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The European Central Bank: From a Price Stability Paradigm to a Multidimensional Stability Paradigm

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Abstract

This article maps and explains the shift in economic thinking at the European Central Bank (ECB), i.e., its "ideational" evolution over the past two decades. When the ECB was set up in 1999 its institutional design and epistemic outlook were very much inspired by the legacy of the German central bank, the Bundesbank. Thus, the ECB embraced a "price stability" paradigm that prioritized inflation control. However, over time, policy learning in response to economic shocks (first and foremost, a series of consecutive financial and economic crises from 2008 onwards) and the internal organic evolution of the ECB have led to a shift of economic thinking at the Bank, which has also been reflected by its policy actions. The new paradigm can be characterized as a "multidimensional stability" paradigm. By relying on inter alia secondary literature, speeches, semi-structured elite interviews, and data we collected concerning the previous experience at national central banks of senior ECB staff, we identify a novel causal mechanism for ideational change at the Bank: the change in the composition of senior managerial staff from 1999 onward.

Keywords

central bank; crisis; euro; European Central Bank; monetary policy; policy paradigms

1. Introduction

The agreement on Economic and Monetary Union (EMU) in the EU led to the establishment of the European Central Bank (ECB), which is the main pillar of EMU (its monetary pillar). Since the ECB's policies have far-reaching implications in the member states as well as internationally, the Bank has become a topic of considerable academic interest, also in political science. Earlier work has discussed the setting up of the ECB and its policies in the first decade of the euro (Dyson & Marcussen, 2009; Hodson, 2011; Howarth & Loedel, 2005; Quaglia, 2008). Subsequently, scholars have examined the policy responses of the ECB to the economic and financial crises that have hit the EU from 2008 onwards by discussing the ECB as a lender of last resort (LLR; Ban, 2020) and its leadership in "saving the euro" (see Hodson, 2019, p. 5, on leadership; see also Schoeller, 2018; Verdun, 2017), including its asset purchase programme (Lombardi & Moschella, 2016). Others have discussed the role of the ECB in the Troika (Heldt & Mueller, 2021; Henning, 2017; Lutz et al., 2019), in the making of the Banking Union (Epstein & Rhodes, 2016; Glöckler et al., 2017), as well as the self-empowerment of this institution (Heldt & Mueller, 2021). Finally, some authors have analysed the communication of the ECB (Moschella & Pinto, 2019; Moschella et al., 2020).

A more limited body of literature has considered the ideational dimension of the ECB's actions, for instance, how ideas have been used as power resources by the Bank (Carstensen & Schmidt, 2018; Schmidt, 2016), the "battle of ideas" within the ECB (Ferrara, 2019; Mugnai, 2024) and its policy learning in responding to economic shocks (Quaglia & Verdun, 2023a), or its inability to learn (Matthijs & Blyth, 2015). These works have detected (limited) ideational change at the ECB and have ascribed it to the change of "leadership" at the helm of the ECB (meaning, its president) and its "policy learning" in responding to economic shocks. Moreover, this literature, on which we build, has focused on the short-medium term, examining the period from the Sovereign Debt Crisis onwards, and has tended to deal with one specific aspect of the ECB's policies, such as its interpretation of and response to crises (Ferrara, 2019; Quaglia & Verdun, 2023a), its views on fiscal policy and structural reforms (Mugnai, 2024), and banking supervision (Quaglia & Verdun, 2023b).

Our article makes three novel contributions to the ideational literature on the ECB. First, we investigate the shift in economic thinking at the ECB over the longer term: its "ideational" evolution since its inception, which is crucial for a well-rounded understanding of the matter at hand as it allows us to compare the "old" paradigm and the "new" paradigm that has informed the ECB's actions. Second, whereas the extant literature has pointed out change of leadership and learning as the main causal mechanisms for ideational change at the Bank, we add a third causal mechanism: the internal organic evolution of the ECB, specifically, the turnover of its senior managerial staff. Third, given the relatively long period covered, we focus on the main policy of the ECB, namely, its monetary policy, broadly conceived, thus, including financial stability, but do not consider the ECB's outlook concerning banking supervision, exchange rate policy, payment systems (these are all tasks allocated to the ECB, as explained in Section 3), nor fiscal policy and structural reforms, on which the ECB has no competence, but it usually has strong views (Mugnai, 2024).

This article asks to what extent there has been a change of economic policy paradigm at the ECB, and, if so, why? We argue that when the ECB was set up, in 1999, its initial institutional design and ideational legacy were inspired by the German central bank, the Bundesbank (Brunnermeier et al., 2016). Thus, the ECB embraced a "stability paradigm" (Heipertz & Verdun, 2010, p. 92), which privileged low inflation. However, over time, policy learning in response to shocks (first and foremost, a series of consecutive financial and economic crises) and the internal organic evolution of the ECB, have led to a shift of economic thinking at the Bank, which has paid more attention to its secondary objectives, namely, to support the general economic policies of the EU. The ECB has also sought to promote financial stability, arguing that it was a pre-condition for price stability. To sum up, there has been a paradigm shift from "price stability" to "multidimensional stability."

Theoretically, this article revisits the concept of "policy paradigm" developed by Hall (1993) and systematically applies it to the ECB's policy evolution over three decades. Methodologically, the article examines three key periods: the first constitutive decade of the ECB (1999–2008), the ECB's responses to the Great Financial Crisis (2008–2009) and the Sovereign Debt Crisis (2009–2015), and the ECB's response to the Covid-19 pandemic-related economic crisis (2020–2021), before Russia's full-scale invasion of Ukraine in 2022. The research relies on a variety of sources: secondary literature; an analysis of some key speeches and policy documents; semi-structured elite interviews with policy-makers and stakeholders; and the collection of data concerning the turnover of senior managerial staff at the ECB at three points in time, which coincides with the three periods listed (further details are included in Section 2).

This article contributes to the literature on macroeconomic governance in the EU by tracing and explaining the ideational evolution of a cornerstone institution of EMU (see Mabbett & Schelkle, 2019; Macchiarelli et al., 2020; Moschella, 2024, for other recent literature on the ECB). Specifically, it adds to the ideational literature on the ECB (Ferrara, 2019; Mugnai, 2024; Quaglia & Verdun, 2023a) by taking a longer-term perspective and suggesting a novel causal mechanism triggering ideational change at the Bank, the turnover of its senior personnel, in addition to the more well-established mechanisms of learning and leadership change. This article also speaks to the constructivist literature on the role of economic ideas in public policies by shedding some light on how central banks "think" (Best, 2024; see Abolafia, 2020; Conti-Brown & Wishnick, 2020, for the Federal Reserve; see Baker, 2020, for the Bank for International Settlements; see Clift & Robles, 2020, for the International Monetary Fund), adding to the burgeoning literature on how central banks "speak," i.e., communicate (see Baker et al., 2023; Ferrara et al., 2022; Moschella et al., 2020).

The remainder of the article is organized as follows. It first reviews the literature on ideational approaches to the study of EMU in general, and the ECB in particular. It then outlines the paradigm that informed the ECB's monetary policy from the establishment of the Bank in 1999 to the onset of the Great Financial Crisis in 2007–2008. The subsequent sections examine the ECB's response to the Sovereign Debt Crisis that began in the euro area in 2009 and to the Covid-19-related economic crisis, explaining how and why the ECB's response was affected by and, in turn, affected the prevailing economic ideas at the ECB. The penultimate section reflects on the factors that have affected the ideational evolution of the ECB also by providing novel data we have collected concerning senior managerial staff at the Bank over time.

2. Ideational Approaches to EMU

Since our article sets out to investigate the evolution of ideas at the ECB, our point of departure is the consolidated body of academic literature dealing with ideas, norms, and other socially constructed elements in the field of European political economy (see Quaglia et al., 2024, for an overview). This literature is embedded into the broader constructivist literature, which posits that reality is socially constructed, knowledge is socially and culturally embedded, and learning is a social process (Hay & Rosamond, 2002; Saurugger, 2013). Indeed, ideational scholars give prominence to the constitutive role of ideas, norms, perceptions, and identities, in shaping actors' preferences and structuring political conflict (Abdelal et al., 2011; Verdun, 2000).

In our work, the focus is on causal ideas—meaning shared beliefs about cause-effect in a given policy field (Parsons, 2002; Yee, 1996)—which are crucial to identify the nature of the problem as well as the ways to address it. Causal ideas have often been conceptualized as "policy paradigms" (Hall, 1993), i.e., dominant and often taken-for-granted sets of beliefs about the nature of a policy problem and how to address it. At the risk of oversimplifying, there are three components of a policy paradigm. First, there are beliefs concerning the objectives of a certain policy, which are inextricably linked to the problem definition. For example, in the realm of macroeconomic policies, the monetarist paradigm identifies high inflation as the key problem to address and, ergo, price stability is the main policy objective to be pursued. Second, there are ideas concerning the effects of specific economic instruments to deploy to pursue a certain objective, such as the exchange rate, and capital controls, as well as specific instruments of monetary policy, such as conventional and non-conventional measures. Third, there are economic policy beliefs concerning the setting (i.e., the levels) of instruments. Thus, a policy paradigm can undergo third-order changes concerning objectives, in which case, there is a paradigm shift, or second- and third-order changes concerning instruments and their setting (Hall, 1993, p. 278). Policy paradigms impact individuals (such as experts and technocrats), on the bureaucratic institutions where these experts work as well as on the broader policy-making process (Yee, 1996, pp. 92, 102).

Concerning EMU, the causal role of ideas has been investigated to explain the establishment of a distinctive type of EMU, which was built according to the stability-oriented macroeconomic paradigm propounded by German policy-makers and broadly accepted by macroeconomic elites in other member states (Dyson, 2002; McNamara, 1998). Along similar lines, Verdun (1999) characterized central bankers gathered in the so-called Delors Committee that drafted the blueprint for EMU as an "epistemic community" that shared a stability-oriented policy paradigm, as we elaborate in Section 3. Yet, EMU ideas were not always consensual (Ferrara, 2019; Jones, 2015; Mugnai, 2024); ideational conflict contributes to explaining the delayed and piecemeal response to the Sovereign Debt Crisis in the euro area, which pitted southern European countries ("sinners") vs. northern European ones ("saints"; Matthijs & McNamara, 2015).

As far as the ECB is concerned, some scholars have examined the evolution of economic thinking at the Bank since the Sovereign Debt Crisis (Ferrara, 2019; Mugnai, 2024; Quaglia & Verdun, 2023a), detecting some (limited) ideational change and ascribing it to policy learning in responding to economic shocks (i.e., crises) and the change of leadership at the helm of the ECB (i.e., its president). We build on and add to this literature by examining the evolution of the monetary policy paradigm, broadly conceived, of the ECB since its inception, that is, over the longer term. We also investigate a third (complementary) mechanism contributing to the ideational shift at the Bank: its internal organic evolution, especially, the turnover of its senior managerial staff. To this end, we collected data on the previous (national) central bank experience of these staff. In other words, whether they had worked in national central banks before taking up their position at the ECB. Since the ECB's thinking was initially heavily informed by the prevailing "price stability" paradigm at the Bundesbank (as explained in Section 3), we are particularly interested in getting a sense of whether the share of former Bundesbank officials at the ECB has changed over time. If such a percentage had diminished between 2000 and 2020, that would contribute to explaining why the ECB "thinks" less as the Bundesbank would do.

In this article we aim to examine ideational change at the collective level, considering the intersubjective process whereby human interaction leads to understanding within the organisation (Dunlop & Radaelli, 2013, p. 603). We regard the ECB as a unitary actor, even though within the ECB and its decision-making bodies there are sometimes different views. A unitary actor is one where there is a body that has full authority over all of its divisions and units. We recognise that there are differences among these composite units and the people who populate them, but ultimately, we expect the Bank to speak with one voice. By briefly considering competing ideational approaches within the Bank and tracing ideational conflicts between “doves” and “hawks” through the ECB’s first decade, the euro area’s Sovereign Debt Crisis, and the Covid-19-related economic crisis, we shed light on ongoing, long-standing ideational arguments within the ECB concerning a secondary mandate (van ‘t Klooster & de Boer, 2022) of the bank next to its well-known mandate of price stability.

To gather empirical material, we consulted a variety of secondary sources, ECB policy documents and speeches given by members of the executive board and the Governing Council. The authors read through the speeches available on the ECB website and compiled a selection of them which dealt explicitly with the monetary policy stance. Rather than offering a systematic analysis of these speeches, we reviewed them for how lead officials articulated the key concerns of the ECB. We also reviewed some speeches mentioned by interviewees (see next section). Thus, in this study, we use the speeches as heuristic devices to illustrate changes in policy objectives and instruments.

Furthermore, we carried out seven semi-structured elite interviews with senior ECB officials and their counterparts in other EU institutions. Interviewees had at least 20 years of experience with ECB policies and could reflect on both the current and past crises, many were familiar with the very early days of the ECB. The interviews lasted about one hour and both authors were present at each (virtual) interview with the respondent or respondents. We took the information collected through these confidential interviews as partial information and triangulated it with a systematic analysis of publicly available documents and a detailed survey of financial press coverage. Given the confidentiality of the interviews, we are unable to use them to attribute policy change. For that, we point to the official statements and policy documents. The interviews provide us with insights into how interviewees perceive changes in beliefs.

Finally, we collected data concerning the previous central bank experience of senior staff at the ECB per year since the start of the European Monetary Institute in 1994. Seeing that this information was not readily available, we examined the organigrams of the ECB and identified the lead officials in each of the directorates. We considered lead positions to be those who were above the level of the head of section, in other words, head of division, deputy director general, or director general. We then identified the names of those in these positions from 1994 until 2023. Some of these managerial sheets were easily available in the annual reports and some organigrams were available on the internet, also using the Wayback Machine, but others were not. Where they were not, we requested this information through contacting the ECB directly and used Who’s Who EU. We then identified the divisions that we thought were most important for monetary policy (Directorate-General Economics, Directorate-General Monetary Policy, Directorate-General International and European Relations, Directorate-General Research, Directorate-General Market Operation, Directorate-General Macroprudential Policy and Financial Stability, Directorate-General Market Infrastructure and Payments, and ECB representatives in Washington and in Brussels; note that some Directorates-General had different names in earlier time periods). The executive board members for each year (and the chair of the Single Supervisory Mechanism post-2014) have been included in the broader dataset. These individuals are appointed through a different process than ordinary staff members. Governing Council members have not been included in this dataset.

The dataset produced 439 individuals (including deputy heads of division). Including merely heads of division and above, there are 356 individuals in the dataset. At the level of deputy director general and above, there are 155 individuals in the dataset. Based on information available in the public domain, we established whether they had worked at another central bank before joining the ECB (we also coded for other work experience, but for this article, we ignore that information). We coded this data on a confidence scale (rating from 4 = *very confident* to 1 = *minimal confidence*). This research was carried out in January–March 2024. In this article, we present our first analysis of this subset of the managers. We offer these data as a trend, as well as snapshots for three distinct years (2000, 2010, and 2020) to ensure a balanced distance over time. These three chosen years link to the three time periods studied in this article.

3. Economic Thinking at the ECB During its First Decade

The ECB is a supranational central bank that was established in 1999 at the beginning of the final stage of EMU (Howarth & Loedel, 2005; Kaltenthaler, 2005; Quaglia, 2008; Verdun, 2000). The ECB and the national central banks of the member states whose currency is the euro form the Eurosystem. The main decision-making body of the ECB is its Governing Council, which brings together the national central bank governors of the countries in the euro area, plus the six members of the ECB Executive Board, who are appointed by the European Council, and acting by a qualified majority. The Governing Council decides by simple majority and in the event of a tie, the president casts the decisive vote. The ECB voting rights originally operated on a system whereby each national central bank governor of the euro area country had one vote. However, following the treaty stipulations, when Lithuania joined the euro in 2015, a rotation system was implemented, since more than 18 member states had joined the euro. The rotation follows a certain ranking (member states are ranked). The governors of the countries in the group of member states ranked 1–5 share four votes. This first group includes Germany, France, Italy, Spain, and the Netherlands. All others share 11 votes. The governors take turns using their voting rights on a monthly rotation (see ECB, n.d.-a, for more details). Thus, de jure, the president is primus inter pares and, as of 2015, has one vote out of 21. Nevertheless, de facto he/she has a leadership role because he/she can set the agenda, provide vision, act as a spokesperson for the institution to the outside world, and represent the institution in other forums (Verdun, 2017).

The ECB is the most independent central bank in the world (Bernhard et al., 2002; de Haan, 1997)—its independence from the political authorities is guaranteed by an international treaty, the Maastricht Treaty. Furthermore, unlike national central banks, it has no equivalent political counterpart at the EU level with the exact same level of authority typically found in an equivalent nation-state setting (Jones, 2002; Verdun, 1996). The EU has a small budget and thus cannot play the role of fiscal authority that is typical for an advanced economy. None of the EU institutions can exert political interference in the ECB to define its monetary policy or in its execution. Its counterparts are EU institutions, such as the European Parliament, the Council of the EU, and the European Commission, but these institutions cannot hold the ECB to account in the same way as is done in a national setting and any of the dialogues and discussions cannot bind the ECB. Yet the ECB is accountable for its actions by publishing an annual report and presenting it to the European Parliament. Four times a year the ECB president participates in a Monetary Dialogue with the European Parliament Committee on Economic and Monetary Affairs. The role of democratic accountability has been problematized from the outset (Verdun, 1998), but has since been less central in debates, although scholars have called for the ECB to be more responsible and liable (Heldt & Müller, 2022). The ECB was initially given the tasks of conducting monetary policy, managing the day-to-day exchange rate policy, and overseeing the payment system. In 2015, it was given the responsibility for banking supervision (see Howarth & Quaglia, 2016). The ECB was given a clear treaty-based mandate, namely, to maintain price stability. Without prejudice to that objective, the ECB was tasked to support the general economic policies and "objectives" of the EU (e.g., full employment and balanced economic growth).

The initial institutional design of the ECB and its epistemic outlook was significantly informed by those of the German central bank (Brunnermeier et al., 2016; Dyson & Featherstone, 1999; McNamara, 1998), the Bundesbank, which, back in the 1990s, was the most powerful central bank in Europe (Marsh, 1993). The policy paradigm of the Bundesbank was inspired by ordo-liberalism (Dyson, 2000, 2016; Heisenberg, 1998; Kaltenthaler, 2005), an economic theory that is committed to competitive, free markets with limited state intervention in the economy, an effective competition policy to prevent concentration of economic power, a prudent fiscal policy, and a strong central bank, protected from political interference, with the primary objective of safeguarding price stability (Dyson, 2021; Matthijs & Blyth, 2015; Matthijs & McNamara, 2015). A constant concern of ordo-liberalism is to reduce "moral hazard," i.e., a situation where an economic actor has an incentive to increase its exposure to risk because it does not bear the full costs of that risk (on the concept of moral hazard applied to the Bundesbank; Dyson, 2000; see Chang et al., 2023, for the ECB). In some respects, ordoliberalism shares commonalities with neoclassical economics, which stresses the importance of credibility and commitment in the conduct of macroeconomic policies to manage the "rational expectations" of market actors (Barro & Gordon, 1983; Kydland & Prescott, 1977). It also postulates "monetary neutrality," whereby monetary policy may affect nominal variables, notably, the price level, but not real variables, such as the GDP (Alesina & Summers, 1993). Thus, central banks should be "independent" so as to be able to resist political pressure, "credible," that is, committed to pursuing low inflation by acting predictably, and should build a "reputation" as inflation fighters (Cukierman, 1992; Giavazzi & Pagano, 1988; Gilli et al., 1991). In short, the ordoliberal cum rational expectations thinking applied to central banking considers inflation as the main problem for the central bank to address, and thus, its primary objective is to safeguard price stability.

Initially, since the Bundesbank was the obvious point of reference for the institutional design of the ECB and the conduct of its monetary policy (Dyson, 2002; Howarth & Loedel, 2005; Kaltenthaler, 2005), the ECB adopted a narrow interpretation of its mandate, focusing only on the objective of price stability. This goal was supported strongly by the members of the then newly established Executive Board of the ECB, even though the most outspoken were the German and Dutch central bankers (e.g., Duisenberg, 1998a, 1999; Issing, 1998, 1999a). Indeed, both the first president of the ECB, Duisenberg (1999), who was a former president of the Dutch central bank, and the first chief economist of the ECB, Otmar Issing (1998), who was a former chief economist of the Bundesbank, pointed out that "price stability is at the core of the 'stability culture' that we are seeking to establish throughout Europe" (see also Noyer, 1999). The instruments used by the ECB for the conduct of monetary policy were "conventional," that is, open market operations, standing facilities, and minimum reserve requirements for banks (Scheller, 2004).

Moreover, the ECB privileged the building up of credibility, reputation, and legitimacy by acting in a very predictable way (Hodson, 2011; Quaglia, 2008). For instance, Duisenberg (1998b) remarked that "monetary policy is most effective when it is credible." Similarly, Issing (1998) stressed that for the ECB it was "vital" to build its "reputation," and the "associated credibility of monetary policy." It is also noteworthy that, initially, the ECB, following the Bundesbank's tradition, maintained some constructive ambiguity on whether it would act as LLR in response to crises (Issing, 1999b). The function of LLR is connected to the conduct of monetary policy and, therefore, it is usually performed by national central banks at the national level, whereas it was unclear who would act as LLR in the euro area during crises (Begg et al., 1998; Buiter, 1999; see Padoa-Schioppa, 1999, for a nuanced discussion of this matter).

From the establishment of the ECB onwards, two different policy paradigms have coexisted at the ECB. The names of two members of the original ECB's Executive Board, Otmar Issing and Tommaso Padoa-Schioppa, can be associated with these two different policy paradigms. One approach is close to that of the Bundesbank—the camp of the so-called monetary "hawks"—those who privilege the goal of price stability and the "traditional" functions of a central bank over other goals of a central bank. Issing (1999a, 2008) was a staunch supporter of the practice of keeping the ECB as independent as possible from governments and played an important role in shaping the ECB monetary policy in the late 1990s and early 2000s (Dyson, 2016, pp. 140, 161). Issing (1999a) clearly stated that for the ECB "the independence from political interference and a clear mandate for price stability are of utmost importance."

The other approach is more heterodox in economic terms—the monetary "doves"—those who seek to trade off inflation for other goals, first and foremost, financial stability and who might be more interested in expanding the ECB's functions with a view to rectifying the asymmetric institutional design of EMU (Verdun, 1996). Padoa-Schioppa often stressed that central banks should pay attention to financial stability, not only price stability. In one of his articles titled "Central Banks and Financial Stability: Exploring a Land in Between," Padoa-Schioppa (2002, p. 2) argued that:

> Central banks are assigned the overriding mission of preserving price stability. They have been granted independence….Economic theory re-established the long-term neutrality of money on a firm basis. More recently, the task of supervising banks has been taken away from the central bank in a number of countries. These developments have unbundled the old composite to the point that one may wonder whether financial stability—a "land in between" monetary policy and prudential supervision—still ranks among the tasks of a contemporary central bank. Indeed…there are supporters of the view that a central bank should regard financial stability as a good for which it simply takes no responsibility whatsoever.

Padoa-Schioppa (2004) also worried about the "loneliness" of the ECB (Mabbett & Schelkle, 2019), pointing out the need for a fiscal counterpart to the ECB and advocating cooperation between the monetary and fiscal authorities in the euro area in a federalist sense (Masini, 2016). Overall, in the first decade of its existence, the ECB was coloured by the success of the Bundesbank and its heritage. "Issing won in the short-term," but as explained in Section 4, "Padoa-Schioppa won in the long-term" (European Commission official, interview, December 3, 2021).

4. Economic Thinking at the ECB During the Sovereign Debt Crisis

The Sovereign Debt Crisis, which began in 2009, following the Great Financial Crisis, posed a major test for the ECB. This period is referred to in the literature and by us as the Sovereign Debt Crisis even though the crisis was characterised by multiple problems, such as a deteriorating fiscal situation, a major reduction in market confidence, and the sustainability of public finances, current account imbalances, reduction in competitiveness, and need for structural reforms (see Howarth & Quaglia, 2015; Verdun, 2015). We use the term Sovereign Debt Crisis keeping in mind the multifaceted nature of this period. In the first few years of the crisis, in terms of economic thinking, the ECB maintained its stance on the need for sound public finance, calling for fiscal austerity and structural reforms in the member states, especially in those that were most at risk of default. For instance, in August 2011, in two confidential letters, the ECB's Governing Council asked the governments of Italy and Spain for specific commitments on structural reforms and the consolidation of public finances. The ECB stated that it would intervene in the markets to stabilize the yields on government bonds only if these commitments were publicly accepted, which they were. The ECB also supported non-euro area members with credit lines, but not always on an equal basis (Spielberger, 2023). German members of the Governing Council, as well as the Bundesbank, continued to call for fiscal consolidation in the besieged Southern European member states (Weidmann, 2021). However, over time, the majority of the Governing Council of the ECB became less outspoken about the need for fiscal austerity (Ferrara, 2019; Mugnai, 2024).

During the unfolding of the crisis, the ECB underwent a revision of its policy paradigm. Whereas the previous paradigm, which was mostly inherited from the Bundesbank, was inspired by ordo-liberalism cum rational expectations, it is more difficult to ascribe the new paradigm that came to the fore at the ECB from 2012 onwards to a specific school of economic thought. Ferrara (2019) labels it as the "systemic risk" perspective and the associated macroprudential ideas that gained momentum following the Great Financial Crisis of 2008 (Baker, 2013a, 2013b). The systemic risk perspective applied to the Sovereign Debt Crisis in the euro area (De Grauwe, 2013; Foresti & Napolitano, 2022) stressed the incompleteness of EMU, its asymmetric institutional design and in-built weaknesses (Dyson, 2000; Howarth & Verdun, 2021; Verdun, 1996). It identified as a key problem the "doom loop between banks-sovereigns," that is, a vicious circle between ailing banks and struggling sovereigns, whereby fragile national banks held growing amounts of sovereign debt, while the sustainability of several national public debt loads was increasingly questioned (Gros, 2013; Merler & Pisani-Ferry, 2012). According to this view, the ECB could and should curtail the vicious circle by acting as a LLR to banks and sovereigns to stop self-fulfilling financial market dynamics (Buiter & Rahbari, 2012; De Grauwe, 2012; Krugman, 2012; Véron, 2012). Others have emphasized that many political thinkers, the original architects (Dyson & Maes, 2016) but also vocal American economists—Stiglitz (2016) and Mody (2018) are recent examples—have forcefully pointed to the weaknesses of EMU as being one part of a broader political agenda, where more and deeper integration would be necessary. EU leaders have often rebutted the American critique that EMU is part of a political agenda and that deeper integration is part of the steps forward (Masini, 2018).

In this context, the ECB developed a "multidimensional stability" paradigm, broadening its policy objectives, moving from a narrow focus on containing inflation to a broader remit concerning financial stability and, ultimately, the survival of the euro. For instance, the then president of the ECB Mario Draghi (2017), who had previously been governor of the Bank of Italy, noted that "price stability and financial stability are inherently interlinked. They tend to be mutually reinforcing" (Draghi, 1997). Moreover, in the heat of the Sovereign Debt Crisis, when financial markets were concerned about the stability of the euro, the ECB considered its task to preserve the euro. In a famous speech, Draghi (2012) remarked that "within its mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." Reflecting on those events, Draghi (2019) noted that the ECB's announcement (and what later became the Outright Monetary Transactions [OMT] programme discussed next), established the ECB's "commitment to counter unwarranted redenomination risks in sovereign debt markets and acted as a powerful circuit breaker. While OMT was never activated, the effect of its announcement was equivalent to that of a large-scale asset purchase programme." The ECB also openly acknowledged its role as LLR: Peter Praet (2016), a member of the Executive Board of the ECB, gave a revealing speech titled "The ECB and its Role as Lender of Last Resort During the Crisis." This function is usual for central banks, but the ECB had initially shied away from it.

The evolution of the ECB's paradigm also concerned policy instruments, whereby the "conventional" instruments for the conduct of monetary policy were accompanied by "unconventional" instruments. Thus, the ECB adopted the Securities Market Programme to purchase bonds—especially, sovereign bonds—on the secondary markets in 2010. It subsequently adopted the Longer-Term Refinancing Operations programme by issuing low-interest-bearing loans to European banks, which in turn, used these funds to buy government bonds, effectively lowering borrowing costs for the euro area countries hit by the crisis and that had problems in refinancing their public debt on the market (ECB, n.d.-b). In 2012, the ECB announced the OMT programme, whereby the Bank stood ready to purchase in the secondary markets, bonds issued by euro area member state governments experiencing financial difficulties. However, the OMT required beneficiary governments to apply for euro area rescue funds in compliance with strict conditionality in exchange for support (Hodson, 2013).

The evolution of the monetary policy paradigm was by no means uncontroversial within the ECB. At times, disagreement transpired between the so-called "doves" and "hawks" in the Governing Council and Executive Board., and the ECB was unable to act due to this dissensus (Marsh & Ortlieb, 2021; Moschella & Diodati, 2020). Several German central bank officials were often critical of the unconventional monetary policy measures adopted by the ECB (Arnold, 2019). They wanted the ECB policies to resemble those that the Bundesbank would pursue regarding the conduct of monetary policy (European Council official, interview, September 15, 2021; ECB official, interview, August 17, 2021). The president of the Bundesbank, Axel Weber, publicly opposed ECB emergency bond buying from its inception in 2010. He was joined by four other Governing Council members of the ECB (Oakley & Atkins, 2010). Over ten years, Weber and two German members of the ECB's Executive Board (Jürgen Stark and Sabine Lautenschläger) resigned, according to various reports, because they disagreed with ECB's policies (Blackstone, 2013; Escritt & Canepa, 2019; "INSIGHT-Mario Draghi's," 2014). Whereas during the first decade following the ECB's establishment, German central bankers were often on the winning side of the argument (Brunnermeier et al., 2016), from 2011 onwards, were sometimes outvoted in the ECB's decision-making bodies.

5. Economic Thinking at the ECB During the Covid-19 Pandemic-Related Economic Crisis

The Covid-19 crisis presented the EU with a formidable crisis (Genschel & Jachtenfuchs, 2021; Jones, 2020; Quaglia & Verdun, 2023c). The ECB's paradigm shift that had taken place at the peak of the Sovereign Debt Crisis was restated during the Covid-19 pandemic-related economic crisis. Thus, the Bank consolidated its multidimensional stability paradigm that broadened the ECB's policy objectives to financial stability, the survival of the euro, and the support of the general economic policies of the EU. At the outset of the pandemic, Lagarde (2020) stated on X, "extraordinary times, require extraordinary measures…our commitment to the euro is unlimited." This sentence resembles Draghi's 2012 "whatever it takes" comment and reinforces the commitment by the ECB (Quaglia & Verdun, 2023a, pp. 642–643). For the ECB, to allow the pandemic to call into question the integrity of the single currency was an absolute no-go (European Council official, interview, September 15, 2021; ECB official, interview, July 28, 2021). Moreover, as her predecessor Mario Draghi (2017), President Lagarde (2021) specified that the ECB explicitly considered "the interactions of price stability and financial stability, reflecting our belief that each is a precondition for the other." The ECB was also aware that when central banks are the only (or main) "game in town," they should act as an LLR to banks and sovereigns with a view to protecting financial stability (de Guindos, 2020).

At the same time, the ECB was adamant that the fiscal authorities had to act at the national and European levels (ECB official, interview, July 28, 2021; ECB official, interview, August 17, 2021; economist at Bruegel, interview, September 22, 2021). In fact, the Bank understood that monetary policy is less effective when it is close to the lower bound—when interest rates are close to zero (European Council official, interview, September 15, 2021; ECB official, interview, July 28, 2021). The reason is that there is a natural end to how much lower the interest rates can go. Eventually, they go into negative territory (meaning that interest has to be paid to keep money in the bank), which has some unintended consequences (for instance that some account holders move their money away from banks). Instead, in those circumstances, fiscal policy could be used more effectively (see ECB, 2020a). Yet, as in the previous period, this view was controversial within the Bank. For instance, the president of the Bundesbank, Jens Weidmann, stepped down in October 2021 having become increasingly uneasy with the ECB's stance which had been moving away from its narrowly defined mandate. In a statement, he wrote:

> A stability-oriented monetary policy will only be possible in the long run if the regulatory framework…[ensures] the unity of action and liability [and] monetary policy respects its narrow mandate and does not get caught in the wake of fiscal policy or the financial markets. (Weidmann, 2021)

As for instruments, certain instruments that had been unconventional in response to the Sovereign Debt Crisis became the new conventional (ECB official, interview, July 28, 2021; ECB official, interview, July 29, 2021; ECB official, interview, November 9, 2021), but were adapted, scaled up, and redesigned. Thus, the ECB established the Pandemic Emergency Purchase Programme, which was a temporary asset purchase programme of private and public sector securities that ran between 2020 and 2022 (ECB, 2020b, n.d.-c) and aimed to reduce borrowing costs and increase lending in the euro area. The ECB asset purchase programme started in October 2014 and ended in November 2022. For details of the breakdown of the programme see ECB (n.d.-d). Similar to what occurred in 2016 and onwards, in the aftermath of the sovereign debt crisis when conventional monetary policy had limited impact, the ECB extended its reach through asset purchase programmes. The ECB bought corporate bonds, asset-backed securities, and covered bonds as well as securities issued by European supranational institutions. By purchasing private sector assets, the ECB increases demand and drives up the price of these assets. By purchasing government bonds, the ECB effectively contributed to closing the yield spread between government bonds of fiscally sound and less fiscally sound member states. Moreover, the ECB introduced the pandemic emergency longer-term refinancing operations to serve as a liquidity backstop to the euro area banking system (ECB, 2020b, 2020c). Some policy-makers noted that when the Covid-19 crisis began, the ECB already had a set of instruments in place that had been adopted to respond to the Sovereign Debt Crisis and that were quite diversified (ECB official, interview, August 17, 2021; ECB official, interview, November 9, 2021).

6. An Overall Assessment

Over time, the ECB has moved away from its initial narrow focus on price stability, to taking responsibility for contributing to financial stability and supporting the general economic policies of the EU. Two sets of factors favoured the ECB's shift toward a multidimensional stability paradigm: policy learning in responding to economic shocks and the internal organic evolution of the ECB. The international environment and the economic conditions at the end of the 20th century, when EMU was established, were very different from those in subsequent decades, when the world economy and, especially, the euro area, have been hit by successive economic and financial crises. Central banks are "at the forefront—and centre—of the response to crises" (Praet, 2016). They need to act as LLRs and contribute to crisis management. It is even more so in the euro area, which lacks a unified fiscal authority able to act quickly to respond to crises. In the absence of a supranational fiscal counterpart, the ECB could and should take the lead: doing so provides time and breathing space for other EU policy-makers, acting intergovernmentally or supranationally (ECB official, interview, July 28, 2021; ECB official, interview, July 29, 2021). Moreover, the period of low inflation (prior to 2021), and even, deflation, in the euro area, amidst economic and financial crises, highlighted the importance of other general economic objectives of the EU, such as economic growth and employment (see Draghi's, 2014, landmark speech). In this process, the initial objective of monetary stability, which already had been flanked by other general economic objectives, became less important, while financial stability as well as the survival of the euro took centre stage.

Besides learning in responding to crises, the shift away from the Bundesbank's thinking was facilitated by changes at the very top of the Bank (e.g., president, Executive Board, and Governing Council) as well as at the level of senior staff (ECB official, interview, July 29, 2021). To begin with, the presidents of the ECB have changed over time, and so have their epistemic outlooks: the economic ideas that informed Willem Duisenberg's (1998–2003) and Jean Claude Trichet's (2003–2011) approaches at the helm of the ECB were different from those of Mario Draghi (2011–2019) and Christine Lagarde (2019–onwards). While the impact of the turnover of presidents at the ECB is surely significant, one must bear in mind that the governance structure of the ECB restrains the decision-making power of the president. At least formally, the president has one vote of 21.

Second, when the Sovereign Debt Crisis occurred and, even more so, when the Covid-19 pandemic crisis erupted, few of the members of the Executive Board and Governing Council of the ECB as well as senior officials at the Bank had experienced the pre-EMU period, which had been characterised by the ideational dominance of the Bundesbank in monetary circles in Europe (Dyson, 2000; Marsh, 1993). Yves Mersch, who retired in 2022, was the last one in the Governing Council, who had been there when the ECB was established in 1998–1999. The staff who had built up the ECB in 1999 have now retired or are about to retire. Third, from 2011 onwards, the role of ECB chief economist, which is a key position at the Bank, for the development of its economic thinking, has no longer been covered by a former Bundesbank official or a German official. The last German to hold this role was Jürgen Stark (2006–2011)—a former vice-president of the Bundesbank—who left the ECB in opposition to recommencing the bond-buying programme during the sovereign debt crisis (Wishart, 2011).

Finally, as mentioned in Section 2, we examined a selection of ECB senior managers. In this selection of individuals, the number of ECB senior managers previously coming from national central banks decreased over time. Looking at three snapshots (2000, 2010, and 2020) we see a change. Figures 1, 2, and 3 show selected senior managerial staff at ECB and show whether or not they had prior experience in national central banks. In the first year of 2000, the vast majority of senior managers had worked in national central banks, and the Bundesbank has been well-represented over the years. By 2010, the share of managers with a Bundesbank background dropped to 15.8% (Figure 2), but the percentage returned to 19% in 2020 (Figure 3). The Bank of Italy has also been well represented over the years, but much less than the Bundesbank. The largest change that can be observed is the total number of managers with no experience in national central banks prior to starting their career at the ECB. Over time, that share went up from 14% in 2000 to 26% in 2010, to 36% in 2020. When the ECB was set up, most of the managers had national central bank experience. As the ECB matured, many more new recruits, who had joined the ECB as their first significant professional position, climbed the professional ladder within the ECB. Considering the full time span we see the same development. This trend can be observed in absolute numbers or in percentages (Figure 4). The authors offer a caveat, however, namely that some of the "not applicable" (or "NA") might be caused by the inability to find information about the previous national central bank experience of these senior managers. Yet this number should be small as the authors were able to find plenty of other information regarding work, education, and nationality information about these senior managers, especially about the most recent years.

To some extent it makes sense to expect a reduction in the percentage of senior officials to have come from national central banks, and hence also from the Bundesbank, because during the period under study, the EU as well as the euro area have increased their membership. It is only logical that more people have joined from other member states and that more were directly recruited after completing higher education. Thus, a

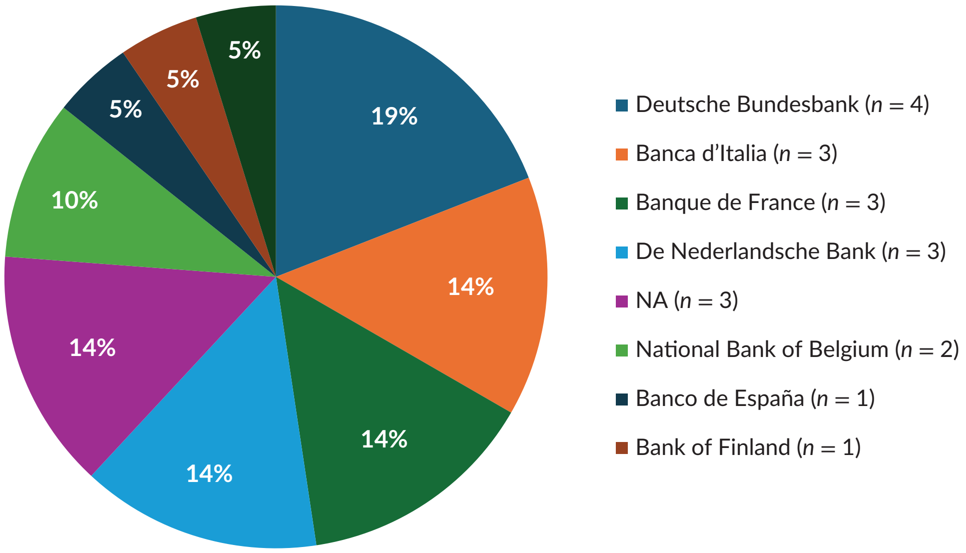

Figure 1. Selected senior managerial staff at ECB with experience in national central banks (2000). Sources: Authors' own collection from publicly available sources.

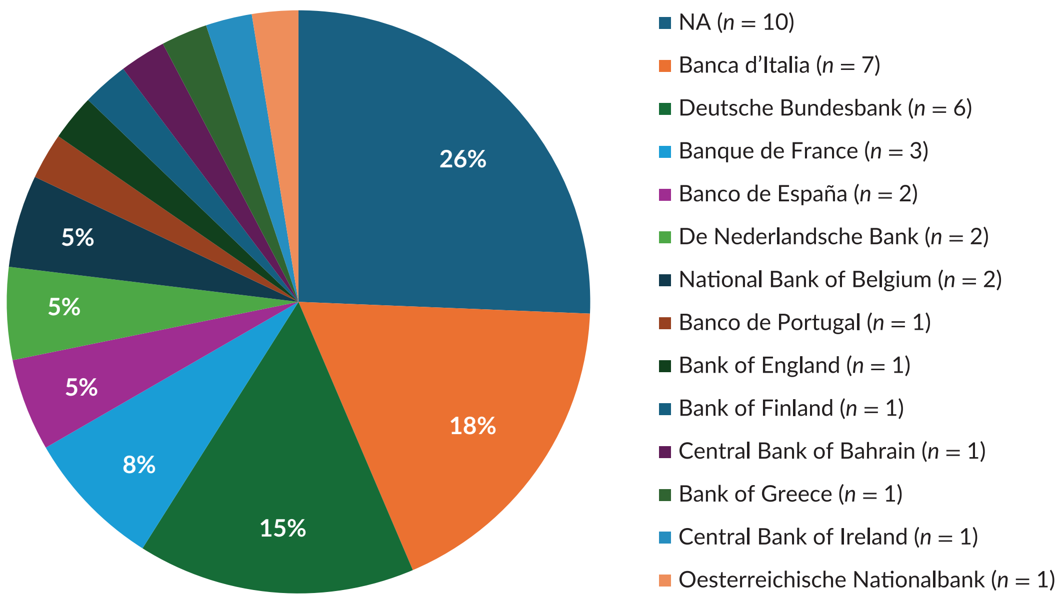

Figure 2. Selected senior managerial staff at ECB with experience in national central banks (2010). Note: All unmarked slices are 3% (*n* = 1). Sources: Authors' own collection from publicly available sources.

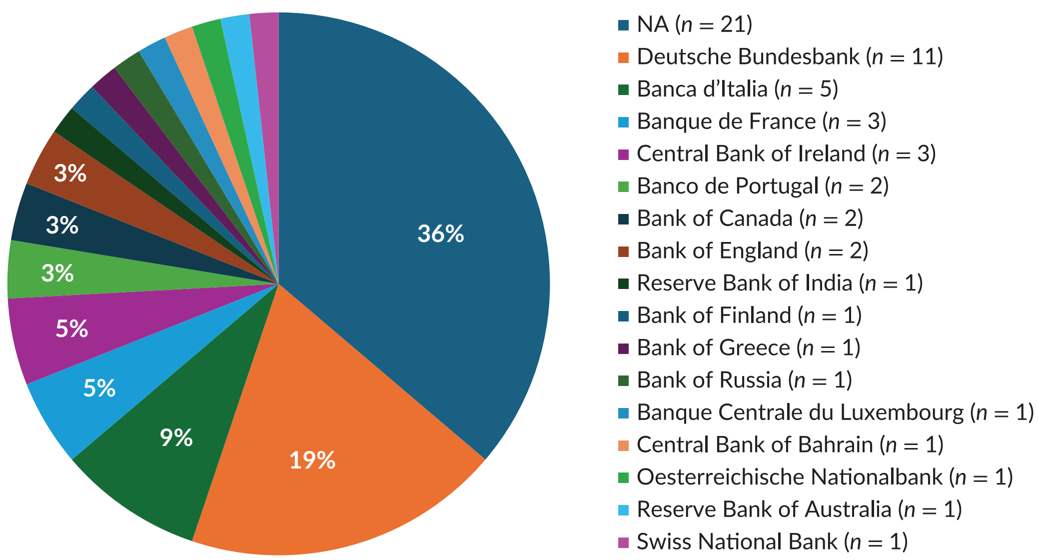

Figure 3. Selected senior managerial staff at ECB with experience in national central banks (2020). Note: All unmarked slices are 2% (*n* = 1). Sources: Authors' own collection from publicly available sources.

new generation of top- and mid-senior level policy makers were well positioned to act as conveyor belts of new economic ideas, which in the meantime had developed in the economic profession (ECB official, interview, July 28, 2021; ECB official, interview, July 29, 2021). At the same time, once the ECB had established its credibility, it became less disciplined in blocking dissenting opinions and allowed for a "freer discussion." As interviewee 2 described it:

> When the ECB started, the role model was the Bundesbank. The ECB aspired to "be as credible and to have high reputation, low inflation as the Bundesbank." Trichet was still in this mindset, he used to say, "The ECB is at least as good as the best performing predecessor central banks" [see also Trichet, 2011].

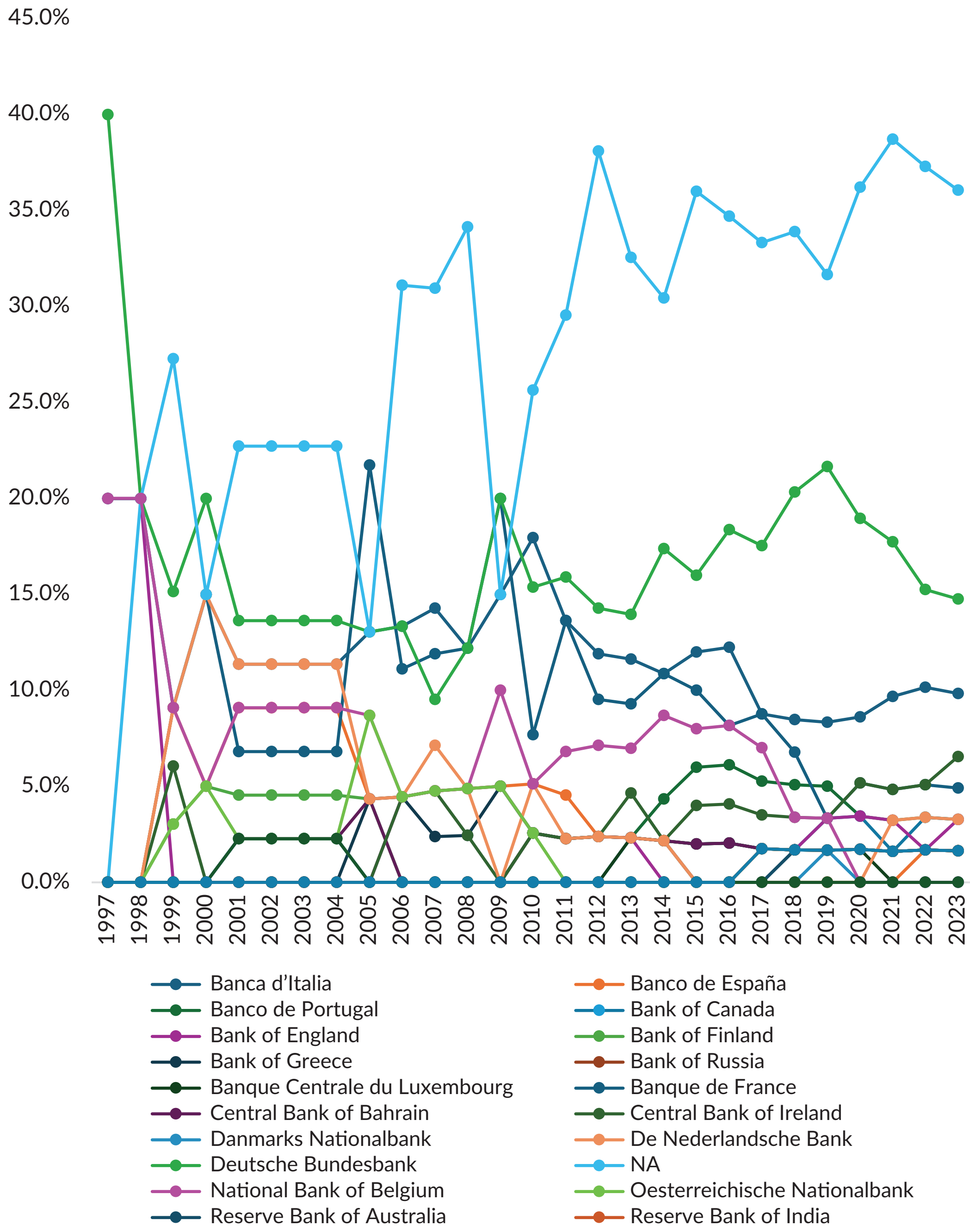

Figure 4. Selected senior ECB managerial staff national central bank experience (1997–2023). Sources: Authors' own collection from publicly available sources.

> With Draghi the whole thing changed to "we want to be like the Fed." That's the role model. Now, I think it's more like "we are as active and aggressive as the Fed." (ECB official, interview, July 29, 2021)

Of course, now that the ECB has been around for a few decades, it is, in any case, natural to compare it to the most important central bank. After all, the heritage of the Bundesbank becomes less relevant as the ECB is building its own track record (ECB official, interview, July 29; see Trichet, 2011). Another example of this learning from other institutions is articulated well by interviewee 2 when they speak about finding models for better central bank communication:

> Because we want to be better understood and more visual in our communication, we of course look around how other central banks communicate their policy. For example, we looked at the "Fed listens" events which gave us inspiration for "ECB listens"; and now such direct communication is a structural feature of how we interact [with citizens]. So, I think this kind of cross-fertilization is normal, to look at how are others doing: what are they doing well, or what is not going so well. (ECB official, interview, July 29, 2021)

Two interrelated points deserve further consideration. First, some ECB officials would insist that there has not been a paradigmatic shift because the ECB has always aimed to respect its primary mandate. Thus, non-conventional monetary policy contributed to safeguarding price stability when deflation was a menace and the transmission mechanism of monetary policy was impaired (e.g., Asmussen, 2013; Draghi, 2017). Yet, although the ECB's mandate has always envisaged some secondary objectives and the use of non-conventional monetary policy instruments, the concern with price stability in the earlier days left many at the ECB erring on the side of caution. Furthermore, in the post-Covid-19 period, the ECB was slow in responding to rising prices, suggesting that other objectives were regarded at least as important as the primary ones.

In relation to the previous point, to some extent, one could argue that the traditional "German thinking" on central bank policy was time contingent, that is, dominant in a certain socio-economic environment and historical period. We do not know what the Bundesbank's monetary policy would have been if confronted with the challenges of negative inflation, stagnation, and financial instability. Thus, the "German" label is what we think the mindset for monetary policy would be for Germany in a very different (inflation-fighting/not deflation-fighting) environment.

7. Conclusion

This article has investigated the evolution of the monetary policy paradigm at the ECB since its inception, arguing that over time the ECB moved from being focused exclusively on price stability to adopting a multidimensional perspective on stability. Thus, the Bank broadened its policy objectives, shifting from a narrow focus on containing inflation to a broader remit concerning financial stability and the support of the general economic policies of the EU. The ECB also took over the function of LLR to euro area banks and sovereigns, a function that is usual for central banks, but the ECB had initially shied away from. Once it became clear that a limited focus on price stability could not help deal with the full range of issues that the ECB had to deal with, it tried out various tools in the toolkit (adding new ones). The ECB broadened its range of monetary policy instruments, in that conventional monetary policy measures were accompanied by unconventional measures, such as asset purchase programs, liquidity provisions via refinancing operations, and international swap lines, deployed in crisis management (for an overview of the "old" and "new" policy paradigms at the ECB, see Table 1). The evolution of the ECB's policy paradigm was important because it produced concrete effects by informing the ECB's actions during the unfolding of consecutive crises over the last one and a half decades. In turn, the ECB's response was one of the cornerstones of the EU's responses to these crises.

Thirty years after EMU had been created on paper, in the Maastricht Treaty, based on the successful model of the Bundesbank, and the ideas and practices in that polity, the ECB seems to be moving to centre stage

Table 1. Shifting policy paradigms at the ECB.

Policy paradigm	Price stability (1999–2012)	Multidimensional stability (2012–onwards)
Underlying economic theory	Ordo-liberalism cum rational expectations	Systemic risk
Objectives	Inflation control	Inflation control and financial stability
Instruments	Conventional monetary policy measures	Conventional and unconventional monetary policy measures

and considering ideas and practices established in other leading central banks, notably those of the Federal Reserve Board of the US. The ECB has evolved from its early beginnings and become a mature institution. Expert thinking about crises has changed, and so have the views within the ECB. Moving forward, as the ECB continue to face challenges in meeting its price stability objective, it also needs to remember the lessons from the 1970s when high inflation was rampant. Will the temporary increase in prices in 2021–2023 impact further on the evolution of thought within the ECB? Indeed, the ECB is at present engaged in a heated internal debate between "hawks" and "doves" about the conduct of monetary policy to deal with the inflationary surge. It will be interesting to see whether the paradigmatic shift within the ECB that we have detected in this study remains intact considering the sharp rise in inflation in recent years, which was outside the scope of the present study. While we suggest that the paradigmatic shift towards a multidimensional paradigm might explain the ECB's slow reaction to rising prices, further research is needed to assess the longevity of the multidimensional policy paradigm.

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Conflict of Interests

The authors declare no conflict of interests.

Data Availability

Data is available upon request.

Supplementary Material

Supplementary material for this article is available online in the format provided by the authors (unedited).

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