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Explaining policy change in the EU: Financial reform after the crisis

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ABSTRACT

The European Union (EU) has been hit by financial and economic crises since 2008. To shed light upon the impact of these crises this article reviews punctuated equilibrium theory (PET) to develop expectations that are tested against two cases of financial regulation and privatisation policy. In one, despite the demand for a new model from EU leaders, limited change occurred; in the other, despite legal limitations, significant change emerged. Analysis of the cases reveals a new form of policy venue, and the suggestion that the EU PET literature must consider more systematically and explicitly the role of veto players in shaping policy change.

KEYWORDS Financial regulation; privatization; punctuated equilibrium theory.

Introduction

The European Union (EU) has been hit by major financial and economic crises (FEC) since 2008 but the impact of these crises and the extent to which they have led to policy change remains open to debate. Some scholars suggest that there has been an active and robust response particularly compared to the 1930s (Alumnia *et al.* 2010), whilst others have argued that there has not, as yet, been any substantive change (Blyth 2013; Schmidt and Thatcher 2013; van Hooren *et al.* 2014). These divergent findings suggest the need for further research on the dynamics of policy change in the EU in response to major external shocks, which this article seeks to address. The article also responds to calls for more systematic evaluation of policy change in the EU (Princen 2013), contributing to the burgeoning and rich public policy literature that uses empirical examples to further theoretical development (e.g. see *inter alia,* Cashore and Howlett 2009, Littoz-Monnet 2014, Pralle 2006). We do so by analysing two policies: one on financial regulation, where we would expect significant change in response to the FEC but actually find only incremental shifts; another on privatisation, where we would expect little or no change due to the institutional legal constraints placed in particular upon the Commission, where instead we see significant policy change.

We use the cases to probe and further develop expectations about the dynamics of policy change in the EU using tools from punctuated equilibrium theory (PET) (Baumgartner and Jones 2009), with which we critically engage. We develop expectations drawn from PET that we examine using evidence from our cases to uncover explanations for when and how change occurs in the EU. Thus, this article makes an empirical contribution through analysis of the cases, specifically identifying a new type of bridging 'venue' used by EU policy makers; and a theoretical contribution via testing of expectations to inform future research. We suggest the EU PET literature can be strengthened by the inclusion of more examples of limited policy change, not least because the scope for venue-shifting in the EU is increasingly circumscribed. Hence, we suggest that more nuanced analysis of the role of policy entrepreneurs and veto players is required. In our cases, we find that more radical policy change takes place where the 'new' policy image is related to an already dominant ideological paradigm.

Research design and theoretical framework

Punctuated Equilibrium Theory (PET) has been designed to capture inertia, incremental change and major transformational change within policy systems (Baumgartner and Jones 2009). PET suggests that policies tend towards inertia with incremental changes taking place slowly over long periods of time, with occasional 'punctuations' that lead to policy transformation (Baumgartner and Jones 2009). The PET literature assumes that actors have limited information processing abilities and can therefore only concentrate upon a small number of issues at any one time (Baumgartner *et al.* 2014). Policies are largely decided at the subsystem level, which is dominated by bureaucrats and policy experts. Once a focusing event occurs, it is assumed that increased issue salience can push an issue (or allow it to be pushed by a policy entrepreneur) onto the macro-systemic level of policy-making (*ibid*). Yet, not all focusing events lead to change: they may lead to limited change, or to a mixed pattern within the same system (Howlett 2009), and sometimes change occurs due to a build-up of pressure within the subsystem without external pressure (i.e. it is endogenous to the policy system). In this article we focus upon exogenous shocks, specifically the financial and economic crises that hit the EU from 2008 onwards, in order to identify whether and how such shocks lead to policy change.

Two key causal mechanisms used by PET theorists to explain policy change are venue-shopping and policy framing. A policy venue is the institutional locus where authoritative decisions on a given policy are taken (Baumgartner and Jones 2009: 32). Venue-shopping occurs when policy entrepreneurs take advantage of issue salience to drive through change in a given area by shifting policy-making to another venue, which is more conducive to the pursuit of their goals. The success of venue-shopping is linked to the successful manipulation of policy image or policy framing by these policy entrepreneurs. A policy image is how a policy is discussed, understood (Baumgartner and Jones 2009:25) and also projected to policy-makers and the wider public. The framing of policy issues is central to the attempt to shift venues and reflects the constellation of interests and fault lines of contestation within a political system (Daviter 2007).

There is an assumption within PET that political systems have a *status quo* bias, and that the reframing of an image is central to policy change (Baumgartner *et al.* 2014). Policy makers might seek first to reframe an issue in order to justify the use of a new venue and facilitate the shift from one venue to another. A classic EU example is the framing of tobacco advertising as an economic issue in order to circumvent restrictive rules on health policy-making (Princen 2007). Hence, venue shifting and policy framing are used by policy actors that seek policy change but are restricted from doing so by institutional 'friction', that is, where the institutional framework in a given policy area may 'impose certain "hurdles" for policy change' (Princen 2013: 858, see also Baumgartner *et al.* 2009; Walgrave and Vleingenthart 2010). It is generally assumed that reframing takes place *ahead* of a venue shift and that the new policy image and venue become mutually reinforcing – leading to positive feedback from the new venue to policy framing that can justify the new locus for policy making (Baumgartner *et al.* 2014; Princen 2013). This relationship between framing and venue shifting is, however, slightly circular – change happens when actors push for change and when a venue is present and a new image available. This circular logic has been enhanced by the way the PET case study literature has developed within EU studies as it is dominated by cases of successful venue shift and policy change.

This emphasis is no doubt largely because the EU, with its system of multi-level governance, provides numerous potential loci for venue-shopping (Beyers and Kerremans 2012; Mahoney and Baumgartner 2008; Princen 2007). The vast majority of the literature on venue shifting in the EU (see Princen 2013 for a review) has examined the activities of national advocacy groups and whether and how they seek to take advantage of the multiple points of access offered by the EU's system of multi-level governance via vertical venue-shopping (Beyers and Kerremans 2012; Guiradon 2000; Kaunert and Leonard 2012; Littoz-Monnet 2014; Mahoney and Baumgartner 2008; Princen 2010). A clear advantage offered by EU-level venues is that they allow domestic policy actors to escape conflict or constraints at home by reducing the range of actors, and therefore potential veto players, involved in the policy area (Princen 2007). Moreover, policy-making at the EU level has the advantage of being relatively insulated from popular mobilisation within the nation states, making it easier to devise and implement potentially unpopular policies. There is also scope for horizontal intra-EU as well as extra-EU venue-shopping, such as the Commission's entrepreneurship in the field of social policy (Cram 1993; Wendon 1998) and Directorate General (DG) Competition's efforts to select between different external venues in order to secure its policy preferences (Damro 2006). In these instances, actors engage in venue-shopping to secure more freedom to pursue their preferences in the immediate and longer-term.

Hence, there is a well-developed case-study based literature on venue-shopping and PET in the EU. This approach, of analysing a small *n* to explore the reasons for the success of venue shifting, provides a rich source of data that allows analysts to identify the preconditions for change, which can be developed into expectations. However, by failing to analyse systematically the *absence* of change this literature remains underdeveloped, which potentially limits its theoretical leverage. A key explanation for the failure to achieve change is the presence of countervailing pressure and veto players. Institutional friction has emerged as a key analytical lever within PET for understanding patterns of policy punctuation: the greater the friction the more punctuated the pattern of policy that emerges, as incremental changes over time may eventually lead to unsustainable pressure and cause a policy punctuation (Jones *et al.* 2003). Studies have focused upon veto points in different systems and the level of costs associated with different stages of the policy process to explain incremental shifts (*ibid*; Baumgartner *et al.* 2009). Yet interestingly, there has been limited systematic evaluation within the EU PET literature of how, when and why actors seek to block policy change (also see Givel 2010). To address these shortcomings, this article is located within the qualitative small *n* tradition, and analyses two cases, strategically selected to include one case where we would expect change and it fails to emerge and one where we would not expect change but significant policy change occurs. Both cases therefore deviate to some degree from standard expectations (Gerring 2007; Ljiphart 1971), so by analysing them we can develop a more nuanced understanding of both the drivers and the barriers to policy change in the EU. We also contribute to the wider PET literature by identifying the source of institutional friction within the cases analysed, which can provide a basis for analytical generalisations to inform EU PET. We proceed by developing expectations that emerge from the PET literature, which we then subject to empirical scrutiny using our cases.

As outlined above, the existing literature suggests that 1) policy change is often preceded by successful venue-shifting, which occurs when an exogenous event acts as a focusing issue that drives up policy salience leading policy to shift from the subsystemic to the macro-political level; 2) a credible and alternative policy image and venue are assumed to be available to justify a shift in venue; 3) entrepreneurs are able to overcome countervailing pressures; 4) reframing normally takes place ahead of venue shift; 5) positive feedback between the new policy frame and the new venue continues to justify policy activity in the new locus. In the following sections we provide an account of our two cases studies, before analysing the implications of our findings for these expectations.

Case study 1: Incremental reform of EU financial regulation

The international financial crisis was a major focusing event: bank losses reached £16.3 trillion in the EU and gross financial sector assistance amounted to 8% of EU gross domestic product (GDP), causing a deterioration of the public budget balance of 2% of GDP across the EU. The crisis substantially increased the salience of financial regulation, indicated, for example, by the thousands of newspaper articles that mentioned the words 'financial regulation' or 'financial crisis' over the period 2008-10. Nonetheless, somewhat counter-intuitively, EU post crisis financial regulation underwent only incremental change, rather than transformation.

Whilst the Commission has exclusive competence to propose EU legislation, it was 'cautious about mobilizing information and ideas in favour of financial re-regulation' (Hodson 2013: 304). Charles McCreevy, Internal Market commissioner (2004 to 2010), had been a staunch supporter of 'light touch' principle-based regulation prior to the crisis (e.g. McCreevy 2007), which fitted well with the overall 'better regulation' approach of the centre-right Barroso. It was therefore difficult for McCreevy and Barroso to invert their regulatory 'take' after the crisis. The Commission became more pro-active in re-regulating finance after Michel Barnier was appointed Single Market Commissioner in 2010 in the second Barroso Commission. In one of his first speeches, Barnier (2010) criticised pre-crisis ‘self-regulation’ and ‘regulatory gaps’, however, he was also critical of ‘over-regulation’ adding that ‘I don't want to regulate for the sake of regulation…what we need is appropriate and efficient regulation’. Furthermore, the Commission’s hands were tied by major disagreements amongst the member states on the content and pace of financial reforms. Here, the Commission could not form an ‘alliance’ with the European Central Bank (ECB), unlike, for example, in the case of Banking Union (Epstein and Rhodes 2015), because the ECB was not responsible for banking supervision until the Single Supervisory Mechanism was established in 2014.

Hence, the Commission did not act as a policy entrepreneur for EU financial reforms at the agenda-setting stage; nor, however, did policy-makers in key states such as France and Germany. These countries, despite ‘gesture politics’ (Buckley and Howarth 2010), engaged in a limited reform of domestic financial regulation (see, for example, Jabko 2012; Handke and Zimmermann 2012), even though some of the Commission’s legislative proposals in this period can be ascribed to Franco-German pressure. For example, the French presidency of the EU in the second semester of 2008 prioritised EU legislation on Credit Ratings Agencies and the European Council called for a legislative proposal on the matter in late 2008 (Council of the European Union 2008). A joint letter by Merkel and Sarkozy (2009) advocated a tough regulatory regime for hedge funds, to be overseen ‘similarly to banks’. But French and German policy-makers were rather ‘intermittent’ (and opportunistic) in their agenda-setting efforts: they were keen to regulate financial services that their countries possessed in limited number (such as rating agencies, hedge funds, over-the-counter derivatives) rather than banks, which had been the epicentre of the crisis but were also the backbone of continental financial systems.

Despite some initial attempts to blame and hence tarnish the image of 'globalised Anglo Saxon finance', no convincing alternative to this policy image was successfully articulated. In the wake of the crisis, Sarkozy remarked that 'the idea of the all-powerful market that must not be constrained by any rules, by any political intervention…is finished' (Sarkozy 2008). Similarly, the German Finance Minister Peer Steinbruck argued that 'the free market-above-all attitude and the argument used by "laissez-faire" purveyors was as simple as it was dangerous' (EUobserver 2008). However, no consensus was reached on a new policy image for EU financial regulation (and elsewhere, Blyth 2013), thus the neoliberal policy image of 'globalised finance' remained resilient in the face of enormous challenges (Schmidt and Thatcher 2013).

Indeed, the policy image of 'globalised finance' characterised by mobility was advanced by UK authorities, when advocating EU legislation that would not 'endanger' the competitiveness of EU financial industry (with its stronghold in the City of London). For example, when the directive on Alternative Investment Fund Managers (AIFM) was negotiated, a UK Treasury minister, Lord Myners, pointed out the need 'to make the EU a base [for hedge funds] from which to compete in global markets' (Myners 2009). Similarly, the financial industry successfully presented a counter-image of globalised finance that restricted the regulatory room for manoeuver in the EU on the grounds that financial activities would relocate outside the EU (e.g. Tait and Maste 2009). Though fleeting alternative policy images were aired, none gained consensus and the logic that finance must be global dominated.

The new rules were adopted via the ordinary legislative procedure within typical institutional fora. The scope for finding an alternative venue was circumscribed because financial regulation constitutes a key part of the Single Market: it is in effect the core of the *acquis communautaire* and subject to the community method. The content of the rules initially proposed by the Commission was watered down during the legislative negotiations on several occasions, such as in the case of the AIFM directive (Pagliari 2011; Woll 2013). As is common practice in EU negotiations, the legislative process was characterised by the quest for compromises and trade-offs amongst the member states in the Council, arm twisting between the Council and the Parliament and competing interests of the financial industry.

At the decision-making stage, British policy-makers, worried about the international competitiveness of the City of London and the risk of 'regulatory arbitrage' (Quaglia 2012), often managed to dilute proposals, as with EU legislation on rating agencies, or alternative investment fund managers. Sometimes, French and German policy-makers also watered down proposals, as with the capital requirements for banks or bank structural reform. For example, the Bundestag (2010) opposed a major tightening of capital requirements, emphasizing the need to preserve 'the supply of credit - especially to small and medium sized enterprises - in the German economy'. Similarly, the French Parliament (Assemblée Nationale 2012) expressed concerns about the implications of stricter capital rules for financing the 'real economy' and criticised 'the accelerated timetable for their entry into force'. By contrast, the UK supported stricter capital rules. Thus, the UK Chancellor together with seven European finance ministers published a letter criticizing the efforts of the Commission, France and Germany to water down the application of international capital standards (the Basel III accord) in the EU (Djankov 2011).

The parts of the financial industry that would be directly affected by the new EU rules were keen to prevent them or to limit their scope, *de facto* forming ad-hoc alliances with recalcitrant member states. Thus, rating agencies and hedge funds unsuccessfully sought to block the proposed EU rules at the agenda-setting stage. The Alternative Investment Managers' Association (AIMA) (2009a) argued that hedge funds were the 'victims' of the international financial crisis and that overall they had performed well during the crisis, hence no EU regulation was needed. Rating agencies argued that EU rules were unnecessary given the existing voluntary (non-binding) rules at the international level (the Code of Conduct issued by the International Organization of Securities Commissions) (Standard and Poors 2008). At the decision-making stage, hedge funds and rating agencies engaged in intense lobbying to amend the rules, which they argued would be overly prescriptive and costly to implement, creating potential regulatory arbitrage vis-à-vis countries outside the EU (AIMA 2009b). In other cases, banks argued that higher capital requirements would restrict the flow of funding to the real economy (German Banking Association and Association of Chambers of Commerce and Industry 2011; German Industry Federation 2011), pointing out the 'European specificities regarding access to finance and bank lending' (French Industry Association 2015).

Despite this policy area being identified as a source of the crisis, discursively identified as problematic and shifting from the subsystem to the macro-political level, there was overwhelming *status quo* bias. The lack of a dedicated policy entrepreneur, the absence of a credible alternative policy image or policy venue, resulted in incremental change in financial regulation. The main changes to EU post-crisis financial regulation concerned the regulatory framework and specific pieces of legislation. The European Systemic Risk Board was established in 2010 to monitor macro-prudential risks in the EU. The existing EU committees of national financial supervisors were transformed into independent authorities with legal personality, increased budget and enhanced powers (Hennessy 2014). New EU legislation was issued on rating agencies, alternative investment fund managers (including hedge funds), over-the-counter derivatives as well as capital requirements and liquidity rules for banks. The new rules either regulated activities or financial institutions that were previously unregulated in the EU (derivatives) or subject to self-regulation (rating agencies and hedge funds). In other instances, the new rules imposed higher capital requirements for banks and new liquidity management rules (Quaglia 2012).

Case Study 2: Reform of privatisation

There was nothing in the EU treaties to suggest that the Commission would end up actively pushing a privatisation agenda in the aftermath of the FEC. The Commission had been a leading actor in promoting liberalisation, deregulation and competition across multiple sectors, particularly after the Single European Act in 1986. However, this was all in the name of market integration, and it had refrained from promoting privatisation, defined as the sale of public assets to the private sector, because it was legally required to maintain a neutral stance on the question of ownership (EC 1957 Art: XX). The Commission´s active promotion of privatisation to ailing EU member states in the aftermath of the FEC consequently amounted to a radical policy change.

If a democratically elected, domestically indebted government had pushed for privatisation of the nation´s assets in order to alleviate that debt, it would not be interpreted as a major policy change. Privatisation has been widely used in the EU context since the 1980s (Clifton *et al.*, 2006). However, the way in which the Commission teamed up with the ECB and the International Monetary Fund (IMF) to form the Troika, and proceeded to use this venue to propose loans conditional on policies, including privatisation, to negotiate and then monitor international bailout programmes to states in the EU periphery, was unprecedented and made this a radical policy departure.

Privatisation, in contrast to financial regulation, was not a salient topic in the immediate aftermath of the financial crisis. After all, privatisation or a lack of it was not the reason for the crises. However, in the lead up to Greece's first bailout, finally approved in May 2010, resentment and frustration among policy-makers in creditor countries grew with Greek politicians. The idea that Greek governments had behaved irresponsibly, and that they were not doing enough to pay their debts emerged as a dominant discourse and privatisation emerged as a solution due to the agenda-setting efforts of the Commission, the ECB and German policy-makers. Controversially, the broadsheet *Bild* (2010) suggested that Greece should sell its islands, historic buildings and artwork to pay its debt. Eurogroup President Juncker advocated a solution modeled after the German Treuhand, the vast sell-off of East German firms in the 1990s following the fall of communism (Holehouse 2011). The ECB's chief economist Jurgen Stark also argued in favour of 'a massive privatisation programme' in Greece, given that 'experts estimate the privatisation potential at up to 300 billion euros' (Breidthardt 2011). It was in this increasingly bitter context that creditors, particularly financial institutions based in France and Germany who were overwhelmingly exposed to Greek debt (BIS, 2011: 15), pressurised policy-makers to impose privatisation. Legally, however, the Commission could not act as a policy entrepreneur, as it lacked the power in the treaties to promote privatisation.

In this scenario, the policy image of privatisation was recast by scaling down its classic economic rationale, and reducing it to a sub-tool of financial reform. Traditionally, privatisation was justified by the claims that it exposed managers to market forces, made managers more accountable to shareholders and increased firm and government efficiency (Megginson and Netter 2001). However, privatisation alone was insufficient, and needed to be accompanied by other policies. These included sectoral competition, to avoid replacing public monopolies with private ones and ensuring markets worked (Clifton *et al*., 2006), and sectoral regulation, since many activities performed by the state sector had public good qualities (Clifton *et al.*, 2016). The financial benefit of privatisation was contingent because, although governments would get an immediate cash injection, future profits from this activity would no longer be channeled to the public purse. These nuanced approaches were dropped in the alternative policy image: privatisation was cast as a quick, decisive way of raising money to improve the short-term fiscal solvency of debtor countries. Questions of efficiency, competition and regulation were pushed into the background. The narrowing down of privatisation to its fiscal core was reminiscent of the 1990s, when some countries had used privatisation proceeds to qualify for Maastricht and EMU (Wagschal and Wenzelburger, 2008; Savage, 2001; Zohlnhöfer *et al*., 2008). This policy image as a narrow tool for financial reform of ailing Member States facilitated its inclusion as part of the broad conditionality programmes of structural reform.

As a narrow financial policy, privatisation was introduced as part of the Troika's agenda. The three bodies worked in parallel as equal partners: the Commission provided authority, the ECB monetary governance and the IMF technical expertise in loan management in times of crisis. The Troika dated from 2010 when the Eurogroup sought to utilise the IMF's technical expertise in crisis management to address the Greek crisis. The arrangement had its roots in previous collaboration to implement conditional loans to Hungary, Latvia and Romania (Hodson 2015; Kincaid 2016). Hence the Troika acted as a bridge between the EU and the

IMF. By using these existing structures in a new way the Troika was able to address the debt of ailing Member States via financial reform prescriptions and conditional loans through Memorandums of Understanding (MOU).

In the decision-making phase, Greece was the first, and most extreme, case as regards privatisation demands. Financial assistance was dependent on the request that the government prepare a list of state entities to sell to generate at least €1 billion (European Commission 2010:57). By the second MOU, the Commission stated that privatisation proceeds had been 'disappointing so far' (European Commission 2012:4). The Greek government then included a far more ambitious list of state assets for privatisation, including public services such as gas, water, post, electricity, railways, Athens airport and defence, and real estate, which it estimated would raise around €50 billion by 2015 (European Commission 2012, Annex II). The Hellenic Republic Asset Development Fund (HRADF), established in Athens 2011 in order to oversee privatisation progress, enjoyed a close working relationship with the Commission. For example, the Commission and euro area member states appointed two HRADF members, as observers. Three members of the Council of Experts advising the HRADF board were Troika appointees. The narrow, creditor-looking role of the HRADF can be seen in its own mission statement: 'The sole mission of the HRADF is to maximise the proceeds of the Hellenic Republic from the development and/or sale of assets'.[1] Other requirements, such as competition and regulation, are not included.

At the decision-making stage, German policy-makers were key players pushing for privatisation. For example, during the heated bail out negotiations in June 2015, Greece's creditors, notably Germany (*Bundesregierung* 2015), argued that Greek asset sales would proceed more efficiently if an outside body took over the process (Alderman 2015). The

German Government proposed that a 'trust fund' should be established, with a 'targeted total of €50 billion' (*Bundesregierung* 2015). Subsequently, in the third bail-out package to Greece, German policy-makers insisted on a Greek privatisation goal of €50 billion (Nienaber 2016).

Beyond Greece, the Troika pushed for structural reform, including privatisation, in other member states, particularly Portugal and Cyprus. The Cypriot Parliament initially voted to reject privatisation in February 2014, but voted again to accept it in March rather than face the withholding of financial disbursement (Stamouli and Persianis 2014). The Irish case was different, as the proceeds required from privatisation as a condition for financial assistance changed several times, and the Irish government had more discretion to decide which assets should be sold (Palcic and Reeves 2013).

The Troika has become increasingly controversial and its promotion of privatisation contested. For example, on taking office in 2015 the Tsipras government immediately refused to recognise the Troika (Papadimas and Koutantou 2015). The explicit use of privatisation as a narrow tool to maximise cash for creditors, when many of the assets for sale are destined for societal welfare, led to criticisms of the Troika promoting a 'fire sale' (Rankin and Smith 2015) prompting mass public demonstrations (Ancelovici *et al.* 2016). Hence, privatisation emerged as an area of political contestation at the domestic level. Thus, as in our first case, financial interests (primarily French and German creditors) played a key role as a coalition supporting the Commission and Council's delegation of power to the IMF in order to secure policy change (Hodson 2015).

Analysis

How then do our cases conform to the expectations outlined above? In the case of financial regulation, on our first expectation, that a crisis will act as a focussing event by increasing issue salience and the demand for policy change, prompting policy entrepreneurs to shift policy from the policy subsystem to the macro-political level, it is clear that the FEC did act as a focusing event that drove up issue salience. However, there was no policy entrepreneur: the Commission was unwilling and unable to perform this role and, whilst political leaders made pronouncements about the need to change the financial paradigm, there was little political will to do so and limited evidence of policy making its way out of the subsystem beyond some gesture politics. In contrast, privatisation had little initial salience but, as the crisis deepened, tensions increased and bailout packages were designed, prompting creditors increasingly to call for privatisation in the debtor countries. The Commission, with the support of the ECB and policy-makers in Germany, acted as an entrepreneur by putting privatisation on the EU policy agenda.

Concerning our further expectations that an alternative and credible policy image is available that can be used to justify shifting policy to a new venue, and that a credible and alternative policy venue is present to justify an attempt to shift venue, there was no alternative policy frame offered by any of the key actors in financial regulation, no strong coalition advocating policy reform emerged and there were no alternative venues that could be identified to justify a reframing. The status of regulation as being central to the *acquis communautaire* provided a significant constraint for developing a new policy venue. Hence, new regulatory measures were brought forward, but they did not represent a substantial break with the past and were adopted via ordinary legislation proposed by the Commission (DG Internal Market) and co-decided by the Ecofin council and the European Parliament. This kind of incremental policy-making is entirely in keeping with PET, which seeks to capture both incremental and radical change. What happened here was the mobilisation of existing interests to maintain the *status quo*; so-called countervailing forces, which were largely composed of financial interests, albeit acting in slightly different ways depending upon their interests. Hence the expectation that policy entrepreneurs would be able to overcome countervailing pressures (e.g. entrenched interests) to reframe an image and secure venue-shift did not apply in the case of financial regulation as there was no consistent policy entrepreneur and entrenched interests blocked the reframing of regulation. There was also limited political will to follow through on the discursive construction of regulation as the answer to crisis. Give the failure to shift venue positive feedback between image and venue to justify the new locus of policy activity did not apply.

In the privatisation case, the policy image was recast. The traditional image of privatisation as increasing firm efficiency, if other conditions such as competition and regulation are in place, was narrowed down to privatisation as an instrument to maximise proceeds from asset sales. Thus, privatisation became merely part of structural reform for conditional loans. There was, however, no existing venue to legislate for privatisation at the EU level as it is explicitly ruled out in the EU treaties. Nevertheless, after reframing it as part of financial reform, the Troika arrangement provided a new institutional venue that the Commission could use; thus we see a confirmation of our third expectation. There were also countervailing forces present, as manifested in the public demonstrations and political unrest in Greece in particular. However, these have had little political traction, although they may have constrained positive feedback between the policy image and use of venue, which raises questions about the permanence of the Troika as a vehicle for the pursuit of privatisation.

The role played by policy entrepreneurs and veto players was crucial in determining the presence and extent of change in response to the FEC. In financial regulation, the Commission was quite active at the agenda-setting stage when proposing new 'market-shaping' legislation, but its influence waned in the decision-making stage, where institutional obstacles in the form of OLP set a high bar for agreement. Other important actors played a critical role, especially at the decision-making stage, in defending the *status quo*, namely the UK financial industry and government, which were concerned about the implications of regulation for London as a financial centre. Continental policy-makers also watered down EU banking legislation that could be detrimental to their bank-based financial sector and the real economy. Hence, the role of key veto players seems to have been as important as the absence of a skilled entrepreneur in explaining the outcome. In privatisation there were veto players, notably national governments and publics, but in contrast there was conditionality and an asymmetric balance of power. The Troika held all the cards, the need for financial support outweighed opposition, at least at the institutional level. Interestingly, the popular protests against the Commission and conditions of the MOUs seemed to have held less sway at EU level than the objections of key financial stakeholders and states in our first case, an indication of where power lies in the contemporary EU.

The role of the Troika is particularly significant. As noted above, one reason the EU attracts venue-shopping is that it can insulate unpopular policies against domestic opposition. The privatisation case suggests a further step being taken to insulate salient and unpopular policies from opposition and accountability. Hodson (2015) has suggested that the Troika has made the IMF a *de facto* EU institution, but it may be more helpful to conceptualise it as a bridge between the EU and the IMF, in effect a bridging venue, that joins these two institutions and creates a new space within which policies that cannot be pursued within traditional EU structures can be developed and implemented.

Given the importance of veto players for our analysis it is surprising that these actors are not discussed more extensively within the EU PET literature, where their impact remains under-theorised. There have been calls within the policy literature to explore the scope for synthesis across different policy theories (Cairney 2013). Such ambitions raise challenges especially where different epistemological and ontological assumptions underpin approaches (*ibid*.). However, our analysis flags the importance of including more systematic evaluation of countervailing forces or veto players within EU PET to account for incremental change. Indeed, one problem with our expectations is that they become tautologous: where alternative images and venues are available, and countervailing forces can be overcome, policy change can follow. Without carefully drawing out and articulating clear hypotheses PET is in danger of being used as a post-hoc analytical heuristic that can capture some kinds of change but has limited traction when cases without change are analysed (Givel 2010).

The work on institutional friction which seeks to capture the effects of countervailing forces or veto players has provided a welcome addition to the literature (Jones *et al.* 2003; Baumgartner *et al.* 2009; Walgrave and Vleingenthart 2010). Comparative longitudinal analyses such as that provided by Baumgartner *et al*. (2009) tell us that, regardless of political systems and the nature of veto points within states, broad patterns of punctuated equilibria can be detected. But only through detailed analysis of qualitative cases can we determine how or why veto players mobilise, or institutional structures act as an obstacle in some cases and not in others. For example, Walgrave and Varone (2008) suggest that political parties are key veto-players and agents of change in polities dominated by parties. Crucially, they, like us, find that political will is an important variable determining the likelihood of change. Our analysis leads us to suggest that more detailed and nuanced hypotheses are required to probe the extent and nature of change or stasis as a response to exogenous shocks. In the EU context we suggest that analysing the political will of the Commission and powerful states (typically, but not necessarily, France and Germany) to push through change gives a high degree of analytical leverage. It is clearly the case that where institutional rules impose high decision costs (see Jones *et al.* 2003; Baumgartner *et al.* 2009), such as the OLP, which was used in the case of financial regulation, we can expect limited or incremental change. Crucially, the presence and availability of an alternative policy image is central. In our first case no such image emerged. In the second the privatisation policy image was recast, but it remained consistent with the prevailing consensus about the desirability of privatizing publicly owned resources. Both cases speak to the endurance of the neo-liberal capitalist model (Blyth 2013).

Conclusion

This article has investigated the dynamics of policy change in the EU in response to major external shocks by looking at two key policies that were reformed to different degrees after the FEC. There was incremental change in financial regulation, despite its direct causal link to the financial crisis, and radical change in the case of privatisation, despite the lack of formal EU competence in this area. Empirically, we shed novel insight onto two policies that are intrinsically important because of their economic and social effects. Unfit for purpose financial regulation fueled the financial crisis, which led to the socialisation of losses by taxpayers and privatisation of gains by the financial industry. Privatisation policy has far reaching repercussions, whereby important domestic policy choices are *de facto* taken by outsiders (the Troika) in spite of *de jure* limitations upon one of those actors (the Commission) to legislate is this area.

Our analysis suggests the need for more studies of limited policy change to address the rather skewed nature of the EU PET literature. This call is strengthened by the observation that as the *acquis communautaire* has extended there is increasingly limited scope for the creation of new venues at EU level (Daviter 2007), and arguably therefore less scope for policy change, but more likelihood of punctuated policy patterns over time (Jones *et al.* 2003). In addition, veto players, political will and power could be included more explicitly in the EU PET literature. Our analysis also suggests through careful evaluation of more cases increasingly nuanced depictions of policy-making can emerge. This analysis could be extended to other economic or financial policies directly or indirectly affected by the financial, economic and sovereign debt crises as wells as to other crises, such as migration or Brexit.

Notes

1. http://www.hradf.com/en/the-fund/mission

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