

# **Constructivist institutionalism, (multi-level) governance, and the Euro crisis**

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## **Abstract**

Within new institutionalist literature, there has been an increasing shift toward considering the way in which ideas (as endogenous or exogenous factors) contribute to shaping institutional outcomes, framed variously as discursive, constructivist or post-structural institutionalism. The ideational context of institutional practice is also a common theme in European governance literature and in particular Multi-Level Governance (Hooghe and Marks 2001), although the ontological distinctiveness of this approach is rarely made explicit. This paper aims to suggest how a multi-level approach might be strengthened by an explicit constructivist (institutionalist) perspective, engaging with and combining two existing lines of argument: intersections between MLG and institutionalism (Awesti 2007 Stephenson 2013), and between MLG and constructivism as understood by International Relations (Aalberts 2004). The empirical case of EU fiscal policy is used to show where ideational networks may be found, and the ways in which these have been changed and moulded by the financial crisis. In so doing, I seek to engage in a theory building exercise for Multi-Level Governance, to provide a more robust ontological foundation for those applying the approach to different domains of policy, politics and polity (Piattoni 2009, 2010).

## **Introduction**

Constructivism and (new) institutionalism have both witnessed a vogue in recent decades and have been applied to an ever-more imaginative and exhaustive range of empirical and analytical problems (Asinwall and Schneider 2000). Such has been the level of infiltration into the disciplines of political science, European studies and International Relations that as Lee and Smith (2013) find, the top ranked article under the header of ‘political science’ is Hall and Taylor’s (1996) article ‘Political Science and the New Institutionalism’, which has been cited 3,983 times at the time of their analysis. Indeed, Paul Pierson’s maxim that ‘we are all

institutionalists now'<sup>1</sup> (2000, p.493) seems increasingly apposite given the level of agreement on the value of institutionalism writ large – but a fragmentation of ideas about what claiming an affiliation to 'institutionalism' actually means (Hall and Taylor 1996<sup>2</sup>) and little common consensus about how this translates into an understanding of the limits of institutional design (Pierson 2000). It may therefore seem that there is a decreasing amount of space in which to assert an institutionalist position. However, this paper argues that there is still mileage in considering institutionalism in relation to a popular theory of EU meta-governance, that of multi-level governance (MLG). There is a point of straightforward logic in suggesting that MLG needs a better theory of institutions: as Hallerberg *et al.* (2009, p.4) state, in the context of fiscal policy, our empirical case study, 'the term "governance" connotes a broader perspective on the institutions, that is, the system of procedures (or fiscal institutions) in place to make budgets'. Governance is therefore fundamentally about institutions. I aim further to justify the incorporation of the new strand of constructivist or discursive institutionalism (Schmidt 2007, 2010, Hay 2006) as the most suitable ontological complement to MLG.

This strand relates to constructivism as an ontological position, as expressed by Christiansen *et al.* (1999), who suggest that a constructivist stance allows the analysis of 'crucial aspects of the integration process – polity formation through rules and norms, the transformation of identities, the role of ideas and the uses of language' (Christiansen *et al.* 1999, p. 528). This suggests clear synergy with some expressions of MLG, such as that articulated by Hooghe and Marks when they suggest that 'there is little consensus on the goals of integration. As a result, the allocation of competencies between national and supranational actors is contested' (2001, p.28). Indeed, this Aalberts (2004) has previously offered an analysis that identifies MLG as implicitly constructivist in the way it conceives of contemporary statehood. I seek to use CI to extend this argument beyond interactions between states, to the level of individual institutions and the actors that facilitate relationships between them, as a causal factor in accounting for change in multi-level frameworks. MLG therefore can be argued to contain a latent form of CI that would be rendered more effective by being expressed. This is the case not least because institutionalism can play an effective role in 'filling in' esoteric theories of European integration (Bulmer 1998). Indeed, this would fulfill a need identified by authors such as Bache and Flinders (2004) and Piattoni (2010) who describe MLG as an underdeveloped or 'proto-theory' (Bache and Flinders 2004, p.204) which has difficulty generating predictive rather than descriptive explanations. In particular, CI develops a position that interrogates the role of ideas and actors in generating endogenous change, which is a problem implicit in MLG's mode of analysis based in politics, policy and polity (Piattoni 2009).

The argument proceeds in five parts. Firstly, I outline MLG's core claims (focusing on instances where they are identified as having unclear or unresolved implications, and how these relate to institutionalism), before proceeding to discuss CI and its potential suitability to offer a resolution. I then sketch out an empirical illustration, which aims especially to justify

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<sup>1</sup>Incidentally, the paraphrase is of Nixon – 'we are all Keynesianists now' – which bears some ironic relevance to the substantive focus of this paper.

<sup>2</sup>Although some authors such as Peters (1998) have identified as many as seven variants – presumably eight or nine if we now add these two new typologies.

why it is worth (re)visiting these ideas now, and in the light of fiscal policy. The apotheosis of constructivism might be regarded as the late 1990s, and whilst the analytical frame certainly has not lost relevance in the meantime (indeed, it has become accepted as part of the theoretical mainstream), it is true that there has been less self-conscious reflection on the subject in the wake of the dialogues that occurred whilst constructivism was still gaining traction. The answer to this lies in the impact of the financial crisis. As Hay (1996) argues, crises have particular narrative significance, as ‘a process’ for ‘a particular conjuncture to provide the opportunity for decisive intervention it must be perceived as so doing – it must be seen as a moment in which a decisive intervention *can* and (perhaps *must*) be made’. As such, crises are defined not merely by material circumstance, but by an ideational disjuncture in which new ideas are incorporated into praxis by means of actors who see their context as providing the *opportunity* and *capability* to act. The practical implications of this are clear to see in the steps that have been taken in governing the Euro since the crisis hit European shores in 2008. As Blyth (2013) forcefully suggests, both the material and ideational aspects of the on-going policy responses have been significant; but particularly critical has been how European policy elites have understood and framed the institutional ramifications of their actions. Therefore, the governance innovations taking place under the guise of the financial crisis make it a particularly apposite time to explore issues of constructivism, and furthermore of the implications these may have for multi-level governance.

## **Multi-level governance: core claims and omissions**

Several authors have conducted a historiography, or analytical revue, of MLG and its claims (notably, Marks and Hooghe 2001, ch.1, Kohler-Koch and Rittberger 2006, Piattoni 2010, ch.1, Stephenson 2013). There is therefore a wealth of writing on the providence of MLG theory and its evolution as a body of work and I do not seek to replicate it here. However, for the purposes of identifying where and why institutionalism might require further elaboration in a multi-level context, it is worth briefly outlining the scope and purchase of the theory as it stands. Bache and Flinders (2004, p.3) describe MLG as referent to ‘the increased interdependence of governments operating at different territorial levels, while ‘governance’ signalled the growing interdependence between governments and non-governmental actors at various territorial levels’ (p.3). The most significant aspects are therefore the plethora of different institutional actors, and the notion that these are fundamentally situated within a spatial or territorial dimension. Indeed, key authors within the development of MLG tend to agree on the core principles that would fall within an MLG analysis. These are summarised below<sup>3</sup>. It is also recognised that these claims are not immutable: Stephenson (2013) for example identifies four ‘generations’ of MLG analysis, and it is notable that all four of these works fits within the ‘overview’ or ‘original’ uses of MLG within his typology (which is to say, none of them specifically aim at adapting MLG to post-theoretical uses).

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<sup>3</sup> The term ‘key authors’ in this context is defined as authors who have written book-length texts specifically on the theoretical development of MLG (rather than its application – which excludes, say, Bache (2008) amongst other influential texts such as Enderlein, Wälti and Zürn (2010).

**Table 1: theoretical claims**

Author(s)	Working definition of MLG
Hooghe and Marks (2001, p.3-4)	<ol style="list-style-type: none"> <li>1) According to the multi-level governance model, decision-making competencies are shared by actors at different levels rather than monopolized by national governments,</li> <li>2) Collective decision making among states involves a significant loss of control for individual national governments,</li> <li>3) Political arenas are interconnected rather than nested.</li> </ol>
Bache (2008 p.28, summarising Bache and Flinders 2004)	<ol style="list-style-type: none"> <li>1) Decision-making at various levels is characterized by the increased participation of non-state actors,</li> <li>2) The identification of discrete or nested territorial levels of decision-making is becoming more difficult in the context of complex overlapping networks,</li> <li>3) In this changing context the role of the state is being transformed as state actors develop new strategies,</li> <li>4) Whilst the nature of democratic accountability has also been challenged.</li> </ol>
Piattoni (2010, p.177)	<ol style="list-style-type: none"> <li>1) MLG is characterised by the internal decentralization of governmental activity to subnational units (centre-periphery dynamics),</li> <li>2) By the involvement of non-institutional actors in policy-making (state-society dynamics),</li> <li>3) And by the management of positive and negative externalities (domestic-foreign dynamics).</li> </ol>

As such, although MLG might be thought of as containing implicit flexibility, there is nonetheless a strong degree of consensus over what an MLG analysis might be thought to comprise. But despite the cohesiveness of its core rationale, using MLG as a tool for analysis can be problematic in that it is debateable whether it is a theory at all. Bache and Flinders (2004, p.94) discuss this problem when describing MLG as an ‘organising perspective’ rather than a theory. The principal difference in this case is that an organising perspective is capable of generating research questions but not falsifiable hypotheses. As Bache and Flinders (2004, p.204) suggest, ‘if multi-level governance is to overcome this weakness, and in general terms move from being generally viewed as a ‘proto-theory’ to one that is ‘fully fledged’, it needs to generate clearer expectations’. Whilst MLG is undoubtedly a useful guide to analysis, in its current form it should be used with caution when generating claims that ay be verified or dismissed. It is precisely this principle that animates the premise of this paper. If MLG is underdeveloped, and lacking in predictive capacity, this may be less of a problem if it can alternatively engage in rectifying the fact that ‘much of the current discussion in European integration can be accused of bracketing the constitutive dimension of institutions’ (Checkel 2001, p.52). MLG is well-placed to offer this in that it offers a strong sense of how tensions and productive relationships *between* institutions drive European integration (and therefore change), but an as-yet underdeveloped rationale for how ideas and actors *within* these

institutions may contribute.

The fundamental argument of this paper is that 'borrowing' from CI may rectify this and thereby fill an institutionalist 'gap' in MLG theory. This is not, in itself, a completely novel claim. There is a strand of work extant that touches upon the suggestion that there is implicit compatibility between new institutionalism and multi-level governance as it pertains to EU integration. Both Pollack (1995) and Bulmer (1998) mention MLG in their articles on new institutionalism and EU governance, although it does not form the backbone of the argument in either case. Both essentially seek to offer a unification of the field of EU integration, by using institutionalism to 'fill in' the claims made by grand theories and 'suggest a way in which the different levels of research analysis can be linked up through application of a middle-range theory, namely new institutionalism' (Bulmer 1998, p. 365). MLG is of course a part of this argument. Pollack, likewise, depicts MLG as providing one of the dominant analytical frames for EU integration, with which any institutionalist explanation must engage (1996). MLG therefore forms a tangential but nonetheless integral part to their arguments, which principally seek to provide institutionalist explanations for EU integration.

Within this lineage of institutionalist work, the only substantial piece in which an author attempts to generate an explicitly institutionalist frame for MLG (rather than EU integration) is that of Awesti (2007). Awesti argues that 'MLG captures the institution-dependent nature of polycentric governing in the EU and as such is itself underpinned by an institutional focus' (Awesti 2007, p.2). In order to unpack the consequences of this association, Awesti makes the claim that MLG can be understood through the lens of three different institutional perspectives (rational choice, sociological, and historical – but not constructivist – the 'fourth institutionalism' (Schmidt 2010), which was as yet in its infancy). Stephenson (2013) picks up this analysis in his assessment of how MLG has developed over the past twenty years. He builds mostly on Awesti (2007) in developing the argument that merging MLG with institutionalism represents one facet of 'combined work' in MLG (2013, p.824-6, p.832), which he argues has increasingly characterized work in MLG since 2001. As such, there is clear novelty in an approach that builds on CI as a 'combined approach' to MLG, as CI is a new and ontologically distinctive formation. Furthermore, doing so builds on and challenges Awesti's conclusions that MLG facilitates an ontologically flexible conception of the self.

## **Constructivism and constructivist institutionalism**

Constructivist institutionalism lies at the nexus of new institutionalism and constructivist ontology. Sometimes called discursive institutionalism<sup>4</sup>, this form of institutionalism is increasingly characterised as a 'fourth form of institutionalism' to accompany the traditional four<sup>3</sup> (rational choice, historical, and sociological) (Schmidt 2010, p.1). Schmidt's purpose in delineating (discursive) institutionalism is to propose an institutionalist approach that deals

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<sup>4</sup> In Schmidt's (2012) response to Bell's (2011) piece, she draws together her own work with that of Colin Hay (constructivist institutionalism) and Mark Blyth (the ideational turn).

'with the substantive content of ideas, as well as the interactive processes of discourse, whether co-ordinative ones among policy actors or communicative ones between political actors and the public, all of which take place in specific and pre-defined institutional contexts' (2012, p.707-8). In so doing, she builds on the work of Hay (2006, 2006b, 2011), who states that the backbone of CI is the contention that 'actors are strategic, seeking to realise certain complex, contingent and constantly changing goals...in a context which favours certain strategies over others and must rely upon perceptions of that context which are at best incomplete' (2006, p.9). As such, the defining features of constructivist institutionalism are a distinct ontology (that regards the inter-personal formation and content of ideas and perceptions as a causal factor in institutional change), coupled with an analytical or methodological strategy that implies discursive approaches are the most appropriate way to interrogate this reality.

Nonetheless, there is some disagreement regarding how radical a break CI (or DI) makes from its contemporaries. Hay (2006) for example states that the breadth of the clear ontological water between the two is dependent on the interpretation one makes of HI, as containing an implicitly determinist perspective of agency, or reflecting a more interpretivist view of the relationship between structure and agency. Bell (2011) conversely argues that the identification of distinct ontologies underpinning HI is still no rationale for a 'new' institutionalism, and that rather than a semantically and analytically 'separate' CI, there should simply be two recognized strands of HI. Schmidt (2012) takes issue with this assertion, as she claims that even a 'flexible historical institutionalism' drawn from the work of Thelen and Mahoney (2010) can only describe rather than explain change, as a result of their lack of 'reference to what actors think and say that leads to change' (Schmidt 2012, p.709). Whilst the space between CI and DI or HI might be variably narrow, it is clearly ontologically distinct from SI and RCI (both of which exhibit structuralist tendencies, the latter via a series of reductionist assumptions about agency (Hay and Wincott 1998, Hay 2004). In declaring that constructivist institutionalism offers particular purchase on the issue, one is thereby making the argument that concurrently, HI *may* offer similar insights, but RCI and SI, not sharing the constructivist ontological underpinnings outlined above, do not. This is a point to which we return later in discussing MLG.

The insights of CI are associated with 'the constructivist turn'<sup>5</sup> (Checkel 1998) that has increasingly permeated work in International Relations<sup>6</sup> (Wendt 1992, Adler 1997), IPE (Abdelal, Blyth and Parsons 2005, Seabrooke 2007), and European studies, which is particularly identified with a 1999 special issue of the *Journal of European Public Policy* later compiled into a book (Christiansen *et al.* 1999, 2001; also Smith 1999, Rosamond 1999, Parsons 2003, Risse and Weiner 2004, Checkel 2007). As Christiansen *et al.* suggest, the analytical scope of constructivism is broad, focussing on 'social ontologies including such diverse phenomena as, for example, intersubjective meanings, norms, rules, institutions, routinized practices, discourse, constitutive and/or deliberative processes, symbolic politics, imagined or epistemic communities, communicative action, collective identity formation, and cultures of

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<sup>6</sup> Although Hay (2006), referring to the strand in IR theory, declares that although there are 'considerable' affinities, the two represent parallel rather than consequent developments.

national security' (Christiansen *et al.* 2001, p.3). This list, while exhaustive, clearly shows the intellectual lineage from constructivism to constructivist institutionalism, and differentiates it from the ambiguous ontology of historical institutionalism (Hay 2006).

Despite their different origins, all of these distinctive sites of constructivism allow us to think more acutely about the role of ontology in analysis, as they are explicitly positioned in relation to ontological debates in their respective disciplines. As Smith (1999, p.683) identifies, constructivism within the IR literature places itself on the 'middle ground' between, alternately, realism and liberalism and rationalism and reflectivism (Wendt 1992) – although he claims that the constructivist revolution within IR was considerably closer to 'rationalist' than 'reflectivist' explanations (Smith 1999, p.684), a charge contested by Risse and Weiner (2004, p.199) who argue the contrary. Within European Studies, constructivist approaches is more likely to be identified as an alternative to Grand Theories of intergovernmentalism versus neo-functionalism (Christiansen *et al.* 2001, p.). However, as Christiansen, *et al.* (2001, p.3) make clear, it is a mistake to conflate or compare constructivism (as an ontological framework) with theories of European integration, and to imply that it therefore ought to do the same job – and the same applies to MLG. It can, however, be recognised as an implicit basis of MLG, which therefore leads to particular types of analysis.

A key aspect of constructivism's usefulness (and by extension, CI) is the way in which it illuminates aspects of the relationship between individuals and (state) structures. The IR constructivist perspective has historically been quite unduly focused on the latter half of this equation. In Wendt's (1992) influential account of constructivism, for example, the subject of the analysis is global power structures (anarchy) as an expression of intersubjective understanding by states, which leads to a 'structure of identity and interest' (p.396) to explain state behaviour. Indeed, as Checkel (1998) claims, constructivism 'articulate[s] an important corrective to the methodological individualism and materialism that have come to dominate much of IR', instead focusing on collective sources of social meaning. This particular rendition of constructivism is problematic when exported to MLG, which in most cases exists at the level of governance, which implies an interface primarily between actors and institutions – not states. Indeed, part of the utility of MLG is that it provides a means for thinking about the state as a site of multiple nexuses of international relationships, many of which are not conducted at the level of state but rather formally and informally by individuals. The pathbreaking work of Aalberts (2004), for example, uses the work of Wendt (1999) to make the argument that MLG is only logically consistent when state sovereignty is understood as a social construction. She states that constructivism 'comes down to a notion of the being (identity and interests) of social entities (read states) as relational and emerging from structures, which consist of shared knowledge, material resources, and practices' (2004, p.35). By only equating 'social entities' with states, Aalberts is therefore paradoxically focused on a level of constructivism that has little explanatory value when incorporated into MLG, a trap deriving from the fact that her reading of constructivism is explicitly and perhaps oddly drawn only from its depiction in IR. Aalberts' point is therefore critical in highlighting the synergies between MLG and constructivism, but is limited in its practical purchase.

Likewise Haas (1999, 2001) exhibits a similar fallacy in his typology of constructivism. He

distinguishes between three modes of constructivism – the ‘systemic school’, ‘norms and culture’ school and ‘soft rationalist’ school; these are determined by ‘the all-important issue of *how actors construct their own interest*’ (2001, p.26). The point is however that who or what an actor is, is never adequately specified. It is implied that the first of these (which broadly echoes Wendt’s work) applies to ‘state-actors’, leaving the second and third to consider the conditions of ‘collective choices’ and the formation of ‘consensual knowledge’ (2001, p.26). This suggests a level of analysis that considers only the collective subject, thus implying an ontological fusion of structure and agency. One obvious means of unpacking this paradox and extending the reach of constructivist ontology is to look at institutions – sites of both structure *and* agency (Hay 2006). Furthermore, the distinctive contribution of CI in claiming to be able to interrogate disequilibrium (Hay 2008, p. 60) is important in the context of MLG understood as providing an insight into a diachronic process (within which the dimensions of *politics* and *policy* are situated, which in turn contribute to MLG as a *polity* (Piattoni 2009)).

### **MLG: filling the institutional (and ontological) hole**

Multi-level governance has not historically been a theory notably receptive to other ideas. In particular, it has arisen concurrent with other theories of governance, such as the government to governance turn in the United Kingdom that arose around the same time and is typified by a network governance approach, or variations thereon (Rhodes 1994, 1996, Kenis and Schnieder 1991), but tends not to incorporate progress made in these fields. MLG’s lack of openness is especially surprising for two reasons. Firstly, studies of governance in other disciplines have seen much development in the past twenty years. The network governance approach in particular has undergone some dramatic internal debate on the subject of interpretivism, due principally to the impact of Bevir and Rhodes’ ‘interpreting British governance’ argument (2003, 2008), which renders clear the significance to analysis of actors’ perceptions in constructing narratives about political institutions. Secondly, there are clearly identified problems with MLG as it currently exists. Bache and Flinders (2004, p.94) discuss this problem, when they describe MLG as an ‘organising perspective’ rather than a theory. The principal difference in this case is that an organising perspective is capable of generating research questions but not falsifiable hypotheses. As Bache and Flinders suggest, ‘if multi-level governance is to overcome this weakness, and in general terms move from being generally viewed as a ‘proto-theory’ to one that is ‘fully fledged’, it needs to generate clearer expectations’ (2004, p.204). Whilst it is difficult to imagine any response other than wholehearted agreement with the latter statement, the association of clear expectations with falsification veers close to the assumptions of positivism, which is highly problematic in light of the claims made about the necessarily untestable base assumptions of MLG by Aalberts (2004). As such, it may be that in seeking to ‘fill the gaps’ of MLG, theorists are setting themselves an impossible problem by looking for positivist evidence to support a post-positivist framework.

As detailed in section two, there have been prior associations between MLG and



institutionalism by Pollack (1996), Bulmer (1998), Awesti (1997) and Stephenson (2013). The following section shows firstly, that whilst institutionalism in the generic sense is a useful complement, CI is particularly congruent; by doing so, I argue that using CI can help develop MLG beyond the boundaries of 'proto-theory'. This is because institutionalism provides an explicit insight into the ontological discussions occurring already in the MLG literature (with discussions about the institutions and actors that comprise MLG raised by, for example, Piattoni 2009, and Hooghe and Marks 2001). However, at least some of these implicit institutional constructions arise from a quasi-realist ontological perspective (uninterrogated though it is). Piattoni<sup>7</sup> is a key example. She states that the choices of actors to become involved in a policy arena can be conceptualised as 'shaped by calculations, norms, and values about what is feasible, appropriate and effective' (Piattoni 2010, p.181). This seems to imply an ontology associated with a variant of historical institutionalism – that Hay, referencing Hall and Taylor (1998) characterises as a 'combination of cultural and calculus approaches to the institutionally-embedded subject' (2006a, p.5) – which is nevertheless unspecified and thus essentially analytically contingent. It is, however, quite strongly at odds with the social ontology implied by Hooghe and Marks, the intellectual parents of MLG, where they distinguish between political actors and political institutions, and state that the crux of this distinction is that 'political actors – individuals and groups of individuals – operate in the context of those institutions, *but they may also try to change them*' (2001b, 70, italics mine). This is strikingly similar to a Thelen and Steinmo quote (institutions 'are themselves also the outcome (conscious or unintended) of deliberate political strategies of political conflict and choice' (1992, p.10)) identified by Hay as 'quite compatible' with constructivist institutionalism.

Whilst this makes the case for institutionalism being an implicit aspect of the MLG literature, it does not bridge the gap to asserting that the institutionalism ought necessarily to be constructivist in character for MLG to retain analytical consistency. Awesti (2007) for example argues that there are 'three types of MLG emerging from different institutional processes' (p.19) in accordance with the three types of new institutionalism. He therefore asserts that there are clear commonalities between the two approaches, but that these commonalities can be variously understood through the ontologically different lenses of RCI, HI and SI, which are equally apposite. Likewise, Stephenson (2013) engages with Schmitter's (2004) analysis of MLG or polycentric governance as exhibiting 'putative compatibility with virtually any of the institutional theories and even several of their more extreme predecessors' (cited in Stephenson 2013, p.825) to suggest that MLG is inherently inflexible – to the point of abstraction. Asserting that there is in fact incompatibility between many of these forms of institutionalism therefore restricts MLG's applicability, but does so by asserting a firmer ontological basis for the theory that may halt its depiction as an 'umbrella conception' (Piattoni 2010, p.2). In particular, Pollack (1996), characterises both MLG and 'institutional

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<sup>7</sup> Who does refer to ontology in her book, but only in the context of what MLG itself is: 'the first aspect of MLG that must be discussed is the theoretical (ontological) one. What is the definition of MLG, that is, what are the necessary features that uniquely define it and set it apart from other cognate concepts?' (2010, p.2). This is indeed an incredibly important question that Piattoni's book is extremely successful at answering, but asking an ontological question about what the theory is does not necessarily offer us much insight as to what ontological assumptions it might make about the social reality it claims to be able to offer purchase on. It is at a different level of abstraction.

analysis' as sharing a common 'weakness' in both treating 'institutions as intervening rather than independent variables' meaning that 'the ultimate causes of European integration do typically remain exogenous to the theory' (1996, p.454). Adopting a distinctively constructivist institutionalism, conversely, allows the analyst to regard European integration as emerging from a dialectic between agents and their structures, thus providing a means by which an MLG approach can account for this process.

The suggestion that there is not, in fact, a good ontological fit between MLG and SI, or MLG and RCI, can be inferred from some strands of the existing literature. Hay and Wincott (1998, p.952) argue that both sociological and rational choice institutionalism are inherently structuralist in their orientation, denying the capacity of agents to effect change according to priorities of their own choosing. This is clearly problematic in the context of MLG, for the reasons identified by Aalberts (2004). She states that 'Identities are always in process, always an achievement of practice and thus the boundaries of the Self (read the state) are in principle always 'at stake' (2004, p.37). If the capacity to shape intersubjective identities at the state level is inherently contingent, it seems logically inconsistent to imply that the actors and institutions that form that state should be denied the ontological capacity to enact their own agency. There is thus a much more obvious fit between CI (or, if Bell's (2011) argument is followed, with a constructivist variant of HI) and the kind of analysis that already forms MLG's theoretical corpus and the claims it seeks to make.

Finally, there is a neat ontological and methodological synergy with CI as a vehicle for discourse analysis (CI of course also being monikered discursive institutionalism (Schmidt 2010). Diez (2001) points to the role of *linguistic* constructions in defining the terrain of multi-level governance and thus situating possibilities for change. He argues that the language and discourse of MLG, framed in terms of levels, has been critical in shaping the way that actors conceive of and understand the EU. He suggests, 'the image created by this account is one of a set of separated levels of governance...What happens if for a moment we employ a different language and speak of a 'network polity' instead? Our conception of the EU changes, and instead of 'levels' we find a more open political space' (2001, p.91-2). Equally, as Schmitter and Kim (2005, p.5) point out, the lack of reference within MLG to the word 'state' offers it a particular political utility within public discourse, in that it 'sounds a lot less forbidding and threatening'. This entails that the MLG conception of governance is fundamentally conditioned by the language it uses and thus engages in constructions as it is itself constructed. Indeed, the linguistically constructed notion of fixed and exclusionary spaces constituted by governments has been reflected in praxis. The Committee of the Regions' White Paper on Multi-Level Governance precisely apes this discourse, stating 'The Committee of the Regions considers multilevel governance to mean coordinated action by the European Union, the Member States and local and regional authorities, based on partnership and aimed at drawing up and implementing EU policies' (CONST-IV-020 2009, p.1). This is fundamentally an argument that fits within a constructivist institutionalist frame: the way in which actors understand their institutional backdrop is a process conditioned through the language used *by* those actors (and, operating hermeneutically, by theorists) (Hay 2004).

## Fiscal policy: interrogating ideas and change in a multi-level context

The following section outlines the key insights that constructivist institutionalism can offer via an empirical framework, namely that of EU fiscal policy. This is not often explored from the perspective of MLG (perhaps unsurprisingly given the problems Stubbs (2005) identifies in 'travelling' the under-developed MLG framework to fresh empirical terrain), although in many respects chimes with the characteristics of policies more usually examined within MLG (such as regional policy). It is a policy that has seen an explicit remoulding of statehood as a result of European integration, as the Euro, and its accompanying budgetary mechanisms, 'is the first currency that has not only severed its link to gold, but also its link to the nation-state' (Duisenberg 2002). This has resulted in the spatial shifting of policy governance from dispersed, independent and frequently governmental actors, to a Europeanised network of actors formally displaced from political control (Flinders 2004). The context of the Eurozone crisis has rendered this *prima facie* multi-level framework all the more apparent whilst simultaneously throwing fresh emphasis on the role of ideas in mobilising particular political and economic solutions (Hay and Rosamond 2002, Blyth 2013). It has also highlighted economic governance as a key battleground for contests over sovereignty in a multi-level environment.

The empirical case in particular highlights two key issues that concern us throughout this paper. First, there are evident problems in analysing rapid institutional change in the face of crisis (Hay 1996), which is a perspective that MLG needs to get to grips with. As Piattoni (2009, p.165) argues, MLG is simultaneously concerned with three different analytical levels: with political mobilization (politics), policy-making provisions (policy), and state structures (polity). The actor-centeredness of all three of these levels implies the capacity for endogenous flux in multi-level networks, driven by the participants. Indeed, there is a perpetual sense within much analysis of MLG that MLG is interesting *precisely because* it is a trend: of state transformation, accelerating functional diversity in states, and the re-engineering of the relationship between government and governed. Indeed, at the apotheosis of this perspective, authors such as Hooghe and Marks (2001) identify 'the very process of European integration as the creation of a multi-level system of governance' (Piattoni 2010, p.8). Whilst this accommodation of change is at the implied heart of the theory, as Piattoni (2010, p.2) further notes, there is a fundamental analytical conflict in MLG as used, regarding whether it is a 'process (trend) or a situation (state)'. As such, there has been a comparative failure on the part of MLG to consider *how* and *why* change occurs, and what this means for the theory – and this is a failure that constructive institutionalism, and the empirical manifestation of crisis, is particularly well-placed to rectify. Second, as Enderlein (2010) elaborates, the multi-level relationships inherent in economic policy cannot all be considered necessarily as manifestations of the same 'type' of multi-level governance. They are diverse, and present in very different sets of institutions inhabited by actors with different kinds of socialisations and ideas about what constitutes a normative good in the economy – and these meta-narratives have real impacts (Blyth 2013). Enderlein therefore calls for a 'systematic

distinction between different types of actors (mainly private and public), different types of policy areas...and different types of levels' (2010, p.424). This argument accords with the call made earlier in this paper to rationalise a constructivist underpinning for MLG that does not start and end with the implications for states (Aalberts 2004).

Nonetheless, it is worth spelling out that this is not the subject area usually considered by MLG. The structural funds are the classic example of MLG's empirical terrain (Marks 1993, Bache 2008), presenting as they do a clear example of regional and sub-national governments engaging directly with the European level, and with their transnational counterparts. In recent times, the empirical purchase of MLG has been expanded well beyond the original scope of its genesis (Enderlein *et al.* 2010), leading to concerns from some parties that this risks stretching the concept too far (Stubbs 2005) – which itself further justification for developing MLG's ontological underpinnings. However, what typifies even the 'difficult cases' for MLG, are 'policies that have clear implications for territory' (Piattoni 2010 p.253) which economic policy self-evidently does. As Enderlein argues, the political economy of MLG is about 'the redistribution of wealth as a key effect of economic policy-making at a higher level of governance' (2010, p.423). As this suggests, there is some precedent for considering economic policy (or at least facets of it) as an area of MLG (Perraton and Wells 2004, Enderlein 2010, Loedel 2002, Quaglia 2008), although this as yet quite limited and analytically exploratory. However, the incorporation of economic policy governance within the literature is only likely to become more prominent as the crisis unfolds. In this context, it provides a clear example of how constructivist institutionalism and MLG in tandem can provide a conceptual synergy in illuminating the changing norms of multi-level relationships.

Control of fiscal policy is complex from a multi-level perspective. The task of identifying the political determinants of multi-level relationships is also made more difficult by the fact that most of the research in the operation of multi-level fiscal policy falls under the rubric of fiscal federalism, rather than MLG (see, for example Rodden 2001, Hallerberg *et al.* 2009, Hallerberg 2010), which tends to downplay the political context of decentralisation (Sorens 2011). Therefore, here we seek to explore multi-level (political) relationships from the perspective of rules, partnerships (although, in practice of course, they can be difficult to separate) to show how the multi-level framework is animated by ideas and belief. In terms of the institutional framework, the headline instruments are the now-infamous Stability and Growth Pact<sup>8</sup> and the Treaty on Stability, Coordination and Governance (the TSCG). The SGP arises to flesh out the stipulations of the Treaty of the European Union (1992, Art. 98-125) (Eichengreen and Wyplosz 1998). The SGP's primary function is to enforce budgetary stability, defined as a sub-3% budget deficit, through the two opposing rationales of the Pact: a 'deterrent' and a 'corrective' arm (Breuss 2007, p.V.). The initial framework for the SGP was revised in 2005 after Germany and France hit an economic downturn and, despite the conflict that has characterised their divergent attitudes to economic governance over the life of the 1992 process (Connolly 1995), they jointly led voting for an 'abeyance' of fines in the Council (Baldwin and Wyplosz 2006, p.413). This scenario (in which big countries played the

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<sup>8</sup> (EC) No.1055/2005 and (EC) No.1056/2005, in addition to the ECOFIN Council report of 22<sup>nd</sup> March 2005 (7423/05). These are revisions of the original SGP (Resolution June 17th, 1997, Regulations, (EC) No. 1466/97 and (EC) No. 1467/97).

institutional set-up in order to further their own interests) was never unlikely, given the combination of complex economic interdependence engendered by the Euro, and a QMV procedure to levy fines. Nonetheless, the 2005 revision of the SGP, which principally debated the relative weight of the 'preventative' and 'corrective' arms, again failed to reach an ideological consensus on what rationale the Pact should embody.

Nonetheless, the fiscal governance structure has bigger problems. It is quite obvious that the principal relationship in terms of regulation is between national governments and the European Union (involving the Commission, Council, and the ECJ – who were involved to rule on the legality of the original abeyance (Baldwin and Wyplosz 2006, p.413). As Piattoni (2010, p.84) the primary defining characteristic of MLG is that it involves *more than two* levels. Indeed, this is the case in fiscal policy: there are complex multi-level implications in the *way* that national fiscal policy is set up. Whilst the adherence to the SGP (and particularly the 3% budget rule) is determined solely at the national level, responsibility for raising and spending public money is increasingly spread over the national polity, through local, regional, devolved and delegated governance (Loughlin 2001, Flinders 2004), and countries have varied mechanisms for enforcing this. As Hallerberg *et al.* (2009) find, where multi-level relationships are conducted through fiscal rules (2009, p.17), the successfulness is difficult to predict without knowledge of the political context, and as Von Hagen and Eichengreen (1996) show, balanced budget amendments at the sub-national level may lead to the central state bearing more debt. As such, the SGP effectively holds national governments accountable for meeting a target that may be outside of their control, regardless of how they seek to enforce it. Two contrasting examples serve to reinforce this point: Germany and Spain. Both employ some form of balanced budget regulation at the sub-state level (see Hallerberg *et al.* 2009) and so engage in multi-level budgetary control, but the ideational and political antecedents of these relationships, and how they play out in practice, are very different.

A 2006 'stability law' in Spain introduced a multi-level contribution to budgetary limits: comprising of a combined limit of 1% of GDP, allocated as 0.2% to the central government, 0.75% to the 17 Autonomous Communities (states, or ACs) and 0.05% for local governments. There is also scope for ACs to engage in 'investment deficit' spending of up to 0.5% of GDP (with a 20/20/5 split between the different levels) which, when combined with the ordinary limit, should mandate a deficit of no more than 1.5% (Ballart and Zapico 2010). As Spain ran a budget deficit of 10.6% in 2020 according to Eurostat's May 2013 release, clearly this law (much like the SGP itself) is not having the desired effect at the agglomerate level, because it essentially dictates ends rather than means. However, this is by no means the whole picture: ACs, which are responsible for policies such as healthcare, help considerably to account for this overspend – the bank BBVA state that in 2010 autonomous community debt stood at 10.9% of GDP, accounting for 18% of Spain's total public debt (Cardoso *et al.* 2011). This forced the central government to create a regional liquidity mechanism' in December 2012 to allow the ACs to centralise their public debt issuance in exchange for greater fiscal conditionality. Many of the regions drawing on this fund, such as Catalonia, have been using regional debt as a means of mobilising long-held grievances and are using the multi-level fiscal framework in order to do so. Artur Mas, president of the region, was quoted in 2012 as saying, on a trip to Brussels slated to discuss the Spanish financing system, that the region

sought 'more Catalonia and more Europe' (Pérez 2012). Where semi-autonomous subnational governments have freedom to administer their own budgets, political and territorial concerns therefore combine to ensure that subnational institutions may operate according to their own fiscal agendas, and define their priorities accordingly. Equally, the way in which these priorities have resulted in seeking more autonomy within the multi-level system are very much conditioned by the political and institutional context to be found in individual regions. Finally, whilst these actions are undoubtedly consistent with the deconstruction of state sovereignty as envisaged by Aalberts (2004), they are manifestly the result of constructions of regional sovereignty occurring at the individual and institutional level.

Germany, on the other hand, has over time been notable for its attempts to constitutionalise its multi-level budgetary relationships, although this has not successfully negated the fact that 'potentially serious problems at the *Land* level have been brewing for some time' (Rodden 2001, p. 4). As Heinz (2012) illustrates, German debt at both the *Bund* (state) and *Länder* (regional) levels rose at a steady and controlled pace until 1974 (with the oil price shocks), accelerated but remained stable until 1990, and then increased dramatically and in a non-linear fashion. The majority of this increase was accounted for by the *Bund*: net indebtedness was roughly equivalent in 1990 at €300m Euros each, but by 2008 the stock of debt at the *Bund* level was approximately 40% higher than that held by the *Länder*. Nonetheless, in a time of decreased growth, the acceleration in *Länder* debt was seen as a concern, and led in 2009 to a change in the Basic Law governing budgetary restrictions amongst the *Länder* to prevent them from accruing new debts (known popularly as the balanced budget amendment or 'debt brake'). As Heinz further illustrates (2012, p.133), this is problematic insofar as there are numerous exceptions to this rule, determined on a case-by-case basis by a 'stability council' and dependent on their contingent definition of 'economic normality', and while this latter condition is to be determined with reference to macro-economic indicators, the basis for this has yet to be spelt out. Therefore, the continued budgetary relationships between *Bund* and *Länder* are essentially to rest on a point of semantic construction – a more obvious condition for the purchase of constructivist institutionalist analysis can scarcely be imagined.

The contrast between both cases therefore serves to illuminate how ideas about the economy, and territorial political identities, have been significant in shaping discourse, politics, and multi-level governance. The balanced budget model is especially interesting in this context for two reasons. Firstly, economists such as Peter Bofinger (a member of the German Council of Economic Experts) have argued that the German debt brake 'chokes off recovery' (Economist 2011) by imposing austerity conditions during economic downturns. It therefore highlights both the multi-level character of German regulation, and its basis in a particular ideational conception of good governance (that Dyson and Featherstone (1999) term 'ordo-liberalism'). Secondly, when contrasted with the Spanish case, the content of ideational resistance has been quite different. The territorialised nature of the response to the change in policy has been reflective of tension inherent in Germany's federal distribution, rather than of latent nationalism: the primary fault line therefore has been about equality and fairness; not autonomy and potential secession. The states that have required loans in order to consolidate their budgets ahead of the amendment coming into force (Bremen, Schleswig-Holstein,

Saarland, Saxony-Anhalt and Berlin) include two city states, plus the smallest non-city state, all three with a history of financial weakness and of taking cases to the Federal Constitutional court to demand financial assistance (Heinz 2012, p.134). As such, there has been less incentive for states to engage at the European level specifically to effect change rather than gain concessions.

MLG writ large therefore is limited in showing how differentiated the constructed priorities of these institutions may be, and how actors may be inclined to try to effect change within their idiosyncratic contexts. As Peters and Pierre claim, 'we should only expect institutions not to surrender their leverage to contextually defined and ad hoc models of governing' (Peters and Pierre 2004, p.75-6), especially where those institutions contribute to a MLG model from the bottom up, rather than as an act of imposition from the EU level. That the provisions of fiscal governance at the EU level do not apply directly to subnational institutions may be seen as an extension of the subsidiarity principle, reflecting the fact that fiscal sovereignty is a particularly thorny aspect of the nation-state – EU nexus (an obvious extension to Aalberts' (2004) ideas). However, the EU institutions clearly have their own ideas, and make use of discourse to circumvent the difficulties surrounding sovereignty. Arguably, this is one reason for the emphasis of the EU Commission on the terminology 'economic governance'<sup>9</sup> to characterise the fiscal pillar of macroeconomic policy (which, quite apart from being reflected in the nomenclature of EMU itself, goes back a long way – visible even in pre-Werner Plan Commission documents such as the so-called 'Barre memorandum' of 1969 (COM 69/150)). A conflation of economic governance and institutionalism is also common across Commission discourse, for example in the mandate of the Working Group on Economic Governance of 2002, (Conv 76/02) which operated under three headings: 'monetary', 'economic' and a third category identified as 'institutional issues', with the implication that economic governance is as much *institutional* as *governmental*. By contrast, macroeconomic literature tends to rely on the monetary/fiscal distinction (such as Blanchard *et al.* 2010) which implies a rather more specific sense of what policies might fall under such a banner – and, by implication, where they may be located in governance terms. This highlights the significance of Diez's (1999) claims about the importance of discourse in creating the space for MLG. It is far easier for actors at the supra- and sub-national levels of governance to assert a stake in the somewhat vague 'economic governance' than 'fiscal policy', and to claim legitimacy in doing so.

## Conclusions: crisis and further implications

The example of fiscal policy is intended to draw out the key themes of CI as outlined in the

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<sup>9</sup> Inputting the term into Google (on 12/06/13) brings up 93.4m results; the top three originate with the Commission and the European Parliament. It was recently referred to by no less a figure than Jacques Delors (2013, p.169) who claimed that 'it is too broad a concept' to explain, and as such, in order to offer a definition, it is necessary to 'attempt a dialectic...between the EU's institutions, on the one hand, including...their underlying philosophy, and on the other hand, the processes by which decisions are drafted, taken and executed'. A statement more in keeping with CI would be difficult to imagine.

introduction – a sensitivity to the interplay between institutions and actors as mediated by ideas, and an interest in change, tensions and discontinuity in multi-level relationships. The two case studies of fiscal policy-making may be limited insofar as they cannot tell us about the broader dynamics of multi-level governance across the EU polity, but in a sense, this is precisely the point. They highlight the fact that whilst the multi-level governance model offers clear value in characterising the relationships that occur, it is difficult to make generalisations about its purchase. The difficulty of making predictions on the basis of MLG is the theoretical failing identified by Bache and Flinders (2004) and Hooghe and Marks (2001); which as earlier stated, conflates a post-positivist framework with a positivist methodology. By filling in MLG with a CI conception that takes the causative role of ideas seriously, more nuanced, explanatory analyses can be conducted. As these case studies illustrate, whilst the national government may prioritise their legal obligations (or view austerity as a politically valuable policy for other reasons (Blyth 2013)), the ideas that animate actors in other sub- and supra- national institutions may be led by quite idiosyncratic and seemingly parochial concerns, which do not fit the national political picture. The territorialisation of ideas is therefore an integral part of MLG and should be seen as such. Understanding the origin of these ideas evidently requires a detailed illustration of the context and dominant discourses that shape change at the individual and institutional levels, rendering a constructivist mode of analysis the most suitable to take MLG forward.

The crisis in the Eurozone has thrown these elements into stark relief. If we regard constructivism as fundamentally concerned with ‘discourses, communicative action and the role of ideas’ (Christiansen et al 2001, p.15), then it is clear how current fiscal practices – animated across Western Europe (Portes and Holland 2012) by the ‘dangerous idea’ of austerity (Blyth 2013) – are particularly apposite to a CI analysis. Nonetheless, other areas that more usually fall under the remit of MLG analysis (such as the structural funds) can also benefit from such insights. All policies are fundamentally subject to policy-makers’ framing of the restraints within which they operate, whether as an internalization of the surrounding narratives or as discursive justification for reform (Hay and Rosamond, 2002). In this sense, a political economy of MLG provides a lens through which we may view any area of ‘politics, policy and polity’ (Piattoni 2009) that are themselves apposite to multi-level analysis. As Hooghe and Marks state, ‘to explain existing governance one must do more than analyze efficiency and path dependency. We believe that a valid theory requires taking political variables seriously’ (2001b, p.2). Institutions, as a key and contested variable in analyses of political change, may provide just such a key.

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