism, Neoliberalism) have all been in place for over three decades. The theory, however, cannot say anything specific about *how* long an SSA is in place before it collapses. That depends on the internal contradictions and exogenous events (Lippit, 2010, p.62). Among SSA theorist there is fierce debate about whether *long* swing or wave is a justified name. McDonough (1994) argues that SSA are only good at explaining stages of capitalism, not at explaining long periods of growth or retraction. In addition, he argues there is no reason to assume that SSAs will always be in place for a sustained period of time. Gordon *et al.* (1982) do argue that SSAs have a long life. Firstly, they argue, by definition, institutions are durable, especially when institutions are interpreted in the broader sense of habits, customs and expectations. Secondly, only SSAs that benefit a large class or social group will make it. Therefore, the benefactors of the SSAs will actively fight any attempt to undermine the incumbent SSA and this tends to increase the longevity of the SSA. Thirdly, the institutions that make up and SSA are mutually reinforcing. They form a unified structure where the one institution supports the other which makes the structure as a whole more durable.

Constructing a new SSA after the old SSA has failed is a long and tedious process for the exact same reasons why an SSA is usually in place for a sustained period of time. Reforming institutions, especially broad institutions, takes a long time. The same holds true for crafting a unified structure of mutually reinforcing institutions. But perhaps the dreariest part of crafting a new SSA is solving the class conflict (Kotz, 1994, p.55). But society is faced with many other struggles that impinge upon the institutional structure and SSA formation than class conflict alone (Lippit, 2010, p.64). Social security issues, gender, racial and generational conflicts are examples of such other struggles. While Kotz (1994) applies an essentialist view on SSA formation, that is class formation is the largest problem, Lippit (2010) argues that the formation of an SSA is anti-essentialist; more problems need solving than just class conflict alone.

An SSA, however, does not necessarily have to be superseded immediately once it has entered the stagnation phase. SSAs can continue in that phase for a long time, but economic growth will notably be absent. SSA theory, however, does not clearly spell out what happens after an SSA fails and is at this point at its weakest. SSA theorist only acknowledge that the development of an SSA depends on class and non-class conflicts and social power relations stemming from the accumulation process. Real agency that explains the construction or the preserving of an SSA is lacking. It is therefore that the theory need to be complemented. Gramscian theory offers a theory of politics and the tools to analyse behaviour of political agents in interplay with state structures. The social relations of production are central to the political analysis in Gramscian theory. It incorporates class struggle stemming from the social relations of production to explain agency and how social relations come about. By adding Gramsci to SSA theory, this major gap in SSA theory will be filled.

## 1.3 Filling the agency gap of SSA theory with Gramsci

Gramsci theory, as the name suggest, is based on the writings by Antonio Gramsci and is one of the major Marxist thinkers. During the rise of fascism in Italy, Gramsci was the leader of the Italian Communist party and after fascism had become the dominant ideology in Italian politics, Gramsci was arrested and put in jail. It is in this time in jail that Gramsci wrote his most famous Prison Notebooks in which he developed a Marxist theory of politics. Other Marxist writers such as Marx and Engels wrote extensively about politics but never developed a full theory of politics as they were convinced that politics could not be understood from itself but only through the material conditions in which it was rooted. Gramsci departed from this thought as for him politics is ‘the central human activity, the means by which the single consciousness is brought into contact with the social and natural world in all its forms.’ (Gramsci, 1971, p.xxiii). What sets Gramsci apart from other Marxist thinkers is thus that his work focuses more on politics rather than solely on economic development.

According to Gramsci, society consists of three levels were power is consolidated: the economic structure, civil society and political society (Gramsci, 1971, p.12). The economic structure is the actual production that takes place and determines the material conditions in society. Civil society and political society are part of the superstructure where the formulation of ideas and ideology takes place. Civil society and political society differ with respect to the agents active in each sphere. In civil society private actors are active and in political society public actors (Gramsci, 1971, p.12). Civil society is the realm where the economic structure is linked to the political society or the state. Civil society is also the realm where classes develop their interest and ideal aspirations (Talani, 2016, p.73). In civil society the interests of economic groups are transformed into political demands by finding a common ideological framework (Talani, 2016, p.73). Social groups in civil society are not completely free in formulating ideas and ideology, they are constrained by their position in the economic structure. Their role in the relations of production determines the development of their ideas. For social groups to put their interest and ideal aspirations into practice, dominance over political society is necessary. The conceptualisation of political society is quite complex. The state is the actor in the political society, but two conceptions of the state exist within Gramscianism. The simple interpretation of the state is that it makes up all the formal institutions that govern political life. The wider interpretation of the State is that it consists of both civil society and political society. According to Gramsci, the civil and political society cannot be disentangled. To understand this conception of the state, first the concept of hegemony needs to be elaborated on.

The concept of hegemony in Gramscian theory differs from hegemony used in common discourse. Hegemony according to Gramsci is the intellectual and moral leadership which the dominant group exercises throughout society and the general direction society takes exercised through the State and juridical government (Gramsci, 1971, p.12). Hegemony operates thus in the social life and is not merely an expression of power relations as is the case in realist theories. Instead, hegemony is derived from the relations of production and it is therefore that the concept of hegemony is completely socio-economic (Talani, 2016, p.75). Achieving hegemony requires mediation between various social groups with different interests and ideal aspirations (Talani, 2016, p.76). Social groups form interests on the basis on their position in the mode of production and ideal aspirations are developed in civil society. To create hegemony, alliances need to be built between various social groups. Only if consensual power is at the forefront, hegemony will prevail (Cox, 1983). Gramsci distinguishes between hegemony by consent and hegemony by coercion. A hegemony is always a combination of both as power is understood to be “half man and half beast”, however, a hegemony based on coercion only will never be a stable hegemony. Hegemony not only affects civil society but also political society. Ideas and ideologies that are formulated in civil society control the behaviour of the state. That is why Gramsci argued that civil and political society cannot be disentangled, because the state is constrained by the hegemony. It would, therefore, be unproductive to limit the interpretation of the state to merely that of the government.

Establishing a hegemony requires three steps (Talani, 2016, p.76). First, social groups should develop their interest and ideal aspirations. Without this realisation, becoming a hegemonic power is impossible. Social groups must know their position in the economy and politics. Secondly, alliances must be formed with competing social groups and forces must be joined. Alliances are more than simply a combination of social groups, rather it is a dialectical unity between structure and superstructure with a common ideology that conquers the differences that exist between the groups forming the alliance (Talani, 2016, p.76). Gramsci calls this a historical bloc. The difference between hegemony and a historical bloc is that hegemony refers to the leading position of a particular social class while the historical bloc emerges because of hegemony and refers to the materialist conditions and ideas of the hegemony. Organic intellectuals play a crucial role in the formation of a historical bloc. Once more, the conceptualisation of Gramsci differs from common discourse. For Gramsci, all people are intellectuals but not all perform the social function of intellectuals, that is not all intellectuals are academics (Gramsci, 1971, p.9). Organic intellectuals emerge from and represent particular social groups. Because of their unique proximity to powerful forces in production they can concretize and develop ideas and plans to organize the social groups they originate from and to unify the interest and ideal aspirations among them (Bieler, 2006, p.79). Vital, however, is also that the organic intellectuals are successful at formulation why their proposed hegemony is also beneficial for the entire society. In the third step the hegemony needs to be consolidated. To do so, the hegemonic power must ensure economic growth and prosperity (Talani, 2016, p.76). Therefore, only organic intellectuals in close proximity to forces in production can create a long lasting and durable hegemony.

## 1.4 Culmination of the theories

The two discussed theories have a synergy effect when used together. To make this synergy more explicit the theoretical framework, incorporating both theories, will be developed in this section. But before this is done one extra elements needs to be added to the theoretical framework; the role of the European Commission. Poulantzas offers an extensive theorisation of the state that is closely related to Gramsci’s understanding of the State but more refined. The state is a social relation rather than an instrument or a subject and the distinctive form of the capitalist state is grounded in the capital relations of production (Jessop, 2007, p.126). More precisely, the state is the material condensation of the balance among class forces and is therefore not a neutral entity (Jessop, 2007, p.126). To the extent that the state can be described as a materialistic subject, it is an institutional ensemble ridden with contradictions. This does not mean, however, that the state is a collection of independent branches. As Poulantzas puts it: ‘the state does not constitute a mere assembly of detachable parts: it exhibits an apparatus unity which is normally designated by the term centralization or centralism, which is related to the fissiparous unity of state power’ (Poulantzas, 1978, p.136). This unity is not created by formal rules or laws but rather by the ability of the dominant class to switch power around within the state system (Jessop, 2007, p.128). The dominant apparatus creates this unity by shifting the separate parts of the institutional ensemble in such a way that they will serve and suit the interest of the hegemonic fraction (Poulantzas, 1978, 137). This reorganisation of the state can potentially change the modes of representation, its mode of intervention, the social base, the dominant state project and much more (Jessop, 1999, p.55). By reorganising the state, the focus of the state can be shifted in such a way that the interest of the dominant class has prominence over others. This is what Jessop refers to as strategic selectivity of the State (Jessop, 1999, p.55).

As a culmination, capitalism is characterised by a set of institutions that govern the accumulation process. This set of institutions is called the social structure of accumulation. Every SSA is characterized by a different pattern of capital accumulation. From this pattern of accumulation, social forces will emanate that will gain a dominant position in society. The ontological focal point central in this thesis is thus that agency is grounded in the social relations of production emanating from the pattern of accumulation. As the incumbent pattern of accumulation is in favour of this social group, it is in their interest to maintain the incumbent SSA. Gramsci’s understanding of agency will allow for an analysis of the agency of the dominant social force and how they affect the state. Through this dominant position in society, the dominant social group can affect the State in such a way that it will mostly take care of their interests.

Before the empirical analysis starts, first the epistemological and ontological stance of critical theory is further discussed. What follows is a discussion about the methodology used to acquire the knowledge necessary to find an answer to the explanandum. The last step involves the operationalisation. Before the theories can be used in the empirical it is necessary to operationalise the concepts in the theory.

# Chapter 2: Epistemology, methodology and operationalisation

The social structures of accumulation theory and Gramscianism are both critical theories. The ontology, epistemology and methodology of critical theories differ radically from theories such as neofunctionalism and liberal intergovernmentalism. Although the first section is focused on epistemological considerations, a discussion of epistemology in critical science cannot be done without an extensive discussion about critical ontology. Since critical ontology also has large implications for methodology, that will be discussed here as well. The last section of this chapter will discuss how the concepts discussed in the theoretical chapter will be operationalized for those concepts to be used in the empirical enquiry.

## 2.1 Critical realist epistemology

Critical in critical research is not a synonym for critique. Critiquing prevailing thoughts and conceptions is central to any form of science and is therefore not what sets critical science apart from other social sciences. What is does mean to be critical is to question the existing social order rather than accepting it as given (Wigger and Horn, 2016, p.41). What naturally follows from this is that critical science seeks to explore alternative futures and has a clear emancipatory goal (Wigger and Horn, 2016, p.42). Marx (1845 [1969], p.667), the founder of critical research, formulated this as follows ‘philosophers have only interpreted the world in various ways; the point is to change it’.

In critical theory, ontology is given primacy of epistemology. Ontology deals with the question what we perceive social reality to be, epistemology with how we can acquire knowledge about this social reality. In critical ontology social reality is a construction of complex power relations that stem from the interplay of structure and agency. These power relations are revealed in both ideational and material dimensions (Wigger and Horn, 2016, p.38). This social reality cannot be accessed from a perfectly neutral point of view according to critical science and therefore the notion of neutrality so dearly cherished by positivists is rejected. The reason why this is not possible is because the research is always affected by the social world around. Both what is perceived, and the perceiver are pre-formed by historical developments and it is therefore impossible to distance yourself from this reality (Horkheimer, 1937 [1989], p.200). Moreover, any ontology, also critical ontology, is normative, it is therefore better to be open about this than to hide behind a false sense of neutrality.

The critical ontology that is used in this thesis is called critical realism and is besides a critical ontology also a philosophy of science. Critical realism offers a dialectical understanding of structure and agency, the material and the ideational underpinnings of social reality (Wigger and Horn, 2016, p.44). Social phenomena are the outcome of the interplay and the interrelation between structure, agency and material and ideational dimensions (Wigger and Horn, 2016, p.44). Only through unravelling the interplay and interrelation is it possible to understand political outcomes. Ontologically speaking, structures pre-date agency. Nonetheless, structures are the outcome of human activities and behaviour undertaken in the past. Agents are confronted with these structures that either facilitate or contain their social activities. Agents, however, also affect structures. Structures explicitly do not deterministically determine agency. Rather, structures can be altered and transformed by agents through their social activities (Wigger and Horn, 2016, p.44). It is because of this constant interplay between agency and structure that social reality cannot be understood as static but rather as a constant changing reality.

The fundamental starting point of any critical realistic enquiry is identifying and revealing structures and power relations that lead to a specific course of events (Patomäki and Wight, 2000, p.223). This process of identifying and revealing is called retroduction. Retroduction starts from the level of the social phenomenon and moves to the fundamental level of structure, agency and power relations at play that are responsible for the phenomenon (Wigger and Horn, 2016, p.46) This is not a single procedure but a continuous process of confrontation between theoretical presumptions and evidence (Jessop, 2005, p.43). Critical theory distinguishes between the real, the actual and the empirical in the process of retroduction (Wigger and Horn, 2016, p.46). The real are all the structures in society that have causal consequences. It is the task of theory to reveal *the real* and to be a guidance to the researcher. *The actual* are the events that are set in motion by the real. The actual events that are picked up by observation are referred to as *the empirical* (Jessop, 2005, p.41). Embedded in this distinction is that reality also exist outside the observational reach of the researcher which makes that it is impossible to gain complete knowledge about social reality (Wigger and Horn, 2016, p.46).

The critical realist ontology has implications for epistemology and consequently for the methodology. Critical theory rejects the notion of a ‘world out there’ that can be observed. Therefore, empiricism, that is testing hypothesis derived from theories, is an incompatible methodology. The methodology that is used in critical realism is the method of abstraction, but this is rather a methodological dimension than a clear methodology. A theory provides the research with an image of social reality to assess the real and to move from description of the social phenomenon to the abstraction of possible causes (Wigger and Horn, 2016, p.47). The move from theoretical concepts to concrete events is by no means a generalisation. Because of the constant changing social reality, the concept of concrete events needs to be constantly re-concretised (Cox, 1986, p.209). The choice of actual methods to gather empirical evidence is an open question. The approach to methodology by critical realism is very open minded, as long as the methodology contributes to the gathering of evidence it is an acceptable methodology.

Applying a critical realist ontology to this thesis has far reaching consequences on how to proceed. Since social reality is constantly changing and can also not be fully observed and because there is no such thing as neutrality in science, it is impossible to derive hypotheses from the selected theories and to test them on their validity. Therefore, retroduction will be the way forward. The starting point will be the decision by the European Commission to propose the CMU and to revive securitisation and from there on forward structure, agency and power and social relations with causal consequences will be revealed.

## 2.2 Methodology

The methodology that will be used to gather empirical evidence is data triangulation. Data triangulation means using different sources of information to answer the same question. By using more data sources, a completer picture is created, and the outcome has greater validity. This is best illustrated with the slightly adapted analogy of the elephant and the blind men. A group of blind men who have never encountered an elephant before start to touch the elephant in order to conceptualise what it looks like. Each man touches a different part of the body and describes what he is feeling. The first blind man touches the trunk and says that the elephant is like a giant snake. The next blind man touches the foot of the elephant and argues it’s a big horse, and so on. None of the blind men have on their own a complete picture of the elephant but if they combine their individual observations they arrive at the right conceptualisation of the elephant. Data triangulation works exactly like this, by combining multiple data sources a complete answer to the research question can be formulated.

First, secondary literature is used to sketch the broader capitalist context in which the introduction of CMU and the revival of securitisation is best understood. The most important institution of the Neoliberal SSA will be discussed and outlined. An extensive document analysis is performed on the responses on the Green Paper of the CMU published by the European Commission. In these documents the general tenor of the response is of interest, how do the respondents react on the proposals of the Commission. Are they very critical on the proposals or extremely positive? What suggestions do the respondents make to improve the proposals by the Commission, and what are the policy areas these suggestions mostly focus on? Besides a document analysis, process tracing is used to uncover what type of class agents and capital fractions articulated what type of interest, where interest overlap as well as what is contested by whom. Moreover, it is used to discover where certain policy proposals from the Commission originated from, and finally, to uncover what changes have been made according to the response the Commission received and where these changes came from.

The Green Paper on CMU and the final action plan are the suitable documents to perform this analysis. A Green Paper is a document by the European Commission delineating an initial policy proposal. After it has been published, its open for consultation. Every company, government institutions, NGO, academic and lobby groups who wants to respond may do so. Many banks, financial lobby groups and other financial intermediaries took this opportunity and responded to the questions outlined in the document. The European Commission also published alongside the CMU Green Paper a special consultation document where respondents could send in their thoughts about securitisation in particular. The document delineates a framework for securitisation the Commission calls ‘STS’ which stands for ‘simplified, transparent and standardized’ (European Commission, 2015c). The process tracing is, however, not limited to these documents. Position papers and communications by relevant actors such as Finance Watch and Prime Collateralised Securities are used. The data from the secondary literature on the SSA, the document analysis and the process tracing are then combined into an explanatory narrative to explain why the European Commission made the decision to introduce CMU and the revival of securitisation.

For financial capital, a proxy is selected for each separate branch within the financial sector. For the banking sector, BNP Paribas, Deutsche Bank and Goldman Sachs have been selected. KPMG has been chosen to represent the consultancy sector. For industry associations and lobby groups, the European Financial Services Roundtable (EFR) and the Asset Management and Investment council (AMIC) are selected. The former is an industry association representing banks and insurers and the latter an interest group for buyers of securities. The interest of society in general are represented by Finance Watch, an alliance of various trade unions, NGOs and other civil society actors and a group of academics. Finally, the interests of industrial capital are covered by two industry associations.

The explanatory logic in the analysis is that the current SSA is characterized by financialisation. The dominant capital accumulation in financialisation is through the circulation of financial capital rather than through commodity production. The social power relations, emanating from this dominant capital accumulation, are strongly in favour of financial capital and the dominant type of capital accumulation has granted them a powerful position. The current SSA however is now in decline as the institutions that once made rapid financial capital accumulation possible are now becoming a hinderance to it. Financial capital is very adamant on maintaining the current SSA as they do not want to give up their strong position in society. The dominant position financial capital has gained in society grants them the ability to affect and steer the direction of society. The European Commission is also not unaffected by this dominant position. Financial capital will continue to use their power to alter the strategic selectivity of the Commission in such a way that the financialisation of the economy can continue. As a result, the European Commission acted to satisfy the wishes and goals of financial capital.

## 2.3 Operationalisation

To understand and to be able to use the concepts of the outlined theories to the concrete situation of the CMU an operationalisation is necessary. Operationalising theoretical concepts is indicating how theoretical concepts are made measurable and distinguishable in the empirical. Not all concepts discussed in the theoretical chapter need to be operationalised because from Gramscian theory, only the relevant parts to understand agency will be used. The concept of historical bloc, for example, tries to understand the economic, political, cultural and ideological processes within a particular stage of capitalism (Bieling, 2013, p.285), but in this thesis the theory of SSA does largely that. What is missing from the concept of SSA that is incorporated in historical bloc is social struggle. This is exactly the aspect that is added to SSA theory by Gramsci’s understanding of hegemony and the agency derived from this hegemony aimed at reproducing the existing power relations. It is therefore that the concepts that particularly need to be operationalized are the social structure of accumulation, agency and social groups.

A social structure of accumulation is the set of institutions that make a particular pattern of capital accumulation possible. To operationalise the social structure of accumulation it is necessary to define what institutions make capital accumulation possible. As seen in the theory chapter, this process needs judgement as it is not immediately clear from first outlook. The institutions are by no means limited to economic institutions alone. Political, ideological and cultural institutions belong to the SSA as well (McDonough *et al.*, 2010, p.2). Examples of economic institutions are the organisation of markets and the structure of competition. The state is the most important political institution. Ideological institutions and cultural institutions are religion, political ideologies and the education system (McDonough *et al.*, 2010, p.2). By no means is this an exhaustive list of institutions part of the SSA. Institutions can be interpreted in a narrow sense where it refers to organisations such as the central bank or the IMF, or in a broader sense where it refers to customs, habits and expectations (Lippit, 2010, p.45). The broader sense can be further disaggregated into specific institutions or a whole system. An example of a broad specific institution is collective bargaining while a whole system could be labour regulations (Lippit, 2010, p.45).

Agency are the political actions an agent undertakes in a particular structure and that affect said structure. The possible course of action of an agent are not unlimited as they are defined by the position of the particular agent in the economic structure, that is, how the agent relates to the relations of production. How agency can be recognized becomes clear when the operationalisation of a social group is added to the story. Central in Gramsci’s theory are social groups. Social groups share a common ideology and have similar interests. Social groups are operationalised in this thesis as financial capital, industry capital and a combination of various civil society actors defending the interest of broader society. Social groups do share a common voice but are not a unity. Consequently, they exist of various actors. These actors in turn are operationalised as particular institutions, companies, banks, NGOs, trade unions, academics and industry associations that represent the interest of finance capital, industry capital and society in general. The following chapter is the empirical chapter. This chapter starts with a recapitalisation of the explanandum followed by the explanation why the Commission moved to reintroduce securitisation.

# Chapter 3: Empirical Analysis

In this thesis the objective is to find an answer to the question why the European Commission decided to revive the securitisation market as part of CMU. To do so, an outline of the explanandum is necessary to demonstrate why the decision by the Commission is so remarkable. Firstly, the process of securitisation is described in detail and it is explained why the financial sector looks preferably upon securitisation. Secondly, it is demonstrated that securitisation played a large role in causing the devastating Global Financial Crisis that started in 2007/8. Thirdly, the arguments the Commission itself provides for the revival of securitisation are questioned and demonstrated to be questionable and largely false.

## 3.1 “The crack cocaine of the financial services industry”

Securitisation plays a large role in financialisation. A former financier in the City of London has called securitisation “the crack cocaine of the financial services industry” (Bowers, 2011). A report by the Transnational Institute on financialisation called securitisation “the single most important innovation driving contemporary finance” (Transnational Institute, 2015, p.15). Securitisation is a complex process that involves a number of different stages and players. The process starts with a borrower who applies for a loan with a bank to purchase property or to refinance an existing mortgage. The bank that issues the loan is called the originator (Ashcraft and Schuermann, 2008, p.5). Initially, the originator services the borrower by supplying the funds to the borrower. The originator earns on the provision of the loan through the fees paid by the borrower. In the second step, the originator bundles a large pool of mortgages together to sell them to the issuer which will be selling the security products (Ashcraft and Schuermann, 2008, p.5). When the originator sells the mortgages, it will immediately receive the present net value of the bundle of loans plus a premium. However, it is not necessary per se that the originator sells the loans to a separate issuer. The originator can also issue its own securities, in that case the originator also becomes the issuer.

In the case the originator also becomes the issuer, it does not put the acquired pool of loans on its own balance sheet, instead it creates what is called a special purpose vehicle (SPV). This SPV will formally acquire the loans and will also carry the loans on its balance sheet (Ashcraft and Schuermann, 2008, p.6). A SPV is created to build a wall between the originator, the issuer and the investor. Creating a SPV grants the originator two major advantages. Firstly. the SPV protects the originator in the case the loans go bad. Secondly, by putting the loans on a separate balance sheet, the credit rating of the securities will not be negatively affected by the leveraged position of the bank that owns the SPV (Ashcraft and Schuermann, 2008, p.5). In other words, by isolating the assets in an SPV, the securities will receive a higher credit rating than they would have received were they placed on the originators/issuer’s balance sheet. But SPVs are for yet another reasons crucial for securitisation. The SPV plays an essential part in the credit risk transfer that is so important in the securitisation process as it protects investors from bankruptcy of the originator or issuer (Ashcraft and Schuermann, 2008, p.6/7).

During the time between acquiring the pool of loans and selling the securities, credit rating agencies rate the creditworthiness of the security. This is an important aspect to understanding securitisation as rating securities is different from rating traditional assets. Where traditional assets are rated *ex post*, securities are rated *ex ante*. This means that securities are constructed to achieve a predetermined credit rating unlike traditional assets that are rated after they have been constructed. This allows the issuer to tailor securities to the specific needs of certain types of investors. This process is called credit-enhancement and the issuer can do this through various ways. The most obvious example is the isolation of the asset pool in an SPV, but also by overcollateralization, guarantees from issuer or guarantees from a third party improve the creditworthiness of the securities. If the SPV issues securities worth less than the total worth of the underlying asset, it is called overcollateralization. This way the associated risk of the security will be lower as there is more collateral available then liabilities to cover in the case of bankruptcy. The issuer can also choose to offer certain guarantees to its securities, for example if a reputable issuer is involved in the transaction. Finally, the issuer can also offer guarantees from third-party insurance companies that they will pay the principal or the interest in the case the cash flow from the asset-pool cannot.

Once the securities have been sold to investors, the loans remain on the balance sheet of the SPV (Shin, 2009, p.312). What has been sold are liabilities, not the loans itself. It is therefore, that the issuer remains responsible for collection and remittance of loan payments. Usually the SPV assigns a servicer to do these tasks for them (Ashcraft and Schuermann, 2008, p.7). The servicer can be the owner of the SPV, but it can also be a third company that is specialized in this task. The task of the servicers is, however, extremely important. Moody’s, a credit rating agency, estimated that servicer quality can affect realized loss levels by plus minus 10 percent (Ashcraft and Schuermann, 2008, p.8).

The outlined securitisation process is the basic asset-transferring process of securitisation. Many variations of asset-transferring securities exist. Mortgage-backed securities (MBS) are securities that have mortgages as collateral, Asset-backed Securities (ABS) are securities that have different non-mortgage assets as collateral. Collateralised debt obligations (CDO) are securities that use other securities as collateral such as ABS or MBS securities. It is therefore that this practice is called re-securitisation. Besides asset-transferring securities, synthetic securitisation exists. In this type of securitisation, the actual asset is not transferred to any SPV or third-party investor. Instead, the bank keeps hold of the asset but shares the default risk of the asset with an investor which will receive a regular cash flow payment as a reward for sharing the risk. In this type of securitisation, possessing the actual assets of the security becomes unnecessary, consequently, synthetic securitisation grants investors unlimited collateral as the same asset could function as collateral for many synthetic securities (European Parliament, 2015, p.7).

The question then becomes, why do banks engage with securitisation? Firstly, securitisation allows banks to unlock a new source of funding. Secondly, by securitising assets bank can inflate their balance sheets and thirdly, securitisation allows banks to further increase their leverage. In a traditional banking sector, the total supply of credit is equal to the equity of the banking sector plus the obligation of the banks to outside creditors (Shin, 2009, p.310). The most obvious source of outside credit are deposits on the bank’s balance sheet. For a bank to increase its earnings it must provide more credit, however, without more external funding providing more credit is impossible. Securitisation provides banks with this external funding in the following way. If a bank has, for example, 100 mortgages on its balance sheet, it will have only so much capital left to fund new loans. However, if a bank bundles these hundred loans and sells them to an SPV or a third-party issuer, it will immediately receive the net-present-value of these hundred mortgages plus a fee. Securitisation is not only a new source of funding but also a cheaper funding source than other sources such as issuing bonds. This has to do with the discussed credit enhancements in the securitisation process. Because the loan pool is securitised in a separate SPV the credit rating is higher than any financial product the bank issues itself. Secondly, securitisation allows banks to inflate their balance sheets as it not only provides banks with the fund to issue new loans, it also allows them to circumvent capital requirements for loans. As soon as the loans are securitised and on the balance sheet of the separate SPV, the bank is no longer obligated to reserve capital to cover the risk of the loans. Consequently, the natural limit to credit supply created by regulatory capital is neutralised. Banks no longer have an upper limit to the amount of credit they can supply. Thirdly, securitisation allow banks to increase their leverage. Securitisation makes it possible to skew the debt/equity ratio of a bank even more towards debt. Banks always prefer to increase leverage as debt is a less expensive way to fund operations than equity. Perhaps most importantly, however, is that securitisation offers financial capital a new channel through which yield can be obtained. Securitisation thus is a means to an end, that of continuing financialisation. Securitisation is a necessary instrument for financial capital as the amount of collateral in the world is limited. There are only so many houses, offices and factories that can function as collateral for loans and mortgages. There is much more capital available than appropriate collateral. Securitisation is a temporary fix to this problem as it creates new collateral.

Securitisation, however, is not the innocent financing technique the financial sector claims it to be. Securitisation has been identified in playing a large role in causing the Global Financial Crisis for several reasons (OECD, 2015; Hellwig, 2009; Acharya and Richardson, 2009). Firstly, contrary to what was believed at the time, securitisation did not lead to transfer of risk from the bank to the owner of the security. As just described, securitisation is a process where a bundle of loans is sold off to a SPV to sell securities with the bundle of loans as collateral. It is important to note that the bundle of loans remains on the balance sheet of the SPV and does not transfer to the owner of the security (Shin, 2009, p.310). The owner of the security only received a contract which gives him the right on the payments made on the loan. All the bad loans that were issues were therefore not transferred to outside investors but piled up in the off-book SPVs of banks. In addition, banks artificially increased the credit ratings of securities by giving guarantees to the owner of the security that in case of bankruptcy of the underlying loans, the bank would take the fall. These two characteristics made that risk was not dispersed throughout the financial system but instead concentrated in the banking sector. Secondly, the perceived risk transfer and the fact that the SPV was legally separated from the originator, made banks believe they were invincible. No matter what type of loans they would issue and securitize, the risk would be transferred anyway and as soon as the loans were securitized, it was no longer the problem of the banks but of the owner of the security. That this is not the case is just illustrated, but this was the common understanding at the time. Considering that securitisation is highly profitable for banks as it is a cheap source of funding, banks started to lower their lending standards to issue more loans to securitise. This exacerbated the piling up of risk in the banking sector as more and more bad loans ended up on the balance sheets of off-book SPVs. Thirdly, securitisation allowed banks to move a large part of their balance sheet outside the reach of regulation and regulatory agencies. Loans that are on the regular balance sheet of banks need to be covered by capital to cover the risk of bankruptcy of the loans. This is very costly for banks as capital is an expensive way of financing the banks operations. To acquire capital a bank can either retain its earnings or it can issue new stock, and both are much more expensive than issuing debt to acquire funding. By securitising loans, however, the loans are effectively transferred from the bank’s balance sheet to the balance sheet of the SPV that does not have to adhere to the capital regulations of regular banks. Consequently, securitisation makes it possible to evade regulations aimed at increasing system stability.

The combination of these characteristics of securitisation, risk retention, deteriorating lending standards and regulatory arbitrage, made that securitisation led to the most disruptive financial crisis since 1929. Governments and tax payers in the European Union had to spent billions of dollars to save the economy from a total meltdown, and this does not even incorporate the loss of economic growth and the social costs of increased unemployment and social spending. Nonetheless, the European Commission has decided to revive the securitisation market in the European Union that has basically come to a standstill after the Global Financial Crisis as a major building block of CMU. According to the Capital Markets Union Green Paper the goal of the CMU is to achieve the Commission’s main priority which is creating jobs and growth (European Commission, 2015a, p.2). CMU is going to help achieve this objective by unlocking ‘(…) more investment for all companies, especially SMEs (…)” by increasing the number and diversifying the sources finance, and by making the financial system more stable. That securitisation is going to help achieving this goal is at the least questionable. The relationship between securitisation and real economic growth has never been proven. In theory, securitisation increases the credit flow to the market and thus will aid economic growth, but the economic literature on this matter, that has investigated this relationship, came to a surprising result. The relationship between securitisation and real economic growth is in most cases negative. That is, securitisation does not aid growth, it harms growth (Bertay *et al*, 2017; Cecchetti and Kharroubi, 2015). Moreover, reviving securitisation to increase SME funding is definitely not the most effective way to do so, perhaps even the worst. The financial product that is most often securitised are mortgages exactly because they have predictable payment schemes and clear collateral. SME loans lack both these characteristic and are more diverse and risky. Therefore, they are barely securitised at all (Engelen and Glasmacher, 2018, p5). Reviving securitisation thus will not lead to increased lending to SMEs, but it will probably lead to increased lending to potential houseowners. The last goal of the Commission is perhaps the one that is most directly opposed to reviving securitisation. The Commission wants to increase the stability of the financial sector by increasing the number of financing opportunities. That securitisation is a cheap financing opportunity for banks is indeed true. That this is going to lead to more financial stability is demonstrably false with the Global Financial Crisis as the obvious example to back up this claim.

The true reason why the Commission proposed CMU and the revival of securitisation must therefore not be found in what the Commission says. Where the true reason can be found is in a process that has started ever since the Neoliberal SSA started to develop and the power relations that emanated from that process. That is the process of financialisation, but before this process is explained, a characterisation of the European Commission is helpful to understand how the commission functions.

## 3.2 A characterisation of the European Commission

The European institutions are not a state in the traditional sense of a nation state. Nations states are strategic fields that allow for conflict between competing social classes (Durand and Keuchyan, 2015, p.2). The European institutional setting specifically does not allow for conflict between social classes and several reasons can be distinguished why this the case: Firstly, because of the limited areas of operation of the European Union. Secondly, the body of the European Union with the right of initiative, that is the right to propose new legislation, the European Commission is not democratically chosen. Thirdly, the European Commission has limited accountability and does not have to justify their actions to an electorate.

The core competencies the European Union are, bluntly put, the regulation of trade, competition and finance. The concept of strategic selectivity, the restructuring of the State to the benefit of the hegemonic force, directly applies to the coming about of these core competencies as they are the direct result of the domination of capital in the integration process (Durand and Keucheyan, 2015, p.13). Therefore, the Commission, the executive of the European Union, has no focus on the interest of broader society. Compared to national governments, the Commission possess a great deal of power as the Commission is not only the executive, it also possesses the right of initiative. The Commission is thus both the driving force behind European integration and the executive of European integration.

The Commission operates without a real democratic mandate as there is no *demos* the Commission directly represents. The president of the Commission is chosen by the European Council, made up of EU heads of state and government and needs to be accepted by the European parliament. The president can propose his own college of commissioners that in turn also need to be accepted by the European Parliament. The President, however, has the sole right to divide the policy areas amongst the accepted commissioners. The Commission operates as a whole, that means that each commissioner has to agree with a policy. Although each commissioner has its own policy portfolio, the commissioner of competition, for example, has to agree with a policy proposal regarding the environment, or the policy will not follow through. Each policy area has its own Directorates-General (DGs) which are chaired by the commissioner of that policy area. Under the Commission stands the director general with its own cabinet.

The Commission tries to increase its democratic image by granting opportunities for consultation and advice and by creating expert groups consisting of public and private actors to advice on new policy proposals. These measures are more symbolic than that they truly improve the democratic nature of the Commission. The green and white papers, for example, the Commission publishes on new proposals are an attempt to increase transparency and public participation, but at the same time, the Commission has complete control over the content of those papers. The Commission can thus decide what part of the policy proposal it includes in the green paper and what not, which makes it easy to look accountable and transparent, without actually being accountable and transparent. The expert groups that serve the same goal of increasing participation and transparency, are not as innocent as they may seem. They have far reaching influence on the Commission and more often than not the Commission directly follows the proposals and advice of these expert groups (Horn, 2008, p.137).

In a white paper on European governance the Commission formulated the goal of making EU decision making more transparent, participatory and accountable to European citizens (European Commission, 2001, p.6). The proposed goals, however, will never be reached in the current institutional design. The Commission was never set up to reach out to the public and to achieve democratic engagement, in other words, it is incompatible with the goal of democratic accountability (Shore, 2011, p.292). What also is not helping is that in the view of the Commission the democratic deficit is approached as a technical problem that can be solved by improving communication and information supply to the public (Shore, 2011, p.292). The prevailing thought within the Commission is that any resistance by the European people to the EU institutions on grounds of lacking democratic principles are the result of misunderstanding, lack of information and ignorance, not on the actual institutional setup of the EU.

The European Commission is thus a powerful institution that possess the right of initiative and is the executive and has a limited focus that mainly focuses on policy areas relevant for capital. And all of this without a clear democratic mandate and without a *demos* the Commission has to answer to. This characterisation is an important building block in the final explanans and for the analysis that follows.

## 3.3 Financialisation

Financialisation is the defining characteristic of the Neoliberal SSA. Financialisation refers to the dominance by the financial industry and the fact that financial activities have prominence over production of goods and services in the economy. Consequently, financial markets determine the overall state of the economy and every economic agent operates at the mercy of the financial markets (Tabb, 2010, p.149). Stock prices, currency values and interest rates determine the economic future of working people, but also that of large companies and even the course of action politicians take (Tabb, 2010, p.149). The root of financialisation can be traced back to increasing debt levels under the neoliberal SSA. Three causes can be distinguished that caused the increasing debt levels. Firstly, the neoliberal SSA shifted the responsibility for economic stability from the government to the individual. Capitalism has an inherent flaw that needs to be solved for capitalism to work, namely the simultaneous need for stability for consumers and flexibility for markets (Crouch, 2009). Keynesianism solved this problem by extensive government interference in the economy. In economic down times, the government would take on debt to stimulate the economy. In the Neoliberal SSA, however, this task is outsourced to the individual by providing consumers extensive access to credit markets. The distinctive characteristic between the two SSAs in this regard is that instead of the government taking on the debt, the individual did so (Crouch, 2009, p.390). Secondly, lending and safety standards deteriorated quickly in the Neoliberal era. During the run up to the financial crisis, even individuals without a fixed income could get a mortgage to finance a house. Even worse, the safety margins for banks to cover the risk of outstanding loans shrank quickly which enabled the financial sector to issue even more loans without the need to acquire more capital. Thirdly, wages remained more or less stagnant because of decreasing profitability of companies. Profitability was under pressure because of increased competition both nationally and internationally. Because of stagnating wages, household had to start lending to maintain the same level of purchasing power. A staggering statistic that shows how much debt-levels have increased for American Families in the run-up to the financial crisis is the fact that between 2001 and 2005, American families added to their outstanding debt at a rate of 60% greater than overall economic growth (Tabb, 2010, p.151).

Not only individuals where victim of the untameable hunger for profits of the financial sector. The financialisation of the economy started to dominate corporate decision-making in two ways. Firstly, because of increasing availability of financial capital more and more mergers and acquisition happened (Tabb, 2010, p.151). Because of globalisation and market liberalisations, firms were facing fiercer competition which put pressure on their profitability. This created a constant fear for the competitor because if profits and share value were down they became prey for takeovers. This fear forced companies to focus on the short-term and to increase shareholder value instead of focussing on the long-term and the continuity of the business. This short-term focus has led to a new development in capitalism, that of shareholder capitalism instead of managerial capitalism. Where under the latter, firms focused on achieving long term growth, under the former the firm is nothing more than a short-term cash machine (Tabb, 2010, p.153) Not the longer-term continuation of a company was at the centre of attention, nor the well-being of the workforce but increasing the value of the outstanding shares to satisfy investors. Secondly, due to financial engineering, leveraged-recapitalizations of companies were common occurrences. Private equity funds would buy up companies to liquidize all that of value and to fill up the empty void with excessive leverage. The end goal of leveraged-recapitalizations was to make a quick return on investment and therefore firms were quickly sold after this return was obtained (Tabb, 2010, p.154).

## 3.4 The Neoliberal SSA

The financialisation of the economy is the defining characteristic of the neoliberal SSA. Neoliberalism is a ‘coherent multileveled entity whose features include political-economic institutions, policies, theories and ideologies’ (Kotz and McDonough, 2010, p.94). The ideological foundation of Neoliberalism is based on individualism and free markets. That is not to say that neoliberalism can do without a strong government. On the contrary, neoliberalism depends on high government interference in the economy to create markets and to make sure these markets function properly. Nonetheless, the state is typically characterised as an obstructionist factor in neoliberalism. Especially in regard to personal and economic freedoms. The central theory in neoliberalism is neoclassical economics. Three main policies can be identified that fit within the neoliberal paradigm: liberalisation, privatisation and stabilisation (Kotz and McDonough, 2010, p.94). Liberalisation refers to deregulation of markets, privatisation to the transfer of government assets to the private sector and stabilisation to the shift in focus of Central Banks to controlling inflation instead of limiting unemployment and aiding economic growth.

As explained in the theory chapter, an SSA is characterized by rapid capital accumulation at the beginning of its implementation. In the Neoliberal era this rapid accumulation is notably absent. The Global Neoliberal SSA has not promoted rapid capital accumulation not even compared to the crisis mode of its predecessor. What it has promoted, however, is the rapid accumulation of profits. A rising share of total income consists of profits (Wolfson and Kotz, 2010, p.79). The reason why rapid profit accumulation can co-exist with mediocre economic growth is that profit can be spend on many things other than increasing real economic output. Much of the profits have been used for consumption and financial investments that do not benefit real production (Kotz and McDonough, 2010, p.113). To account for the fact that the Neoliberal SSA has not promoted real economic growth but accumulation of profits, Wolfson and Kotz (2010) have suggested to sever the theoretical link between SSA and rapid capital accumulation. The goal of capitalist is after all not to promote rapid economic growth, but rapid profit-making. In this thesis, the Neoliberal era is perceived as an SSA

The institutions of the neoliberal SSA can be categorised in global and domestic institutions. The most important global institutional shift from the Keynesian SSA to the Neoliberal SSA is the significant increase in the movement and mobility of goods, money and, in particular that of capital. This change went hand in hand with another ground shifting institutional change, that of geographical dispersed production. Disaggregated production created global value chains spanning across the whole world. This caused a geographical expansion of capital relations to encompass the whole word and in turn enabled the development of a transnational capital class (Kotz and Mcdonough, 2010, p.99). These global institutions affect domestic economic decisions as well. Free movement of capital and electronical linking of capital markets through ICT breakthroughs and technological improvements means that capital can move anywhere with a blink of an eye. Consequently, capital can impose globalised norms of profitability on domestic investment decisions. The nature of competition changed as well under the pressure of neoliberal ideology. Cut-throat competition and full-on price competition became the norm (Kotz and McDonough, 2010, p. 103). Alongside this development, a global market of top executive emerged. No longer were CEO sourced within the company’s own ranks but on a global market of CEOs. Because CEOs are sourced from outside the company they have no history or connection with the company they are leading. This shortened the horizon of the companies and CEOS considerably. The moment a better offer arrived the CEO would simply switch position. Consequently, the focus was on short-term results instead of long term development. The transnationalistation of production made it possible to locate production there where the costs to produce where the lowest. Consequently, production became highly fragmented with each stage of the production taking place in a different geographical area. Capital and labour therefore also became highly fragmented as production was no longer taken place in one and the same area. As a consequence, a transnationalising capitalist class came into contact with a transnationalising labour class, rather than a national oriented capital-labour relationship (Kotz and Mcdonough, 2010, p.101).

Domestic institutions of the Global Neoliberal SSA mainly changed the capital-labour relationship (Kotz and McDonough, 2010, p. 104). Trade unions saw their power and importance shrinking as collective bargaining is no longer the main determinant of wage levels and employment conditions. Collective bargaining got replaced by market-determined wages and conditions. This caused a slump in real wage growth and the worsening of the position of labour vis-à-vis capital (Kotz and McDonough, 2010, p.104). Due to the globally dispersed production chains, the nature of production changed. Production shifted from mostly mass production to more specialised production. The dispersion of production also put negative pressure on wage levels as producers could suppress wages by threatening to move production abroad. As described above, Neoliberal ideology is mistrustful about the state, however, the role of the state insomuch did not disappear, rather it changed. The state no longer partakes in macroeconomic expansionary policies and instead focusses mainly on achieving a balanced budget and withdrew from much of its activities as privatisations happened on a large scale. Activities that came in place of those traditional tasks are regulating and maintaining markets, which ironically caused the size of the State to not shrink at all.

More prove that the Neoliberal era is actually an SSA is that its institutions are currently becoming their own hinderance, as predicted by the theory. The institution’s contradictions are becoming more apparent and harder to solve which has put a great deal of pressure on the SSA. The rapid rate of profit growth has not been joined by an equally rapid growth in real wages and consequently aggregate demand is lacking. The problem is amplified by the lack of macroeconomic expansionary policies by the state (Kotz and McDonough, 2010, p.116). The lack of aggregated demand caused by stagnating real wages is currently one of the main issues of the SSA (Kotz and McDonough, 2010, p. 116). Neoliberalism also has many stability issues. Liberalisation and deregulation has greatly increased the fragility of the financial system as the focus is completely on short-term gains. In addition, asset bubbles have become common. The wall of money created by profit accumulation seeks yield which is only scarcely available. A lot of money is invested in limited investment opportunities and consequently, bubbles emerge. The largest problems of the Neoliberal SSA is, however, that is has created a surge in inequality in societies. The complete dominance of capital that made rapid profit accumulation possible and suppressing of real wages has not only caused a welfare stagnation but also an unfairer distribution of income and capital. Besides these inherent institutional contradictions, the Global Financial Crisis has invoked action from governments and central banks which are incompatible with the Neoliberal paradigm. They marked the beginning of the crisis phase of the Neoliberal SSA. Central Banks, The Fed, the ECB and the Bank of England, stepped away from mere market-determinism and controlling inflation and engaged with extensive bond-buying programs to recover economies. Governments worldwide dusted off their Keynesian policy playbook and have spent massive amounts of money to revive their economies.

## 3.5 Financial sector interest taken care of

The neoliberal SSA is thus characterized by accumulation through financial circulation rather than through commodity production granting the financial sector a dominant position in society. It is in the interest of the financial social group to continue the financialisation and the continuation of financial capital accumulation. The revival of securitisation provides the perfect solution to the current problems of the SSA as it opens up new channels for financial accumulation. It is for this reason that financial capital is pushing for the revival of securitisation. That the European Commission is very accommodating in their push is illustrated in two ways. Firstly, by demonstrating that the financial sector has a great influence on Commission policy making by showing that the STS framework is not an original idea from the Commission but from the financial industry itself. Secondly, by providing an account of various financial actor’s responses on the proposals by the European Commission to show that CMU and the revival of securitisation are indeed very much in line with what the financial sector wants. To further support the argument that the Commission acted according to the financial sector’s wishes, it is shown that the Commission did not really listen to critique from non-financial sector agents on the consultation rounds of the Commission.

### 3.5.1 STS framework or PCS?

Before the proposals of the European Commission the problem of a near-death securitisation market was already a prominent one for the financial sector. In 2012, an independent organisation called Prime Collateralized Securities (PCS) was created by the European Financial Services Roundtable (EFR) and the Association for Financial Markets in Europe (AFME). The EFR is one of the main lobbying parties for the financial sector and consists of chairman and CEOs of Europe’s leading banks and insurance companies. The AFME is a lobby organisation mostly lobbying for the wholesale banking sector. PCS is according to the website “an industry-led, non-profit project to develop a label for high quality securitisations which meet best practice in terms of quality, transparency, simplicity and standardisation” with the aim to “(…) increasing the funding of real economy assets through securitisation thereby supporting the recovery and future growth of the European economy” (Prime Collateralised Securities, 2012). PCS is intended to function as a quality mark for securities. Securities with the PCS label adhere to certain standards which are supposed to remedy all the problems of securitisation of the past. The document with all the conditions that must be met before a PCS label is assigned is fast and has many pages (Prime Collateralised Securities, 2017). The most important, however, have been selected and are as follows:

1. The underlying assets belong to a single eligible asset class
2. No re-securitisation
3. Provision of loan data about the underlying assets and a recognized data repository consisting of constantly updated data
4. No synthetic securitisation, that is only true-asset sale where the underlying assets switch possession

These conditions become rather interesting when the STS-framework as proposed by the European Commission is compared with this PCS proposal by the financial industry. The European Commission proposed the revival of securitisation alongside the larger plan to unite capital markets in Europe. However, the Commission did not want to revive securitisation without specific conditions and created a framework to which securities must adhere to receive the stamp of approval of the European Commission. This STS framework was proposed alongside CMU in 2015, three years after the PCS label was proposed by the industry. STS in this framework stand for simple, transparent and standardized securitisation (European Commission, 2015b). These are the exact same words the industry used to promote its own label of securitisation. Moreover, what is noteworthy is that proposed goal of reviving securitisation of both PCS and STS are exactly the same, namely to increase funding to the real economy and to support economic growth. The discourse surrounding PCS and STS are remarkable similar, but it does not stop there. The content of both proposals is uncannily similar as well. The criteria to which securitisation must adhere to carry the name STS securitisation are categorized according to criteria to improve simplicity, transparency and standardisation. They are as follows (European Commission, 2015c, p.7):

1. Simplicity criteria: Underlying exposures are required to be homogeneous. Re-securitisation are explicitly excluded
2. Transparency criteria: transactions comply with transparency and disclosure requirements, such as the provision of loan-level data.
3. Standardisation criteria: Transfer of the underlying exposures to the securitisation vehicle is sufficiently robust from a legal point of view (e.g. there is a ‘true sale’)

These are the exact same criteria the industry formulated three years before the Commission did. One and two listed above of the PCS label are equal to the simplicity criteria of the STS framework. That the proposal is mostly in line with what the financial sector wants cannot only be demonstrated by the fact that it is almost a one on one copy of a similar proposal by the industry itself, but also by the responses of various financial actors on both the Green Paper on the Capital Markets Union and on the consultation document regarding STS securitisation and on the proposals in general. For each separate activity within the financial sector proxies have been selected to represent the interest of that specific activity as every actor has slightly different interests.

### 3.5.2 “Securitisation?”, “Yes please!”

For the banking sector, BNP Paribas, Deutsche Bank and Goldman Sachs have been chosen. BNP Paribas is one of the largest banking corporation in the world with total assets exceeding 1900 billion euros (BNP Paribas, 2017). Moreover, it has been identified by Corporate Europe observatory as one of the most active lobbyists on securitisation (Carmageddon, 2017). Deutsche Bank is next to BNP Paribas one of the largest banks in Europe with total assets slightly over 1400 billion Euros (Deutsche Bank, 2017). With both BNP Paribas and Deutsche bank, the two major countries in the EU are represented. Besides European banks, Goldman Sachs is selected because it is the world’s leading investment bank and has been at the centre of the Global Financial Crisis. Moreover, since securitisation in the United States, the home country of Goldman Sachs, is currently already operating at full speed, its response on CMU and securitisation could be telling.

In BNP Paribas response the emphasis is on reiterating how needed a Capital Markets Union is. BNP Paribas “… welcomes the Capital Markets Union […] as a clarion call for growth after a five-year period when the cursor was firmly on the side of financial stability and less on the financing of the economy by banks…” (BNP Paribas, 2015, p.1). Furthermore they “… welcome the project’s ambition and the opportunity that it represents” (BNP Paribas, 2015, p.1). Regarding securitisation, they write that the revival of securitisation is necessary to ‘repair the unjustified penalization of the EU market.” (BNP Paribas, 2015, p.2). In line with the European Commission they argue that the stigma of securitisation is unfairly harming Europe and that an ‘urgent correction of the calibration of ABS capital requirement is required which prevents banks from originating, arranging, and sponsoring securitisation …” (BNP Paribas, 2015, p.2). The same general tenor can be found in the response of Goldman Sachs on the Green Paper. Like the European Commission they also use the need for increased SME financing as the main argument why securitisation should be revived. Tellingly, the section that covers securitisation in the response is called ‘Fostering SME Funding’ (Goldman Sachs, 2015, p.3). Goldman Sachs reiterates the standard advantages of securitisation, such as increased credit supply and risk diversification. They support the initiative of the European Commission to revive, but do not agree with the proposed framework as some of the factors designed to make securitisation more transparent, standardized and simple are deterring investors from the securitisations market. In particular, the current risk retention rules, investment restrictions and documentation requirements are massive obstructions to a well-functioning securitisation market, according to Goldman Sachs.

To cover the interest of the consultancy sector, KPMG has been chosen. KPMG is one of the major consultancy and accountancy firms in the world and belongs to the so-called big four consultancy companies. KPMG offers consultancy services to the financial sector in general but also in particular to securitisation transactions. KPMG also calls for the reimplementation of securitisation ‘to get finance flowing into Europe’s economy (…)’ (KPMG, 2015, p.4). They note the complexity associated with securitisation and reckon a solution is necessary before securitisation can be reimplemented successfully. Telling is that, in a slightly different language, they note the same problem as Goldman Sachs, namely that the new framework includes disincentives for investors that need to be addressed by the Commission. One important proposal by the European Commission to align the interest of investor with that of the issuer to prevent loans being originated merely for the purpose to securitise them later, the so called ‘originate-to-distribute’ model, is risk retention. The originator/issuer must keep a minimum percentage of the risk on its own balance sheet so that they will have the same interest. However, KPMG sees this as an obstacle to the revival of securitisation and argues that this needs to be addressed in a revised action plan (KPMG, 2015, p.9)

The EFR also responded on the Green Paper and the consultation document. It is quite ironic that they responded on the STS framework consultation paper as the framework is basically their own proposal. Unsurprisingly, they do not have fundamental critique on the proposal. The only relevant critique they offer is it that they rather have an independent agency creating a quality mark with the approval of the European Commission, than a quality mark that is developed and controlled by the Commission (European Financial Services Roundtable, 2015). Not only actors in the supply side of securitisation are very positive, the buy side of securities, that are investors are positive as well. AMIC is an industry association representing and particularly supporting the buy side interest of the securitisations market. They support the goal of the European Commission to undo securitisation from its complex and unsecure image. However, what they do not like is that the STS quality mark will only be granted to senior tranches of securitisation. What AMIC wants, is that the STS quality mark is given depending on the quality of the deal not on the underlying risk (AMIC, 2015, p.1). That the buy side wants to allow tranching in the STS framework is not surprising. The more securities receive the safe ‘STS’ quality mark, the more securities become available to invest in and to get yield from.

### 3.5.3 Making changes

That the Commission not only listened to the financial sector before the first proposal for CMU and STS securitisation were published but also after, becomes clear after reading the reply of the Deutsche Bank. In the STS framework, synthetic securitisation is notably excluded as the very nature of synthetic securitisation is complex, vague and opaque. The Commission wants to get rid of the stigma surrounding securitisation, and synthetic securitisation is not going to help to achieve that goal. Deutsche bank, however, wants it to be possible for synthetic securitisation to also receive the STS quality mark. The Deutsche Bank responded ‘on the treatment of synthetic securitisation we disagree with the approach of preventing synthetic securitisation from being considered qualifying securitisation. A blanket approach would remove a large number of securitisation which, from a regulatory policy perspective, would otherwise, and should be, eligible.” (Deutsche Bank, 2015, p.2). They support this statement by stating that “Deutsche bank established well-known securitisation programmes that systematically hedge risk and we consider these programmes as tools for supporting lending to the economy.” (Deutsche Bank, 2015, p.2).

The Commission listened to the wishes of Deutsche Bank and added a crucial paragraph to the final version of the STS framework that clearly opens the opportunity for synthetic STS securitisation in the future. In the initial proposal, only securitisations with a true sale character could receive the STS quality mark. In the consultation document under the standardisation requirement the Commission wrote very clearly “(…) it cannot be synthetic securitisation” (European Commission, 2015c). This changed in the final STS proposal to “the STS criteria *should* not allow synthetic securitisation” [emphasis added] (Regulation (EU) 2017/2402, 2017, p.5). The added paragraph outlines that as soon as proper STS conditions that apply to synthetic securitisation have been developed, synthetic securitisation can receive the STS quality mark.

### 3.5.4 What about other interests?

That the Commission primarily gave attention to the interest of the financial sector can be illustrated by how little attention they gave to competing interest. Finance Watch is an independent non-profit association with members from civil society that was set in 2011 with the specific goal to as a public interest counterweight to the powerful financial lobby. They have been very focal in the CMU and securitisation debate and believe that there is no need for CMU and reviving securitisation is one step back in the process of fixing finance (Finance Watch, 2015). They question the assumptions that justify CMU (Finance Watch, 2015, p.2). Economic growth is not mediocre because of lacking credit supply, but because of lacking aggregate demand. If the European Commission truly wants to kickstart economic growth it should focus on aggregate demand rather than on increasing the credit supply. Moreover, they are critical on the argument that bank-based financing which is something undesirable. Although they acknowledge that bank-based financing has its drawbacks but thinking that capital market-based financing does not have any drawbacks is delusional. As soon as the capital markets have less appetite for taking on risk the exact same problems resurface as when banks tighten the credit supply. Finance Watch also questions the relation between finance structure and economic growth. In many of the European Commission’s proposals the implicit assumption is that growth is lacking in Europe because of overdependence on bank financing, but this link has never been irrefutably proven. Related, Finance Watch finds it irresponsible to promote capital markets as a better way model of financing business while it is that very same model that needed huge bailouts to save the economy. Finally, the notion that enough has been done to contain the financial sector and to solve the problems that caused the financial crisis is disputed by Finance Watch. What mostly has been done is fixing the problems of individual financial institutions. Barely anything has been done on improving the stability of the overall financial sector. Securitisation is only going to make this worse as it will make the financial system more procyclical and interconnected (Hache, 2014, p.35)

What the European economy needs, according to finance watch are European political measures aimed at addressing the lack of demand, not policies to increase the supply of credit. In addition, the focus should not be on unifying markets, but on promoting local banking. More specifically on the proposals by the Commission, Finance Watch believes that the focus should be more on fixing the negative externalities of securitisation to reduce systemic risk. Finally, the minimum amount of capital financial institutions must hold should be tied to the amount of systemic risk they add to the system. This will address the lack of attention on fixing systemic risk.

Finance Watch is one of the main voices in the CMU debate representing the interest of broader society, but they are not the only ones. In 2015, 27 civil society organisations published a common statement condemning the CMU (Who will benefit, 2015). The 27 civil society actors consist of trade unions, consumer groups, development and environmental NGOs and think tanks. They write “The CMU revives pre-crisis trends without adequately integration the lessons from the crisis. The marks a shift in the political momentum towards short-term growth and competitiveness at all costs, when wat is needed is long-term sustainable development of the economy”. The statement writes that more attention should go to *what* we should finance, not as in the CMU is the case, only on *how* to finance. Moreover, like Finance Watch they are concerned that the revival of securitisation will create additional risk for the economy and for society at large. The question that is, according to them, not answered in any of the proposals is who stands to gain the most. The group notes that the “EU’s too-big-too-fail banks stand to benefit more than the 90% of SMEs for which capital market-based financing is largely irrelevant” (Who will benefit, 2015). The statement ends with a call on policy makers to consider and integrate the concerns and proposals made by these civil society organisations.

A large group of academics also joined the debate and voiced their concerns (There is nothing “simple”, 2016). In a letter to the European Parliament titled “There is nothing “simple” about the European Commission’s securitisation proposal” they list four concerns why they believe reintroducing securitisation is wrong. Firstly, the question the Commission’s claim that securitisation is going to unlock financing for SMEs. Their concerns are in line with the arguments mentioned earlier in this chapter. Not SME loans are securitized, but mostly mortgage loans are. They are afraid that the revival of securitisation is only going to lead to another real estate bubble and more financialised growth. Secondly, like Finance Watch they are worried that the proposal by the Commission is only going to lead to more systemic instability. Thirdly, they note that everything what made securitisation so opaque and complex are still possible in the STS framework. Finally, they believe that not enough is done to overcome the originate-to-distribute model that was such a prominent cause of the financial crisis. The proposed risk retention which should prevent originate-to-distribute is too small to have any effect.

That this did not happen has now, three years after the concerns have been voice, become clear. The final plan on CMU and the revival of securitisation is largely similar to the first proposal in 2015. The changes that have been made are by and large in favour of the wishes of the financial industry. Nothing has been done to address the concern related to risk-retention, tranching and addressing systemic risk.

### 3.5.5 Illustrating the alliances

In the traditional sense of class conflict, it is capital against labour. Capital, however, is not a unity but consist of various types of capital. Capital can be disaggregated extensively, but most relevant is the distinction between finance capital and industrial capital. Industry capital is capital used in the actual production process in the real economy. Where financial capital consists of the financial sector and all its actors, industrial capital are transnational companies active in commodity production. Due to financialisation, there is, however, no longer a true distinction between financial capital and industry capital (Durand and Keucheyan, 2015, p.7). In an earlier section of this chapter it was already shown that financialisation affects corporate-decision making which effectively transformed corporations in large financial groups with the same interest as financial capital. Durand and Keucheyan (2015, p.7) argue that besides the transformation of corporations another factor made that the interest of industry and financial capital became one and the same and that is the imperative of liquidity for business (Durand and Keucheyan (2015, p.7).

That there is no longer a clear distinction between the two types of capital can also be derived from the response of the American Chamber of Commerce and the Bundesverband der Deutschen Industrie (BDI) (US Chamber of Commerce, 2015; Bundesverband der Deutschen Industrie, 2015). Both are highly supportive of CMU and their response is not really different from the various financial sector actors. The US Chamber of Commerce is worried about the proposed capital requirements and risk retention rules and warns that they might undermine the goals of the CMU. The BDI is highly in favour of CMU because it increases the financing opportunities for businesses. In line with the US chamber of commerce they also warn for the potential undermining effects of too strict regulations. An important note, however, in the response of the DBI is that they argue that CMU is only going to have effect on medium and large enterprises, not on small enterprises. They name more or less the same reasons for why securitisation is not going to work for small enterprises that have been mentioned in this thesis before: the inherent risky nature of SME loans and the diverse characteristics of SME loans.

This brings up an important point in the alliances that the financial sector tries to create. Large corporations have been incorporated already in their sphere of influence and their interest have been aligned, but that of small and medium enterprises not so much. This is one of the reasons why many of the financial actors and the Commission emphasize the positive effects of the revival of securitisation on financing for SMEs. That the facts are not supporting their story is inferior to the goal of trying to incorporate small and medium enterprises in the financialisation process.

Besides the efforts of the financial sector at the pro side of securitisation, alliances are also created at the contra side, that is the side against the revival of securitisation. Trade Union, NGOs, universities, scholars and many more civil society organisations have bundled their power to fight the proposals of the CMU. That despite their bundling of power, they had no real effect on the outcome of the consultation rounds can only be interpreted as proof that the Commission is prioritizing the interest of financial capital over that of society in general.

# Chapter 4: Conclusion

The question this thesis tried to answer is: Why did the European Commission only seven years after the devastating Global Financial Crisis seek to revive the securitisation market as part of the CMU while it first clearly condemned the practice? The approach to answer this question was to put the decision of the European Commission in the broader perspective of capitalist developments. Contrary to the existing literature on CMU, the thesis did not argue along the lines of the European Commission that CMU is necessary and that is the only way to obtain real economic growth. Instead, the arguments of the Commission were questioned and the proposal to launch CMU was put in the context of financialisation.

The best way to answer the research questions is to enfold it in several steps. The current SSA is based on neoliberal ideology and is characterised by financialisation. Economic growth is not achieved by increasing real production but by increasing the circulation of financial capital. Debt levels have increased considerably the past few decades and continue to rise to this day. The financial sector has penetrated every layer of the economy and dictates the course. This type of capital accumulation gave financial capital a dominant position in society and consequently gave financial capital the ability to let their interest prevail over the interest of competing social groups. This reign of financial capital has also granted them the ability to affect the European Commission in such a way that the Commission is mostly concerned with taking care of the problems and wishes of financial capital. The global financial crisis signalled the stagnating phase of the Neoliberal SSA and it is vital for financial capital that the current SSA remains in place. The decision of the Commission to revive the securitisation markets is thus a response to satisfy the wishes of the financial sector and an attempt obtain more ‘financialised’ growth. It is for those reasons that the European Commission set out to reactivate the securitisation market in Europe despite the fact that securitisation has caused such mayhem only ten years ago.

The outcomes of this research contribute to understanding the political consequences of financialisation. It has been shown that the financial sector has not only penetrated the economy, but political life as well through the dominant position they obtained in the Neoliberal SSA. Moreover, a convincing case has been presented that the Commission did not revive securitisation to increase funding to SMEs or to kickstart real economic growth, but rather to meet the wishes of financial capital. Financial capital has been systematically pushing for the reintroduction of securitisation which has been illustrated by conducting a thorough agency analysis. By approaching the research question using a strong theoretical foundation this research has added to the existing literature that tried to make sense of the decision of the Commission to introduce CMU and reintroduce securitisation.

This research, however, also has some limitations. The first are limitations regarding the theory deployed in this research. SSA theory is very America-centred. The theory originated in the United States and traditionally the subject of enquiry of SSA theorist has been the United States. The economic and political circumstances in which the theory originated and on which it based its premises are all American. It could therefore be that the theory misses important aspect that are relevant to a European SSA. If so, these relevant aspects are missing from this thesis. Therefore, more development of SSA theory from a European perspective is desirable. Moreover, the lack of any agency in the theory makes SSA theory not a natural contender to explain political outcomes. That problem has been avoided in this thesis by extending it with Gramscian agency, but the fundamental critique remains. Another weakness of SSA theory is, as also shortly touched upon in the theoretical chapter, that it does not specify which institutions are most important for an SSA. This certainly grants the theory flexibility, but a pitfall is that regarding institutions ‘anything goes’ is applicable. By specifying what type of institutions are crucial and what type are not, the theory can become much stronger.

More general critique on the theories used in this thesis is that its theoretical concepts and ontology are sometimes overly complex which makes it impossible to easily engage with critical theory. Although the theories are designed to unify theory and praxis, it is a complex undertaking applying critical theories to real life cases. This undermines one of the fundamental goals of critical theory, that of emancipation of society. Critical academics are mostly concerned with theorisation and abstract concepts rather than applying those concepts and using critical theory to achieve that better future. In that regard, critical theory should focus more actively on bridging the gap between theory and empirics by focusing more on operationalisation of the abstract concepts. Critical theory has a lot to offer in terms of making sense of the social world around us. Especially, considering that our society is becoming more complex and capitalism is facing problems for which no real solutions exist as of now and therefore this problem really needs to be addressed.

That further research on the topic of financialisation from a critical political economy perspective is necessary is evident. Financialisation is not going to stop anytime soon. Currently we are at the verge of yet another financial crisis with disastrous consequences. The root cause of the last crisis, that of overaccumulation, has not been solved and the financial instrument that escalated the crisis is reintroduced as if nothing has happened. Worldwide indebtedness is not just back at pre-crisis levels, they have exceeded pre-crisis levels. Indebtedness cannot grow indefinitely, and it is only a matter of time before the people will no longer be able to repay their loans as indebtedness is growing but wages are not. As soon as that happens, and the market starts to lose confidence *again* no one knows what is going to happen, besides for the fact that it is going to be worse than 2008.

Where critical political economy can really make a difference is to materialize on that goal of emancipation. Currently, there is no true alternative to the Neoliberal era, not because neoliberalism is doing so well but because there have not been formulated any realistic contenders that could replace it. The academics arguing that we should convert back to Keynesianism are also usually the people that say that everything was better in the past. The solution lies not in increasing aggregate demand, simply because aggregate demand is not indefinite and most importantly because the earth is slowly depleting. Radical different ideas are necessary, that do justice to the wishes of society of a fair distribution of income, a prospect of a better future and stability. This goal should be at the centre of future critical political economy research.

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