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The Constraints of Central Bank Independence: The European Central Bank's Unconventional Monetary Policy and Incremental Accountability in the Euro Crisis

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Abstract

The European Central Bank (ECB) is one of the most independent central banks in the world, but this independence is also highly constrained: the Maastricht Treaty established a primary mandate to pursue price stability and prohibited it from engaging in monetary financing. Using an historical institutional framework, this article analyses the ECB's unconventional monetary policy during the Euro crisis. The Maastricht Treaty's constraints forced the ECB to act incrementally during the crisis and rely primarily on the layering of institutional changes. Nevertheless, the self-reinforcing effect identified by historical institutionalism meant that these gradual changes had important consequences over time. The unconventional monetary policies are contrasted with the more drastic institutional change instigated by the Member States, the ECB's designation as the Single Supervisory Mechanism (SSM). The self-reinforcing effects and path dependence set by the ECB's high degree of independence in the Maastricht Treaty, however, also constrained the EU in ensuring the accountability of the ECB, as the accountability structure is another instance of layering despite the very different nature and consequences of financial policy supervision.

Keywords

Accountability; Euro area governance; Euro crisis; European Central Bank; Historical institutionalism; Legitimacy; Unconventional monetary policy

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Since the onset of the Euro crisis, no supranational institution has undergone more changes than the European Central Bank (ECB). Not only has it engaged in controversial unconventional monetary policy in its core policy field, it has also extended its functions formally (as the Single Supervisory Mechanism) and through the expansive use of previously little-used roles such as government advisor (bilaterally and through the troika). While market reaction to the ECB's expanded role was initially positive, public opinion has also been increasingly sceptical of the ECB's actions (Roth et al. 2016) and even prompted several legal challenges, albeit unsuccessfully.

This article contributes to this special issue on recent changes in EU economic governance by analysing the nature of the ECB's use of unconventional monetary policy and its evolving accountability structure. Using an historical institutional framework, I consider how the initial changes made by the ECB can be understood as gradual, and how its accountability has also increased incrementally. Nevertheless, the feedback process of these gradual measures has the potential to make the consequences of such changes much larger, paving the way for more substantial changes in the future and unintended consequences.

Moreover, even though banking union constitutes more of a substantial modification of the ECB's activities, its accountability structure in this domain also conforms more closely to a gradual model of change; the ECB's monetary dialogue served as a template for its banking dialogue. Despite the important change marked by banking union, its incremental rise in accountability can be attributed to the feedback loops that arose after the initial decision to grant the ECB a high degree of independence.

This constrained the options of the ECB in the Euro crisis to the more incremental paths of institutional change described by historical institutionalism, conversion and layering. It also limited the options of other EU actors in ensuring the accountability of the ECB, despite the acquisition of an important new competence with much stronger distributional and political implications than monetary policy had. Indeed, the SSM's accountability structure strongly resembles that found in the monetary domain.

The article outlines the main tenets of historical institutionalism. It continues with a description of the specific legal constraints faced by the ECB; despite its status as an independent central bank, it faces strong prohibitions if it should try to go beyond its primary mandate to pursue price stability, further necessitating only incremental changes. The next section summarizes the ECB's unconventional monetary policy during the global financial crisis and Euro crisis, contrasting it with the more radical change of its role in banking union through the lens of historical institutionalism. The evolution of the ECB's accountability structure is analysed through the same lens, demonstrating how the decision to make the ECB highly independent under the Maastricht Treaty led to self-reinforcing behaviour that ultimately constrained not only the ECB but also the other EU institutions in their ability to hold the ECB accountable.

HISTORICAL INSTITUTIONALISM AND INSTITUTIONAL CHANGE

Historical institutionalism figures among the three "new institutionalisms" (the other two being rational choice institutionalism and sociological institutionalism) that became prevalent in European studies in the 1990s (Hall and Taylor 1998). Historical institutionalism considers how institutions are 'sticky' over time and likely to persist, even when the circumstances that led to its creation change. During a critical juncture (often triggered by an exogenous shock), political coalitions enact changes that set the institution down a certain path that becomes self-reinforcing due to their increasing returns and positive feedback effects (Pierson 2000; Capoccia 2015). Operating within critical junctures are permissive and productive conditions: the former allows for greater agency by weakening institutional constraints, whereas the latter operates within the context of permissive conditions and shapes initial outcomes that are then replicated after the end of the critical juncture (Soifer 2012).

Historical institutionalism identifies how incremental change can occur during a critical juncture through four different processes (Streeck and Thelen 2005; Mahoney and Thelen 2009). These four types of institutional change differ according to the retention of old rules and the creation of new rules.

Table 1. Historical institutionalism

	Old rules remain	Old rules replaced
New rules created	Layering	Displacement
No new rules created	Conversion	Drift

Layering keeps the existing rules and adds new ones, either superimposed or in conjunction with the original rules. This occurs when it is difficult to alter the existing rules so additional rules are implemented that nevertheless can lead to substantial changes over time. Conversion alters the implementation of existing rules in a 'strategic redeployment' (Mahoney and Thelen 2009: 16). Would-be reformers make use of ambiguities and grey areas within the existing institution in ways that allow it fulfil new objectives. Drift implies a change in the impact made by the existing rules in response to changing conditions in the environment. In such a case, the lack of action by policymakers to respond to evolving circumstances also leads to institutional change. Finally, displacement involves the replacement of existing rules with an alternative. This is the strongest institutional change identified within the historical institutionalist framework, as it does not retain the previous rules. Institutions that enjoy high levels of discretion in how rules are interpreted and enacted are more prone to drift and conversion, depending on the opportunities for other actors to veto any changes; strong veto opportunities make drifting more likely, while weak veto opportunities tilt the balance in favour of conversion (Mahoney and Thelen 2009).

Historical institutionalism is a useful tool for analysing the ECB, given its identification of different types of incremental change. While the ramifications of the expansion of the ECB's role in Euro area governance have been considered elsewhere, they have tended to consider the ECB as financial supervisor (De Rynck 2016), troika member (Henning 2017) or lender of last resort (Buiter and Rahbari 2012). Historical institutionalism allows one to differentiate between types of changes undertaken by the ECB in a way that offers a comparative element to the corresponding changes in ECB accountability. If there is a mismatch between the type of incremental change and the accountability structure, this signals potential legitimacy problems for these changes and provides a basis for considering how accountability should adjust alongside institutional change. As explained later, the ECB's unconventional monetary policies most often resemble layering and conversion, and its accountability structure also favours layering. While this has been satisfactory for the majority of cases, a mismatch between the displacement involved in financial supervision versus the continued layering in accountability is problematic and contributes to attacks on central bank independence.

THE EUROPEAN CENTRAL BANK'S MANDATE AND ACCOUNTABILITY STRUCTURE

The ECB's actions during the Euro crisis must be understood within the context of its status as one of the most independent central banks in the world and a central bank for a collection of states that do not form a political union. The ECB's actions are constrained considerably compared to other central banks as a result, as the Maastricht Treaty did not designate it as a lender of last resort to the Euro area and it was not charged with banking supervision. The creation of an independent ECB was part of a larger trend internationally, as central bank independence had gained widespread acceptance in the 1980s and 1990s as a way to achieve price stability (Cukierman 1992; Alesina and Summers 1993). Indeed, the Maastricht Treaty marks the first critical juncture for the ECB and the onset of a path-dependent process emphasizing price stability.

According to the Maastricht Treaty Article 127.1 TFEU,

> The primary objective of the ESCB shall be to maintain price stability… [and] without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2.

Other economic objectives (such as economic growth or employment) can be pursued only as secondary activities, and only to the extent that their pursuit does not impinge on price stability. Thus, the Maastricht Treaty enshrined the principle of monetary dominance through the ECB's independence, price stability mandate, and monetary financing prohibition. Monetary dominance refers to the setting of interest rates without regard to fiscal policy, which then adjusts to monetary policy (Sargent and Wallace 1981). Fiscal policy cooperation was limited to the setting of debt and deficit limits among the member states. No budget was created for the Euro area, and the prospect of fiscal transfers was an anathema to countries like Germany. The ECB's role was therefore proscribed so that its decisions would not have distributive consequences. Moreover, the Maastricht Treaty included a no-monetary-financing rule that prohibits the ECB from providing governments with a liquidity backstop. This legally bars the ECB from buying sovereign bonds in primary markets (which would be a direct purchase), but not in secondary markets.

While the ECB enjoys a high degree of independence, its policy options are constrained in that its actions must be justified on the grounds that it contributes to price stability (including the monetary transmission mechanism that ultimately affects prices). As we shall see, the ECB made frequent references to this mandate when justifying its policies during the Euro crisis. Nevertheless, the positive feedback effects still made incremental changes have a significant impact.

The ECB's primary objective is price stability, and it mainly relies on 'output accountability' (Zilioli 2016: 131) in which it is judged according to how well it fulfils this mandate. This is just one element of what has been described as central bank accountability: the decisions regarding how the central bank's objectives are defined and ranked; transparency; and who is ultimately responsible (de Haan et al. 2004).

The ECB's accountability emphasises adherence to its mandate of pursuing price stability, its transparency in how it goes about achieving this objective, and its dialogue with political actors. In a 2002 Monthly Bulletin elaborating on its accountability, it defined accountability as 'being held responsible for one's decisions and being required to justify and explain them' (ECB 2002:48). This fits an international political trend towards greater accountability for policymakers (Begg 2007). The ECB has gone beyond the transparency requirements demanded by the Treaty, including frequent press conferences and press releases as well as making its statistics and forecasts available (Zilioli 2016). Indeed, it is in the ECB's interest to be viewed favourably, both in terms of its accountability and in achieving its inflation target (Torres 2013), given that the ECB scored low on accountability when compared to other central banks (De Haan et al. 1999) and represents 'a departure from the norms of political accountability' (Elgie 1998: 54).

The ECB's accountability structure requires it to draft an annual report on its monetary policy and other activities to the European Council, the Commission, the Council of the European Union and the European Parliament. In addition, the ECB President (as well as other Executive Board members) can appear before the European Parliament, due to either its own initiative or an invitation from the European Parliament. The ECB President appears before the European Parliament's Committee on Economic and Monetary Affairs (ECON) on a quarterly basis and before its plenary at least once a year. The ECB is also subject to control by two sets of auditors (an independent external auditor and the European Court of Auditors) and the European Anti-Fraud Office (OLAF) (ECB 2010).

The primary way the ECB is held to account is in its relationship with the European Parliament. During the Maastricht Treaty negotiations, the European Parliament unsuccessfully sought the insertion of a legal obligation for the ECB president's appearance before the European Parliament akin to the obligations of the US Federal Reserve System. Despite the lack of legal basis, the European Parliament took the initiative in keeping the ECB accountable (Amtenbrink and van Duin 2009) by including in its rules of procedure an invitation to the ECB president to visit the ECON on a quarterly basis to declare a statement and answer questions, a ritual that became known as the Monetary Dialogue. Similarly, the stipulation that any MEP could demand a written answer to a question also finds its roots in rules of procedure. The ECB President has willingly engaged with the European Parliament, and the Monetary Dialogue has been mutually beneficial: it provides the ECB with a platform to publicly justify its policy actions as it gives the European Parliament a high-profile role in ensuring that the ECB is subject to at least a modicum of democratic accountability. Indeed, the ECB President appears with greater frequency before the European Parliament than the Federal Reserve or Bank of England before their respective legislatures (Eijffinger and Mujagic 2004). The Monetary Dialogue has been characterised as a 'power play' between the ECB and MEPs, with the former exemplifying technocracy and the latter politics in a situation that strains democratic norms (Jabko 2000: 903).

The Monetary Dialogue occurs four times a year and typically lasts two hours. The ECB President begins with an introductory statement, which is followed by questions from the ECON members. A monetary expert panel aids the lack of expertise of ECON by providing briefing papers on a range of issues related to monetary policy. Since 2006, for each hearing two topics are identified for which the experts write papers, and the ECB President is expected to comment on them during his introductory statement. Despite the general agreement that the experts' advice should be put to more use, neither the ECB President nor the ECON members have been bound by the identified topics; the former frequently fails to mention the topics in the opening statement, and the latter do not limit themselves to asking questions about them (Amtenbrink and van Duin 2009). The Monetary Dialogue is similar in structure to the comparable hearings that the US Federal Reserve and the Bank of England have with their respective legislatures. Nonetheless the key difference is that the European Parliament lacks the possibility to sanction the ECB, which make the ECB less accountable than its international counterparts (Claeys et al. 2014). Indeed, the ECB faces no direct consequences as a result of its dialogue with the ECON.

During the first decade of EMU, the ECB was quite reactive to ECON (Eijffinger and Mujagic 2004), as the dialogue seemingly had an impact on the ECB's procedures such as the May 2003 reform that removed the M3 from the policy analysis and refined the definition of price stability (Sibert 2005). The Parliament's line of inquiry also evolved, moving away from the focus on price stability to include topics like its general mission and level of transparency (Amtenbrink and van Duin 2009). Despite the increased transparency and visibility of ECB actions through the Monetary Dialogue, the process has been viewed as inadequate by some (Wyplosz 2007).

THE ECB DURING THE EURO CRISIS: INFLATION, DEFLATION, AND SAVING THE EURO

An historical institutionalist analysis of the pre-crisis institutional trajectory of EMU revealed the institutions and actors involved in Euro area governance demonstrated remarkable consistency (Verdun 2007). Monetary policy had targeted price stability with no concern for the build-up of asset bubbles (Mishkin 2007). In the absence of a major shock that provided the Euro area with a critical juncture, Member States were unlikely to permit further transfers of sovereignty than they had under Maastricht.

The global financial crisis and subsequent Euro crisis provided such a shock. The EU's initial responses appeared gradual in nature, employing primarily layering and conversion techniques that did not require changes to existing rules (Salines et al. 2012; Gocaj and Meunier 2013). As a seemingly endless cycle of summits attempted unsuccessfully to quell the crisis, the ECB's actions bought policymakers additional time (Yiangou et al. 2013). Moreover, its treaty-defined roles in government advisement and financial supervision were expanded substantially, particularly when it became the Single Supervisory Mechanism. Finally, the prospect of deflation loomed over the Euro area, prompting the ECB to respond aggressively. Saving the Euro and fighting off deflation, however, included measures that extended beyond conventional monetary policy.

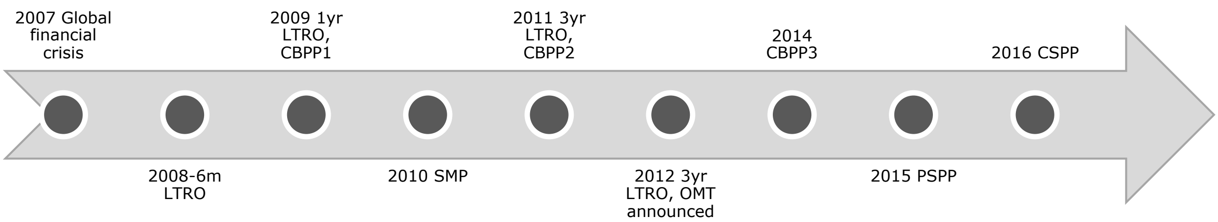
This section applies the historical institutionalist framework developed above to the ECB in its unconventional monetary policy and contrasts it with the designation of the ECB as the Single Supervisory Mechanism. It updates an earlier analysis of ECB actions during the crisis (Salines et al. 2012), finding that banking union added an element of 'displacement' to the ECB's institutional changes.

UNCONVENTIONAL MONETARY POLICY

The ECB's conventional monetary policy consists of 'open market operations, standing facilities, and minimum reserve requirements for credit institutions' (ECB website). On the other hand, unconventional monetary policy measures operate according to a 'separation principle' in that distinguishes them from conventional policy. They complement rather than replace conventional measures, are temporary in nature, and are clearly defined. Their purpose is to avoid financial market disruption that would prevent the ECB's ability to affect prices via interest rates (Mendonça 2016). The impact of conventional and unconventional policy on price stability occurs through the monetary transmission mechanism: the 'process through which monetary policy decisions affect the economy in general and the price level in particular' (ECB). Official interest rates affect expectations and money market interest rates, which are then transmitted to the availability of credit, asset prices and exchange rates, and ultimately they influence price developments. Exogenous shocks like changes in the global economy, risk premia or fiscal policy can all affect the monetary transmission mechanism. The transmission of unconventional monetary policy includes: the signalling effect on future rates; liquidity effects on the interbank money market; and the composition of private sector portfolios (Pattipeilohy et al. 2013).

Figure 1 gives a time line of the unconventional policy measures by year; the article focuses on the Longer-term Refinancing Operations, Securities Market Programme, Outright Monetary Transactions, and the Asset Purchase Programme, i.e. quantitative easing. This list is not exhaustive; other unconventional policies were undertaken, including forward guidance and the use of negative interest rates for deposits (Hartmann and Smets 2018). Nevertheless, the selected policies generated more interest in the political economy literature given their potential for breaking the ECB's mandate to pursue price stability and the fiscal implications of their policies. Issues relating to the monetary transmission mechanism have played an important role in the rationale behind unconventional monetary policies such as Targeted Long-Term Refinancing Operations and negative interest rates, but they are beyond the scope of this study.

Fig 1. Time line of the ECB's unconventional monetary policy



The emergence of unconventional monetary policy coincided with another critical juncture, that of the global financial crisis that began in the US in 2007 and reached Europe with full force in 2008. The global financial crisis constitutes a permissive condition that loosens institutional constraints on agency. This critical juncture moment allowed gave agents more leeway (Fioretos et al. 2016) and allowed for the ECB, first under Trichet and later under Draghi, to interpret the rules binding the ECB's behaviour in the Maastricht Treaty in a way that produced lasting change to the institution. While a financial crisis of such magnitude might have prompted a dramatic institutional reconfiguration, instead the pre-crisis institutions constrained the reforms that were intended to respond to the crisis in a way that was quite gradual (Moschella and Tsingou 2013). The selected policies are then categorized according to the historical institutional divisions outlined above.

In the wake of the global financial crisis, the ECB responded to the freezing of interbank markets with Enhanced Credit Support that included longer-term refinancing operations and the covered bond purchase programme, among other measures. In keeping with the separation principle, interest rates were directed towards the monetary policy stance, whereas the new liquidity arrangements were geared towards restoring the monetary transmission mechanism so that interest rate decisions would affect the banking sector and ultimately households and businesses (Pattipeilohy et al. 2013).

The open market operations of the Eurosystem entail the main refinancing operations that supply liquidity weekly and longer-term refinancing operations (LTROs) that provide liquidity over a period of 3 months. In August 2007, the use of 3-month LTROs was expanded; in April 2008, the programme extended further to include additional LTROS for a period of 6 months, and in June 2009 the maturity was extended to 12 months. The progressive extension of LTROs to a period of 3 to 6 to 12 months presents an example of layering in that LTRO acquired additional operations with a longer duration, and this occurred on top of the regular 3-month LTROs already being used. Nevertheless, the rationale for these measures rested with the need to provide 'enhanced credit support' for the Euro area banking sector that suffered from the global financial crisis (González-Páramo 2009).

As the Euro crisis raged on with the bailouts of Greece, Ireland and Portugal and the prospect of too-big-to-save Spain and Italy also requiring financial assistance, the ECB announced in December 2011 a package of measures that included a new round of LTROs that would allow banks to obtain financing for just 1 percent during a 3-year period. This coincided with the start of Mario Draghi's term as ECB President and also marked a more proactive approach to the crisis. While unconventional monetary policy had originated under Jean-Claude Trichet, the ECB under Draghi took bolder steps that nevertheless originated in decisions undertaken by his predecessor. The first instance was the new LTROs that were substantially longer and more generous than their previous iterations. While the official explanation for LTROs was provide additional liquidity to Euro area banks (Draghi 2011b), the primary beneficiaries were clearly the banks in the Euro area periphery, and 10-year bond yields in Greece, Ireland, Spain, and Italy quickly rallied after the announcement. Banks took up nearly €1 trillion of the 3year LTROs and were expected to use these funds to purchase government debt (Gros 2012). Indeed, government bond holdings in banks in southern Europe increased by €54 billion in Italy, €68 billion in Spain and €4 billion in Portugal, whereas the northern countries showed no marked increase of sovereign debt purchases (Pisani-Ferry and Wolff 2012).

In addition to the extended duration, the announcement of the newer LTROs coincided with the reduction of the required reserves ratio and the easing of ECB collateral requirements; Draghi explained that bank assets would be freed up by using the loans as collateral (Draghi 2011a). These new collateral rules would particularly benefit banks in southern Europe (Gros 2012).

While the dramatic extension of the duration of the LTROs was layered upon the previous iterations of LTROs, they also indicate a conversion. The newer LTROs shored up banks in the periphery and allowed them to rebuild their capital base, demonstrating a policy shift that had more distributive implications than the previous LTROs. This opened the ECB to criticism that this (and the second round of LTROs of a 3-year duration launched in February 2012) amounted to the ECB acting as a lender of last resort (Buiter and Rahbari 2012). Nevertheless, the ECB carefully linked the 2011 and 2012 LTROs to its primary mandate; speculation and uncertainty had made the ECB's conventional monetary policy ineffective as the Euro area underwent financial fragmentation, leading to substantially different lending conditions across the region that prevented the ECB's interest rates from being transmitted to the real economy (Draghi 2012a).

Another unconventional monetary policy entails the expansion of the ECB's balance sheet through the purchase of assets, culminating in the Asset Purchase Programme (APP). This began in 2009 with the first Covered Bond Purchase Programme 'with the objective of sustaining growth across the Euro area', though the ECB added it would conform 'with the aim of achieving inflation rates below, but close to, 2% over the medium term' (ECB 2019). This indicates a conversion as the ECB's aim shifted towards economic growth, albeit in a form that would not jeopardize price stability. On 2 July 2009, the ECB's first covered bond purchase programme began, ending in June 2010 after reaching €60 billion. These purchases were distributed across the Euro area, and the covered bonds needed a minimum rating of AA by at least one of the major credit ratings agencies. This set an important template for the ECB that would be followed in later iterations, as the bond buying programme expanded to include different kind of assets. First, the requirement for high scores from ratings agencies would minimize the possibility that the ECB would suffer losses from the programmes. Second, it somewhat protected the ECB from charges of monetary financing. Finally, the programme was spread across the Euro area and not solely on economies in the periphery. Consequently, the ECB proceeded in layering additional asset purchase programmes on top. Two more covered bond purchase programmes ensued in November 2011 (ending on 31 October 2012) and 2014 (ending December 2018).

On 4 September 2014, the ECB announced a new asset-backed securities purchase programme (ABSPP) (ECB 2014). The Governing Council announced on 22 January 2015 that it would launch an expanded asset purchase programme (APP) that included the CBPP, ABSPP, as well as buying investment-grade bonds issued by Euro area governments, European institutions, and agencies in the secondary market (ECB 2015a). In June 2016, the ECB decided to implement a corporate sector purchase programme (CSPP), further expanding the APP (ECB 2016).

The ECB defended this decision as preventing a potential deflationary spiral, arguing that the APP indicated its determination to achieve price stability while respecting EU law (ECB 2015b). The amount of purchases were relatively modest in size; from March 2015 until March 2016 the ECB averaged €60 billion, from April 2016 to March 2017 €80 billion, and €60 billion from April 2017 to December 2017. At the June 2018 Governing Council meeting, the ECB announced a sharp reduction of net asset purchases to €15 billion a month until December 2018.

Under pressure from Germany, the risks assumed by the QE programme go to the national central banks rather than the ECB in order to prevent creditor countries from potentially taking on losses and placed limits on the amount that central banks can buy of each issue (25 per cent) as well as the amount that can be purchased per issuer (33 per cent). Nevertheless, the programme sparked sharp criticism; Germany's bestselling newspaper greeted the news with the headline, 'ECB takes on the billion-Euro debts of weak EU states. What will happen now with my money?'(Wagstyl and Giles 2015). Another case went to the German constitutional court, which referred the case to the European Court of Justice (ECJ) for an interim ruling under a fast-track procedure in July 2017, but the ECJ declined to accelerate its proceedings (Matussek 2017).

Institutionally, QE resembles layering, having built upon previous asset purchase programmes. Inflation rates had hovered dangerously close to the zero, dipping below 1 per cent in 2013 and into negative territory at the end of 2014. When the ECB was created in the 1990s, the primary concern was to avoid inflation; the economy in 2015 risked deflation, which also deviates from the ECB's objective. Although it expands further the ECB's balance sheet, it did contribute to increasing inflation in the Euro area (Conti et al. 2017). Moreover, the ECB's actions came long after and were much smaller than those of the US Federal Reserve (2008) and the Bank of England (2009) in their QE exercises. This also points to changing ideas in the central banking community regarding the use of QE and made it more acceptable for the highly constrained ECB to follow suit in a limited fashion.

In addition to the LTROs and asset purchase programmes, two additional instruments illustrate the incremental nature of the ECB's response to the Euro crisis, the Securities Market Programme and the Outright Monetary Transactions. Both provoked considerable concern that the ECB overstepped its mandate, though the latter has not been used.

In May 2010, the ECB launched the Securities Market Programme (SMP) in which it purchased the sovereign debt of peripheral economies like Greece, Ireland, Spain, Portugal and Italy on secondary markets; recall that primary market purchases are prohibited by the TFEU. The ECB justified this move on the grounds of needing to repair the monetary transmission mechanism 'and thus the effective conduct of monetary policy oriented towards price stability in the medium term' (ECB glossary). This amounts to a conversion of ECB policy instruments rather than a long-term institutional shift, given its temporary nature (Salines et al. 2012), the limited interventions (significantly below a Federal Reserve-style quantitative easing programme) (Yiangou et al. 2013), and its formal alignment with the ECB's primary mandate. The SMP was suspended in January 2011, resumed in August 2011, and ended in September 2012 with the announcement of the Outright Monetary Transactions.

Critics viewed the SMP as a more substantial institutional shift, particularly German central bankers, as the ECB's purchases had the effect of lowering bond yields and arguably could be construed as an indirect monetary financing of governments. Moreover, the ECB could be liable for the peripheral countries' debt if they were to default. Bundesbank president Axel Weber resigned in February 2011, having publicly opposed the SMP. In September 2011 ECB Executive Board Member Jürgen Stark also resigned, a move that was interpreted as a protest against the SMP (Müller et al. 2011). These concerns are not only borne from the immediate impact of the SMP but the possible long-term effects, given the self-reinforcing mechanisms at work. Some pointed to this as evidence of the ECB's burgeoning role as a lender of last resort to sovereigns (Buiter and Rahbari 2012), a charge that ECB President Mario Draghi strongly denied (Draghi 2011b). This opposition is indicative of the challenges faced by reformers of a highly independent institution and the deep entrenchment of existing rules. Indeed, this controversial measure was undertaken with clear reference to existing rules on price stability, despite the distributive implications of buying the sovereign debt of peripheral economies.

In July 2012 ECB President Mario's Draghi's famous 'whatever it takes' speech vowed that the ECB would defend the Euro (Draghi 2012b). This was operationalized with the Outright Monetary Transactions (OMT) in which the ECB would make unlimited bond purchases on secondary markets for countries that were under a conditionality programme as part of a bailout from the European Stability Mechanism (ESM) or its predecessor, the European Financial Stability Facility (EFSF). Markets welcomed the announcement with sharply falling bond yields, as it had effect of removing concerns over currency redenomination or a Euro area breakup (Chang and Leblond 2015).

The ECB took great care to link the OMT to its price stability mandate (Barber and Steen 2012). While the roots of the OMT can be found in the SMP, the latter is much more modest in scope. The extraordinary promise of OMT to provide for unlimited bond purchases without seemingly breaking the prohibition against monetary financing exemplifies the feedback loops that occur with successive incremental changes, eventually permitting large-scale changes. While the differences between the SMP and the OMT may reflect the timing of the SMP (occurring at the start of the Euro crisis), it also provides another indication of Draghi's leadership (and Trichet's before) (Verdun 2017; Schoeller 2018) and the willingness to stretch the ECB's mandate to its limit. The OMT is a bigger and more extensive version of the SMP that therefore created larger risks for the ECB in terms of its potential generation of inflation and moral hazard. The SMP offered limited bond-buying on secondary markets while the OMT was specifically unlimited, with the need for a European Stability Mechanism programme grafted on top.

The OMT can therefore be considered an example of layering. This can also be viewed as an example of the self-reinforcing effects identified by historical institutionalists, as the earlier SMP policy had paved the way for the OMT in setting the initial precedent that was later amplified to fight the Euro crisis more aggressively. The more modest SMP already redirected ECB policy towards combatting the Euro crisis, and the OMT did so much more overtly. While the conversion had already taken place under the SMP, the OMT aroused greater opposition from German central bankers. The Bundesbank strongly opposed the OMT publicly, and a former Bundesbank official referred to the OMT as 'out of mandate' transactions (Stark 2012: 52). The German constitutional court also questioned its legality, ultimately ruling that it did not go against the German constitution after it had referred the issue to the European Court of Justice for a preliminary ruling; the latter decided that the OMT neither exceeded the ECB's mandate nor constituted monetary financing. These challenges point again to the preferred use of layering to reform an institution that is highly resistant to formal institutional changes, as identified by historical institutionalism.

Table 2 provides a summary of the different unconventional monetary policies covered in this section. The unconventional monetary policies of the ECB during relied largely on layering, in some cases preceded by conversion. The LTROs began as layering exercises during the global financial crisis, but their extension to 3-year maturities represented conversion as their impact temporarily reduced borrowing costs for Euro area governments in the periphery and allowed their banks to purchase additional government debt. Both of these factors departed from previous LTROs that were more limited in scope and did not have such clear distributive effects across the Euro area. Similarly, the asset purchase programme began with little fanfare in the form of covered bond purchases, a conversion of ECB policy towards economic growth that would be layered upon with subsequent expansion of the ECB's balance sheet with additional assets, including public debt. Finally, the SMP's conversion of ECB policy remained rooted in the primary mandate of the ECB but also provided the foundation for what would become the layering of the OMT.

The ECB's deviation from conventional monetary policy sparked concerns regarding the long-term impact on inflation, the ECB's balance sheets, and promoting moral hazard among the Member States. In particular, dissent within the ECB's Governing Council placed a further constraint on the willingness and ability of the ECB to take even bolder action during the crisis. Looking at other central banks like the US Federal Reserve and the Bank of England, for example, one could have seen a possible counterfactual of making use of the central bank's balance sheet much earlier. The agency of the ECB, bearing in mind important divisions within on the need to hew closely to the price stability mandate, help to explain the choice for more incremental changes that were justified on grounds relating to its central mandate to pursue price stability. The ECB, therefore, proceeded with caution in moving incrementally and in linking its actions to how they could promote price stability.

The ECB's accountability in the monetary realm has changed at the initiative of the ECB and focuses on improving its transparency further. Since 2015, for example, it has published the discussions of its Governing Council's monetary policy meetings. In addition, it publishes emergency liquidity assistance (ELA) decisions and procedures on its website. President Draghi has also visited national parliaments to explain the ECB's policies, visiting Germany (2012), Spain (2013). France (2013), Finland (2014) and Italy (2015).

The relationship between the European Parliament and the ECB has not changed formally since the crisis, and the principle of the ECB's independence remains intact. During the first decade of EMU, MEPs focused on growth and employment, while the ECB tended to restrict remarks to issues concerning price stability. From 2013-2016, however, about half of the MEP's questions related to financial supervision, country surveillance and Euro area governance reforms, and the number of questions posed to the ECB increased significantly. While the Monetary Dialogues do not seem to have influenced financial market expectations, they do contribute to greater transparency and therefore legitimacy (Collignon and Diessner 2016). Considering the fiscal implications of ECB actions during the sovereign debt crisis, however, the Monetary Dialogue's structure could be reconsidered to ensure adequate accountability (Belke 2014); it also could improve its focus and make better use of the expert reports (Whelan 2014).

Table 2. Definition and duration of ECB's unconventional monetary policy

Type and variations	Longer Term Refinancing Operations	Asset Purchase Programme	Securities Market Programme	Outright Monetary Transactions
6-month LTRO **1-year LTRO** **3-year LTRO** (maturing on 29 January 2015 and on 26 February 2015)	Liquidity-providing operations in Euro with a duration of 3 months that was extended: 1) to 6 months and implemented in April 2008a; 2) to 1 year and implemented in June 2009; 3) to 3 years and implemented in December 2011 and February 2012			
Covered bond purchase programme (CBPP1) July 2009 – June 2010 **CBPP2**: November 2011-October 2012 **CBPP3**: October 2014 – December 2018		Eurosystem purchases securities issued by non-bank corporations in both the primary and the secondary market. The programme ended, as planned, on 30 June 2010 when it reached a nominal amount of €60 billion. CBPP2 ended, as planned, on 31 October 2012 when it reached a nominal amount of €16.4 billion. CBPP3 ended, as planned, on 19 December 2018. Holdings in January 2019 amounted to €262,090 million.		
Public sector purchase programme March 2015 – December 2018		Eurosystem purchases of investment-grade securities issued by Euro area governments, agencies and European institutions in the secondary market. PSPP holdings amounted to €2,102,802 as of 8 February 2019.		
Corporate sector purchase programme June 2016 – December 2018		Eurosystem purchases securities issued by non-bank corporations established in the Euro area, in both the primary and the secondary market. CSPP holdings amounted to €177,812 as of January 2019.		
SMP May 2010 – August 2012 **OMT** Never implemented			Announced by the Governing Council on 10 May 2010, the limited purchase of government debt	Announced in August 2012 that ECB would provide for the unlimited purchase of

Type and variations	Longer Term Refinancing Operations	Asset Purchase Programme	Securities Market Programme	Outright Monetary Transactions
			securities on the secondary market that are sterilised, Ended in 2012 with the announcement of OMT.	government bonds on the secondary market but would be subject to strict conditionality and require a European Stability Mechanism programme.

THE ECB AND FINANCIAL SUPERVISION

The Maastricht treaty envisaged a role for the ECB in financial supervision: Article 127.5 declares that the ECB 'shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system'. The Treaty Protocol on the ECB (Articles 25.1 and 25.2) created the legal possibility of delegating financial supervision to the ECB, though it supported the status quo of national supervision (Padoa-Schioppa 1999 cited in (Giavazzi and Wyplosz 2015). In June 2012, the European Council agreed to the creation of a banking union composed of a single supervisory mechanism (SSM), single resolution mechanism, and the single rulebook. The designation of the ECB as the SSM was the most straightforward in that it could be based on Article 127 (6) and therefore would not require a treaty change (Glöckler et al. 2017). The SSM was created under the aegis of the ECB in cooperation of national supervisory authorities. It directly supervises the largest and most important banks of the Euro area since 2014.

Banking union is the most significant step in European economic integration since the introduction of the Euro, and its role as the SSM puts the ECB at the heart of it. The ECB's designation as the SSM can be viewed as an example of displacement that necessitated major institutional change. The aforementioned typology of institutional change (Mahoney and Thelen 2009) would have predicted that the ECB be more prone to layering (a subversive) because despite its high level of independence, the strong Treaty constraints against bailouts and monetary financing force the ECB to be extremely cautious. A more revolutionary change would need to be instigated by the Member States rather than the ECB, as is what occurred in the appointing of the ECB as the Single Supervisory Mechanism and allowed for the displacement.

The gradual institutional changes categorized by historical institutionalism (summarized in Table 3) were particularly suited to the ECB's structure in light of the legal and political constraints that more aggressive changes would entail. The ECB's proclivity to evolve through layering reflects both the political context that has a strong and credible threat of vetoes for its actions (e.g. the pressure from the German Bundesbank and the legal cases against it). Its use of conversion and drift reflect the evolving economic environment that helped prompt the ECB to support ailing banks (and indirectly their sovereigns) in the context of the Euro crisis. As the crisis reached its boiling point and threatened to break up the Euro area, Member States also allowed for the ECB to evolve more substantially through displacement. Nevertheless, the self-reinforcing nature of institutions meant that even more modest changes like the SMP and 6-month LTROs paved the way for their more controversial successors like OMT and QE, making the accountability of the ECB of utmost concern.

Table 3. Summary of ECB evolution within a historical institutionalist framework

	Layering	Conversion	Drift	Displacement
LTRO 6 month and 1 year	X			
LTRO 2011, 2012	X	X		
Asset Purchase Programme	X	X		
Securities Market Programme		X		
Outright Monetary Transactions	X			
Single supervisory mechanism				x

The appointment of the ECB as the SSM generated a broadly similar accountability system to that found in the monetary realm. The ECB retains its independence as an institution in the exercise of both its monetary policymaking and supervisory functions (Braun 2017). However, while this was common practice for central banks to be independent in conducting monetary policy, it is not an automatic impulse to grant independence to financial supervisors. Moreover, while many Euro area countries' banking supervision was under the control of the central bank, this was not the case for all.

The ECB's accountability in banking supervision, like in monetary policymaking, rests on the principles of transparency and dialogue. Table 4 summarises the differences. The SSM Regulation (hereafter SSM-R) notes that 'any shift of supervisory powers from the Member States to the Union level should be balanced by appropriate transparency and accountability requirements'.

In addition, Art. 19(3) SSM-R demands that the Governing Council set up a Code of Conduct for ECB employees that are engaged with banking supervision, in a nod to the potential conflicts of interest (Braun 2017). In 2015 the ECB's Code of Conduct for Supervisory Board members entered into force, and the Ethics framework for all ECB employees was revised.

The accountability requirements in its financial role are more demanding than those relating to the monetary function. The SSM's Supervisory Board is accountable to a larger range of actors, including the Eurogroup and national parliaments. The Chair of the Supervisory Board meets with the European Parliament three times a year, once to present the annual report to the plenary and twice to meet with ECON to explain how the ECB has executed its supervisory tasks as well as to respond to questions. The European Parliament can request additional meetings as well. These supplementary measures resemble a layering of the ECB's accountability requirements in the monetary sphere. The basic assumptions of the central bank's independence remain, however, with a few additional requirements grafted on.

Table 4. ECB accountability for monetary policymaking and banking supervision

Mechanism	Monetary policymaking	Banking supervision
Appointment of leadership	European Council makes Executive Board appointments by qualified majority, European Parliament is consulted Art. 283(2)	Chair and vice chair of Supervisory Board appointed by the Council and European Parliament (approved by ECON and plenary) upon suggestion of the Governing Council
Dismissal of leadership	Court of Justice can dismiss Executive Board members, at the request of the Governing Council or the Executive Board	EP has right to approve removal of chair and vice chair of Supervisory Board

Mechanism	Monetary policymaking	Banking supervision
Submission of annual report	Sent to the EP, Commission, Council, and the European Council Art. 284 TFEU	Sent to the EP, Commission, Council, Eurogroup, and national parliaments of Euro area member states Article 20 SSM-R
Presentation of annual report	ECB President presents to the EP	Chair of Supervisory Board presents report in public to the EP and the Eurogroup
Requests for hearings	EP can consult with President and other Executive Board members Article 284.3	EP and Eurogroup can request a hearing with Chair of the Supervisory Board
Response to questions	Monetary Dialogue 4x/year MEPs can submit questions to the ECB (up to 6/month) and get a written response from ECB within 6 weeks of receipt	ECB must provide written or oral response from MEPs, MPs, or Eurogroup
Requests for private hearings		Chair and vice chair of ECON can request meeting with Chair of the Supervisory Board, who must "cooperate sincerely" with "investigations" by the EP
Participation in ECB meetings	Council and Commission invited to attend Governing Council meetings (nonvoting and subject to strict confidentiality) Article 284.3 In practice, Eurogroup President attends Governing Council meetings (Braun 2017)	

The maintenance of the ECB's high degree of independence has come under greater scrutiny since acquiring competence over financial supervision; previous research questioned the delegation of financial supervision to an independent central bank (Westrup 2007). Granting central banks too much power over macro-prudential and micro-prudential stability could threaten the effectiveness of monetary policymaking as well (Buiter 2012). Concerns over a possible conflict of interest between monetary policymaking and banking supervision (Copelovitch and Singer 2008) prompted the requirement for the ECB to demonstrate in its Annual Report how it ensured that monetary policy decisions were considered separately from those related to banking supervision (found in both the inter-institutional agreement with the European Parliament (published 30 November 2013) and memorandum of understanding with the Council (signed December 2015)). Despite the continued debate on the desirability of central bank independence since the global financial crisis (Tucker 2018), recent research indicates that central bank independence remains the norm (Blinder et al. 2017; de Haan et al. 2018).

CONCLUSION

The ECB faced important political and legal constraints during the Euro crisis that forced it to gradually build its arsenal rather than immediately revealing a big bazooka. The price of its high degree of independence was a primary mandate that would prevent it from embarking on policies that would have strong redistributive results.

Nevertheless, the feedback loops identified by the historical institutionalism literature led to unintended consequences that over time allowed the ECB to push the limits of (and possibly exceed) the mandate set out in the treaties. The redirection of ECB policy during the crisis combined with a gradual layering of policies enabled the ECB to take actions that at least bordered on lender of resort functions.

The ECB's independence that was established in the Maastricht Treaty not only constrained the ECB's actions but also the actors and institutions that could keep it accountable. The ECB's acquisition of financial supervisory competence provided a sharp contrast in institutional change, but its accountability structure showed remarkable continuity. Indeed, once again layering was the ideal type most closely in line with the evolution of the ECB's accountability despite the very different nature of financial supervision versus monetary policymaking, with the latter being more political rather than technocratic and possibly leading to conflicts of interest between the two functions. To deal with this increased complexity, the ECB's accountability requirements have become more substantial but are quite similar in spirit to what it had been required to do when it only made monetary policy. The consequences of central bank independence, intended and unintended, indicate the need to think more critically about Euro area governance and the accountability system.

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